

DECEMBER 2018 AND JUNE 2019
SUPPLEMENT

Qualification Programme

Module C

Business Assurance



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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Introduction

This Supplement is to be used in conjunction with the sixth edition of the Learning Pack, and it will bring you fully up to date for developments that have occurred in the period since publication of the Learning Pack and 31 May 2018, the cut-off date for examinable standards and legislation for the December 2018 and June 2019 examinations. You will find a list of the standards that are examinable in your examination session by logging onto the HKICPA online QP Learning Centre.

The Supplement comprises a technical update on developments that will be examinable in December 2018 and June 2019 examination sessions that are not currently covered in the Learning Pack. The topics covered are listed on the contents page and are covered in chapter order.

In each case the text in the Supplement explains how the Learning Pack is affected by the change, for example whether the new material should be read in addition to the current material in the Learning Pack, or whether the new material should be regarded as a replacement.

Good luck with your studies!

Identified Errata – Learning Pack

Chapter 10 Fraud and irregularities

Section 1.9 Page 297	<p>The first paragraph of this section contained a typo, which is corrected as follows (the correction is underlined):</p> <p>HKSA 240 requires the auditor, when forming the overall conclusion, to evaluate whether analytical procedures that are performed near the end of the audit indicate a previously <u>un</u>recognised risk of material misstatement due to fraud.</p>
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Technical Updates – Learning Pack

Chapter 1 Scope of corporate governance

Section 1.2 Pages 6–7	<p>In the first paragraph under 1.2, the word 'Codes' is changed to 'codes'.</p> <p>Under the heading 'In Hong Kong', all references to 'the Code on Corporate Governance Practices' are changed to 'the Corporate Governance Code', and all references to 'the HK Code' are changed to 'the Code'.</p> <p>The last sentence of the final paragraph under 'In Hong Kong' is changed as follows:</p> <p>Hong Kong companies may also devise their own Corporate Governance Code on such terms as they may consider appropriate.</p>
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Section 1.4 Page 7	<p>In the last paragraph on page 7, the square brackets around the word 'is' are removed.</p>
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Section 1.6 Page 14	<p>The last sentence of the second paragraph beneath the table is corrected as follows:</p> <p>It should help listed companies to understand and fulfil the requirements on internal controls contained in the Corporate Governance Code and disclosures in the Corporate Governance Report (Main Board and the GEM Listing Rules, respectively).</p>
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Answers to self-test questions – Answer 2 Page 29	<p>Under the heading 'Answer 2', all references to 'the Code on Corporate Governance Practices' are changed to 'the Corporate Governance Code', and all references to 'the HK Code' are changed to 'the Code'.</p>
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Chapter 2 Corporate governance reports and practice

Section 2.1 Topic highlights Page 36	<p>Reference to 'the Code on Corporate Governance Practices' is changed to 'the Corporate Governance Code', and all references to 'the HK Code' are changed to 'the Code'.</p>
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Section 2.1.1 Pages 36–39	<p>Throughout section 2.1.1, all references to 'the HK Code' are changed to 'the Code', and all references to the 'Code on Corporate Governance Practices' are changed to the 'Corporate Governance Code'.</p>
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Section 2.1.2 Pages 39–42	<p>The title of section 2.1.2 changes to 'Principles of the Code and the UK Corporate Governance Code'.</p> <p>In the bullet list at the bottom of page 39, a second bracket is added to the end of the second bullet as follows:</p> <ul style="list-style-type: none"> • More specific provisions (Code provisions (CP)) <p>Throughout section 2.1.2, all references to 'the HK Code' are changed to 'the Code'.</p>
Section 2.1.4 Page 43	All references to the 'HK Code' are changed to the 'Code'.
Section 2.1.5 Page 44	All references to the 'HK Code' are changed to the 'Code'.
Section 3 Topic highlights Page 44	Reference to the 'HK Code' changes to the 'Code'.
Section 3.1 Page 44	<p>All references to the 'HK Code' are changed to the 'Code'.</p> <p>The first sentence of the second paragraph is amended as follows:</p> <p>In contrast to other corporate governance reporting regimes, the Code is broader in coverage but less onerous in terms of required management action and attestation.</p>
Section 3.5 Page 47	<p>All references to the 'HK Code' are changed to the 'Code'.</p> <p>The last sentence of the second paragraph is amended as follows:</p> <p>Issuers may also devise their own Corporate Governance Code on such terms as they may consider appropriate.</p>
Section 3.6 Page 54	<p>Under 'Self-test question 2', the first sentence changes as follows:</p> <p>There are several provisions in Section C of the <i>Corporate Governance Code</i> ('the Code') about the annual review of the risk management and internal control system of listed companies.</p>
Section 4.1 Page 57	All references to the 'HK Code' in 'Topic highlights' are changed to the 'Code'.
Section 4.3.1 Page 60	All references to the 'HK Code' are changed to the 'Code'.
Answers to self-test questions – Answer 1 Page 63	All references to the 'HK Code' are changed to the 'Code'.

Chapter 4	Code of ethics									
Topic list	<p>New section is inserted as section 8. Existing section 8 becomes section 9.</p> <p>8 Specific guidance: Anti-money laundering and counter-terrorist financing for professional accountants</p> <p>8.1 The nature of money laundering 8.2 AML/CFT policies, procedures and controls</p> <p>9 Other issues</p> <p>9.1 Client acceptance 9.2 Engagement acceptance 9.3 Changes in professional appointment 9.4 Marketing professional services 9.5 Custody of entity's assets 9.6 Integrity, objectivity and independence in insolvency</p>									
Chapter introduction Page 101	<p>The text from the start of page 101 down to before the heading 'SECTION A: General application of the Code', is replaced with the following:</p> <p>It is important that you understand the topic well. Auditors are subject to ethical requirements imposed by the accountancy bodies; in Hong Kong, it is the HKICPA.</p> <p>Code of Ethics for Professional Accountants Revised June 2010; February 2012; November 2013; March 2014; January 2015; December 2016; and February 2018.</p> <p>This <i>Code of Ethics for Professional Accountants</i> (the <i>Code</i>) was effective from 1 January 2011 (although the several subsequent amendments to bring it into line with the IESBA <i>Code of Ethics</i> are effective from different dates indicated within each amendment). All subsequent amendments to the Code have been incorporated into this Learning Pack.</p> <p>All Professional Accountants are required to comply with the <i>Code</i>.</p> <p>Section A – GENERAL APPLICATION OF THE CODE Section B – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE Section C – PROFESSIONAL ACCOUNTANTS IN BUSINESS Section D – ADDITIONAL ETHICAL REQUIREMENTS Section E – SPECIALISED AREAS OF PRACTICE Section F – GUIDELINES ON ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST FINANCING FOR PROFESSIONAL ACCOUNTANTS</p> <table border="0"> <thead> <tr> <th></th> <th><i>Professional Accountant in Public Practice</i></th> <th><i>Professional Accountant in Business</i></th> </tr> </thead> <tbody> <tr> <td>Definition:</td> <td>Professional accountant in a firm that provides professional services</td> <td>Professional accountant employed or engaged in an executive or non-executive capacity i.e. commerce, industry, service etc.</td> </tr> <tr> <td>Adoption of which Parts of the <i>Code</i>:</td> <td>A,B,D,E,F of the <i>Code</i></td> <td>A,C D,E,F of the <i>Code</i></td> </tr> </tbody> </table>		<i>Professional Accountant in Public Practice</i>	<i>Professional Accountant in Business</i>	Definition:	Professional accountant in a firm that provides professional services	Professional accountant employed or engaged in an executive or non-executive capacity i.e. commerce, industry, service etc.	Adoption of which Parts of the <i>Code</i> :	A,B,D,E,F of the <i>Code</i>	A,C D,E,F of the <i>Code</i>
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Section 3 Page 129	<p>Within the Topic highlights, the second sentence is changed to:</p> <p>Guidance on an appropriate response was finalised in the February 2018 revision of the HKICPA <i>Code of Ethics</i>.</p>									

8 Specific guidance: Anti-money laundering and counter-terrorist financing for professional accountants



Topic highlights

The HKICPA *Code of Ethics* (Revised 2018) gives guidance on anti-money laundering for professional accountants.

The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) (Amendment) Ordinance 2018 extended the scope of the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance to cover accountants (its name become the Anti-Money Laundering and Counter-Terrorist Financing Ordinance).

In response to this, the HKICPA introduced a new part into the *Code of ethics* (Revised 2018): Part F – Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants. This encompasses sections 600 to 670 of the *Code of Ethics*.

The Guidelines apply primarily to practices and members working in practices. The Guidelines do not carry the force of legal requirements, but they would be admissible as evidence in any court proceedings under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance.

The Guidelines apply to practices	AML/CTF policies, procedures and controls (section 610 of the Code)	CDD, RK and ongoing monitoring (sections 620, 630, 660 of the Code)	Suspicious transaction reporting and financial sanctions (sections 640, 650 of the Code)	Staff hiring and training (section 670 of the Code)
When providing specified services (see below)	Mandatory	Mandatory	Mandatory	Mandatory
When providing other services	Good practice	Good practice	Mandatory	Good practice

For practices providing the services specified, the Guidelines are mandatory. These services include the following (the full list is given in the *Code of Ethics*: paras. 600.2.1–2):

- When practices, by way of business, prepare for or carry out for a client a transaction concerning: buying and selling of real estate; managing of client money, securities or other assets; or management of bank, savings or securities accounts.
- When practices provide trust or company services and, by way of business, prepare for or carry out for a client a transaction concerning: forming corporations or other legal persons; and acting as, or arranging for another person to act as, a director or secretary of a company, a partner of a partnership, or a similar position in relation to other legal persons.

8.1 The nature of money laundering

The Guidelines quote the following definitions, given in the Anti-Money Laundering and Counter-Terrorist Financing Ordinance.



Key terms

Money laundering is an act intended to have the effect of making any property:

- (a) that is the proceeds obtained from the commission of an indictable offence under the laws of Hong Kong, or of any conduct which if it had occurred in Hong Kong would constitute an indictable offence under the laws of Hong Kong; or
- (b) that in whole or in part, directly or indirectly, represents such proceeds, not to appear to be or so represent such proceeds.

Terrorist financing is:

- (a) the provision or collection, by any means, directly or indirectly, of any property:
 - (i) with the intention that the property will be used; or
 - (ii) knowing that the property will be used, in whole or in part, to commit one or more terrorist acts (whether or not the property is actually so used); or
- (b) the making available of any property or financial (or related) services, by any means, directly or indirectly, to or for the benefit of a person knowing that, or being reckless as to whether, the person is a terrorist or terrorist associate; or
- (c) the collection of property or solicitation of financial (or related) services, by any means, directly or indirectly, for the benefit of a person knowing that, or being reckless as to whether, the person is a terrorist or terrorist associate.

(HKICPA, *Code of Ethics*: paras. 600.3.1–2)

A **beneficial owner** is an individual (or individuals) who ultimately owns or controls the client, or on whose behalf a service is being provided. A beneficial owner in relation to a corporation is an individual who owns or controls, directly or indirectly, more than 25% of the issued share capital or voting rights, or who exercises ultimate control over the management, of the corporation.

(HKICPA, *Code of Ethics*: paras. 600.6.1,4)

8.2 AML/CFT policies, procedures and controls

The Guidelines make use of the following acronyms; you may benefit from familiarising yourselves with them.

AML – Anti-Money Laundering

CDD – Customer Due Diligence

CFT – Counter-Financing of Terrorism

CO – Compliance Officer

ML – Money Laundering

MLRO – Money Laundering Reporting Officer

PEP – Politically Exposed Person

RBA – Risk-Based Approach

STR – Suspicious Transaction Report

TF – Terrorist Financing

Practices must have internal policies, procedures and other controls in place to address ML/TF concerns, and to comply with the existing legal requirements on AML/CFT.

Practices should communicate these policies and procedures clearly to employees.

8.2.1 Adopting a risk-based approach (Section 610)

No system can be expected to detect and prevent all ML/TF activities, so the Guidelines advocate a risk-based approach. Controls must be put in place, taking into account factors such as the following (HKICPA, *Code of Ethics*: paras. 610.2.1–2):

- Types of client involved and their geographical locations
- Services/products offered
- Mode of delivery of the service/product
- Size of the practice

An effective RBA involves identifying and categorising ML/TF overall risks at the client level and establishing reasonable measures based on risks identified (HKICPA, *Code of Ethics*: para. 610.2.3). This will enable practices to subject clients to proportionate controls and oversight by determining:

- (a) the extent of CDD to be performed on the client; the extent of the measures to be undertaken to verify the identity of any beneficial owner and any person purporting to act on behalf of the client (see Section 620);
- (b) the level of ongoing monitoring to be applied to the relationship (see Section 630); and
- (c) measures to mitigate any risks identified.

(HKICPA, *Code of Ethics*: para. 610.2.5)

Practices may therefore have to adjust their risk assessment of a particular client from time to time, based upon information obtained, and also review the extent and frequency of the CDD and ongoing monitoring to be applied to the client (HKICPA, *Code of Ethics*: para. 610.2.7).

Management oversight

The senior management is responsible for managing compliance in relation to AML/CFT.

They must appoint a partner, director or equivalent as a CO. They must also appoint an MLRO, who may be the same person as the CO (HKICPA, *Code of Ethics*: para. 610.3.1).

The CO would generally act as the focal point within a practice for the oversight of all activities relating to the prevention and detection of ML/TF. Broadly speaking, the CO is a higher-level role, providing support and guidance to senior management; the MLRO deals with the actual identification and reporting of suspicious transactions.

The CO's role includes:

- Reviewing the practice's AML/CFT systems
- Oversight of the practice's AML/CFT controls

(HKICPA, *Code of Ethics*: para. 610.3.3)

The MLRO's role includes:

- Reviewing internal disclosures and exception reports and, in light of available relevant information, determining whether or not it is necessary to make an STR to the Joint Financial Intelligence Unit (JFIU)
- Maintaining records related to such internal reviews
- Providing guidance on how to avoid 'tipping off'
- Acting as the main point of contact with the JFIU, law enforcement and other authorities

(HKICPA, *Code of Ethics*: para. 610.3.5)

Where practicable, practices should establish an independent compliance function, which reviews the implementation of the AML/CFT controls (HKICPA, *Code of Ethics*: para. 610.3.6–7).

Practices should establish, maintain and operate appropriate procedures in order to be satisfied of the integrity of any new employees (HKICPA, *Code of Ethics*: para. 610.3.8).

8.2.2 Customer Due Diligence (CDD) (Section 620)

Customer Due Diligence (CDD) is intended to enable practices to know (with reasonable assurance) the true identity of each client, the type of business and transactions the client is likely to be undertaking, and the source and intended use of funds (HKICPA, *Code of Ethics*: para. 620.2.1–2).

The accent in the Guidelines is not on the impossibility of totally eliminating the risk of a client not being who they appear to be, but on the necessity of adopting reasonable measures – CDD procedures – to reduce this risk and find out who the client is.

Enhanced CDD (EDD) must be applied to high-risk individuals, but Simplified CDD (SDD) may be applied to particularly low-risk individuals.

Practices must perform the CDD measures set out in these Guidelines in respect of pre-existing clients (HKICPA, *Code of Ethics*: para. 620.2.3).

The Guidelines stipulate that practices must perform the following CDD measures:

- (a) identify the client and verify the client's identity (using documents, data or information provided by a government body or other reliable, independent source);
- (b) identify the beneficial owner (where there is one) and take reasonable steps to verify their identity (Legal and ownership structures may be complex and practices should seek to understand them.);
- (c) understand and, as appropriate, obtain information on the purpose and intended nature of the business relationship (if any) to be established with the practice, unless the purpose and intended nature are obvious; and
- (d) if a person purports to act on behalf of the client:
 - (i) identify the person and take reasonable measures to verify their identity; and
 - (ii) verify the person's authority to act on behalf of the client.

Practices must adopt enhanced CDD in relation to high-risk clients (including foreign PEPs), and may adopt simplified due diligence measures in certain specified circumstances.

(HKICPA, *Code of Ethics*: para. 620.1)

The Guidelines distinguish three risk factors in relation to CDD: client risk, country/geographic risk, and service risk.

Factors that may indicate a higher level of **client risk** include:

- (a) Indications that the client is attempting to obscure understanding of its business, ownership or the nature of its transactions
- (b) Indications of certain transactions, structures, geographical locations, international activities, or other factors, that are not in keeping with the practice's understanding of the client's business or economic situation
- (c) Client industries, sectors or categories where opportunities for ML/TF are particularly prevalent

(HKICPA, *Code of Ethics*: para. 620.4.3–4)

Not all clients falling into such risk categories are necessarily high-risk clients – the practice must apply judgment in making this determination (HKICPA, *Code of Ethics*: para. 620.4.5).

Factors indicating higher **geographic risk** include clients being located in or sending funds to a country that is subject to sanctions, or identified by the FATF as lacking an appropriate AML/CFT regime, or identified by credible sources as having a significant level of corruption or providing support to terrorists or terrorist activities (HKICPA, *Code of Ethics*: para. 620.4.6).

The Guidelines contain an extensive Appendix B which gives further examples of risk factors.

Practices should identify all beneficial owners of a client (HKICPA, *Code of Ethics*: para. 620.6.4).

Where an individual purports to act on behalf of the client, practices should also obtain written authority that they are authorised to do so (HKICPA, *Code of Ethics*: para. 620.7.3).

Unless the purpose and intended nature are obvious, practices must obtain information from all new clients to satisfy themselves as to the intended purpose and reason for establishing the relationship, and document the information (HKICPA, *Code of Ethics*: para. 620.9.1).

Generally, the CDD process must be completed before establishing any client relationship (HKICPA, *Code of Ethics*: para. 620.10.1). Once the identity of a client has been satisfactorily verified, there is no obligation to reverify identity, but steps should be taken from time to time to ensure that the client information obtained for the purposes of CDD is up to date and relevant (HKICPA, *Code of Ethics*: para. 620.10.7).

Simplified Due Diligence (SDD)

Where Simplified Due Diligence (SDD) is adopted, the simplified measures should be commensurate with the lower risk factors. For example, the beneficial owner may be identified after the client relationship has been established (HKICPA, *Code of Ethics*: para. 620.11.1).

SDD measures may be adopted where (for example):

- (a) Reliable information on the client is publicly available
- (b) The practice is familiar with the client's AML/CFT controls due to previous dealings with the client
- (c) The client is a listed company that is subject to regulatory disclosure requirements

(HKICPA, *Code of Ethics*: para. 620.11.4)

Enhanced Due Diligence (EDD)

Enhanced Due Diligence (EDD) must include:

- (a) obtaining the approval of the senior management to commence or continue the relationship; and
- (b) taking reasonable measures to establish the relevant client's or beneficial owner's source of wealth, or other additional mitigation measures, e.g.:
 - (i) obtaining additional information on the intended nature of the business relationship (e.g. anticipated account activity);
 - (ii) obtaining additional information on the client and updating the client profile more regularly; and
 - (iii) conducting enhanced monitoring of the business relationship, by increasing the number and timing of the controls applied and selecting patterns of transactions that need further examination.

(HKICPA, *Code of Ethics*: para. 620.12.1)

Providing services to PEPs may be risky as these individuals are considered vulnerable to corruption. Practices should seek to determine whether a beneficial owner is a PEP.

Foreign PEPs are considered riskier than domestic PEPs (HKICPA, *Code of Ethics*: para. 620.12.6–7). EDD may help to reduce this risk.

Specific risk factors with a PEP include:

- (a) concerns about the PEP's country of origin;
- (b) unexplained sources of wealth or income;
- (c) receipts of large sums from governmental bodies;
- (d) commission earned on government contracts;
- (e) requests for any form of secrecy with a transaction; and
- (f) use of government accounts as the source of funds in a transaction.

(HKICPA, *Code of Ethics*: para. 620.12.13)

In contrast to foreign PEPs, domestic PEPs are not automatically high risk; however, if they do turn out to be high-risk then EDD should be applied (HKICPA, *Code of Ethics*: para. 620.12.17).

CDD performed by intermediaries

It is acceptable for a practice to rely on CDD performed by an intermediary, but the practice themselves will be considered ultimately responsible for it (HKICPA, *Code of Ethics*: para. 620.13.1).

Practices may only rely on overseas intermediaries in certain circumstances, e.g. if the intermediary falls into specified categories of professions (e.g. lawyer, auditor) (HKICPA, *Code of Ethics*: para. 620.13.8).

8.2.3 Ongoing monitoring (Section 630)

Practices are required to monitor their business relationships with clients. They do this by:

- (a) reviewing (from time to time) documents, data and information to ensure that they are up to date and relevant;
- (b) paying attention to transactions carried out for the client to ensure that they are consistent with the practice's knowledge of the client; and
- (c) identifying complex, large or unusual transactions (which have no apparent purpose), examining the background and purposes of those transactions and recording their findings.

(HKICPA, *Code of Ethics*: para. 630.1.1)

The extent of monitoring should be linked to the risk profile of the client (HKICPA, *Code of Ethics*: para. 630.2.1).

8.2.4 Making suspicious transaction reports (Section 640)

Where there are indications of possible money laundering, an STR must be made. The STR is made to an authorised officer (the JFIU), and must be made as soon as is reasonably practical (although this may be either before or after the suspicious transaction takes place). Practices must put in place a system of internal controls to prevent 'tipping off' (HKICPA, *Code of Ethics*: paras. 640.1.1–2.1).

The obligation to make an STR overrides any duty of confidentiality (HKICPA, *Code of Ethics*: para. 640.3.20).

It is an imprisonable offence for a person (the MLRO) to fail to make an STR once they have knowledge or a suspicion of ML taking place.

Once an employee has reported to the MLRO, then their obligation ends (HKICPA, *Code of Ethics*: paras. 640.2.3–4). The key is for the employee to have enough knowledge of the client's business – from CDD and from monitoring – for them to recognise when a transaction is suspicious. They do not need to know what the criminal activity itself was (HKICPA, *Code of Ethics*: paras. 640.2.7, 9).

There is an offence of 'tipping off' the client, and practices should take care that their line of enquiry with the client is such that tipping off cannot be construed to have taken place (HKICPA, *Code of Ethics*: paras. 640.1.1–2). Tipping off carries a maximum of three months' imprisonment, with a fine of up to \$500,000 (HKICPA, *Code of Ethics*: para. 640.2.16).

One protection for employees is that a person cannot be found guilty of tipping off if they did not know or suspect that ML was taking place (or that law enforcement was conducting an investigation) (HKICPA, *Code of Ethics*: para. 640.2.19).

Internal reporting

Staff must be aware of the identity of the MLRO, and would usually make their internal reports directly to the MLRO (although it is possible to consult with managers or supervisors before doing so) (HKICPA, *Code of Ethics*: paras. 640.3.7–8).

Reports to the MLRO should be documented, and the MLRO must acknowledge receipt and provide a reminder about avoiding tipping off (HKICPA, *Code of Ethics*: paras. 640.3.9–10).

The MLRO then evaluates the internal report, considering all relevant information (including the CDD). If the MLRO concludes that there are grounds for suspicion, they report to the JFIU; if there are no such grounds then no report is made. Not making a report is an acceptable outcome, but the MLRO would need to keep proper records of their deliberations (HKICPA, *Code of Ethics*: para. 640.3.14).

8.2.5 Financial sanctions and terrorist financing (Section 650)

Practices must also be alert to the existence of targeted financial sanctions (and the financing of terrorism/proliferation of weapons of mass destruction). These sanctions may be made by the United Nations and then implemented in Hong Kong.

It is an offence to make funds or financial assets available to individuals or entities who are the subject of sanctions. Offenders are subject to a maximum sentence of seven years' imprisonment and a fine for an unlimited amount (HKICPA, *Code of Ethics*: para. 650.1.3).

The Institute may inform members of the targets of these sanctions using the Government Gazette. Practices then conduct name checks of their clients and their beneficial owners against the latest lists of the designated individuals and entities (HKICPA, *Code of Ethics*: paras. 650.1.4–5).

Regarding terrorist financing (TF), the Secretary for Security of the Hong Kong Special Administrative Region (SAR) may freeze suspected terrorist property. Practices should not make property or financial services available to persons/entities affected by such a freeze, and should not collect property on their behalf (HKICPA, *Code of Ethics*: para. 650.1.11).

8.2.6 Record-keeping (Section 660)

The general documentation systems used by the practice may be sufficient to meet the requirements of the Guidelines (HKICPA, *Code of Ethics*: para. 660.2.3).

Practices must prepare, maintain and retain records of their relationships and transactions with clients. These must be sufficient to ensure that:

- (a) any client/beneficial owner can be properly identified;
- (b) the audit trail for particular transactions is clear and complete;
- (c) the original or suitable copies of all relevant records are available on a timely basis; and
- (d) practices are able to show evidence of compliance with any relevant requirements specified in other sections of these Guidelines.

(HKICPA, *Code of Ethics*: para. 660.1).

Records must be retained for at least five years after the end of the business relationship or transaction (HKICPA, *Code of Ethics*: para. 660.2.2).

8.2.7 Staff hiring and training (Section 670)

Practices' AML/CTF policies, procedures and controls must cover employee hiring and training (HKICPA, *Code of Ethics*: para. 670.1).

Staff training is an important element of an effective system to prevent and detect ML/TF activities (HKICPA, *Code of Ethics*: para. 670.1.2). Practices must provide appropriate AML/CFT training to their staff (HKICPA, *Code of Ethics*: para. 670.1.3).

MLROs may require more specific training on their responsibilities for assessing reports submitted to them, for making STRs, and to keep abreast of AML/CFT developments generally (HKICPA, *Code of Ethics*: para. 670.1.8).

Practices must maintain records of staff training, and should monitor its effectiveness (HKICPA, *Code of Ethics*: paras. 670.1.10–11).

Finally, the current section 8 is renumbered so that it becomes section 9. The headings become the following.

9 Other issues

- 9.1 Client acceptance
- 9.2 Engagement acceptance
- 9.3 Changes in professional appointment
- 9.4 Marketing professional services
- 9.5 Custody of entity's assets
- 9.6 Integrity, objectivity and independence in insolvency

Chapter 5	Framework for assurance engagements
Section 1	The reference to HKSA 250 is updated to:
Page 157	HKSA 250 (Revised)
Section 1	The name of HKSIR 500 is updated to:
Page 159	HKSIR 500 (Revised) <i>Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness</i>
Chapter 10	Fraud and irregularities
Topic list	Item (3.3) on the topic list is amended to:
Page 287	3.3 HKSA 250 (Revised)
Section 2.1	The following text replaces the second paragraph of this section:
Page 299	HKSA 250 (Revised) <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i> provides guidance on the auditor's responsibility to consider laws and regulations in an audit of financial statements.
Section 2.1	The key term definition is replaced with the following.
Page 300	Non-compliance refers to acts of omission or commission, intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity.

In the next paragraph, the HKSA reference is updated to:

HKSA 250.A9–10

The paragraph itself is then replaced with the following.

Non-compliance includes all acts entered into in the entity's name by management (or other individuals working on its behalf), as well as personal misconduct related to the business activities of the entity.

This is an important change from previous iterations of HKSA 250 – personal misconduct by an entity's management now falls within the definition of non-compliance to be considered by the auditor. An example of this might be where an individual in a key management position, in a personal capacity, has accepted a bribe from a supplier of the entity and in return secures the appointment of the supplier to provide services or contracts to the entity.

Section 2.3 Page 300	<p>The HKSA reference at the start of this section is updated to:</p> <p>HKSA 250.4–9, 11</p> <p>The following sentence is added at the end of section 2.3 (before 2.3.1).</p> <p>The auditor may have additional responsibilities under law, regulation or relevant ethical requirements, and complying with these may provide further evidence that is relevant to the auditor's work in line with HKSA 250.</p>
Section 2.3.1 Page 300	<p>The following material is added at the end of section 2.3.1 (before 2.3.2).</p> <p>Examples of laws and regulations which may have a direct or material effect on the financial statements are those relating to:</p> <ul style="list-style-type: none"> • Fraud, corruption and bribery • Money laundering, terrorist financing and proceeds of crime • Securities markets and trading • Banking and other financial products and services • Data protection • Tax and pension liabilities and payments • Environmental protection • Public health and safety <p style="text-align: right;">(HKSA 250: para. A6)</p>
Section 2.3.2 Page 301	<p>The text at the beginning of this subsection, before the lettered points, is changed to:</p> <p>HKSA 250 (Revised) requires the auditor to obtain a general understanding of:</p>
Section 2.3.4 Page 301	<p>The text at the beginning of this subsection, before the lettered points, is changed to:</p> <p>Under HKSA 250 (Revised), the objectives of the auditor are to:</p>
Section 2.5 Page 303	<p>The HKSA reference at the start of this section is updated to:</p> <p>HKSA 250.19–22</p> <p>The following sentence is added at the end of section 2.5 (before 2.5.1).</p> <p>If the auditor suspects there may be non-compliance, then they should discuss it with the appropriate level of management, unless they are prohibited from doing so by law or regulation – for example, the auditor will want to avoid committing the offence of 'tipping off' under anti-money laundering legislation (covered in Chapter 4).</p>

Section 2.6 Page 303	<p>The HKSA reference at the start of this section is updated to:</p> <p>HKSA 250.23–29</p> <p>The following material is added at the end of the final paragraph.</p> <p>The HKICPA <i>Code of Ethics</i> notes that, if it has been determined that non-compliance must be disclosed to an appropriate authority, then it would not be considered a breach of the duty of confidentiality.</p>
Section 2.6 Page 304	<p>A new sub-section 2.7 is inserted as follows.</p> <p>2.7 Documentation</p> <div style="background-color: #e0e0e0; padding: 5px; display: inline-block; margin-bottom: 5px;"> HKSA 250.30 </div> <p>The auditor documents identified or suspected non-compliance, together with the audit procedures performed (including significant judgments and conclusions), and any discussions of matters related to the non-compliance with management or those charged with governance (including how management responded).</p>
Section 3.1 Page 304	<p>The paragraph in this section is replaced with the following:</p> <p>The HKICPA <i>Code of Ethics</i> contains ethical requirements that must be adhered to by a professional accountant in public practice or business when responding to non-compliance with laws and regulations (known as NOCLAR). NOCLAR was covered in detail in Chapter 4 of this Learning Pack.</p>
Section 3.3 Page 305	<p>The section heading is updated to:</p> <p>3.3 HKSA 250 (Revised)</p> <p>The HKSA reference at the start of this section is updated to:</p> <p>HKSA 250.19–29</p>
Section 3.4 Page 305	<p>A new paragraph is inserted at the end of this section:</p> <p>The HKICPA <i>Code of Ethics</i> was revised in 2018 to include requirements related to money laundering (covered in Chapter 4).</p> <p>The Key term definition is changed to the following:</p> <p>Money laundering is an act intended to have the effect of making any property:</p> <ol style="list-style-type: none"> (a) that is the proceeds obtained from the commission of an indictable offence under the laws of Hong Kong, or of any conduct which if it had occurred in Hong Kong would constitute an indictable offence under the laws of Hong Kong; or (b) that in whole or in part, directly or indirectly, represents such proceeds, not to appear to be or so represent such proceeds. <p style="text-align: right;">(HKICPA, <i>Code of Ethics</i>: para. 600.3.1)</p>
Section 3.4.4 Page 307	<p>A new paragraph is inserted at the end of this section:</p> <p>In February 2018, the HKICPA <i>Code of ethics</i> was revised to include a new section dealing with anti-money laundering (covered in Chapter 4).</p>
Section 3.4.5 Page 307	<p>The material in this section is replaced with the following:</p> <p>The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) (Amendment) Ordinance 2018 ('the Ordinance') came into effect on 1 March 2018. The Ordinance provides for the imposition of requirements relating to customer due diligence and record-keeping on specified financial institutions, and provides for the powers of the relevant authorities.</p> <p>The Ordinance aligns Hong Kong's anti-money laundering regime with prevailing international standards.</p>

The Ordinance provides for the statutory requirements relating to customer due diligence and record-keeping for specified financial institutions, as well as the powers of the relevant authorities to supervise financial institutions' compliance with the requirements. The 2018 amendment of the Ordinance extended the statutory CDD and record-keeping requirements to cover some designated non-financial businesses and professions (e.g. accounting professionals).

The Ordinance also provides a licensing regime for money service operators. Under the AMLO, the designated relevant authorities (e.g. the HKICPA) published guidelines for their respective sectors.

The Ordinance provides for criminal sanctions (in addition to merely supervisory sanctions), which will ensure that Hong Kong has an effective AML regime. Many jurisdictions, including the UK, the US, Singapore, Italy and Norway, have provided for criminal offences under their AML legislation in dealing with breaches of CDD and record-keeping requirements.

Chapter 16	Overall audit review and finalisation
Topic list Page 473	The following item in the topic list is changed to: 9.2 HKSA 250 (Revised)
Section 3.2 Page 489	In the table, the name of HKSA 250 (Clarified) is amended to: HKSA 250 (Revised) <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i>
Section 9.2 Page 514	The heading for this section is changed to: 9.2 HKSA 250 (Revised) The HKSA reference at the start of this section is updated to: HKSA 250.19–29 The underlined words are added to the following paragraph. The auditor may discuss the findings with those charged with governance where they may be able to provide additional audit evidence, <u>provided they are not prohibited from doing so by law or regulation (such as anti-money laundering regulations)</u> . The following paragraph is removed. The auditor may consider withdrawal from the engagement, where withdrawal is possible under applicable law or regulation. That paragraph is then replaced with the following. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether law, regulation or relevant ethical requirements: (a) Require the auditor to report to an appropriate authority outside the entity (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances The following, final paragraph is removed: In some jurisdictions, the auditor of a financial institution has a statutory duty to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to supervisory authorities.

Chapter 19	Audit-related services and other assurance engagements
Section 2.1.5	The word 'Companies' is removed from the example.
Page 615	
Section 5.1	The first paragraph is removed.
Page 624	The full name of HKSIR 200 is then inserted in the second paragraph, which reads as follows:
	The key objective of HKSIR 200 <i>Accountants' Reports on Historical Financial Information in Investment Circulars</i> is to establish specific standards and provide guidance for reporting accountants engaged to issue an accountant's report on historical financial information for inclusion in an investment circular. Including an accountant's report in a prospectus is required by the Companies Ordinance and the Listing Rules and GEM Rules also list circumstances where an accountant's report is a requirement.
Section 8.1	The first paragraph is replaced with the following:
Page 634	PN 810.2 (Revised) <i>The Duties of the Auditor of an Insurer Authorised Under the Insurance Ordinance</i> gives guidance to auditors appointed to audit an authorised insurer. PN 810.2 also provides guidance to members reporting on levies paid to the insolvency schemes for Motor and Employee Compensation, the Terrorism scheme for Employee Compensations and the annual remittance report on the levy to the Insurance Authority(IA). These reports are made to the IA in accordance with the requirements in the Hong Kong Insurance Ordinance (Cap.41).
	PN 810.2 is not intended to provide guidance on the general audit procedures to be adopted in respect of audit companies and brokers. An auditor should refer to the guidance in paragraph 52 of PN 620.2 <i>Communication between the Auditor and the Insurance Authority</i> on sending a written request to the IA to confirm whether it has any matter to report to the auditor.
Question bank – questions	
Question 3	The paragraph under <i>Required</i> is amended as follows:
Page 714	As a listed company in Hong Kong, what are the requirements as set out in the <i>Corporate Governance Code</i> for Angel to determine the remuneration payable to this director and the related disclosures in the annual report?
Question bank – answers	
Answer 3	The first sentence of point (b) is amended as follows:
Page 770	As set out in the <i>Corporate Governance Code</i> (the 'Code') published by the Hong Kong Stock Exchange, detailed disclosure is required for directors' remunerations such as performance-related pay and non-performance related pay.
Index	
C	The entry for 'Code on Corporate Governance Practices' is changed to 'Corporate Governance Code'.
Page 858	
H	The entry for 'HK Code' is removed.
Page 860	

Technical Updates – Flashcards

Chapter 4	Code of Ethics
Page 25	A new entry is added to the Topic List, immediately after 'Confidentiality': Anti-Money Laundering
Page 26	A new tab is inserted at the top of each page in this chapter, immediately after 'Confidentiality': Anti-Money Laundering
Page 27	The paragraph in the bottom right corner of the page is updated to: The HKICPA <i>Code of Ethics for Professional Accountants</i> was revised in June 2010, February 2012, November 2013, March 2014, January 2015, December 2016, and February 2018.
Page 30	The text at the top is amended to read: Independence: s.290 – Independence – Audit and Review Engagements s.291 – Independence – Other Assurance Engagements
Page 32	A new page is inserted, after 'Confidentiality' and before 'Conflicts of interest'/'Other issues': The HKICPA <i>Code of Ethics</i> revised in 2018 to include: <i>Part F Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants</i> The Guidelines are mandatory for practices providing certain services (e.g. managing client money), and good practice if only other services are provided (e.g. audit).

Section 610

A **Risk-Based Approach (RBA)** must be adopted.

A Compliance Officer (**CO**) and a Money Laundering Reporting Officer (**MLRO**) are appointed – may be the same person.

Section 620

Customer Due Diligence (**CDD**) to **identify the client/beneficial owner**.

Enhanced Due Diligence (**EDD**) for high-risk clients, Simplified Due Diligence (**SDD**) for lower-risk clients.

Politically Exposed Persons (**PEPs**) carry risk.

Section 630

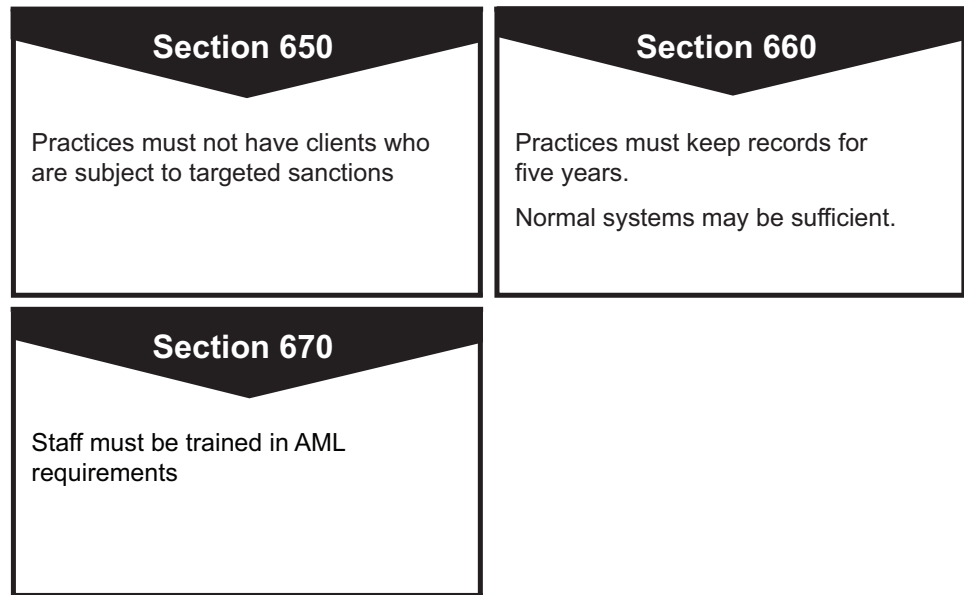
Practices must **monitor** client relationships on an ongoing basis.

Section 640

Staff report suspicions to MLRO.

The MLRO determines whether to make a Suspicious Transaction Report (**STR**) to the JFIU.

Must avoid **'tipping off'** where there is reasonable suspicion.



Chapter 10 Fraud and irregularities

Page 82 In the first sentence, in the top left corner of the page, the HKSA name is changed to:
 HKSA 250 (Revised) *Consideration of Laws and Regulations in an Audit of Financial Statements*

Page 83 The text in the grey box at the top of the page is replaced with the following.

Money laundering is an act intended to have the effect of making any property:

- (a) that is the proceeds obtained from the commission of an indictable offence under the laws of Hong Kong, or of any conduct which if it had occurred in Hong Kong would constitute an indictable offence under the laws of Hong Kong; or
- (b) that in whole or in part, directly or indirectly, represents such proceeds, not to appear to be or so represent such proceeds.

The text in the grey box at the bottom of the page is replaced with the following.

Governed in HK by the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, which imposes both criminal and supervisory sanctions. The HKICPA members are also bound by Part F of the HKICPA *Code of Ethics*, which contains the *Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants*.

Chapter 19 Audit-related services and other assurance engagements

Page 169 In the final bullet point, the name of the PN is changed to:
 (PN 810.2 (Revised 2018))