



FINANCIAL INTELLIGENCE CENTRE

SUMMARY OF OBSERVATIONS FROM THE STAKEHOLDERS' SATISFACTION SURVEY: ACCOUNTANTS AND AUDITORS.

Report Date:5 February 2019

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1. Introduction

The Financial Intelligence Centre (FIC) is Namibia's Financial Intelligence Unit entrusted with, amongst others, FIA compliance supervisory and monitoring efforts aimed at:

- a. monitoring various sectors to understand the level of FIA compliance and thus Money Laundering, Terrorism Financing and Proliferation Financing (ML/TF/PF) risk mitigation;
- b. to the extent possible, take reasonable measures to enhance FIA compliance and relevant ML/TF/PF risk mitigation; and
- c. avail the Anti-Money Laundering and Combating the Financing of Terrorism (AMLCFT) Council with reasonable assurance on the level of FIA compliance and thus ML/TF/PF risk mitigation in such sectors under its supervision.

As part of its supervisory efforts, the FIC values and encourages an open exchange of ideas with relevant stakeholders. Thus, feedback and comments are a major cornerstone of this exchange.

The FIC embarked on this exercise to assess the level of satisfaction amongst Accountable and Reporting Institutions with the FIC's performance as the Anti-Money Laundering, Combating the Financing of Terrorism and Proliferation (AML/CFT/CPF) supervisor. The objective was to gain an insight on stakeholder expectations and how the FIC is performing in terms of fulfilling same. The purpose of this report is to reflect on the outcomes of such survey and, where need be, avail guidance on issues raised by stakeholders. Importantly, the outcomes of this exercise enables the FIC to consider mechanisms for addressing concerns raised.

2. Objectives

The key objectives of the survey were to determine whether the FIC's:

- a. supervisory activities are assisting in enhancing ML/TF/PF risk mitigation and ultimately resulting in effective compliance with the FIA;
- b. supervisory activities have not unduly impeded the efficient operation of business in supervised sectors;

- c. communication with the regulated entities is clear, targeted, timely, concise and effective (helpful);
- d. interventions or remedial actions are proportionate to identified risk exposure and effective;
- e. compliance and monitoring methods are streamlined and coordinated; and
- f. monitoring and supervision actively contributes to the continuous improvement of Namibia's Anti-Money Laundering, Combatting the Financing of Terrorism and Proliferation (AML/CFT/CPF) regulatory and complementing frameworks.

In addition to the above, the FIC may recommend policy, legislative and other reforms to effectively address and mitigate identified risks.

3. Executive Summary

Feedback provided by the Accountants and Auditors' sector indicates that they have a general understanding of the FIC's mandate and their FIA obligations. The responses equally suggest that supervisory engagements with the sector may not be as comprehensive as those availed to other sectors. This is partly owing to the low level of ML/TF/PF risk exposure of the Accountants and Auditors sector.

FIA compliance assessments are a major compliance monitoring and supervision tool which the FIC uses to gain reasonable assurance on the level of AML/CFT/CPF control effectiveness. Following the risk based approach, the majority of institutions in the Accountants and Auditors sector have not been subjected to these assessments.

This report presents a summary of outcomes from the stakeholder satisfaction survey and provides clarity on some pertinent observations.

3.1 ML/TF/PF risks in the sector

Services such as the buying and selling of real estate/properties primarily fall within the domain of real estate agencies, conveyancing attorneys and banks. Accountants and Auditors are urged to always note that these services present high ML/TF/PF risks. When availing Accounting and

Auditing services, they should accord these kind of transactions the necessary care they deserve. In terms of Schedule 1 of the FIA, sectors, including Accountants and Auditors involved in availing the below listed services are inherently exposed to ML/TF/PF risks:

- a. Buying and selling of real estate for cash or otherwise;
- b. Managing of client money, securities, bank or securities accounts or other assets;
- c. Facilitating or sourcing contributions for the creation, operation or management of legal persons or arrangements;
- d. Creation, operation or management of legal persons or legal and commercial arrangements;
- e. Buying and selling of business entities, or parts thereof; and
- f. Buying and selling of legal rights.

International trends have shown that the following services traditionally offered by Accountants and Auditors could be either abused to advance ML/TF/PF activities or simply fail to exercise the necessary due diligence to detect, report and thus help combat ML/TF/PF activities:

- a. Audit and assurance services;
- b. Book-keeping and the preparation of annual and periodic accounts;
- c. Tax compliance work, and advice on the legitimate minimization of tax burdens;
- d. Internal audit, and advice on internal control and risk minimization;
- e. Regulatory and compliance services, including outsourced regulatory examinations;
- f. Insolvency/receiver-managers/bankruptcy related services;
- g. Advice on the structuring of transactions, and succession advice;
- h. Advice on investments and custody of client money; and
- i. Forensic Accountancy.

4. Challenges

The major challenges noted was the inadequacy of responses received from the sector. Records indicate that there are fifty (50) Accountants and Auditors supervised by the Public Accountants and Auditors' Board (PAAB), yet only 15 responded to the survey questionnaire.

Additionally, not all questions were answered, creating a challenge for the FIC with data inadequacy. The FIC analyzed data at hand, engaged respondents and held meetings to fill gaps observed from survey questionnaire responses.

5. Methodology

A qualitative method was used to conduct the study. A questionnaire was sent out to all Accountants and Auditors on the FIC database. The following factors, amongst others could have impacted responses to the questionnaire:

- the sector is supervised by the Public Accountants and Auditors' Board and minimal compliance related engagements are held with the FIC;
- the sector's ML/TF/PF risk exposure is low in terms of client transactions; and
- the minimal engagements and assessments conducted on the sector.

The study focused on the following:

- General understanding of the FIC and FIA;
- FIC publications and industry specific guidelines; and
- FIC compliance assessments.

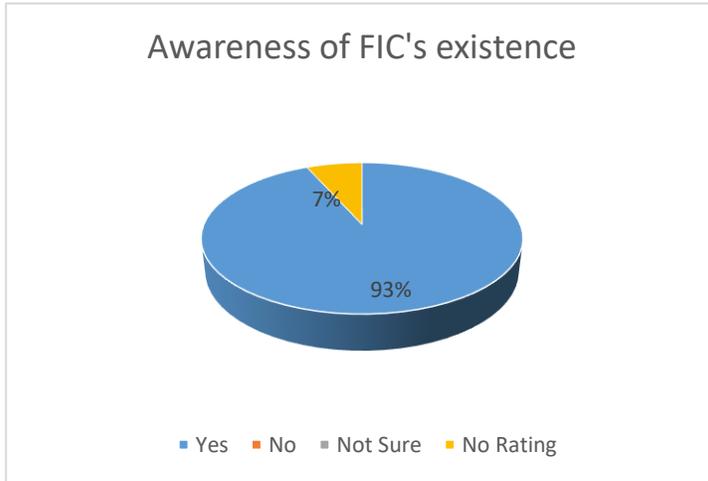
Responses from the questionnaire were collated, analyzed and this report presents a summary of the output thereof.

6. Summary of survey observations

6.1. General understanding of FIC and FIA

This section deals with the sector's general understanding of the FIC, its mandate and obligations in terms of the FIA. Below is a presentation of responses in this regard.

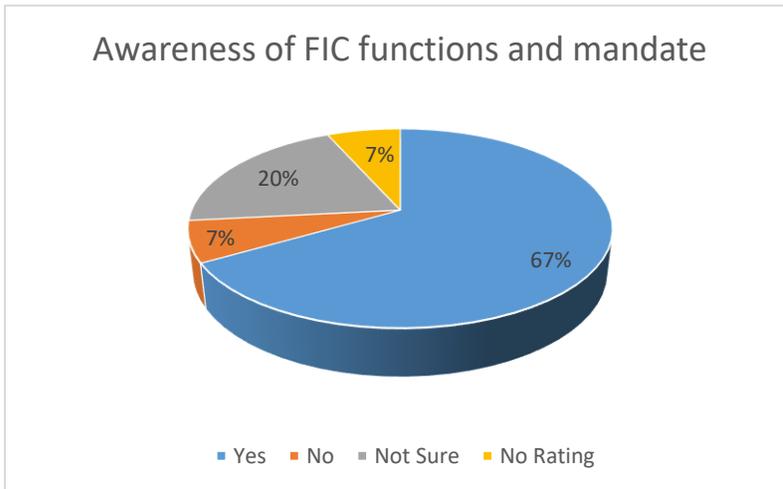
6.1.1. Awareness of the FIC's existence



The survey suggests that 93 percent of respondents are aware of the existence of the FIC as a supervisory body. It remains a concern to the FIC that 7 percent of respondents are not aware of the FIC's existence.

Graph 6.1.1: Awareness of FIC's existence

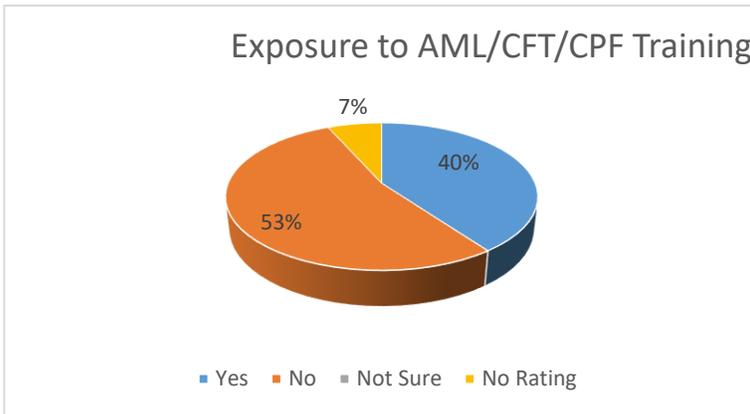
6.1.2. Awareness of the functions and mandate of the FIC



It was found that 67 percent of respondents are aware of the functions and mandate of the FIC, while the other 33 percent worryingly are not aware of the FIC's functions and mandate.

Graph 6.1.2: Awareness of FIC functions and mandate

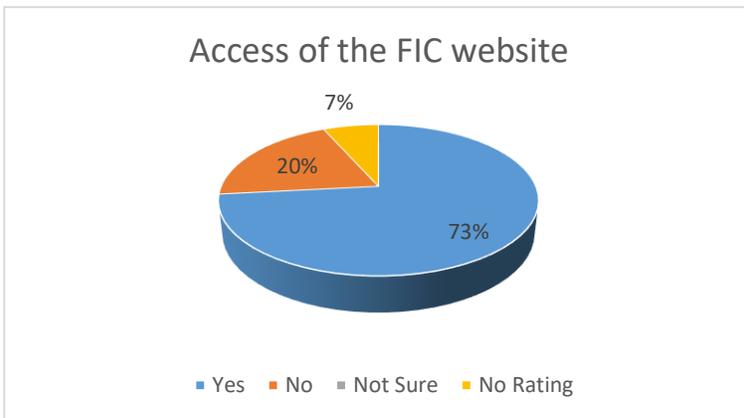
6.1.3. Exposure to some form of AML/CFT/CPF training



Only 40 percent of respondents indicated to have received or attended some form of AML/CFT/CPF training. Remedial action is in progress in this regard.

Graph 6.1.3: Exposure to AML/CFT/CPF Training

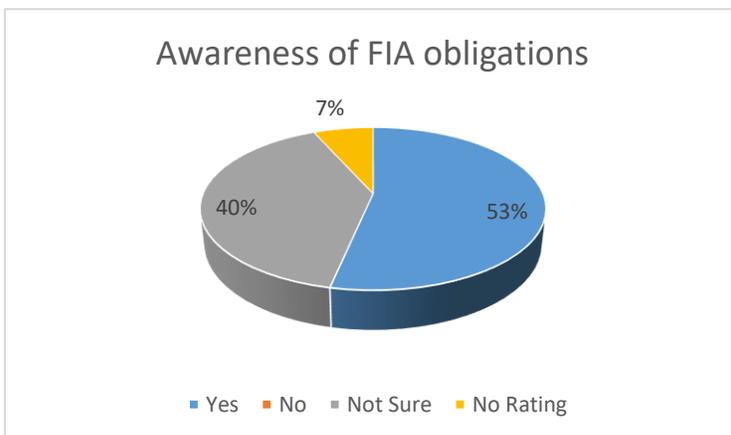
6.1.4. Accessing the FIC website



The majority (73 percent) of respondents indicated to have accessed the FIC website. The FIC website is an important communication tool through which the FIC engages stakeholders, publishes guidance materials etc.

Graph 6.1.4: Access of the FIC website

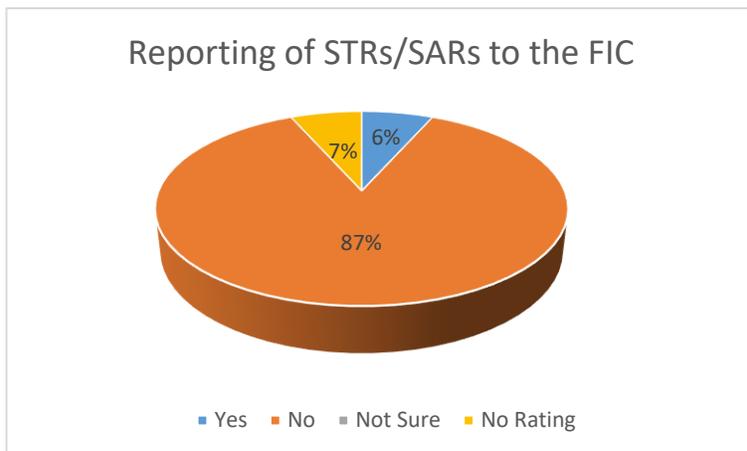
6.1.5. Awareness of all FIA obligations pertinent to AIs



As per above, 53 percent of the respondents indicated to be aware of their FIA obligations. The 47 percent who may not be aware of their obligations present a concern to the FIC as there is no reasonable assurance that they have relevant risk management measures in place.

Graph 6.1.5: Awareness of FIA obligation

6.1.6. Reporting Suspicious Transaction Reports (STRs) or Suspicious Activity Reports (SARs) to the FIC



Graph 6.1.6: Reporting of STRs/SARs to the FIC

A major objective of complying with the FIA is enabling implementation of controls that will ensure suspicious transactions or activities are detected and reported to the FIC timely. It can thus be said that primarily, the level of effectiveness of implemented

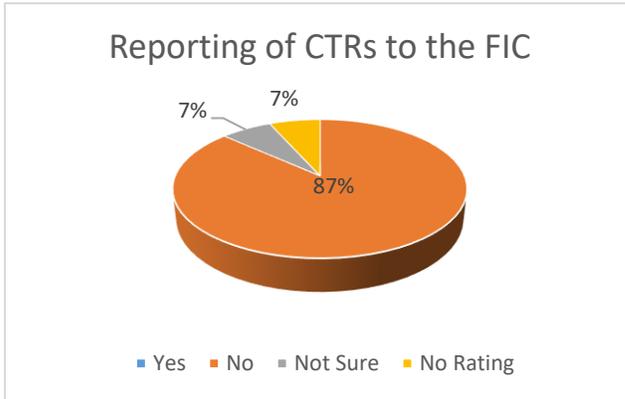
controls in an institution is reflected in the control system's ability to detect and ensure timely reporting of STRs and SARs to the FIC.

Having said that, the FIC recognizes that there is no standard worldwide used to determine the volume of STRs that an entity or sector should be reporting. The nature of behavior which may lead to eventual flagging and further reporting of a particular transaction in one Accountable Institution may be different in others. ML/TF/PF activities in different institutions, transactions or sectors are thus not easily comparable. Despite this, most Financial Intelligence Units (FIUs), the FIC included, rely on comparing sectoral reporting behavior to make assessments on areas which may need improvement.

The essence of complying with various sections under the FIA is to enable the detection of reportable transactions. It is thus the FIC's position that in the absence of any other reasonable standard, the quantity and quality of reporting behavior gives an indication of the level of AML/CFT/CPF control effectiveness in a given institution.

The survey revealed that 87 percent of the respondents have **not** reported STRs and SARs to the FIC. This could be a result of inadequate transaction monitoring or the legitimate absence of no reportable transactions or activities.

6.1.7. Reporting Cash Threshold Reports (CTRs) (on cash transactions above NAD 99 999.99) to the FIC



Since 28 January 2015, relevant institutions are expected to report cash transactions to the FIC if such exceed NAD 99,999.99. Such reports are not necessarily suspicious in nature and are mainly reported to form part of the database of records used in ML/TF/PF combatting activities.

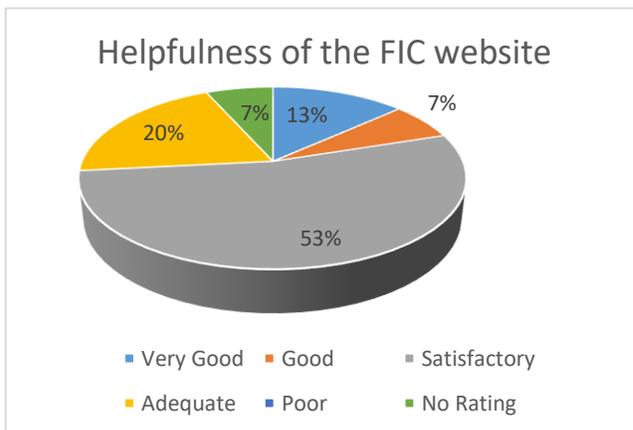
Graph 6.1.7: Reporting of CTRs to the FIC

The survey reviewed FIC records of CTRs which suggests that no CTRs were ever received from the sector. This could be a result of inadequate transaction monitoring systems or the legitimate absence of reportable transactions.

6.2. FIC publication and industry specific guidelines

This section presents an analysis of the views of the sector on FIC publications and guidance provided. On average, the respondents rated the usefulness of the FIC publications and guidance provided as 'Good'. Below is a presentation of the various responses in this regard:

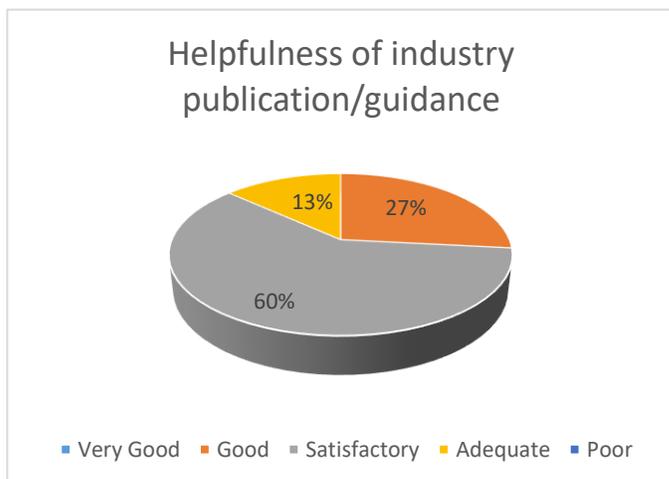
6.2.1. Helpfulness of the FIC website



Through the various positive responses, it can be said that about 73 percent of the respondents consider the FIC website as helpful while 20 percent find the website to be adequate.

Graph 6.2.1: Helpfulness of the FIC website

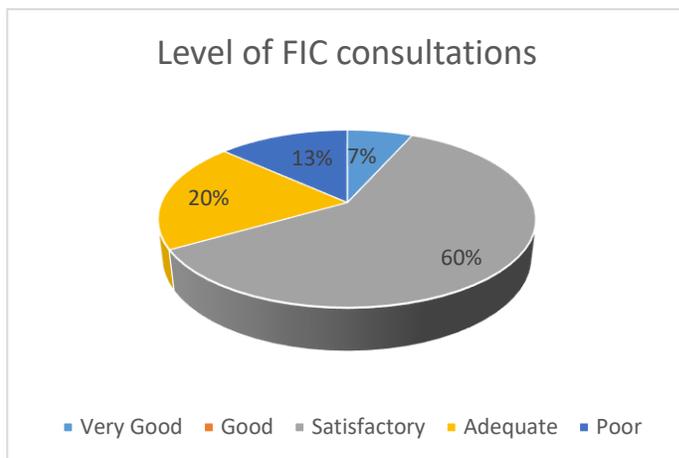
6.2.2. Helpfulness (clarity and conciseness) of the publications and industry specific guidance issued by the FIC



In terms of helpfulness, 27 percent of the respondents felt that the FIC’s publications and industry specific guidance are ‘good’, followed by 60 percent who rated it being ‘satisfactory’.

Graph 6.2.2: Helpfulness of the industry publication/guidance

6.2.3. The level of consultation by the FIC before issuing Circulars, formal guidance or typology reports

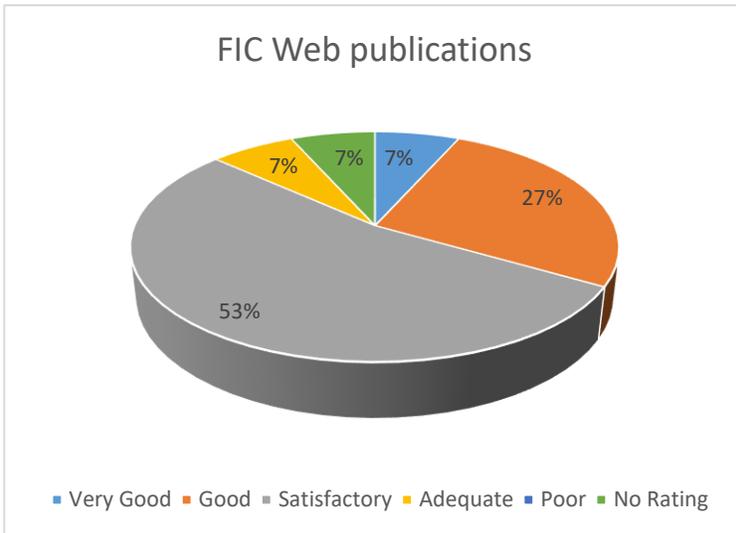


The FIC often consults as widely as possible and seeks inputs on relevant matters before issuing formal Circulars, Guidance Notes or similar documents with the aim of enhancing FIA compliance. Such consultations are needed to enhance the buy-in of stakeholders and enable the publishing of documents which have

Graph 6.2.3: Level of FIC consultations

incorporated the views of affected stakeholders. This enhances issuing of practically viable Guidance and similar documents. In this regard, about 60 percent of respondents felt that the FIC’s level of consultations are ‘satisfactory’, while 20 percent of the respondents indicated that the level of consultations in this regard are ‘adequate’.

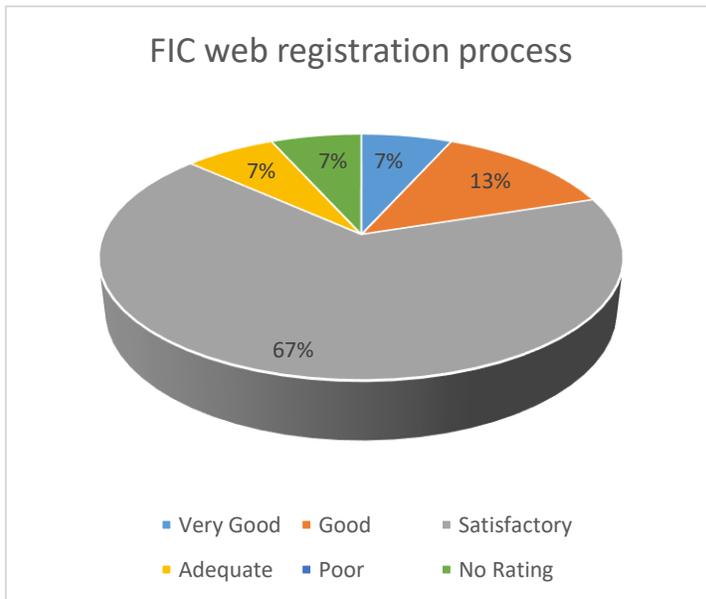
6.2.4. The FIC publishes up-to-date guidance and technical reference material on its website in a format which is user friendly



A significant number (comprising 27% who indicated 'good' and 53% who said 'satisfactory') of respondents felt that the FIC publishes up-to-date guidance and technical reference material on its website in a user friendly format.

Graph 6.2.4: Web FIC publications

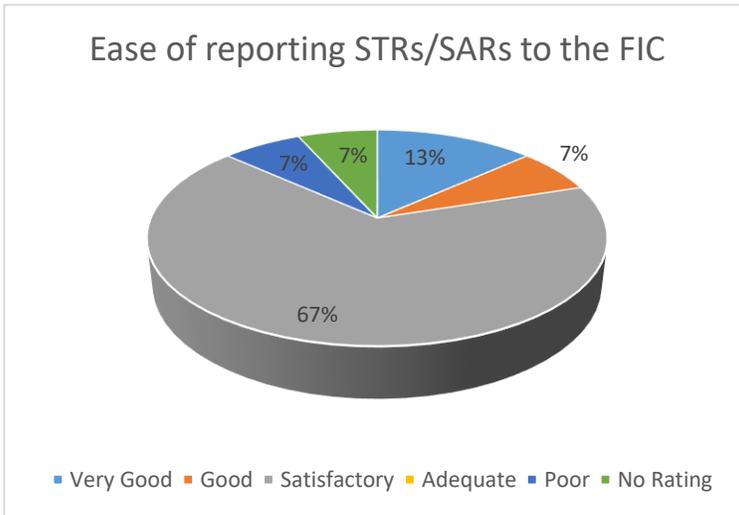
6.2.5. Assessing the FIC's web registration process for AIs



In order to effectively supervise sectors, it is essential that institutions in such sectors first register their relevant particulars with the FIC. This enables direct and easier access by the FIC to the respective institution. It equally enables ease with which to communicate and file various reports in terms of the FIA. The graph above summarizes the level of ease with which AIs in the sector experience the registration process.

Graph 6.2.5: FIC web registration process

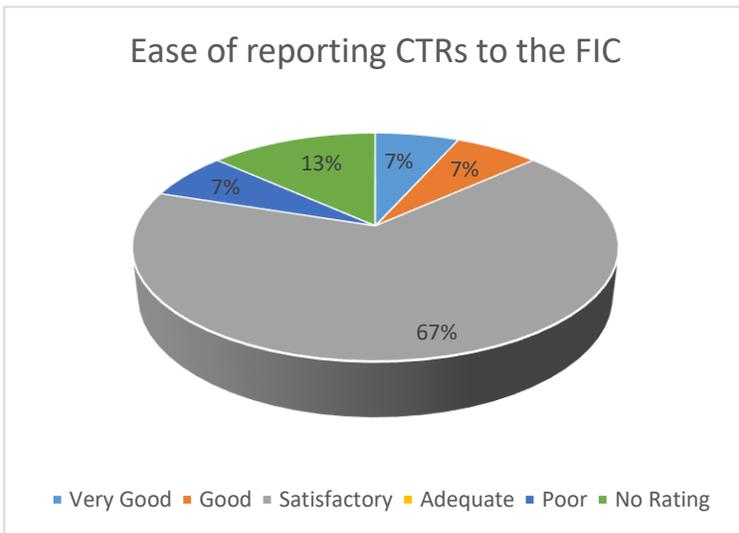
6.2.6. The ease with which STRs or SARs are reported to the FIC



The ease with which AIs find the process of reporting STRs and SARs is essential in encouraging further reporting. This has a bearing on overall combatting efforts. The graph above gives an analysis of respondents' assessment of the ease with which they are able to report STRs and SARs to the FIC.

Graph 6.2.6: Ease of reporting STRs/SARs to the FIC

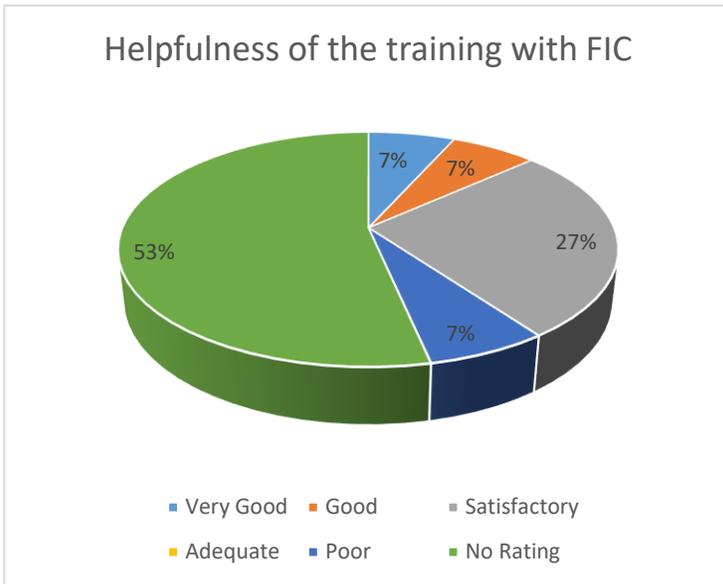
6.2.7. The ease with which CTRs are reported to the FIC



Threshold based reports such as CTRs are very important to the ML/TF/PF combatting efforts of various Law Enforcement Authorities. The graph above presents an analysis of respondents' view in terms of the ease with which they find the FIC's CTR reporting process.

Graph 6.2.7: Ease of reporting CTRs to the FIC

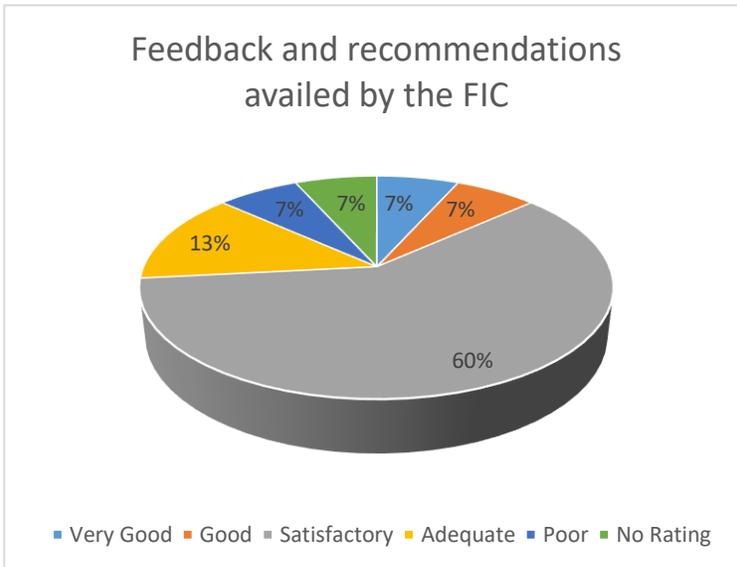
6.2.8. Helpfulness of training availed by the FIC



Respondents were also asked to rate the level of helpfulness they would assign the training they have received from the FIC. The graph above shows that 53% did not rate same. This may seem to suggest that many of the respondents were either not trained by the FIC or had varying reasons for not rating same. The satisfaction rating is only 27 percent from respondents.

Graph 6.2.8: Helpfulness of the training with FIC

6.2.9. Feedback and recommendations given by the FIC are transparent, consistent and in a timely manner



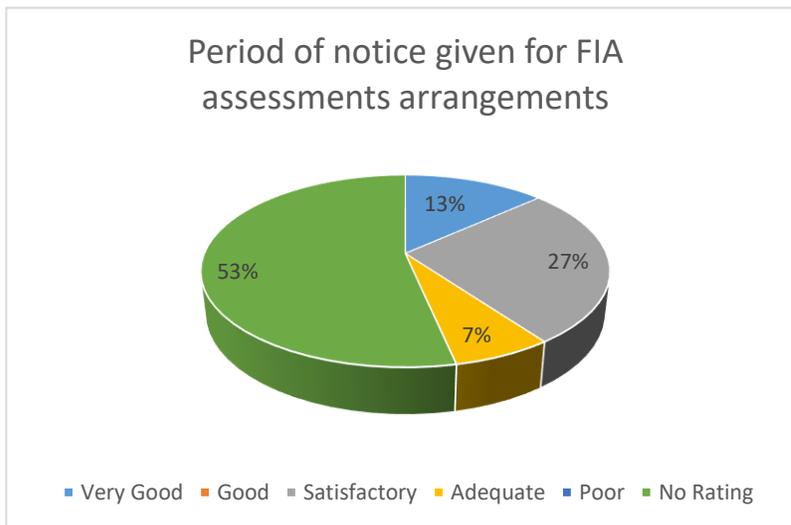
Availing guidance which the regulated populace finds helpful is essential for effective regulation and supervision. In summary, the respondents indicated that there is room for improvement in this regard (see graph).

Graph 6.2.9: Feedback and recommendations availed by the FIC

6.3. FIA Compliance Assessments

This section deals with FIA compliance assessments conducted by the FIC which are to gain reasonable assurance on the effectiveness of AML/CFT/CPF controls within Accountable Institutions. Observations indicate that on average, the respondents have some level of satisfaction with the assessments conducted in the sector. The outcomes need to be considered in light of the fact that there have been minimal assessments conducted by the FIC in the sector. This low level of FIC assessment is mainly guided by the relative low risk levels of ML/TF/PF in the sector. Below is a presentation of responses in this regard:

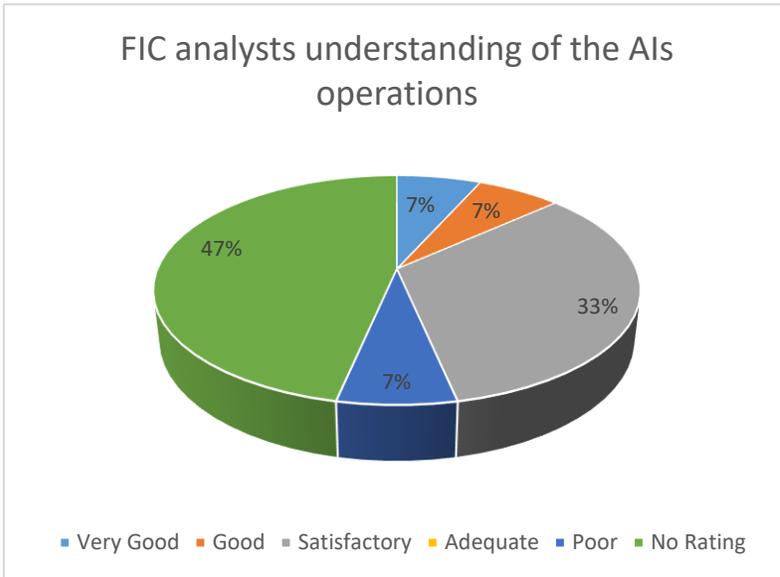
6.3.1. The period of notice given to prepare for the compliance assessment (Notice before onsite activities commence)



Only 13 percent of respondents are satisfied with the notice period given before FIA compliance assessments are undertaken. The 53 percent with no rating may suggest no compliance assessments were conducted on their operations.

Graph 6.3.1 Period of notice given for FIA assessments arrangements

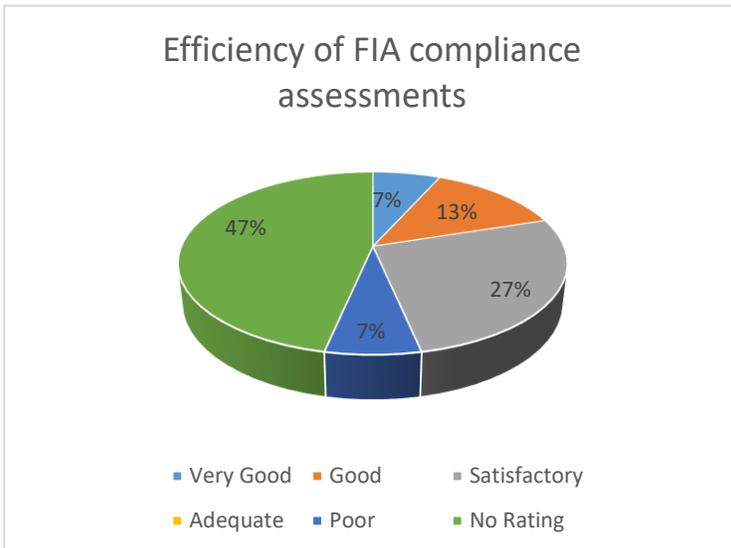
6.3.2. The compliance analysts' understanding of AIs systems and operational activities



Analysts from the FIC are the executors of FIA compliance assessments. It is a given that their ability to effectively execute compliance assessments and accordingly guide institutions to improve control measures depends on their understanding of the institutions relevant operations.

Graph 6.3.2: FIC analysts' understanding of the AIs operations

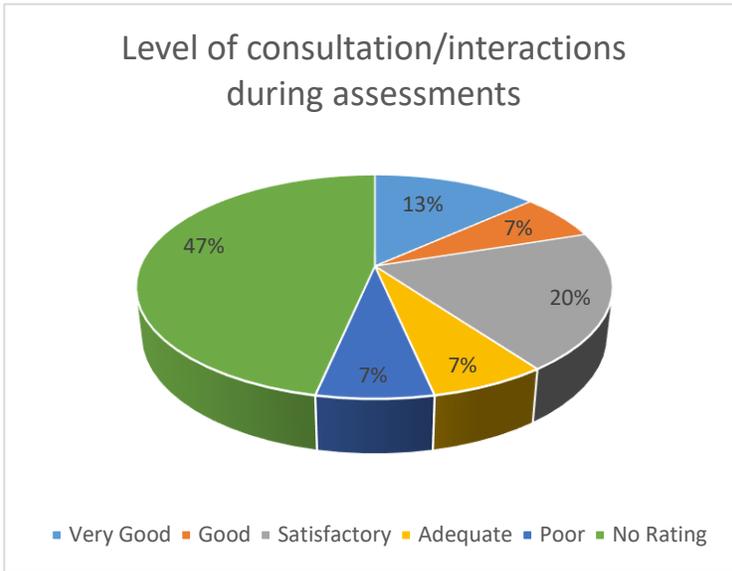
6.3.3. Efficient execution of the FIA compliance assessment with minimum disruption



The objective of the FIA is to mitigate ML/TF/PF risks, thus encouraging sound governance structures. The FIC deliberately plans and structures its compliance monitoring and supervision activities to minimize potential disruptions at institutions before, during and after the execution of such activities.

Graph 6.3.3: Efficiency of FIA compliance assessments

6.3.4. The level of consultation during assessments



The graph to the left presents respondents' assessment of the FIC's level of consultations and interactions during compliance assessments.

Graph 6.3.4: Consultation/interactions during assessments

6.3.5. The assessments are carried out professionally and objectively



The FIC is committed to carrying out compliance assessments with the highest level of professionalism and objectivity. These elements are essential components of independence and objectivity.

Graph 6.3.5: Level of professionalism and objectivity with which compliance assessments are executed

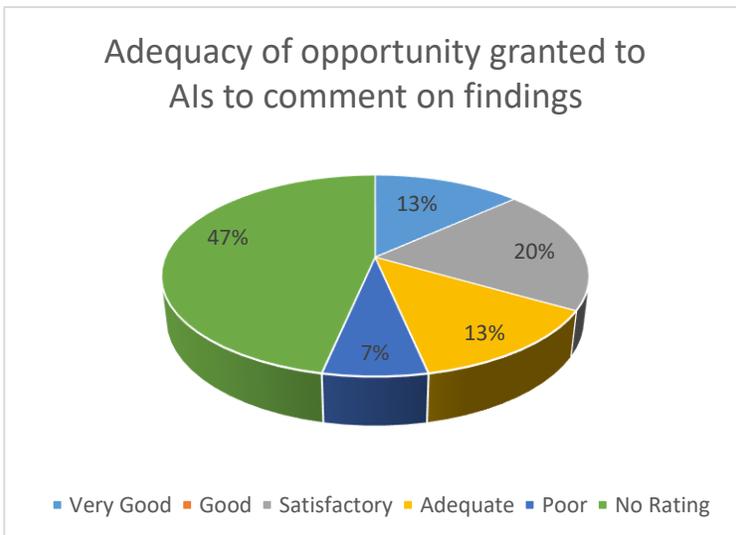
6.3.6. The draft report and/or exit meeting addresses the key issues and is usually relevant



Graph 6.3.6: Relevance of draft reports and exit meetings

Exit meetings conducted after assessments are used to discuss assessment observations before the assessment reports are finalized. Importantly, the exit meetings enable the parties to establish if key assessment issues and relevant matters were duly attended to or addressed. This is to ensure the assessed institutions have a platform to avail inputs for consideration before reports are finalized.

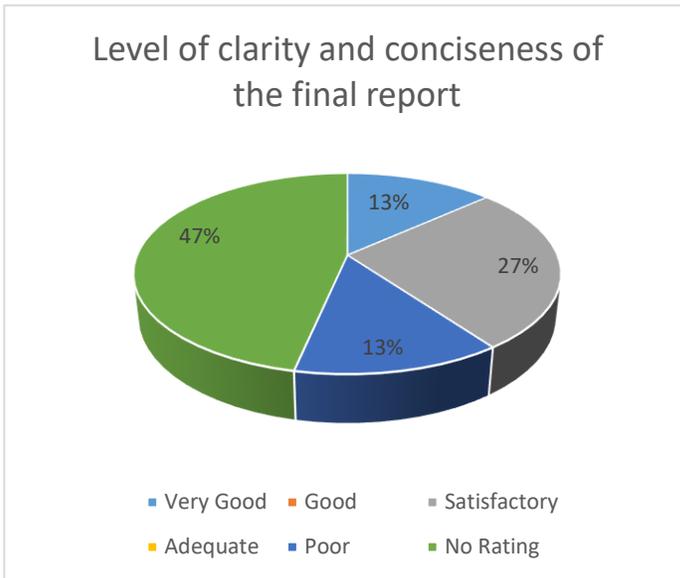
6.3.7. Whether AIs are granted an opportunity to comment on findings



Graph 6.3.7: Adequacy of opportunity granted to AIs to comment on findings

Before the finalization of assessment reports and during exit meetings, assessed institutions are granted an opportunity to comment on findings and observations. Graph 6.3.7 indicates the assessed institutions' views of such consultations.

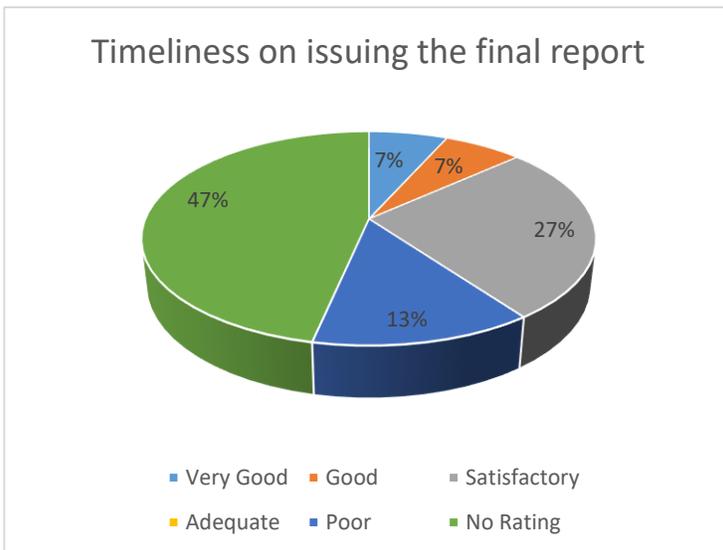
6.3.8. Clarity and conciseness of the final compliance assessment report



The level of clarity of the report contents enhances the chances of its understanding by readers. This therefore enhances the chances of implementing effective remedial actions. Clarity is a vital element of FIC reports as it further enhances an appreciation of supervisory expectations. The graph (to the left) shows how assessed entities rate the FIC's reports in this regard.

Graph 6.3.8: Level of clarity and conciseness of the final report

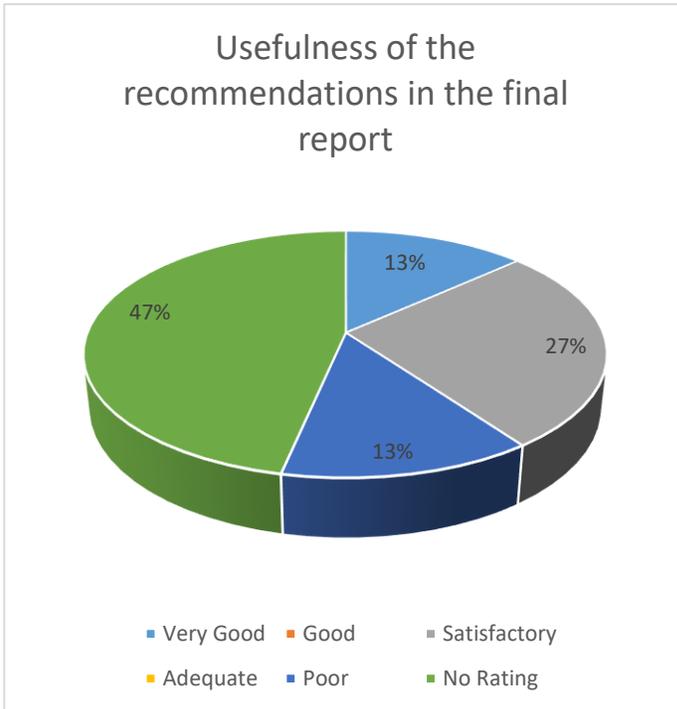
6.3.9. The timeliness with which the final report is issued



Generally, respondents suggest that there is room for improvement in this regard as per above graph.

Graph 6.3.9: Timeliness on issuing the final report

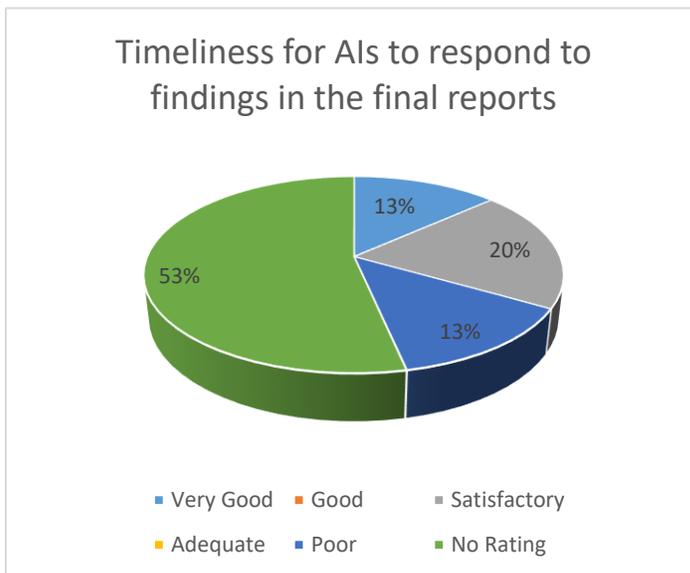
6.3.10. The recommendations in the final report will/have improved AI controls and/or effectiveness



The objective of availing recommendations in FIA compliance assessment reports is to create a platform for assessed entities to relook and reconsider current controls in light of FIC observations. The respondents are the ultimate beneficiaries of remedial action recommendations in assessment reports. The graph presents their level of satisfaction as far as such assessment recommendations are concerned.

Graph 6.3.10 Usefulness of the recommendations in the final report

6.3.11. The period availed to AIs to respond to the compliance assessment findings and to supply periodic progress reports



It is important that both the FIC as the supervisor and the supervised institution are comfortable with the length of time required to respond to assessment outcomes or findings. Such length of time is usually informed by the nature of risk exposure, tolerance levels, efforts practically required to implement the desired and/or practical measures to address risks.

Graph 6.3.11: Timeliness for AIs to respond to findings in the final reports

It is a practice that the FIC, depending on the nature of findings, would accord the assessed institution a reasonable period within which to respond on how to address such findings on ML/TF/PF risk exposure. Such institutions would thereafter be expected to periodically report progress on the implementation of such remedial measures.

7. Recommendations and Conclusion

7.1 Summary of areas that needs FIC improvements

The following is a summary of major areas highlighted by the sector as requiring improvement in the supervisory and monitoring activities of the FIC:

- a. the FIC should create more awareness on AML/CFT/CPF;
- b. the FIC should conduct more FIA Compliance engagements with the sector;
- c. enhancing industry engagements on AML/CFT/CPF and the overall guidance with regards to FIA compliance; and
- d. conducting of the FIA Compliance assessment activities in assessing the ML/TF/PF risks and providing recommendations to ensure FIA compliance.

7.2 Respondents' views on areas that require improvements

Given the outcomes of the survey, the FIC organized a feedback session in October 2018 to understand factors which may have informed the poor ratings in such survey. During the session, the sector gave comments on the areas observed to be contributing factors to some of the low ratings in their responses. The following is a summary of such contributing factors within the sector:

- a) a member from the National Institute of Public Accountants (NIPA) sought clarity on which accountants and auditors are captured in terms of the FIA, and reiterated that it is very crucial for the audience to know whether they are captured or not and what their obligations are in terms of the FIA. The FIC availed such clarity. Importantly, this again highlights the fact that there could be institutions that firstly do not understand if the law applies to them and the legal obligations of such application;

- b) the audience requested the FIC to share the above description with the Institute of Chartered Accountants in Namibia (ICAN) and NIPA;
- c) a concern was raised as to who will hold the man on the street responsible to file suspicious activities and transactions reports (STRs and SARs) since they are not captured by the FIA. The FIC elaborated on these requirements in terms of the Prevention of Organized Crime Act (POCA) to the audience;
- d) another concern was raised with regard to registrations. There were some professionals operating without being registered with the FIC. This somehow creates a competitive challenge in the sector (since those not registered do not fulfil their FIA requirements when they take on clients);
- e) the audience requested the FIC to create more awareness and ensure that all professionals as captured by the FIA should be registered, i.e., by using media platforms etc.;
- f) the audience requested the FIC to circulate the guidance notes on reporting STRs and SARs to ICAN and NIPA;
- g) the audience further complained about the FIC website that proves to be cumbersome as it seems to have been created for the banking sector, and hence does not always talk to the other smaller sectors;
- h) lack of knowledge about FIC publications was cited as reason for the poor rating related to FIC publications in general. Due to minimal FIC engagements with the sector, the sector is not aware of such publications;
- i) a concerning contradiction was cited that the provision of tipping-off in terms of section 46 of the FIA and the disclosure of materiality as to senior management/client arises and the sector is unaware at this stage how they should proceed. Clarity was given in the meeting in October 2018. Institutions are further encouraged to engage the FIC whenever such incidents occur.

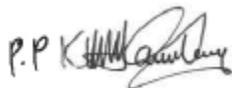
Way forward and action items:

- a) the FIC to circulate guidance notes on how to report suspicious transactions and activities, and other relevant guidance notes to the sector;
- b) the FIC to research on those professionals that are in business without being registered with the FIC and ensure compliance;
- c) the sector to report professionals to the FIC who are in practice but are unregistered with the FIC;
- d) ICAN to communicate to the FIC stating the practical challenges faced with the provisions of section 46 of the FIA versus the disclosure of materiality as required by the Accounting provisions; and
- e) the FIC to create more engagement forums with the sector.

7.3 Conclusion

The FIC would like to commend the Accountants and Auditors for responding to the survey questionnaire and attending the October 2018 sectoral session to discuss the survey outcomes. The satisfactory responses are encouraging. The essence of this exercise was always premised on understanding areas that may need improvement and finding ways to improve same. The FIC will thus embark on a root-cause analysis to understand and appreciate the factors which led to the challenges highlighted by respondents.

With this understanding, it is hoped that the FIC will be in a better position to implement remedial measures within its FIA compliance monitoring and supervisory framework and activities.



L. DUNN
DIRECTOR: FIC