

## **Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore**

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All ISCA Members are required to comply with the requirements in this Pronouncement. Apparent failure to do so may result in an investigation into the member's conduct by the Investigation Committee of ISCA.

# ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM – REQUIREMENTS AND GUIDELINES FOR PROFESSIONAL ACCOUNTANTS IN SINGAPORE

(This Pronouncement is effective 1 July 2023.)

## TABLE OF CONTENTS

	<b>Page</b>
<b>PREAMBLE</b>	4
<b>SCOPE</b>	5
<b>SECTION 1 – REPORTING AND TIPPING-OFF</b>	7
<b>SECTION 2 – SYSTEMS AND CONTROLS</b>	12
<b>Appendix A</b> Description of Money Laundering and Terrorist Financing	14
<b>Appendix B</b> Indicators of Suspicious Transactions	15
<b>Supplement A</b> For Auditors	19
<b>Supplement B</b> For Tax Practitioners	24
<b>Glossary</b>	29

## PREAMBLE

### Purpose of the Code

1. Singapore has established a strict and rigorous anti-money laundering (AML) and countering the financing of terrorism (CFT) regime through its comprehensive and sound legal, institutional, policy and supervisory frameworks to ensure that Singapore is not a safe haven for money launderers and terrorist financiers. A brief description of money laundering and terrorist financing is set out in Appendix A.
2. The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 to set standards and to promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and the financing of proliferation, and other related threats to the integrity of the international financial system. Singapore is committed to the fight against money laundering and terrorist financing and is a member of several international AML/CFT organisations, including FATF. As a member of FATF, Singapore is committed to comply with and implement the "International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation" issued by the FATF (FATF Recommendations).
3. The AML and CFT legislations in Singapore provide a framework for discouraging money laundering and terrorist financing by, for example, establishing criminal sanctions for such activities and requiring the reporting of suspicious transactions to the authorities.
4. These legislations have implications on the responsibilities of professional accountants, including the risk of criminal liability on professional accountants for non-compliance.
5. The purpose of this Pronouncement is to provide requirements and guidelines on AML and CFT to the professional accountants in Singapore.

## SCOPE

1. ISCA Members will apply the scoping in this section for compliance with the relevant mandatory AML and CFT requirements.
2. The Accounting and Corporate Regulatory Authority (ACRA) has prescribed a set of AML and CFT requirements in the [Accountants \(Prevention of Money Laundering and Financing of Terrorism\) Rules 2023](#) for public accountants and public accounting entities.
3. ISCA Members who are professional accountants in business will need to comply with the AML and CFT requirements prescribed in Section 1 of EP 200.
4. There are specific measures on customer due diligence and records keeping under the FATF Recommendations which professional accountants in public practice and professional firms have to follow when they prepare for or carry out transactions for their clients concerning the following situations:
  - (a) Buying and selling of real estate;
  - (b) Managing of client money, securities or other assets;
  - (c) Management of bank, savings or securities accounts;
  - (d) Organisation of contributions for the creation, operation or management of companies; and
  - (e) Creation, operation or management of legal persons or arrangements, and buying and selling of business entities.
5. ISCA Members who are professional accountants in public practice who prepare for or carry out transactions for their clients concerning the activities as described in paragraph 4 above are to comply with the same set of AML and CFT requirements prescribed by ACRA.
6. ISCA Members, who are professional accountants in public practice who prepare for or carry out transactions for their clients concerning activities other than those described in paragraph 4 above are to comply with the AML and CFT requirements prescribed by ACRA based on a risk-based approach.

7. The table below illustrates the scope of this Pronouncement:

<b>Section/ Category of Professional Accountants</b>	<b>Section 1</b>	<b>Section 2</b>	<b>AML/CFT Requirements Prescribed by ACRA</b>
Professional accountants in business	Mandatory	Not applicable	Not applicable
Professional accountants in public practice and professional firms, providing any service described in paragraph 4 of the scope to EP 200	Mandatory	Mandatory	Mandatory  (as per paragraph 5 of the scope to EP 200)
Professional accountants in public practice and professional firms, providing services other than those described in paragraph 4 of the scope to EP 200	Mandatory	Mandatory	<b><i><u>Although Accountants (Prevention of Money Laundering and Financing of Terrorism) Rules 2023 is not applicable to ISCA Members who do not prepare for or carry out transactions for their clients concerning activities described in paragraph 4 above, EP 200 still requires them to comply with AML/CFT requirements prescribed by ACRA on a risk-based approach. Please refer to paragraph 6 of the scope to EP 200.</u></i></b>

8. This Pronouncement

- (a) Does not address issues beyond those set out in this Pronouncement which may arise when providing professional services to financial institutions, such as providing reports to a regulator or other authority which may be required in relation to these entities' arrangements to prevent and detect money laundering and terrorist financing, their compliance with legislations and regulations, or their systems of controls more generally;
- (b) Does not constitute legal advice, which a professional accountant shall consider obtaining to address specific situations that the professional accountant faces, such as if the professional accountant wishes to adopt legal interpretations that are different from those set out in this Pronouncement; and
- (c) Shall not be regarded as guidance on foreign legislations. Professional accountants who perform services outside Singapore shall consider the need to familiarise themselves with the foreign AML and CFT legislations in order to mitigate the risk of committing offences in that foreign country.

## **SECTION 1 – REPORTING AND TIPPING-OFF**

The Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act 1992 (CDSA) and Terrorism (Suppression of Financing) Act 2002 (TSFA) in Singapore make it mandatory for a person, who in the course of his or her trade, profession, business or employment, knows or has reasonable grounds to suspect transactions related to money laundering or terrorist financing to lodge a suspicious transaction report to the Suspicious Transaction Reporting Office, Commercial Affairs Department (CAD) of the Singapore Police Force (STRO). One is also prohibited from disclosing any information to any person if doing so is likely to prejudice an investigation or proposed investigation under the CDSA or TSFA. This Section provides a summary of the related criminal offences and guidance on reporting and tipping-off which is applicable for all professional accountants in Singapore.

### **Criminal Offences**

1.1 Professional accountants shall ensure that they are sufficiently aware of the main provisions of the AML and CFT legislations. In particular, the professional accountants' attention is drawn to the following matters:

- (a) *Unknowingly assisting an offence.* Services provided by professional accountants could be of value to a successful criminal transaction. These include expertise in creating corporate vehicles, trusts and other legal arrangements that facilitate money laundering or terrorist financing, and the provision of financial and fiscal advice that is often an important element in criminal schemes.

Therefore, a professional accountant could be used by criminals resulting in a risk that the professional accountant is being held liable for assisting in the crime, notwithstanding that the assistance was provided unknowingly. The prosecution need not prove that a person had actual knowledge of the relevant facts (e.g. knowing that the criminal's proceeds are from drug dealing or other criminal conduct). Instead, a person can be held liable based merely on evidence showing that he had "reasonable grounds to believe" (e.g. that the proceeds were derived from criminal conduct).

Statutory defences are available. However, professional accountants shall note that the burden of establishing those statutory defences is upon the defendant, who must satisfy the Court on the balance of probabilities.

- (b) *Statutory reporting responsibilities.* It is a criminal offence for failing to report money laundering to the authorities. Reporting is mandatory even in cases where a professional accountant merely has reasonable grounds to suspect that money laundering has occurred. Similarly, a professional accountant who fails to report terrorist financing faces the prospect of criminal liability.
- (c) *Tipping-off offence.* It is an offence to disclose any information to any person if doing so is likely to prejudice an investigation or proposed investigation under the CDSA or TSFA.

1.2 When considering whether or not a professional accountant acted in a reasonable way, the Court could have regard to the requirements of this Pronouncement. Therefore, all professional accountants shall be familiar with and apply the requirements in the relevant Sections of this Pronouncement.

1.3 The offence of "assisting" may become relevant to professional accountants when suspicions of money laundering or terrorist financing exist. In normal circumstances, fulfilment of the professional accountant's responsibilities does not give rise to risk of committing the offence, even if subsequently money laundering or terrorist financing is found to have taken place. However, where the professional accountants discover information which could indicate to them that money laundering or terrorist financing is occurring or has occurred, they shall complete their assessment of whether there are reasonable grounds to suspect money laundering or terrorist financing is occurring or has occurred (and, if appropriate, to report to the STRO) as discussed later in this

Section before completing their professional responsibilities, for example, issuing their auditor's report on the client's financial statements.

- 1.4 To avoid the risk of being held liable to have assisted a money laundering or terrorist financing activity, professional accountants shall report any knowledge or suspicion of money laundering or terrorist financing through the professional firm's usual internal channels to an appropriate partner of the professional firm (where applicable), who will then determine whether a report to the STRO is necessary, or to the STRO directly.

### Reporting and Tipping-off

- 1.5 A professional accountant faces the prospect of criminal liability for failing to report to the authorities suspicious transactions relating to money laundering or terrorist financing. All suspicious transactions, including attempted transactions, shall be reported regardless of the amount of the transaction.
- 1.6 Suspicious transactions shall be reported to the STRO and using as a recommendation, electronically via STRO Online Notices and Reporting Platform (SONAR) (available on the Singapore Police Force website<sup>1</sup>. The requirements on AML/CFT and the red flag indicators for a number of **reporting** industries and the guidance for suspicious transaction reporting (STR) are also available on the Singapore Police Force website<sup>2</sup>. It is therefore critically important that professional accountants make a careful assessment of matters which put them on notice of money laundering or terrorist financing, in order to determine what type of activity may be involved and what obligations or consequences arise.

In the event that urgent disclosure is required, particularly where a transaction is known to be part of an ongoing investigation by the relevant authorities, professional accountants shall give initial notification to the STRO by telephone or email and follow up with such other means of reporting as the STRO may direct.

- 1.7 Professional accountants shall consider whether the following circumstances are suspicious that warrant a report to the STRO. Such considerations and conclusions shall be documented:
- (a) The professional accountant is for any reason unable to complete the customer due diligence measures; or
  - (b) The client is reluctant, unable or unwilling to provide any information requested by the professional accountant, decides to withdraw from establishing business relations or a pending engagement, or to terminate existing business relations.
- 1.8 Professional accountants shall keep watch for suspicious transactions in the course of conducting screening against lists of terrorist suspects as may be required by law or by any relevant authority. The professional accountant shall consider filing a suspicious transaction report even though there is no positive match against any name if the surrounding circumstances raise sufficient suspicions.

### Knowledge and Suspicion

- 1.9 Suspicion is not defined in the existing legislations. Case law and other sources indicate that suspicion is more than speculation but it falls short of proof or knowledge. Suspicion is personal and subjective but will generally be built on some objective foundation.
- 1.10 Generally speaking, knowledge or reasonable grounds to suspect is likely to include:
- (a) Actual knowledge;
  - (b) Shutting one's mind to the obvious;

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<sup>1</sup> <http://www.police.gov.sg/sonar>

<sup>2</sup> <https://www.police.gov.sg/Advisories/Crime/Commercial-Crimes/Suspicious-Transaction-Reporting-Office>

- (c) Deliberately refraining from making inquiries, the results of which one might not care to have;
  - (d) Deliberately deterring a person from making disclosures, the content of which one might not care to have;
  - (e) Knowledge of circumstances which would indicate the facts to an honest and reasonable person; and
  - (f) Knowledge of circumstances which would put an honest and reasonable person on inquiry and failing to make the reasonable inquiries which such a person would have made.
- 1.11 Suspicion is a subjective concept which may be caused by a transaction or transactions or set of circumstances which to the professional accountants appear unusual or out of context. It can arise from a single transaction or from on-going activity over a period of time.
- 1.12 Reasonable grounds to suspect shall not be confused with the existence of higher than normal risk factors which may affect certain sectors or classes of persons. Whilst a particular sector or business may be subject to a greater degree of inherent risk of criminal activities than another sector, or the assessment of control risk in a particular entity may raise the overall risk of fraudulent, illegal or unauthorised transactions, an assessment that there is a higher than normal risk of money laundering or terrorist financing is not the same as suspecting money laundering or terrorist financing. For example, cash-based businesses or complex overseas trust and company structures may be capable of being used to launder money, but this capability in itself is not considered to constitute "reasonable grounds". Existence of higher than normal risk factors require increased attention to gathering and evaluation of "know-your-client" information, and heightened awareness of the risk of money laundering or terrorist financing in performing professional work, but do not of themselves require a report of suspicion to be made.
- 1.13 In order for a suspicion to be acted upon, there must be a reasonable basis in fact, so that the person concerned can show that the suspicion that money laundering or terrorist financing has occurred is honestly held and arrived at in good faith. Therefore, for reasonable grounds to suspect to come into existence, there needs to be sufficient information to advance beyond speculation that it is possible that someone is laundering money or financing terrorism, or a generalised assumption that low levels of crime (e.g. not declaring all cash takings) are endemic in particular sectors.
- 1.14 The following three points may be of assistance in determining whether there are reasonable grounds for knowledge or suspicion that someone is committing a money laundering offence:
- (a) Does the conduct under scrutiny fall within that which is potentially criminal?
  - (b) If so, is the person or entity in question suspected of having been involved in that conduct or arrangement?
  - (c) What factors and information have led to the formation of knowledge or suspicion, i.e. how will the grounds for the report be described to authorities?
- 1.15 In considering factors which may put professional accountants on notice that there is a risk that money laundering or terrorist financing may be occurring, two situations can be distinguished:
- (a) *The entity is involved knowingly and/or actively:* Professional accountants consider the effect of such factors, where they exist, on their assessment of risk for the purposes of determining the work necessary for the services they provide. For example, factors indicating an increased risk of money laundering occurring are often similar to those indicating an increased risk of fraud; and
  - (b) *The entity is inadvertently involved:* Such involvement may occur in one of two ways. The entity's directors or management may realise that an unusual transaction is taking place but have no evidence to suggest that the unusual transaction involves money laundering



or terrorist financing. Alternatively, the directors or management may not even suspect that anything unusual is happening. Factors indicating an increased risk of such “third party” money laundering or terrorist financing are likely to be more difficult to distinguish from routine innocent transactions, particularly if the amounts concerned are comparatively small in the context of the entity's financial statements.

- 1.16 An illustrative list of indicators which may give rise to suspicious transaction is set out in Appendix B. Such indicators may not come to the attention of professional accountants where they are not significant or material in the context of the financial statements of the entity, nor is the existence of an individual indicator necessarily sufficient of itself to give rise to suspicion: legitimate reasons arising in the ordinary course of business may give rise to many of the circumstances listed.
- 1.17 Money laundering or terrorist financing activity may first be identified in relation to comparatively small amounts. However, a continuous use of apparently immaterial transactions may be used to give apparent legitimacy to significant amounts of criminal proceeds. Professional accountants shall be alert to circumstances in which a combination of indicators may give rise to suspicion and, when suspicion arises, to determine whether the matter ought to be reported to the STRO.
- 1.18 Professional accountants shall also bear in mind that they may not be able to identify the source of the funds, and therefore may not be able to ascertain whether the funds relate to one of the predicate serious crimes (including terrorist financing) and drug dealing offences. In case of doubt, professional accountants may wish to obtain legal advice and, subject to that advice, to report the matter to the STRO.

### **Procedures When Possible Money Laundering or Terrorist Financing is Discovered or Suspected**

#### *Suspicious Transactions Reporting – Considerations for the Professional Accountant*

- 1.19 When professional accountants become aware of a possible breach of law or regulations, the professional accountants usually discuss the matter with appropriate members of management and the board of directors. However, this step shall not be taken if the professional accountants have concluded that they no longer have confidence in the integrity of the directors. Indications that the directors are aware of or involved in the criminal activity would be grounds for this conclusion. In addition, professional accountants shall be aware that they are under a statutory obligation not to disclose related information to the directors (or other parties) if doing so is likely to fall within the definition of tipping-off. Hence to avoid any risk of tipping-off it is important that the professional accountants only go so far as to establish to their own satisfaction whether there is a suspected case of money laundering or terrorist financing involving the directors and to consider the consequences for the professional services they provide.
- 1.20 Similarly, where the entity or its customers, suppliers or other business associates are suspected of being involved in the criminal activity, professional accountants undertake their assessment of the circumstances with care so as not to alert the entity's management or anyone else to these suspicions in case tipping-off occurs. Consequently, professional accountants shall exercise caution in determining with whom, amongst the management and directors, the suspicions can be discussed and they may conclude that none would be suitable. In cases of doubt, legal advice would normally be sought.
- 1.21 Preliminary enquiries to verify the precise nature of a transaction will not give rise to a tipping-off offence unless professional accountants know or suspect that an investigation is underway or is proposed and that the enquiries by the professional accountants are likely to prejudice that investigation. Where it is known or suspected that a report has already been made or is being made to the STRO, great care is necessary to ensure that the perpetrator does not become aware that the matter has been brought to the attention of the law enforcement agencies. When the professional accountants conclude that further enquiries are necessary as part of their work, they shall consider obtaining legal advice as to the extent and possible effect of those enquiries before undertaking further work.

- 1.22 The actions taken when considering whether to report suspicions of money laundering or terrorist financing will have a different emphasis depending on whether the entity is actively or passively involved in money laundering or terrorist financing, though this may be a difficult decision to make. In cases of doubt, it may be prudent to assume the entity is actively involved. If the entity appears to be actively involved, great care shall be taken not to alert it to the entity's suspicions. If the entity appears to be only passively involved, the entity's directors need to take appropriate steps to prevent further involvement; in addition, depending upon the size and complexity of the entity, its control procedures might have been expected to prevent the event occurring and so the directors need to be alerted to any weakness in the systems. However, great care shall still be taken in case some of the entity's staff are involved or the entity alerts the third party.

#### *Confidentiality, Statutory Immunity and Legal Privilege*

- 1.23 A professional accountant's duty of confidentiality under the *ISCA Code of Professional Conduct and Ethics* (Ethics Code) imposes an obligation on the professional accountant to refrain from disclosing confidential information acquired as a result of professional and business relationships. However, in certain circumstances, that duty of confidentiality is overridden by statute, law or by courts of law. When professional accountants become aware of a suspected or actual non-compliance with law and regulations which give rise to a statutory duty to report, they shall make a report to the appropriate authority without undue delay.
- 1.24 Statutory immunity is granted from any legal action, criminal or civil, for breach of confidence arising from having reported suspicions of money laundering and terrorist financing to the STRO, provided the report is made in good faith<sup>3</sup>. It also means that professional accountants, acting in good faith, are able to report suspicious transactions to the STRO without the threat of subsequent legal action even if, on further investigation, it were found that there had been no offence. Statutory immunity is similarly granted to the professional accountant who reports any knowledge or suspicion of money laundering or terrorist financing to an appropriate partner of the professional firm through its internal reporting channel.
- 1.25 Legal privilege can provide a defence for a professional legal adviser to a charge of failing to report suspicions of money laundering. This only applies under privileged and restricted circumstances. There may be situations where a professional accountant comes into possession of legally privileged information, such as where it has been instructed by a lawyer on behalf of the entity in respect of legal proceedings. If a suspicious transaction report required under law would result in the disclosure of that information, the professional accountant shall on a case-by-case basis obtain legal advice to ascertain whether the information and the professional accountant, under the specific circumstances, qualifies for protection for non-disclosure on grounds of legal privilege, or whether a suspicious transaction report has to be made.

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<sup>3</sup> The protection generally relates to reporting knowledge or suspicion of the crime, and may not extend more widely, for example to disclosure of audit working papers to an investigating officer. Professional accountants shall consider legal advice in order to avoid a breach of confidentiality where such further disclosure is requested without a court order made under the relevant law.

## **SECTION 2 – SYSTEMS AND CONTROLS**

All professional firms shall have in place systems and controls to address money laundering and terrorist financing concerns.

The professional accountants in public practice who own or control the professional firm shall take reasonable efforts to ensure that the firm has the necessary AML and CFT systems and controls as set out in this Section.

A professional accountant in public practice shall comply with the policies, procedures and controls implemented by his/her professional firm.

### **Establishing Policies, Procedures and Controls**

- 2.1 All professional firms shall develop and implement internal policies, procedures and controls to address money laundering and terrorist financing concerns and communicate these to its employees. The policies, procedures and controls shall include the following:
- (a) Risk assessment and management (i.e. a risk-based approach);
  - (b) Group policy (if a group exists);
  - (c) Customer due diligence (CDD);
  - (d) Records keeping;
  - (e) Reporting procedures;
  - (f) Ongoing training;
  - (g) Compliance management and appointment of compliance officer;
  - (h) Hiring; and
  - (i) Independent audit function.
- 2.2 The type and extent of the measures taken in each of the area described in paragraph 2.1 shall be appropriate having regard to the risk of money laundering and terrorist financing and the size and nature of the business. Some of the factors to be considered include:
- (a) The nature, scale and complexity of the professional firm's business;
  - (b) The diversity of a professional firm's operations, including geographical diversity;
  - (c) The professional firm's customer, product and activity profile;
  - (d) The volume and size of the transactions;
  - (e) The degree of risk associated with each area of the professional firm's operations; and
  - (f) The extent to which the professional firm is dealing directly with the customer or is dealing through intermediaries, third parties, correspondents, or non-face to face access.

## Risk-Based Approach

- 2.3 The risk-based approach is a general and underlying principle of all AML/CFT systems. The general principle of a risk-based approach is that, where there are higher risks, professional firms shall take enhanced measures to manage and mitigate those risks; and that, correspondingly, where the risks are lower, simplified measures may be permitted.
- 2.4 The risk-based approach is an effective way to combat money laundering and terrorist financing. By adopting a risk-based approach, professional firms would be able to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified, and would enable them to make decisions on how to allocate their own resources in the most effective way.
- 2.5 In implementing a risk-based approach, professional firms shall have in place processes to identify, assess, monitor, manage and mitigate money laundering and terrorist financing risks.
- 2.6 Professional firms shall:
- (a) Take appropriate steps to identify and assess their risks (for clients, countries or geographic areas; and products, services, transactions or delivery channels);
  - (b) Document the risk assessments in order to be able to demonstrate their basis;
  - (c) Keep these assessments up to date; and
  - (d) Have appropriate mechanisms to provide risk assessment information to relevant authorities.
- The nature and extent of any assessment of the risks shall be appropriate to the nature and size of the business.
- 2.7 When assessing risk, professional firms shall consider all the relevant risk factors before determining what is the level of overall risk and the appropriate level of mitigation to be applied. Professional firms may differentiate the extent of measures, depending on the type and level of risk for the various risk factors (e.g. in a particular situation, normal CDD could be applied for client acceptance measures, but enhanced CDD for ongoing monitoring, or vice versa).
- 2.8 Enhanced CDD shall be applied to clients from higher risk countries for which this is called for by the FATF.
- 2.9 Professional firms shall:
- (a) Have policies, controls and procedures that enable them to manage and mitigate effectively the risks that have been identified;
  - (b) Monitor the implementation of those controls and enhance them, if necessary;
  - (c) Ensure that the policies, controls and procedures are approved by senior management; and
  - (d) Ensure that the measures taken to manage and mitigate the risks are consistent with relevant laws and regulations and this Pronouncement.
- 2.10 Professional firms may refer to the Singapore National Money Laundering and Terrorist Financing Risk Assessment Report issued by the Ministry of Home Affairs, Ministry of Finance and the Monetary Authority of Singapore (MAS) to understand the money laundering and terrorist financing risks in Singapore for professional accountants, as well as other sectors that the professional accountants have dealings with. This helps professional firms better assess the adequacy of their internal AML and CFT systems and controls in mitigating the risks identified, and to strengthen these controls where necessary.

## APPENDIX A

### DESCRIPTION OF MONEY LAUNDERING AND TERRORIST FINANCING

- A1. Professionals, such as accountants, are at risk of being used by criminals for money laundering or terrorist financing purposes because their services could be of value to a successful criminal transaction or they may be used merely to give the appearance of legitimacy to a criminal transaction.

#### Money Laundering

- A2. Money laundering is the funneling of cash or other funds generated from illegal activities through financial institutions and businesses to conceal or disguise the true ownership and source of the funds.
- A3. Although money laundering can be defined and the main characteristics of money laundering can be identified, money laundering comes in widely varying forms and degrees. Usually the process of money laundering occurs in many phases and through many different transactions, thereby making identification of the process difficult if not impossible. Although the activities and methods of money laundering have become increasingly complex and ingenious, its “operations” tend to consist of three basic stages or processes — placement, layering and integration.
- (a) *Placement* is the process of disposing the proceeds from drug trafficking or criminal conduct, for example by transferring the illegal funds into the financial system in a way that financial institutions and government authorities are not able to detect. Money launderers pay careful attention to national laws, regulations, governance structures, trends and law enforcement strategies and techniques to keep their proceeds concealed, their methods secret and their identities and professional resources anonymous.
  - (b) *Layering* is the process of generating a series or layers of transactions to distance the proceeds from their illegal source and to obscure the audit trail. Common layering techniques include outbound electronic funds transfers, usually directly or subsequently into a “bank secrecy haven” or a jurisdiction with lax record-keeping and reporting requirements, and withdrawals of already-placed deposits in the form of highly liquid monetary instruments, such as money orders or travelers checks.
  - (c) *Integration*, the final money-laundering stage, is the unnoticed reinsertion of successfully laundered, untraceable funds into an economy. This is accomplished by spending, investing and lending, along with cross-border, legitimate-appearing transactions.

#### Terrorist Financing

- A4. Terrorist financing refers to the direct or indirect act of providing or collecting property for terrorist acts, providing property and services for terrorist purposes, using or possessing property for terrorist purposes, and dealing with property of terrorists. Properties refer to assets of every kind, whether tangible or intangible, movable or immovable, including bank credits, travellers cheques, bank cheques, money orders, shares, securities, bonds, drafts and letters of credit.
- A5. Given its nature, signs of suspicious activities relating to terrorist financing are generally less observable. The assets involved in the transaction may not necessarily be proceeds from criminal activities. These assets could also be derived from lawful activities but intended for use in support of terrorist.
- A6. A terrorist refers to any person who commits or attempts to commit any terrorist act, or participates in or facilitates the commission of any terrorist act. A terrorist act includes, among others, actions that involve violence against a person, serious damage to property, endangering a person’s life, creating a serious risk to the health or the safety of the public, the use of firearms or explosives, and releasing into the environment dangerous, hazardous, radioactive or harmful substance.

## APPENDIX B

### INDICATORS OF SUSPICIOUS TRANSACTIONS

- B1. Money launderers use many different and sophisticated types of schemes, techniques and transactions to accomplish their ends. While it would be difficult to describe all money laundering methodologies, the following are the more frequently observed signs of suspicions:
- (a) Broadly, transactions that appear inconsistent with a client's known legitimate (business or personal) activities or means; unusual deviations from normal account and transaction;
  - (b) Any situation where personal identity is difficult to determine;
  - (c) Unauthorised or improperly recorded transactions; inadequate audit trails;
  - (d) Unconventionally large currency transactions, particularly in exchange for negotiable instruments or for the direct purchase of funds transfer services;
  - (e) Apparent structuring of transactions to avoid dealing with identification requirements or regulatory record-keeping and reporting thresholds;
  - (f) Transactions passed through intermediaries for no apparent business reason; and
  - (g) Introduction of a client by an overseas associate or financial institution based in a country or jurisdiction known for drug trafficking and production, other financial crimes and "bank secrecy".
- B2. The following sets out examples of common indicators of suspicious transactions. Indicators to help establish that a transaction is related to terrorist financing mostly resemble those relating to money laundering. While each individual indicator may not be sufficient to suggest that suspicious transaction is taking place, a combination of such situations may be indicative of a suspicious transaction. The list is intended as a guide and shall not be applied as a routine checklist in place of common sense.
- B3. **Common Indicators**
- (a) **General**
    - Frequent address changes.
    - Client does not want correspondence sent to home address.
    - Client repeatedly uses an address but frequently changes the names involved.
    - Client uses a post office box or general delivery address, or other type of mail drop address, instead of a street address when this is not the norm for that area.
    - Client's home or business telephone number has been disconnected or there is no such number when an attempt is made to contact client shortly after he/she has opened an account.
    - Client is accompanied and watched.
    - Client shows uncommon curiosity about internal systems, controls, policies and reporting; client has unusual knowledge of the law in relation to suspicious transaction reporting.
    - Client has only vague knowledge of the amount of a deposit.
    - Client gives unrealistic, confusing or inconsistent explanation for transaction or account activity.
    - Defensive stance to questioning or over-justification of the transaction.
    - Client is secretive and reluctant to meet in person.
    - Unusual nervousness of the person conducting the transaction.
    - Client is involved in transactions that are suspicious but seems blind to being involved in money laundering activities.

- Client insists on a transaction being done quickly.
- Client appears to have recently established a series of new relationships with different financial entities.
- Client attempts to develop close rapport with staff.
- Client offers money, gratuities or unusual favors for the provision of services that may appear unusual or suspicious.
- Client attempts to convince employee not to complete any documentation required for the transaction.
- Large contracts or transactions with apparently unrelated third parties, particularly from abroad.
- Large lump-sum payments to or from abroad, particularly with countries known or suspected to facilitate money laundering activities.
- Client is quick to volunteer that funds are “clean” or “not being laundered”.
- Client’s lack of business knowledge atypical of trade practitioners.
- Forming companies or trusts with no apparent business purpose.
- Unusual transference of negotiable instruments.
- Uncharacteristically premature redemption of investment vehicles, particularly with requests to remit proceeds to apparently unrelated third parties or with little regard to tax or other cancellation charges.
- Large or unusual currency settlements for investments or payment for investments made from an account that is not the client’s.
- Clients seeking investment management services where the source of funds is difficult to pinpoint or appears inconsistent with the client’s means or expected behavior.
- Purchase of large cash value investments, soon followed by heavy borrowing against them.
- Buying or selling investments for no apparent reason, or in circumstances that appear unusual, e.g. losing money without the principals seeming concerned.
- Forming overseas subsidiaries or branches that do not seem necessary to the business and manipulating transfer prices with them.
- Extensive and unnecessary foreign travel.
- Purchasing at prices significantly below or above market.
- Excessive or unusual sales commissions or agents fees; large payments for unspecified services or loans to consultants, related parties, employees or government employees.

(b) **Cash Transactions**

- Client frequently exchanges small bills for large ones.
- Deposit of bank notes with a suspect appearance (very old notes, notes covered in powder, etc).
- Use of unusually large amounts in traveler’s checks.
- Frequent domestic and international ATM activity.
- Client asks to hold or transmit large sums of money or other assets when this type of activity is unusual for the client.
- Purchase or sale of gold, diamonds or other precious metals or stones in cash.
- Shared address for individuals involved in cash transactions, particularly when the address is also for a business location, or does not seem to correspond to the stated occupation (for example, student, unemployed, self-employed, etc.).

(c) **Transactions Involving Accounts**

- Apparent use of personal account for business purposes.
- Opening accounts when the client’s address is outside the local service area.
- Opening accounts with names very similar to other established business entities.
- Opening an account that is credited exclusively with cash deposits in foreign currencies.

- Use of nominees who act as holders of, or who hold power of attorney over, bank accounts.
- Account with a large number of small cash deposits and a small number of large cash withdrawals.
- Funds being deposited into several accounts, consolidated into one and transferred outside the country.
- Use of wire transfers and the Internet to move funds to/from high-risk countries and geographic locations.
- Accounts receiving frequent deposits of bearer instruments (e.g. bearer cheques, money orders, bearer bonds) followed by wire transactions.
- Deposit at a variety of locations and times for no logical reason.
- Multiple transactions are carried out on the same day at the same branch but with an apparent attempt to use different tellers.
- Establishment of multiple accounts, some of which appear to remain dormant for extended periods.
- Account that was reactivated from inactive or dormant status suddenly sees significant activity.
- Cash advances from credit card accounts to purchase cashier's checks or to wire funds to foreign destinations.
- Large cash payments on small or zero-balance credit card accounts followed by "credit balance refund checks" sent to account holders.
- Attempting to open accounts for the sole purpose of obtaining online banking capabilities.

(d) **Transactions Related to Offshore Business Activity**

- Loans secured by obligations from offshore banks.
- Loans to or from offshore companies.
- Offers of multimillion-dollar deposits from a confidential source to be sent from an offshore bank or somehow guaranteed by an offshore bank.
- Transactions involving an offshore "shell" bank whose name may be very similar to the name of a major legitimate institution.

(e) **Accountants**

- Client receives unusual payments from unlikely sources which is inconsistent with sales.
- Use of many different firms of auditors and advisers for connected companies and businesses.
- Client has a history of changing bookkeepers or accountants yearly.
- Client is uncertain about location of company records.
- Company records consistently reflect sales at less than cost, thus putting the company into a loss position, but the company continues without reasonable explanation of the continued loss.
- Company shareholder loans are not consistent with business activity.
- Company makes large payments to subsidiaries or other entities within the group that do not appear within normal course of business.
- Company is invoiced by organizations located in a country that does not have adequate money laundering laws and is known as a highly secretive banking and corporate tax haven.

(f) **Tax Practitioners**

- Client appears to be living beyond his or her means.
- Client has no or low income compared to normal cost of living.
- Client has unusual rise in net worth arising from gambling and lottery gains.
- Client has unusual rise in net worth arising from inheritance from a criminal family member.



- Client owns assets located abroad, not declared in the tax return.
- Client obtains loan from unidentified parties.
- Client obtains mortgage on a relatively low income.

(g) **Factors arising from action by the entity or its directors**

Where an entity is actively involved in money laundering, the signs are likely to be similar to those where there is a risk of fraud, and include:

- Complex corporate structure where complexity does not seem to be warranted.
- Complex or unusual transactions, possibly with related parties.
- Transactions with little commercial logic taking place in the normal course of business.
- Transactions not in the normal course of business.
- Transactions where there is a lack of information or explanations, or where explanations are unsatisfactory.
- Transactions at an undervalue.
- Transactions with companies whose identity is difficult to establish as they are registered in countries known for their commercial secrecy.
- Extensive or unusual related party transactions.
- Many large cash transactions when not expected.
- Payments for unspecified services, or payments for services that appear excessive in relation to the services provided.
- The forming of companies or trusts with no apparent commercial or other purpose.
- Long delays in the production of company or trust accounts.
- Foreign travel which is apparently unnecessary and extensive.

## SUPPLEMENT A

### FOR AUDITORS

This supplement is an integral part of the *Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore* (Pronouncement) and is mandatory for professional accountants when auditing and reporting on their client's financial statements (herein referred to as "auditor"). It shall be read in conjunction with the Pronouncement.

### Introduction

1. Whilst the AML and CFT legislations apply to auditors in the same way as they do to other individuals and organisations, they do not place obligations directly on auditors in their capacity as such. Nevertheless, the nature of the work undertaken by auditors may bring them into contact with terrorist financing activities or circumstances where proceeds of criminal activity is or may be laundered. Consequently, whilst in the normal course of auditing practice the matters referred to in this Supplement or in the Pronouncement may rarely become a matter of concern, the consequences of inaction or unwise action when terrorist financing or the laundering of criminal proceeds is or may be occurring could be serious. Auditors shall be aware of the appropriate actions to take.
2. The extent to which AML and CFT legislations affect the auditor's work differs between two broad categories of audit:
  - (a) Audits of certain MAS regulated entities: certain entities in this category, such as banks, merchant banks and holders of Capital Markets Services licence, are required to comply with specific secondary legislations establishing additional obligations on them. These secondary legislations comprise Regulations, Notices and Guidelines issued by the MAS which set out certain prohibited businesses and require these institutions to implement and maintain certain procedures to forestall or prevent money laundering and terrorist financing. These entities are also normally expected by the regulators to adopt best practices guidelines issued by their respective industry associations, if any.
 

In addition to reporting on their financial statements, their auditors are required to report to the MAS on matters of significance that come to their attention in the course of their work, including non-compliance with legislations, departures from its requirements and suspicions that the directors and management of such entities are implicated in money laundering or terrorist financing. Therefore, their auditors shall also be aware of key provisions contained in those secondary legislations and best practices guidelines issued by industry associations; and
  - (b) Audits of other types of entity: in general, auditors of other types of entity are required only to take appropriate steps in response to factors encountered in the course of their work which lead them to suspect that money laundering or terrorist financing is taking place.

### Responsibilities of Management

3. It is management's responsibility to ensure that the entity's operations are conducted in accordance with laws and regulations. The responsibility for the prevention and detection of money laundering and terrorist financing activities rests with management through the implementation and continued operation of adequate accounting and internal control systems. Such control systems reduce but do not eliminate the possibility of money laundering and terrorist financing activities.
4. The statutory audit process does not relieve management of these responsibilities.

## General Responsibilities of Auditors

5. When reporting on financial statements, auditors perform their work in accordance with the Singapore Standards on Auditing (SSAs). The SSAs require that auditors:
  - (a) Carry out procedures designed to obtain sufficient appropriate audit evidence, in accordance with the SSAs, to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement;
  - (b) Evaluate the overall presentation of the financial statements, in accordance with relevant legislations and accounting standards; and
  - (c) Issue a report containing a clear expression of their opinion on the financial statements.

The SSAs also require auditors to consider the need to report to an appropriate authority in particular circumstances<sup>4</sup>.

6. The auditor is not and cannot be held responsible for the prevention of, and failure to detect, money laundering and terrorist financing activities. External auditors performing financial statement audits are less likely than other professional accountants (such as forensic accountants and accountants in management positions) to encounter signs of possible money laundering and terrorist financing.
7. The fact that an annual audit is carried out may, however, act as a deterrent. As discussed in the auditing standards, audit work includes the consideration of only those systems and controls relevant to the preparation of the financial statements. Accordingly, an audit may not have identified all the internal control weaknesses that exist.
8. Furthermore, it is not the auditor's responsibility to detect suspicious activity in connection with a compliance or operational audit of an AML/CFT program or testing a Suspicious Transaction Reporting process.
9. Misstatements in financial statements may be caused by errors, fraud or breaches of law and regulations: money laundering (which may also be connected with fraudulent activity) and terrorist financing involve a breach of law.
10. Whilst auditors have no statutory responsibility to undertake work solely for the purpose of detecting money laundering and terrorist financing, they nevertheless shall take the possibility of money laundering and terrorist financing into account in the course of carrying out procedures relating to fraud and compliance with laws and regulations.

## Customer Due Diligence

### Know Your Client (KYC)

11. Reference shall be made to SSA 315 (Revised 2021)<sup>5</sup>, which requires the auditor to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.
12. Prior to acceptance of appointment, auditors consider the requirements and guidance of SSA 315 (Revised 2021) to obtain a preliminary knowledge of the entity and its environment, including the structure of the entity, the nature of its business, the industry, ownership and any related parties, and perceived integrity of directors and management. Following appointment, auditors perform procedures designed to identify significant changes to these matters. The requirements and

<sup>4</sup> SSA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" and SSA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements".

<sup>5</sup> SSA 315 (Revised 2021), "Identifying and Assessing the Risks of Material Misstatement".

guidance of SSA 315 (Revised 2021) shall, in particular, be applied in conjunction with the requirements and guidance provided in SSA 240 and SSA 250 (Revised).

13. Reference shall also be made to Singapore Standard on Quality Management (SSQM) 1<sup>6</sup>. SSQM 1 requires the professional firm to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

## Conduct of the Audit

### Planning and Performing the Audit

14. When assessing the risks of material misstatement of the financial statements, auditors consider whether they may place reliance upon aspects of the internal control system. Where the auditors intend to place reliance upon the entity's internal control systems, sufficient evidence of the operating effectiveness of the internal control will be needed. However, an audit performed in order to express an opinion on the financial statements may not be regarded as providing assurance on the effectiveness of an entity's systems or on the actual incidence of fraud or breaches of law and regulations, including money laundering and terrorist financing. As directors are responsible for the prevention and detection of money laundering or terrorist financing activities, they may therefore wish to commission more detailed investigations in particular instances of concern. However, auditors shall take the possibility of money laundering and terrorist financing into account in the course of carrying out procedures relating to fraud and compliance with laws and regulations.
15. Specific requirements and guidance on detecting material misstatements caused by fraud and breaches of laws and regulations are set out in SSA 240 and SSA 250 (Revised).

### Fraud

16. SSA 240 requires auditors to identify and assess the risks of material misstatement of the financial statements due to fraud; and for those assessed risks, to obtain sufficient appropriate audit evidence through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit<sup>7</sup>. The auditors shall maintain an attitude of professional skepticism recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience with the entity about the honesty and integrity of management and those charged with governance. Discussion on the susceptibility of the entity's financial statements to material misstatement due to fraud is also required to be carried out with appropriate members of the engagement team. Factors which may increase the risk of fraud occurring are noted in Appendix 1 to SSA 240.
17. A close connection exists between the indicators giving rise to an increased risk of fraud and those indicating money laundering: an illustrative list of indicators which may be indicative of suspicious transaction is given in Appendix B to the Pronouncement. Consequently, where the auditors identify such circumstances, they assess the possibility of a breach of law relating to money laundering as well as that of fraud.

### Laws and Regulations

18. SSA 250 (Revised) requires auditors to plan and perform the audit with an attitude of professional skepticism and requires auditors to carry out specified steps to help identify instances of non-compliance with laws and regulations that may have a material effect on financial statements. These steps consist of:
  - (a) Obtaining a general understanding of the legal and regulatory framework applicable to the entity and the industry or sector and how the entity is complying with that framework;

<sup>6</sup> SSQM 1, "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance and Related Services Engagements".

<sup>7</sup> SSA 240, paragraph 10.

- (b) Obtaining sufficient appropriate audit evidence regarding compliance with the provisions of laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements;
  - (c) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with laws and regulations;
  - (d) Inspecting correspondence, if any, with relevant licensing or regulatory authorities; and
  - (e) Obtaining written representations that management has disclosed to the auditor all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects shall be considered when preparing financial statements<sup>8</sup>.
19. As explained in SSA 250 (Revised), whether an act constitutes non-compliance with law or regulations is a legal determination that is ordinarily beyond the auditor's professional competence. However, auditors' training, experience and understanding of the entity and its industry may enable them to recognise that some acts coming to their attention may constitute money laundering or terrorist financing.
20. Auditors shall be alert for all breaches of laws and regulations which come to their attention in the course of their work and to take steps to determine the appropriate response<sup>9</sup>. Auditors of all entities shall therefore be sufficiently aware of the main provisions of the AML and CFT legislations in order to make a careful assessment of any factors encountered in the course of their work which lead them to suspect that crime is taking place, so as to obtain sufficient information to assess the effect on the financial statements and the implications for other aspects of their audit.

### **Additional Considerations for Audits of Financial Institutions**

21. In general, AML and CFT laws and regulations are fundamental to financial institutions. Financial institutions are subject to regulation by the MAS and are required to comply with the requirements of the MAS.
22. When auditing the financial statements of such entities, auditors shall consider SSA 250 (Revised) and carry out specified steps to help identify instances of non-compliance with requirements of the MAS that may have a material effect on financial statements. The auditor shall, if considered appropriate in accordance with SSA 580<sup>10</sup>, also obtain a written representation from management on the steps taken, and procedures in place, to ensure compliance with the applicable requirements issued by the MAS. As set out in paragraph 2(a) of this Supplement, the auditors shall report to the MAS of any weakness in internal controls and non-compliance with legislations that come to their attention.

### **Reporting and Tipping-off**

23. When auditing the financial statements of a regulated entity (for example, a bank), auditors have a statutory duty to report to the regulator matters of material significance to its function, or other specified matters, which come to the auditor's attention in the course of their work. Any knowledge or suspicions of involvement of the entity or the entity's management in money laundering or terrorist financing, or of failure to comply with an applicable requirement of the MAS, would normally be regarded as being of material significance to a regulator and so give rise to a statutory duty to report to the regulator. In normal circumstances, auditors can assume that reporting to a regulator does not open them to a charge of tipping-off.

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<sup>8</sup> SSA 250 (Revised), paragraphs 13, 14, 15 and 17.

<sup>9</sup> SSA 250 (Revised), paragraph 16.

<sup>10</sup> SSA 580, "Written Representations".

## **Procedures When Possible Money Laundering or Terrorist Financing is Discovered or Suspected**

24. SSA 250 (Revised) requires auditors who become aware of a possible breach of law or regulations to obtain an understanding of the nature of the act and the circumstances in which it has occurred, and sufficient further information so as to evaluate the possible effect on the financial statements and its implications for other aspects of the audit<sup>11</sup>.
25. SSQM 1, SSA 240 and SSA 250 (Revised) set out requirements and guidance on withdrawal from the engagement, communication with client and responding to enquiry from the proposed in-coming auditor. Where such disclosure may amount to tipping-off, auditors shall consider obtaining legal advice.

## **The Auditor's Report on Financial Statements**

26. Misstatements in financial statements may be caused by fraud or breaches of law and regulations: money laundering (which may also be connected with fraudulent activity) and terrorist financing involves a breach of law.
27. If it is known or suspected that money laundering or terrorist financing has occurred, the auditor shall consider the specific circumstances, including materiality, to assess whether the auditor's report shall be modified<sup>12</sup>. If auditors failed to pursue their suspicions or take other appropriate action, it might be argued that the issue of an opinion on the entity's financial statements, without the opinion being modified when the specific circumstances warrant this, enables it to present an appearance of legitimacy with the consequence that the criminal act can continue. This inference is more likely if the auditors knew that the person is or had been engaged in the crime. However, the auditor shall also consider the necessity of asking the STRO whether disclosure in the auditor's report on the financial statements, either through modifying the opinion or referring to fundamental uncertainty, could constitute tipping-off. If this is the case, auditors would be in a difficult position and are likely to require legal advice as to how their responsibility to the shareholders of the entity may be discharged. Timing may be the crucial factor.

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<sup>11</sup> SSA 250 (Revised), paragraph 19.

<sup>12</sup> SSA 250 (Revised), paragraphs 20, 25, 26 and 27.

## SUPPLEMENT B

### FOR TAX PRACTITIONERS

*This supplement is contributed by the Singapore Chartered Tax Professionals. [www.sctp.org.sg](http://www.sctp.org.sg)*

This supplement is intended to provide additional guidance to professional accountants when providing tax services (herein referred to as “tax practitioners”). It shall be read in conjunction with the *Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore*.

### General Responsibilities of a Tax Practitioner

1. Whilst the AML and CFT legislations apply to tax practitioners in the same way as they do to other individuals and organisations, they do not place obligations directly on tax practitioners in their capacity as such. Nevertheless, the nature of the work undertaken by tax practitioners may bring them into contact with terrorist financing activities or circumstances where proceeds of criminal activity is or may be laundered. Consequently, whilst in the normal course of providing tax services the matters referred to in this Supplement or in the Pronouncement may rarely become a matter of concern, the consequences of inaction or unwise action when terrorist financing or the laundering of criminal proceeds is or may be occurring could be serious. Tax practitioners need to be aware of the appropriate actions to take.
2. The work performed by tax practitioners covers routine compliance work to complex tax planning. Whilst tax practitioners are not legally obliged to undertake work solely for the purpose of detecting money laundering and terrorist financing, they nevertheless need to be alert to the risks from transactions or proceeds linked to money laundering and terrorist activities in the course of carrying out their work.
3. Routine tax compliance work encompasses activities such as the preparation of tax computations and submission of returns to the tax authorities. Tax planning work encompasses activities such as advising on structuring of tax affairs in a tax efficient manner.
4. Tax practitioners who have knowledge of or are suspicious of proceeds derived from any crime encountered during their course of work are required to report such knowledge, suspicion, or other related information to the STRO.
5. Tax practitioners should take proper care when assisting clients to ensure they do not become party to an arrangement which they know or suspect facilitates (by whatever means) the acquisition, retention, use or control of criminal property by or on behalf of another person.

### Responsibilities of Management

6. It is management's responsibility to ensure that the entity's operations are conducted in accordance with laws and regulations. The responsibility for the prevention and detection of money laundering and terrorist financing activities rests with management through the implementation and continued operation of adequate accounting and internal control systems. Such control systems reduce but do not eliminate the possibility of money laundering and terrorist financing activities.

### Money Laundering and Terrorist Financing Risks in the Tax Sector

7. The money laundering and terrorist financing risks areas that tax practitioners may encounter in practice include:
  - (a) The client's wilful intent to evade tax, which can include the preparation and maintenance of false books of accounts or other records; and

- (b) Where during the course of dealing with the tax affairs of the client, it comes to their attention that the client is holding proceeds derived from illegal activities which may or may not be tax related.

## Serious Tax Offences

8. Serious tax offences are designated as money laundering predicate offences in Singapore from 1 July 2013, in line with the FATF Recommendations. They are tax evasion and serious fraudulent tax evasion under Sections 96 and 96A of the Income Tax Act 1947, as well as fraud, wilfully misrepresenting status of person, causing loss of public revenue and improperly obtaining refund under Sections 62, 62B, 62C and 63 of the Goods and Services Tax Act 1993. See Annex for details.
9. Details of the criminal offences under the CDSA, TSFA and Penal Code are summarised in Appendices B, C and D respectively.
10. The common direct tax offences are:
  - (a) Failing to declare all assessable income.
  - (b) Claiming deductions for expenses which are fictitious or are not legally deductible.
  - (c) Claiming personal relief on fictitious dependents.
11. The common indirect tax offences are:
  - (a) Claiming input tax on fictitious purchases and other expenses.
  - (b) Omitting output tax charged on local taxable supplies.
12. If the client is unwilling or refuses to disclose such offences or harbours a clear intention to evade taxes, tax practitioners are required to report the incident to the firm's MLRO and to the STRO as appropriate.
13. Tax practitioners should not continue to act on behalf of the client if they become aware that the client is deliberately committing serious tax offences and is unwilling to disclose such offences.

## Risks Factors

14. Proceeds derived from criminal offences may become apparent to tax practitioners through the following:
  - (a) Cash movements (e.g. transfers, deposits, expenditure, currency exchange etc);
  - (b) Increase in income and/or capital gains; and
  - (c) Unusual possession, unusual loan arrangements and increases in income which are not proportionate to legitimate business activities and investments.
15. Tax practitioners should be alert when they come across unusual transactions, particularly those which display the following characteristics:
  - (a) Origin of funds is not clear;
  - (b) Identities of relevant parties are not clear;
  - (c) Transaction does not fit with knowledge of the client's background or legal sources of income; and
  - (d) There is no economical or logical explanation for the transaction.



16. The Inland Revenue Authority of Singapore (IRAS) has defined tax evasion as when someone has deliberately provided inaccurate or incomplete information about their activities to reduce his/her tax liability or obtain undue tax credits and refund.
17. Common characteristics that a client may be evading income tax are:
  - (a) Not wanting to issue a sales receipt.
  - (b) Maintaining two sets of accounts (excluding management accounts).
  - (c) Providing false invoices to claim fictitious expenses.
18. Common characteristics that a client may be evading GST are:
  - (a) Not wanting to issue a sales receipt or a tax invoice.
  - (b) Maintaining two sets of accounts (excluding management accounts).
  - (c) Providing false invoices to claim input tax on fictitious expenses or purchases.
  - (d) Providing false export documents to support zero-rated supplies of goods.
  - (e) Giving false information on customers and suppliers.
19. Tax practitioners should exercise caution as the above represent general guidance only. Clients may use a variety of other methods, both simple and complex, to evade their tax liabilities.

## **Client Due Diligence (CDD)**

20. Tax practitioners may be called upon to advise another professional firm. There must be a clear agreement between the tax practitioner's firm and the other professional firm. The tax practitioner's firm is also required to conduct CDD on the professional firm.
21. In cases where the tax practitioner's firm is involved directly with the other professional firm's client, the tax practitioner's firm is required to conduct CDD on the other professional firm's client.
22. With the designation of serious tax offences as money laundering predicate offences, the professional firm's AML/CFT system should include policies, procedures and controls to effectively detect and deter the laundering of proceeds from wilful or fraudulent tax evasion. This includes supplementing the existing client acceptance and continuance process with tax-specific red flag indicators as well as critically reviewing existing clients to assess the tax legitimacy of assets booked. Professional firms should also establish proper escalation policies for managing high-risk clients, including appropriate senior management approval procedures.

## **Reporting**

23. Unless the privilege reporting exemption applies, tax practitioners should report actual or suspected suspicious transactions to the firm's MLRO or directly to the STRO as appropriate. Tax practitioners would need to consider carefully whether they can continue providing the tax services and should also consider obtaining legal advice and/or consulting with the STRO before undertaking further work.

## ANNEX: TAX CRIMES DESIGNATED AS MONEY LAUNDERING PREDICATE OFFENCES

### Direct tax offences under s.96 and s.96A Income Tax Act

#### s.96 Tax Evasion

- (1) Any person who wilfully with intent to evade or to assist any other person to evade tax:
- (a) omits from a return made under this Act any income which should be included;
  - (b) makes any false statement or entry in any return made under this Act or in any notice made under s.76(8);
  - (c) gives any false answer, whether verbally or in writing, to any question or request for information asked or made in accordance with the provisions of this Act; or
  - (d) fails to comply with s.76(8)

#### s.96A Serious Fraudulent Tax Evasion

- (1) Any person who wilfully with intent to evade or to assist any other person to evade tax:
- (a) prepares or maintains or authorises the preparation or maintenance of any false books of account or other records or falsifies or authorises the falsification of any books of account or records; or
  - (b) makes use of any fraud, art or contrivance or authorises the use of any such fraud, art or contrivance

### Indirect tax offences under s.62 and s.63 Goods and Services Tax Act

#### s.62 Tax Evasion

- (1) Any person who wilfully with intent to evade or to assist any other person to evade tax:
- (a) omits or understates any output tax or overstates any input tax in any return made under this Act;
  - (b) makes any false statement or entry in any return, claim or application made under this Act;
  - (c) gives any false answer, whether verbally or in writing, to any question or request for information asked or made in accordance with the provisions of this Act;
  - (d) prepares or maintains or authorises the preparation or maintenance of any false books of account or other records or falsifies or authorises the falsification of any books of account or records; or
  - (e) makes use of any fraud, art or contrivance whatsoever or authorises the use of any such fraud, art or contrivance

#### s. 62B Penalty for wilfully misrepresenting status of person

- (1) A person who receives a Seventh Schedule supply (X) commits an offence if:
- (a) where the supply is a supply of services, X belongs in Singapore under section 15;
    - (aa) X is not a registered person;
  - (b) X provides (whether or not to the person making the supply) any information for the purpose of the supply; and
  - (c) X wilfully provides the information with intent to induce the person making the supply into making a determination that –
    - (i) where the supply is a supply of services, X does not belong in Singapore for purposes of the supply; or
    - (ii) X is a registered person.

**s. 62C Penalty relating to arrangements to cause loss of public revenue**

(1) Any person who participates in a specified arrangement, knowing or having reasonable grounds to believe that the person's participation is for a fraudulent purpose, shall be guilty of an offence and shall be liable on conviction to a fine not exceeding \$500,000 or to imprisonment for a term not exceeding 10 years or to both.

**s.63 Improperly Obtaining Refund**

Any person who knowingly:

- (a) causes;
- (b) attempts to cause;
- (c) does any act with intent to cause; or
- (d) makes default in performance of any duty imposed upon him by this Act with intent to cause, the refund to that person by the Comptroller of any amount in excess of the amount properly so refundable to him

**GLOSSARY**

For purposes of this Pronouncement, the following terms have the meanings attributed below:

Professional accountant	An individual who is a member of the Institute of Singapore Chartered Accountants (ISCA).
Professional accountant in business	A professional accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not-for-profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities.
Professional accountant in public practice	A professional accountant irrespective of functional classification (for example, audit, tax or consulting) in a professional firm.
Professional firm	A professional firm is: <ul style="list-style-type: none"> <li>(i) An accounting corporation, an accounting firm or an accounting LLP approved under the Accountants Act; or</li> <li>(ii) An entity, other than those in (i) above, owned or controlled by a professional accountant or professional accountants, that provide professional services.</li> </ul>
Professional services	Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services. These include the services described in paragraph 4 of the scope to EP 200.