

Alert

Updates on financial reporting, auditing and ethics



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Dear members and member practices,

Risk-based supervision of accounting professionals concerning anti-money laundering and counter-terrorist financing compliance

The Institute is the regulatory body of accounting professionals, defined in the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO) as certified public accountants (CPAs) and practice units¹.

In its report on the results of its last mutual evaluation of Hong Kong that took place in 2018, the Financial Action Task Force (FATF)² recommended that the Institute should continue to develop its assessment of sectoral money laundering / terrorist financing (ML / TF) risks at the individual institutional level and prepare a more robust risk-based supervisory plan. In addition, the Institute was recommended to conduct appropriate monitoring and follow-up activities to ensure compliance by accounting professionals with anti-money laundering and counter-terrorist financing (AML / CTF) requirements.

In response to the FATF's comments, the Institute is developing a more robust risk-based supervisory plan, covering constituents wider than practice units. The plan will have to be in place for sufficient time to enable the Institute to provide data to demonstrate effective implementation when Hong Kong submits its mutual evaluation follow up report to the FATF in 2022.

Risk-based supervision

The FATF has made a series of recommendations to territories to combat ML / TF. Recommendation 28 is that accountants should be subject to adequate AML / CTF regulation and supervision based on the level of ML / TF risk. The objective of the Institute's risk-based AML / CTF supervisory plan is therefore to make the Institute capable of performing an ongoing supervision of accounting professionals by:

¹ Practice units are CPAs (practising), firms and corporate practices under the Professional Accountants Ordinance.

² FATF is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction.

1. categorizing constituents based on their ML / TF risk profiles;
2. determining the nature, timing and extent of supervisory actions for each risk category; and
3. carrying out reviews of constituents based on their ML / TF risks and performing targeted reviews for higher-risk constituents.

Risk-based supervision plan

The Institute has had an AML / CTF compliance monitoring programme covering practice units since the AMLO regime became effective in October 2018. However, many professional firms provide a wider variety of professional services than practice units, which primarily offer audit and assurance services and make other professional services available through a network or affiliated professional service entities. These other professional services may involve preparing for or carrying out for clients “Specified Transactions” (as defined in the AMLO)³ that give rise to higher ML / TF risks and therefore, as detailed in FATF Recommendation 28, should be subjected to more intensive supervision and monitoring.

In order to comply with the FATF Recommendations, the Institute will enhance the following three aspects of its risk-based supervision:

(i) Widening the scope

Expanding the scope of monitoring activities to cover not only practice units but also other professional firms set up by CPAs or practice units. However, given that it is expected that the potential extended coverage will be significant, the expansion will be done on an incremental basis.

Initially, the plan is to extend the scope of supervision from practice units to cover: (a) network firms⁴ located in Hong Kong; and (b) professional service entities⁵ whose owners, shareholders or partners are all CPAs, CPAs (practising) or other practice units, unless they fall under the jurisdiction of the Registrar of Companies (CR) as a trust or company service provider (TCSP) licensee and other AML regulators in Hong

³ According to AMLO, accounting professionals must apply AML / CTF requirements, including customer due diligence and record keeping, when they by way of business prepare for or carry out for a client a transaction concerning one or more of the following (collectively called “Specified Transactions”):

1. the buying or selling of real estate;
2. the managing of client money, securities or other assets;
3. the management of bank, savings or securities accounts;
4. the organization of contributions for the creation, operation or management of corporations;
5. the creation, operation or management of legal persons or legal arrangements;
6. the buying or selling of business entities; and / or
7. a service specified in the definition of trust or company service in Section 1 of Part 1 of Schedule 1 to the AMLO.

⁴ As defined in the *Code of Ethics for Professional Accountants*, “network firms” belong to a network: (a) that is aimed at co-operation; and (b) that is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

⁵ Entities providing professional services or activities, by way of business, for clients.

Kong (referred to as “HK Network and Professional Service Entities” below).

(ii) Risk profiling

To enable the Institute to collect sufficient relevant information to start developing a more proactive risk-based AML / CTF supervisory plan and to properly discharge its supervision function, a questionnaire will be distributed to all members and practice units, tentatively towards the end of 2020 (as part the 2021 annual membership renewal exercise), to request information pertaining to all practice units and HK Network and Professional Service Entities. CPAs who work in businesses or as employees in professional firms will not be required to undertake this exercise.

Based on information received, an assessment of the ML / TF risk at the institutional level of each practice unit and HK Network and Professional Service Entity will be made, and each one will be classified into risk categories for the purposes of determining the nature, timing and extent of supervisory actions.

(iii) Targeted reviews for higher-risk constituents

The frequency and intensity of supervision for each practice unit or HK Network and Professional Service Entity will be dependent on its ML / TF risk profile and from what is known about the quality of its AML / CTF controls. More comprehensive and frequent reviews will be performed on higher risk entities. For lower risk entities, interviews and desktop reviews on a less-frequent basis may be sufficient for AML / CTF compliance review purposes.

In order to achieve the above, the Institute has plans to impose a clear professional obligation on those charged with governance of practice units and related CPAs, to make sure that HK Network and Professional Services Entities (including TCSPs that are not required to be licensed by the CR), which are under their control, comply with the relevant AML / CTF requirements in the Institute’s *Guidelines on AML / CTF for Professional Accountants* (Part F of the *Code of Ethics for Professional Accountants*) (AML Guidelines). The effect of this change will be that when the Institute performs a practice review, the reviewer will assess whether the practice unit has taken adequate steps to ensure its affiliated HK Network and Professional Services Entities have complied with the AML / CTF requirements. The Institute will continue to explore ways, including through legislation, to provide appropriate powers for the Institute to directly inspect HK Network and Professional Service Entities and other controlled entities that are expected to be subject to its AML / CTF supervision plan.



The Institute will provide further updates to members and practice units on the development of the risk-based supervision plan in due course. Members and practice units are reminded to ensure that appropriate AML / CTF policies, procedures and controls are in place within both their practice units and affiliated HK Network and Professional Service Entities to comply with the AML / CTF requirements and to protect themselves from ML / TF activities.

If you have any questions, please contact the QA hotline 2287-7850 or email qualityassurance@hkicpa.org.hk.

Sincere regards,

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