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THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA (ICPAR)

MONEY LAUNDERING, FINANCING OF TERRORISM AND FINANCING OF PROLIFERATION OF WEAPONS OF MASS DESTRUCTION

RISK ASSESSMENT ON THE ACCOUNTING SECTOR IN RWANDA

August 2022

Contents

ACRONYMS

ACRONYM	WORD
AML	Anti-Money Laundering
CDD	Customer Due Diligence
CFT	Counter Financing of Terrorism
EDD	Enhanced Due Diligence
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FoP	Financing of the Proliferation of weapons of mass destruction
FWRA	Firm wide risk assessment
ICPAR	Institute of Certified Public Accountants of Rwanda
INR.	Interpretive Note to Recommendation
KYC	Know Your Customer
ML	Money Laundering
NRA	National Risk Assessment
PEP	Politically Exposed Person
PF	Proliferation Financing
R.	Recommendation
RA	Risk Assessment
RBA	Risk-based approach
SRA	Sector Risk Assessment
STR	Suspicious transaction report
TF	Terrorism Financing

DEFINITIONS

For purposes of this AML Risk Assessment, the following definitions shall apply

i. **Accountant** means a person who is enrolled as a member of the Institute of Certified Public Accountants of Rwanda in accordance with ICPAR Law No 11/ 2008 of 06/05/2008;

ii. **Accounting firm** means a sole proprietorship or a partnership of qualified practicing accountants and licensed under the ICPAR Law No 11/ 2008 of 06/05/2008;

iii. **Inherent risk** means the level of risk before mitigation.

iv. **Money laundering** is the process of concealing or disguising the existence, source, movement, destination, or illegal application of illicitly derived property or funds to make them appear legitimate.

v. **Non-face to face** relationships or transactions' means any transaction or relationship where the customer is not physically present, that is, in the same physical location as the firm or a person acting on the firm's behalf. This includes situations where the customer's identity is being verified via video-link or similar technological means.

vi. **Politically Exposed Persons (PEPs)** means individuals who are or have been entrusted with prominent functions in a country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state-owned corporations, and important party officials as well as family members or close associates of such individuals.

vii. **Proliferation financing** is defined by the FATF as the provision of funds or financial services used for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.

viii. **Red flag** refers to a warning signal that should bring attention to a potentially suspicious situation, transaction or activity.

ix. **Residual risk** means the level of risk that remains after mitigation or implementation of risk controls.

x. **Risk appetite** means the level of risk a firm is prepared to accept.

xi. **Risk factors** means variables that, either on their own or in combination, may increase or decrease the ML/TF risk posed by an individual business relationship or occasional transaction.

xii. **Risk** means the impact and likelihood of ML/TF taking place.

xiii. **Risk-based approach** means an approach whereby competent authorities and firms identify, assess and understand the ML/TF risks to which firms are exposed and take AML/CFT measures that are proportionate to those risks.

xiv. **Sanctions** refers to restrictive measures imposed on individuals or entities in an effort to curtail their activities and to exert pressure and influence on them. These restrictive measures include, but are not limited to, financial sanctions, trade sanctions, restrictions on travel or civil aviation restrictions.

xv. **Senior management** means the officers or any other persons who are nominated to ensure that the operator is effectively controlled on a day-to-day basis and who have responsibility for overseeing the operator's proper conduct.

xvi. **Suspicious transaction** refers to a transaction which is inconsistent with a customer's known business or personal activities or with the normal business for that type of account, or a complex and unusual transaction or complex or unusual pattern of transactions that has no apparent or visible economic purpose.

xvii. **Terrorist financing** is the financing of terrorist acts, and of terrorists and terrorist organisations.

xviii. **Terrorist organisation** refers to any group of terrorists that:

a) commits, or attempts to commit, terrorist acts by any means, directly or indirectly, unlawfully and wilfully;
b) participates as an accomplice in terrorist acts;
c) organises or directs others to commit terrorist acts; or
d) contributes to the commission of terrorist acts by a group of persons acting with a common purpose where the contribution is made intentionally and with the aim of furthering the terrorist act or with the knowledge of the intention of the group to commit a terrorist act.

xviii. **Ultimate Beneficial** owner refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those natural persons who exercise ultimate effective control over a legal person or arrangement.

xix. **The Law** refers to Nº 75/2019 of 29/01/2020 Law on Prevention and Punishment of Money Laundering, Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction

1. EXECUTIVE SUMMARY

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This is the first risk assessment carried out by ICPAR on the Money Laundering/Terrorist Financing/Financing of Proliferation (ML/TF/FoP) risks in Rwanda's accounting sector. This risk assessment report identifies the threats, vulnerabilities and methods used by criminals to launder proceeds of crime and finance terrorism using accounting firms or their services.

The methodology used for assessment involved reviewing international standards by FATF, national law requirements on ML/TF/PoF as well us conducting a data collection survey on all practitioners in Rwanda. The information obtained was analysed using qualitative and quantitative approaches as well as professional expertise to identify the key risks for the accounting sector in Rwanda. The analysis was carried out using the ML/TF risk assessment tool developed by the individual consultant, Robert Busuulwa, who was contracted by ICPAR to conduct the risk assessment. The ML/TF/FoP risk for the accountancy sector in Rwanda was rated Medium High (MH) for the delivery channels used and geography, the sector's client base, and services offered was rated medium (M) while the overall risk for delivery channels used was rated low (L).

1.1 The scope of the Sector Risk Assessment

1.1.1 This sectoral risk assessment (SRA) is a preliminary assessment by ICPAR to assess the ML/TF/FoP risks across the accountancy sector in Rwanda.

1.1.2 Article 7(5) classifies auditors, accountants and tax advisors as reporting persons, who in this report are termed practitioners. Article 8 of the same Law obliges them to identify, assess, monitor, manage and take appropriate measures in mitigating risks of ML, TF and FoP by applying a risk-based approach ('RBA').

1.1.3 This SRA aims to assist the ICPAR in understanding the risks of ML, TF, FoP in Rwanda's accountancy sector. Reporting persons are required by the law to undertake a risk assessment prior to establishing an AML/CFT programme. This SRA will benefit the practitioners by enabling them to prepare their own firms'risk assessments.

1.2 Overview of current findings

1.2.1 The assessment is a result of considering the internationally recognised structural risk factors of ML, TF, and FoP. The structural risk indicators include size and scale of the sector, services offered within the sector, amount of international business, customer base/types, services delivery channels as well as indicators of potential money laundering activities.

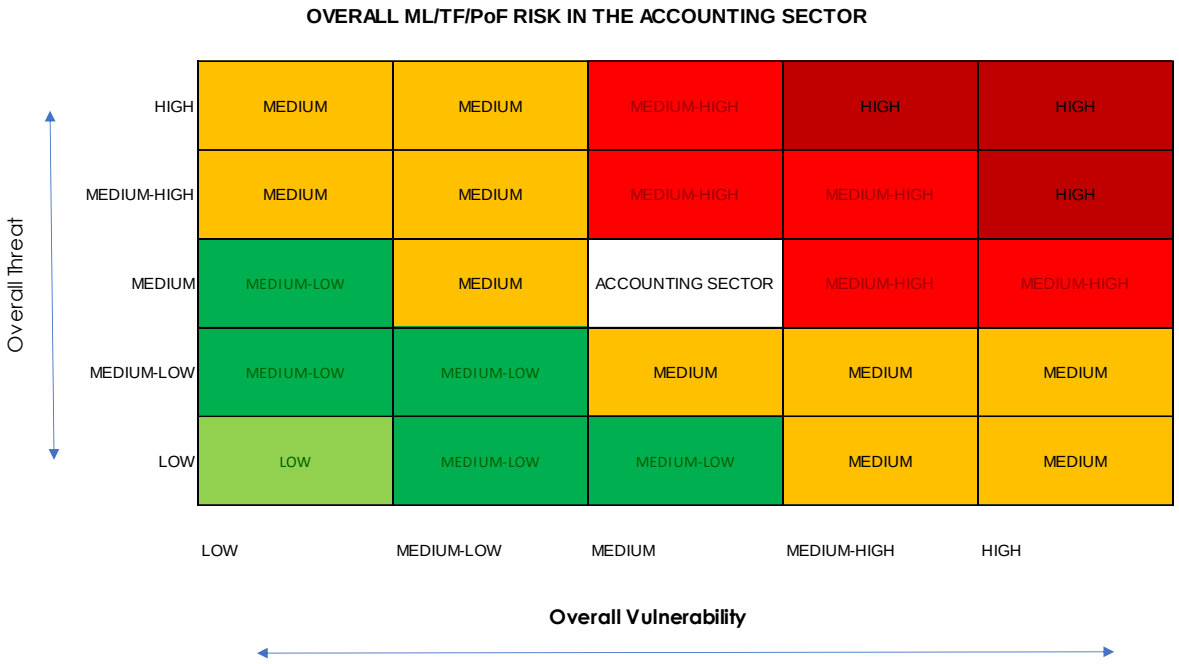
1.2.2 The risk assessment model rates the structural indicators as high, medium-high, medium, medium-low and low based on available data. Our overall industry risk assessment based on the methodology employed was **MEDIUM,** as set out below.

Money Laundering risk factor scores for the accounting sector.

Risk Factor Assessed	Threats	Vulnerability	Risk Rating
Sector Client base	Medium	Medium High	Medium High
Services Offered	Medium	Low	Medium Low
Geography	Medium High	Medium	Medium High
Delivery channels	Low	Low	Low
Transactions/payment channels	Medium High	Medium	Medium
Overall	**Medium**	**Medium**	**Medium**

See detailed analysis in Annex I.

Money Laundering Risk Matrix for the Accounting sector of Rwanda



1.3 Challenges during the risk assessment

1.3.1 The major challenge encountered during the risk assessment exercise arose mainly on account of poor responses from the practitioners. This included delayed and incomplete responses. For example, some respondents preferred the options of "other(s) which somehow complicated the analysis process. Many complained that the questionnaire was too long while others answered but with incomplete information as asked in the questionnaire. The questionnaire seemed to contain some variables that were not easily understood by practitioners and therefore indicated "not applicable" on a number of questions.

1.3.2 The questionnaire aimed at analysing the structures and capacity of the accounting sector in regard to AML/CFT. Key areas included the integrity of firms and their staff, the practitioner's level of AML knowledge, and understanding of the AML laws Rwanda,

effectiveness of the AML compliance function, effectiveness of suspicious activity monitoring and reporting.

1.3.3 The challenge of poor responses was overcome by follow up calls and continuous email reminders. Most responses came in in the last hours leading to the deadline thus curtailing timely delivery of the work.

1.4 Conclusions and recommendations

1.4.1 The ratings in this document do not take into account risk mitigants that are in place in individual entities. Information has been collected and input into a data collection and analysis tool for compilation and analysis at sectoral level.

1.4.2 The major recommendations include, undertaking robust discussions with FIC to address the deficiencies in the existing legal framework in areas such as; customer due diligence measures for High-Risk clients, sanction screening, appointment and roles of Money Laundering Compliance Officers, developing applicable guidance documents by FIC and ICPAR on AML/CFT/FoP measures such as; a methodology on risk-based Firm-Wide Risk assessments to help firms be able to identify, understand and mitigate their AML risks. Also recommended is adverse training of practitioners and firm staff on the requirements and applicability of the AML laws in order to improve compliance in the sector.

2. INTRODUCTION

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2.1 Money Laundering (ML), Terrorist Financing (TF), and Financing of Proliferation (FoP) are global problems that can compromise the integrity and stability of countries' financial systems and institutions. By concealing the criminal origin of money, through the use of legal persons and legal arrangements, criminals can derive significant personal benefit and can fund further criminality. Rwanda is committed to combating ML/TF/FoP. The countering of TF and the FoP is a key priority in ensuring Rwanda's security. As such, Rwanda promulgated Law Nº 75/2019 of 29/01/2020 on Prevention and Punishment of Money Laundering, Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction (the Law) in March 2020. The purpose of the law is to prevent and punish:

- Money Laundering
- Financing of Terrorism; and
- Financing of Proliferation of weapons of mass destruction.

2.2 Rwanda is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force (FATF) styled regional body. Following the September 2014 Mutual Evaluation Report on Rwanda's AML/CFT regime, Rwanda has been reporting to ESAAMLG on its progress in combatting ML/TF/FoP. In ESAAMLG's 43rd meeting with Rwanda delegates, Rwanda was commended for its progress. However, the outstanding deficiencies were also highlighted. In a bid to secure full compliance, Financial Intelligence Centre (FIC) issued a letter to all supervisory authorities to garner their compliance in the various sectors and report back to it. Some of the issues raised in that letter include the requirement to;

i. Provide clear guidance to FIs and other persons or entities that may be holding targeted funds or assets concerning their obligations in taking action under freezing mechanisms,

ii. Ensure that competent authorities, and particularly the FIC, provide guidance to assist reporting persons on AML/CFT issues covered under the FATF recommendations, including, at a minimum, a description of ML and FT techniques and methods; and any additional measures that these institutions could take to ensure that their AML/CFT procedures are effective,

iii. Consider providing guidance to reporting persons using as a reference the FATF Best Practice Guidelines on Providing Feedback to Reporting Financial Institutions and Other Persons,

iv. Ensure the effective implementation of the AML/CFT provisions by DNFBPs,

v. Ensure that there is an adequate range of sanctions (administrative, civil and financial) for non-compliance with the AML/CFT requirements to ensure that these are effective, proportionate, and dissuasive, and that they may be applied without undue limitation,

vi. Consider providing guidance to reporting persons on their AML/CFT obligations using as a reference the FATF Best Practice Guidelines on Providing Feedback to Reporting Financial Institutions and Other Persons, in particular with respect to suspicious transactions,

vii. Review the effectiveness of the AML/CFT system on a regular basis,

viii. Ensure that all AML/CFT supervisors have arrangements in place to share and exchange information with respect to both ML and the underlying predicate offenses,

ix. Ensure that all competent authorities maintain comprehensive statistics on matters relevant to the effectiveness and efficiency of the AML/CFT framework in line with the FATF standard.

x. ICPAR, as one of the supervisory bodies that FIC listed, set out to carry out a sectoral risk assessment ('SRA') to identify, analyze and mitigate the risks within the Rwandan accountancy sector. Sector specific vulnerabilities identified in FATF publications have been considered under the risks for this sector.[1]

2.3 Purpose of this SRA

2.3.1 The purpose of this SRA is to identify and communicate the ML/TF/FoP risks faced by the Practitioners we supervise. Identifying the risks is the first step towards combatting ML/ TF/FoP. This step is integral to putting a risk-based approach in place and allocating compliance resources effectively.

2.3.2 This SRA is for the following audiences:

i. Practitioners

Practitioners should review and consider this SRA when they prepare or update their risk assessments

ii. Government, Financial Intelligence Unit, and other Supervisors

To contribute to the Rwanda Financial Intelligence Centre's National Risk Assessment and inform other supervisors like the National Bank of Rwanda, and Department of Internal affairs among others.

iii. Institute of Certified Public Accountants of Rwanda

Assessing the risks within the sector enables ICPAR to efficiently allocate our limited resources

iv. Other organisations

Countries must ensure they have adequate anti-money laundering and countering financing of terrorism supervision in place, as recommended by the Financial Action Taskforce. This SRA contributes towards meeting these obligations.

[1] FATF (2019), Risk-based Approach for the Accounting Profession

2.4 Accounting Sector of Rwanda

2.4.1 The Institute of Certified Public Accountants of Rwanda ('ICPAR' or the 'Institute') was established through an Act of Parliament - Law Nº 11/2008 of 06 May 2008 - with the broad mandate to grow and regulate the accountancy profession in Rwanda. Under this mandate, ICPAR is also responsible for regulating the accountancy profession, through the admission of new members into the Institute, the registration and granting of practicing certificates to qualifying Certified Public Accountants (CPAs), the monitoring of compliance with professional standards, the investigation and discipline of its members and the delivery of accounting qualifications, programs and examinations.

2.4.2 In Rwanda, the categories of accountants registered by ICPAR include:

i. Certified Public Accountants
ii. Associate accountants
iii. Certified accounting technicians

2.4.3 The accounting sector in Rwanda has a total of 57 active practicing firms and 74 active practitioners as at June 30th 2022 and is under the regulatory supervision of ICPAR.

2.5 AML/CFT Supervision in Rwanda's accounting sector.

2.5.1 Article 7(5) of the law classifies auditors, accountants and tax advisors as reporting persons. Article 3 (18) and (19) of Law No. 75/2019 mandates ICPAR as a competent and supervisory authority to combat ML, TF and FoP within the Rwanda accountancy sector.

2.5.2 In Rwanda, the law regulating the Accountancy sector includes; AML-CFT_Law_2020, AML/CFT regulations n° 001/fic/2022 of 16/02/2022, Counter_terrorism_Law_2021 and the Companies Act law N°17/2018 OF 13/04/2018 among others.

2.6 The risk-based approach – three levels of risk assessment

2.6.1 In order to provide effective supervision, FATF[2] recommends the adoption of the risk-based approach ('RBA'). The supervision should be risk-sensitive and should focus on both major prudential and conduct of business risks, as well as a wide range of other risks, such as compliance risk, reputational risk, legal risk, and ML/TF risks. The RBA is so central to this report that we quote FATF's Recommendation 1 in full below;

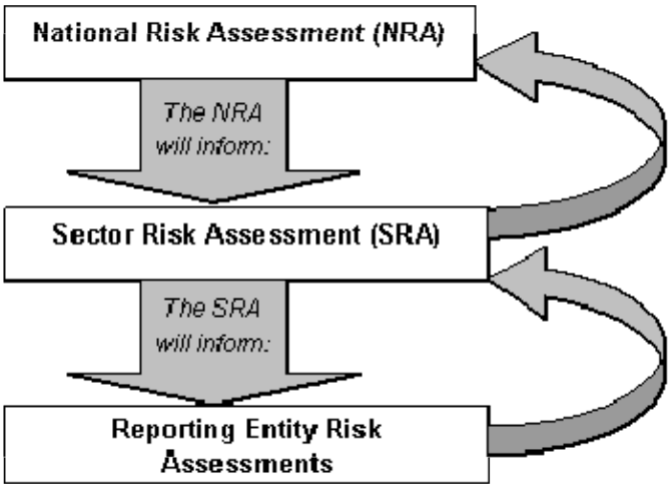
FATF Recommendation 1

Assessing risk and applying a risk-based approach

Countries should identify, assess, and understand the money laundering and terrorist financing risks for the country, and should take action, including designating an authority or mechanism to coordinate actions to assess risks, and apply resources, aimed at ensuring the risks are mitigated effectively. Based on that assessment, countries should apply a risk-based approach to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified.

This approach should be an essential foundation to efficient allocation of resources across the anti-money laundering and countering the financing of terrorism (AML/CFT) regime and the implementation of risk-based measures throughout the FATF Recommendations. Where countries identify higher risks, they should ensure that their AML/CFT regime adequately addresses such risks. Where countries identify lower risks, they may decide to allow simplified measures for some of the FATF Recommendations under certain conditions.

2.6.2 Recommendation 1 and its Interpretive Note further provide for risk assessment to be done at three levels so as to create an inter-relationship in the risk assessment processes:



2.6.3 National Risk Assessment

2.6.3.1 In 2012, the FATF introduced an important new requirement that countries should carry out NRA. The requirement is motivated by the shift from a rule-based AML system, in which reporting persons follow procedures specified by law and regulation, to an RBA, in which they adjust their procedures and policies on the basis of their specific relevant risks. The RBA is not just a challenge to entities subject to AML requirements; it also imposes new obligations on the government because regulators must determine whether reporting persons understand the relevant ML risks and adapt accordingly[3].

2.6.3.2 Rwanda's AML/CFT National Risk Assessment was carried out between July,2017 and December 2018. Information used in the NRA consisted of both qualitative data included intelligence information, expert judgments, private sector inputs, case studies and perception surveys as well as research papers and various internet sources. Quantitative data was obtained from Law Enforcement Agencies (LEAs), FIC, supervising authorities and reporting persons contributed to this assessment.

2.6.3.3 The findings of the assessment highlighted sectoral weaknesses in combating ML including the ineffective supervision/oversight activities, ineffectiveness of compliance function in reporting persons, inefficiency to detect suspicious activity as well as unavailability and inadequate enforcement of both administrative and criminal sanctions. The assessment of TF risk revealed that TF risk is Medium Low. This derived from the combined assessment of financing of terrorism threats and vulnerabilities where threats were rated Low while vulnerabilities were Medium. Rwanda does not face any immediate financing terrorist

[3] National Assessments of Money Laundering Risk: Learning from Eight Advanced Countries'NRA; Joras Ferwerda and Peter Reuter, World Bank Group.

threats but need to put counter measures considering the volatile geo-political situation in neighbouring countries and the region. Rwanda had terrorism cases in terms of radicalization but non-financial aspects were observed. As for TF vulnerabilities, the assessment found that there is an effective institutional and legal framework in place to prevent and to counter terrorism.[4]

2.6.3.4 Therefore, Practitioners are encouraged to use the NRA to stay informed about emerging threats and trends. They should share relevant case studies and predicate offences in staff AML/CFT/FoP training. When the staff understand the underlying crimes which lead to ML/TF/FoP they will have a greater desire to detect and deter ML/TF/FoP.

2.6.4 Sector Risk Assessment

2.6.4.1 Sector supervisors like ICPAR produce these SRAs in order to fully understand the ML/TF/FoP risks within a specific sector and to inform reporting persons on risk indicators, trends, and emerging issues. The ongoing work of ICPAR aims to increase practitioners' understanding of the ML/TF/FoP sector risks and to inform them of the risk indicators, trends, and SRAs. Depending on the rate of change in the ML/TF/FoP risks affecting a sector, SRAs may be updated often.

2.6.5 Reporting Entity/Firm-Wide Risk Assessment (FWRA)

2.6.5.1 Article 8(1) of Law No. 75/2019 of January 29, 2020 requires all reporting persons to identify, assess, monitor, and manage risks of ML, TF, and FoP by using an RBA. The FIC and ICPAR's AML/CFT guidance materials must be considered in relation to this risk evaluation. ICPAR's AML/CFT/FoP guidance will, going forward, include this SRA and any updates made to it. Practitioners are urged to consult the ESAAMLG and FATF's publications on international AML/CFT/FoP.

2.6.5.2 The risk assessment must also take into account the type, scale, and complexity of the company's operations, its clients, its products and services, and delivery channels. The Accounting Practice AML Firm Wide Risk Assessment Methodology, developed by ICPAR as reference material on FWRA, is part of the guidance that practitioners must use in relation to developing their risk assessments.

2.6.6 Contributions of this SRA report

2.6.6.1 This report sets out to make two broad contributions. First, in sections XX and XX it provides the first systematic review of the Rwanda accounting sector's risks from the risk survey conducted on the 57 practising firms on the ICPAR register. It also seeks to present actionable findings from the survey on the vulnerabilities of the Rwandan accountancy sector. Section 3 sets out the scope and methodology adopted in preparing this SRA. This utilised the four-part risk assessment framework including[5];

[4] Republic of Rwanda National Risk Assessment Report 2017/2018

[5] See ACAMS Today, Keeping Sanctions Related Risk Assessments Effective and Current.

1. Conceptual framework. Threats and vulnerabilities—the central concepts in the FATF framework are explained. We recommend though, that at firm-wide level of risk assessments, the concepts of inherent risk, controls evaluations and residual risk be adopted.
2. Data sources and acquisition. Taking the three elements of this process of source of data, method of acquisition and validation. We utilised the practitioner risk assessment questionnaire by asking specific questions to get both qualitative and quantitative data,

3. Data analysis and risk determination. Whilst measuring the quantity of risk via data is a critical component of an SRA, it is equally important that the risk assessment is reviewed by a subject matter expert.

4. Stakeholder engagement and outputs reporting. This helps to confirm the accuracy of the information being analysed and presented, stakeholder views on the risk presented by the data, and their awareness or understanding of the data. This is because their lack of understanding or awareness may indicate insufficient controls.

3. SCOPE, APPROACH AND METHODOLOGY

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3.1 Background information in the SRA

3.1.1 This section sets out the type of information that was considered as part of the SRA and the scope and limitations of the SRA. Understanding the methodology helps in reviewing and applying the findings of the SRA to practitioners' own FWRA.

3.1.2 The following information helped inform this SRA:

(i) The Rwanda AML/CFT National Risk Assessment 2018
(ii) National and international guidance documentation, including publications from FATF and ESAAMLG
(iii) Typology reports
(iv) ICPAR's monitoring and expertise
(v) Practitioner's firm-wide risk assessment data
(vi) Filled in questionnaires from practitioners.

3.2 Scope

3.2.1 ICPAR oversees 57 firms and 74 practitioners. The practitioners are either employed by the firms or are partners. The consultant's data collection for this SRA was based on responses from the firms themselves. The consultant reviewed responses relating to the firms 'risk assessments, AML/CFT/FoP training, policies, procedures, and controls, as well as the firms' profiles, compliance functions, CDD, and monitoring and reporting on suspicious transactions.

3.2.2 The risk assessment scope elements covered in this SRA included clients, geographical source, delivery channels and the products and services that practitioners in Rwanda offer to their clients. Each scope element was rated according to its threat potential to the firm.

3.3 SRA information sources

3.3.1 The SRA has drawn together information from the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) report of 2014 and the NRA of Rwanda of 2018. This information was supplemented by local information, particularly data received from practitioners who responded to the data collection survey designed and circulated by ICPAR.

3.3.2 The survey consulted with 63% of all practitioners in firms, being 36 responding firms out of the 57. This was done via a risk assessment data collection questionnaire sent to all practitioners in the sector.

3.4 Limitation

3.4.1 An attempt was made to the likely inherent ML/TF/FoP risk in order to maintain consistency when comparing data from the various practitioners. Due to factors unique to their industry, practitioners will encounter risks that are different from those experienced

by other businesses or designated non-financial business and professions. The assessed ML/TF/FoP risk after any controls or mitigations have been implemented is not evaluated by the SRA. In order to apply the proper AML/CFT controls and assess their residual risk, practitioners must first determine the specific degree of inherent ML/TF risk they confront in their industry. Only then is ML/TF risk rated per sector by the SRA.

3.5 Approach and methodology

3.5.1 The SRA was undertaken in accordance with international guidance including the FATF 40 Recommendations, the FATF Guidance for a Risk- Based approach by the Accounting Sector, the Anti-Money Laundering and Counter-Terrorist Financing Guidance for the Accountancy Sector alongside the ICPAR Members Manual.

3.5.2 The methodology used in this SRA combines qualitative and quantitative information as well as professional expertise to identify the key risks for practitioners in Rwanda and develop follow-up actions to mitigate them. The following procedures were carried out in order to arrive at this SRA risk assessment:

i. Develop a risk assessment survey questionnaire detailing the areas that were to be assessed including the practitioners' risk assessments, AML/CFT/FoP training, policies, procedures, and controls, as well as their company profiles, compliance functions, CDD, and monitoring and reporting on suspicious transactions.
ii. Disseminate the questionnaire amongst the practitioners that are listed as firms on the registry held by ICPAR
iii. Input the data obtained from the survey questionnaire into a data analysis tool and analysed it for developing findings report,
iv. Develop this risk assessment report.

3.6 Risk scale

The assessed risk was scaled as Low, Medium Low, Medium, Medium High, High across all variables set out in the questionnaire, with the following definitions;

3.6.1 Inherent risk

2.6.1.1 Inherent risk is level of risk that an activity might present in the absence of controls or other mitigating measures. The inherent ML/TF/FoP risks were assessed by the individual consultant during the SRA. Any controls that practitioners may have in place were disregarded. This was deliberate one on purpose because these differ greatly from practitioner to practitioner and depend on their dedication to lowering ML/TF/FoP risks as well as the resources they have available.

3.6.2 Vulnerability

2.6.2.1 This is described as a weakness that can be exploited for the purposes of ML/TF/FoP. The individual consultant considered the key vulnerabilities across the accountancy sector. This helped to identify the sector risk(s). These are;

3.6.3 Documenting the risk assessment results

2.6.3.1 The results of the risk assessment and any measures currently undertaken by the practitioners to mitigate the identified risks have been consolidated within a comprehensive this document and shall be communicated to the Partners or Senior Management (as

applicable) to assist them in making informed decisions on the strategic direction of the firms.

3.6.4 Reviewing and updating of the risk assessment

2.6.4.1 In order to ensure that the Practitioners' understanding of risks remains current and up to date in line with the ever-changing risks, accounting firms should ensure that the ML/TF risk assessment is performed at least annually to ensure that any changes within the sector's operations model and strategy is taken into consideration within the SRA.

3.6.5 Limitations

3.6.5.1 The following limitations to the SRA process were identified:

i. Information on ML, TF, FoP in Rwanda is limited, with some reliance on international typologies and guidance to identify risks; this is partly due to the fact that Rwanda's FIC is relatively new in operation, it has little information published on their website.

ii. Reporting persons have various degrees of understanding of the AML/CFT legislation, procedures or the ML/TF risks in their business, therefore the perception of risks may not be fully developed in some responses to surveys;

iii. Insufficient availability of detailed data and information to inform some risk areas such as; percentage usage of each service offered by the firms;

iv. The limited scope of current legislative requirements for example the AML Law in Rwanda does not cater for;

a) The need for reporting persons to appoint of a Money Laundering Control Officer (MLCO) to oversee their respective AML programs as well as act as a liaison between the reporting persons and competent authorities such as; the FIC. It is recommended that an MLCO should be a person who occupies a senior managerial position and possesses sufficient professional experience and competence in the business of the accountable person but with exception of an internal auditor; or a chief executive officer or a person of a similar rank, except where the accountable person is a sole proprietorship or a single member company.

b) The risk factors to be considered when carrying out the individual FWRAs and it also does not spell out the need for firms to consider their size and nature of the firm's business. There is also need to have risk assessments documented.

c) The need to screen clients against sanctions lists at both onboarding and transaction levels, these expose reporting persons to risk of engaging in business with sanctioned parties which might attract global sanctioning of entities and the nation at large.

d) Enhanced due diligence measures to be applied to all clients whose risk rating is high. For the case of PEPs – despite the FATF recommendation that all foreign PEPs should be classified as high risk and therefore subjected to EDD, in their guidance on PEPs; the Wolfsberg Group advocates for the application of an RBA on all PEPs whether foreign or domestic taking into consideration factors such political environment and the vulnerability of the PEP's country of political exposure to corruption, the reason for which a business relationship is being sought, the services being sought, the customer's source of funds/wealth.

e) Clear procedures in monitoring and identification of suspicious client transactions and behaviour.

v. Some firms FELT that the data collection questionnaire was too long and cumbersome and thus needed more time to fill,

vi. Contact unavailability also restricted the ability to engage with more firms; and

vii. Some practitioners were unwilling to provide information to the consultant to inform the SRA.

3.6.5.2 These limitations, especially those relating to possible legislative changes, may need to be addressed with the FIC, whilst others will need increased engagement with the firms. The SRA will evolve as the quality of the information improves. Subsequent risk assessments should contain a better balance of quantitative and qualitative information.

4. FINDINGS OF THE SECTOR RISK ASSESSMENT – KEY THREATS AND VULNERABILITIES

4. FINDINGS OF THE SECTOR RISK ASSESSMENT – KEY THREATS AND VULNERABILITIES

4.1 Key threats using the AML/CTF risk factors

4.1.1 In this section, the terms customers and clients are used interchangeably. This is because of the service nature of accountancy practice and the industry norm of calling its customers "clients". A threat is a person or group of people, object or activity with the potential to cause harm to society, the state, the economy, etc. In the ML/TF context, this includes criminals, terrorist groups and other facilitators, their funds as well as past, present and future ML/TF activities.[6]

4.1.2 Common risk factors are considered as part of the assessment of the threat risk, including customers/clients, services offered by the firm, the country or geographical location of the firms 'clients, delivery channels and payments/transaction channels.

4.2 Customers/client in the accounting sector

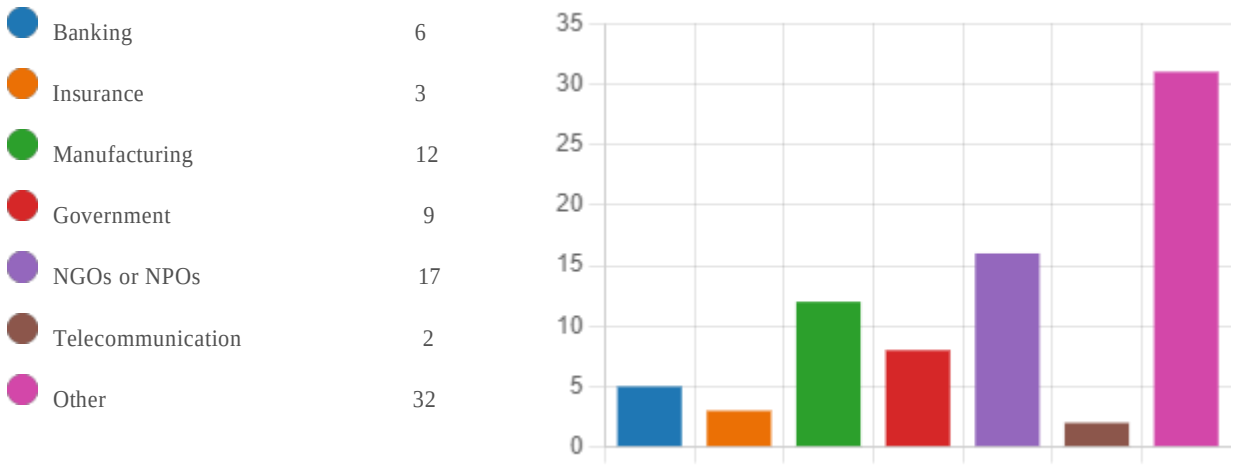
4.2.1 In understanding the customer risk that Rwanda's accounting sector is exposed to, the survey tool attempted to understand the nature and the level of risks that the firms' customers may bring into the individual firm as certain categories of customers pose a higher ML/TF risk than others. In establishing the customer risks, the following base criteria was used:

i. The customer type such as; whether customers are individuals, legal persons or arrangements, high-net worth individuals, PEPs or NPOs;

ii. The ownership structure of non-individual clients such as; whether the business/company has a complex ownership structure which may obscure the identity of the beneficial owner(s); and

iii. Nature of their business activity – whether the customer's business is by nature a high-risk business (such as; cash-intensive businesses)

4.2.2 Summary of client types associated with accounting firms in Rwanda



[6] Appendix B. The FATF Approach to Risk Assessment. National Assessments of Money Laundering Risks. World Bank Group.

4.2.3 The greatest percentage of the sector's client base is shared between the Manufacturing companies and NGOs/NPO sector however, 20 of the 35 responses received indicated that they do not have client's origination from other countries outside Rwanda and 14 of them have while 1 did not answer. This indicates that at least more than 50% of the sector's clients are residents of Rwanda which lowers the AML/CFT/FoP risk as Rwanda is currently on the FATF list of jurisdictions with sufficient AML/CFT controls in place. The NPO sector in Rwanda is also effectively regulated under the Rwanda Governance Board (RGB) which is in charge of registering, granting legal personality, and monitoring of the functioning of national and religious non-governmental organizations and ensures that they comply with the requirements of the existing laws governing NPOs.

4.2.4 The 2018 Rwanda NRA indicated in its finding that majority of the NPOs operating in Rwanda were domestic and information from RGB showed that majority of the funders came from countries with low terrorism funding threats, therefore posing a medium risk to the sector.

4.2.5 As per Article 23 the Law Nº05/2012 OF 17/02/2012 governing the organisation and functioning of international NGOs, any international non-governmental organisation which uses property from unlawful sources is liable to be prosecuted before competent courts of law in Rwanda. Existence of this law keeps international NGOs in check for potential terrorism financing.

4.2.6 The level of dealings with High-Net-Worth Customers and PEPs in the sector analysis is very negligible as illustrated below;

Yes	1
No	34
Maybe	1

4.2.7 The overall client share in terms of industries/ businesses is summarized below;

Money or Value transfer Services	0
Import/Export services	7
Manufacturing	7
Engineering	0
Other	22

4.2.8 While onboarding clients, only one firm identified clients whose beneficial ownership has been concealed in attempt to avoid disclosure to competent authorities and this client relationship was terminated.

Yes	1
No	34
Maybe	1

4.2.9 ***From the client risk assessment above, the overall customer/client risk rating of the sector is MEDIUM due to the biggest share being NPOs which are susceptible to terrorism financing abuse in view FATF Recommendation 8.***

4.2.10 **NOTE: The above risk rating can change from time to time depending on factors such as;**

i. Change in the individual/entity customer profile, services consumed, geographical location

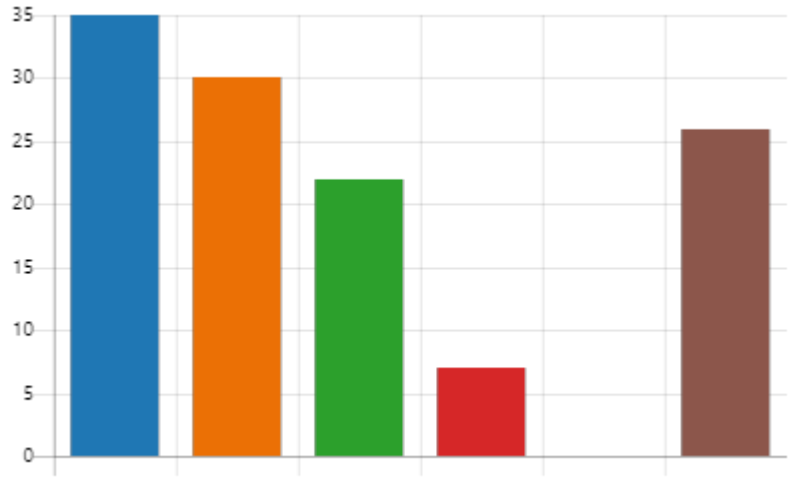
ii. In case of a SAR or STR being filed on a client

4.3 Services risk assessment in the accounting sector

4.3.1 When assessing service risk, data on services dominating the accounting sector in Rwanda was collected and analysed. At assessment, it was noted that certain service lines are vulnerable to ML/TF risks and thus may be exploited for ML/TF purposes, these include services that allow client anonymity, obscure UBO, allow cash payment, disguising or concealing of the source of wealth or source of funds of the customer.

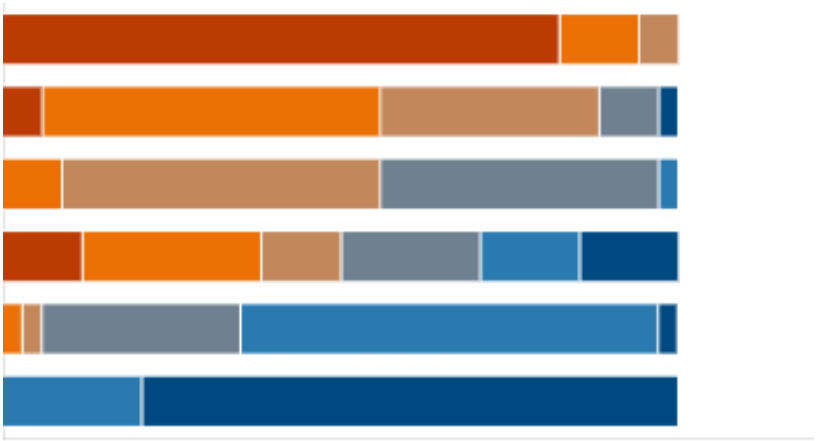
4.3.2 The accounting sector of Rwanda offers its clients the following services as per data collected;

Audit	35
Tax	30
Advisory	22
HR Consultancy	7
AML/CFT	0
Other	26



4.3.3 Preference in offering of the above services is as below;

Rank	Options	First Choice	Last choice
1	Audit		
2	Tax		
3	Advisory		
4	Others		
5	HR consultancy		
6	AML/CFT		



4.3.4 From the analysed statistics, it was noted that the accounting sector of Rwanda is largely dominated by audit services followed by tax while AML services are almost inexistent. This may be partly due to the relatively newly established AML law which has not yet gained momentum among the business population of Rwanda. Coupled with the limited published AML/CFT information and relatively still relatively low levels of AML/CFT/FoP awareness in the country.

4.3.5 Most of the firms themselves were found to have very limited AML/CFT knowledge thus the inability to pick interest and gain expertise to offer the service.

4.3.6 From the service description and analysis above, the risk ratings have been accorded as below;

Service	Associated ML Risk	AML Risk Rating
Audit & Assurance services	falsification of underlying books, coerced professionals targeted by criminals, complicit with criminals	Medium low
Tax compliance and Advisory services	Under declaration of clients' tax obligations, facilitation of tax evasion and VAT fraud.	Medium
Advisory services	failure to identify suspicion and submit SARs, client, wilful blindness	Low
Outsourced Accounting services	legitimising false books or transactions; misrepresentation of the client's standing, reputation and credibility to third parties without a commensurate knowledge of the client's affairs, concealment of client's transactions identified to have no legitimate purpose for being done, falsification of accounts by criminals and unwittingly signed off by accountants, failure or deliberate refusal of disclosure of suspicion on fraudulent transactions, or ones which are improperly accounted for	Medium
Legal / Corporate Secretarial Services	criminals masking the ownership of assets or transfer these assets between criminal persons	Low

From the services risk assessment done above, the overall risk rating of the accounting sector in Rwanda is MEDIUM.

4.4 Country/Geographic risk assessment

4.4.1 Geographical risk may arise in respect to the location or nationality of a customer or the origin and the destination of transactions conducted by the customer. ICPAR has a duty to ascertain where the sector's customers originate from, countries in which they have citizenship and/or countries in which they operate business wise. Since some firms have an international footprint and connection, their customers' countries of origin or residence is to be identified prior to being onboarded. If a customer is from a high-risk country, they are equally considered high risk as listed on the FATF list of high-risk countries **(see Appendix 1).**

4.4.2 A client may be higher risk when features of their business are connected to a higher risk country as regards:

i. the origin, or current location of the source of wealth or funds;

ii. where the services are provided;

iii. the client's country of incorporation;

iv. the location of the client's major operations;

v. the beneficial owner's country of domicile; or

vi. a target company's country of incorporation (for potential acquisitions).

4.4.3 From the survey responses received, over 57% of the accounting sector's client base are from within Rwanda while the remaining 43% have an attachment to high-risk countries in terms of mainly client origin or current location, countries to which firms provide client services and location of the UBO of some legal entities that firms have business relationships with.

4.4.4 ***From the above Geographical risk assessment done, the overall risk rating of the sector is MEDIUM due to the fact that the sector has some clients attached to High-Risk jurisdictions (countries with AML/CFT control deficiencies) even if the numbers are low.***

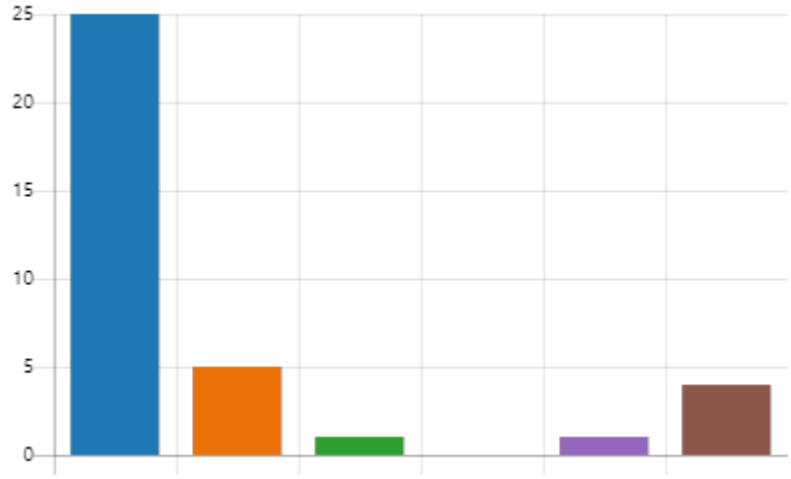
4.5 Delivery channels risk assessment

4.5.1 This looks at methods through customers are onboarded and through which the sector's services are consumed by its clients. Face to face client onboarding. Non-face to face client onboarding is considered high risk since verification of customer identity is hard and may favour client anonymity just in case the client is a criminal.

4.5.2 Accounting sector's delivery channels are mainly; face to face client interruptions at onboarding, field service engagements and online correspondence platforms for continued client engagements in the recent past due to the Covid-19 pandemic and its aftermath.

69% of clients are onboarded through face-to-face meetings and interactions.

100%	25
Above 80%	5
Above 60%	1
50%	0
Below 50%	1
Other	4



The overall channel risk for the accounting sector in Rwanda is LOW as per analysis above.

4.6 Payment/Transactional channels

4.6.1 This factor looks at the different methods through which clients are able to make business transactions such as; payment for services consumed from the firm. Modes such as; Mobile money services are considered high risk mainly due to the involvement of third parties in each transaction to be successful. This exposes the sector to risks such as; low compliance to AML laws by other sectors which in turn might expose accounting firms to increased vulnerability.

4.6.2 Payment methods offered by the firms;

Bank transfer	34
Mobile money	8
Cash	16
Cryptocurrency	0
Other	19

4.6.3 ***Majority of the firms use bank transfer services. These are considered secure since payments are made through regulated financial institutions with regulator approved systems and AML programs and their AML programs have been fully implemented. Cash on the other hand is high risk as it involves exchange of hands without adequate due diligence outside the financial system thus making the payment channels risk for the accounting sector MEDIUM-HIGH.***

5. FINDINGS OF THE SECTOR RISK ASSESSMENT – KEY VULNERABILITIES AND RECOMMENDATIONS

5. FINDINGS OF THE SECTOR RISK ASSESSMENT – KEY VULNERABILITIES AND RECOMMENDATIONS

Vulnerabilities represent those things that can be exploited by the threat or that may support or facilitate its activities, or rather weaknesses in systems or controls of a country or its sectors. In most countries' NRA, vulnerability refers to characteristics of a sector that makes it, or could make it attractive to financial criminals, including weaknesses in prevention of, detection and enforcement against ML events. In the course of the work the product of which is this report, the approach we take below is that of vulnerability in the latter sense, i.e., weaknesses in firms' systems of control that make those firms particularly vulnerable to criminals misusing the services of accounting firms for illicit aims.

From the survey carried out, 72% of firms that responded said that they have developed and implemented policies, procedures and controls measures that enable them to effectively manage and mitigate ML/TF risks that have been identified in this risk assessment. They further noted that those policies, procedures and controls have been approved by the firm's Senior Management team.

These include the following;

5.1 Know Your Customer (KYC) and Customer Verification

5.1.1 Article 10 of the Law No 75/2019 of 2020, requires practitioners to have procedures in place to identify their clients prior to onboarding however the law is silent on the particular accepted identification documents.

5.1.2 83% of responses received indicated that firms have procedures in place to verify customers prior to onboarding them and that these are embedded in the KYC onboarding client forms while the rest admitted that these are not in existence.

5.1.3 No firm has entered into a business relationship or maintains anonymous or fictious client engagements OR knowingly established or maintains a business relationship or conducts any transactions with any person under a false name or whose identity the firm failed to obtain or verify.

Recommendation;

5.1.4 The FIC should streamline the law in regards to minimum acceptable client KYC and elaborate the importance and consequences of not complying to the requirement.

5.1.5 ICPAR should conduct sector-wide training workshops on the purpose of KYC in AML/CFT as a measure to bridge the gap created by the 17% portion of firms that are non-compliant.

5.1.6 Clients' identity verification should be done using reliable and independent sources and the same documented on client files. The FIC should streamline the law in this regard as well.

5.2 Initial Customer Due Diligence (CDD) & Enhanced Due Diligence (EDD)

5.2.1 Customer due diligence is the process of identifying your clients and checking they are who they say they are. Criminals often seek to mask their true identity – for example, by using complex ownership structures. The purpose of CDD therefore is to know and understand a client's identity and business activities so that any ML risks can be properly managed.

5.2.2 More than half of the responses received indicated a gap in customer due diligence procedural documentation and application. This includes;

5.2.3 Weak or no procedures available on simplified or enhanced due diligence measures, procedures on due diligence exceptions and their approvals, five firms said no on whether they undertake due diligence on third parties such as; suppliers, third party payment companies.

5.2.4 The survey responses indicated that some firms at onboarding establish legal person's ultimate beneficial owners (UBO) while others don not at the bare minimum understand what ultimate beneficial ownership is.

Recommendations;

Firms are advised to undertake complete initial CDD at onboarding a client including:

5.2.5 Establishing customer's beneficial ownership. The FIC should come out clearly on the definition of and applicable thresholds for one to qualify as a UBO and the same should be documented in the law.

Firms should establish the purpose and intended nature of the business relationship.

5.2.6 Firms should adjust the extent of initial CDD measures on a risk-based approach, taking into account the findings from this risk assessment. Where the risk associated with a business relationship is likely to be low, and to the extent permitted by national legislation, the firm shall apply simplified customer due diligence measures (SDD).

5.7.5 Where the risk associated with a business relationship is likely to be high for example where a customer is identified as a PEP or is listed on any of the sanctions lists or is from a High-Risk country, the company shall apply enhanced customer due diligence measures (EDD) measures.

5.3 Policy on Higher-risk countries

5.3.1 From the survey done, 43% of correspondents indicated that they have clients associated with high-risk jurisdictions through different way such as; client origin and location however, results from the same survey indicated that half of the same portion of firms stated that they had no documented measures for enhanced due diligence on such clients.

Recommendation;

5.3.2 Consistent with Recommendation 19, accounting firms should apply enhanced due diligence measures (also see measures in Article 13 of the AML law on PEPs), proportionate to the risks, to business relationships and transactions with clients from countries for which this is called for by the FATF.

5.4 Risk assessment and management

5.4.1 During the establishment and maintaining of business relationships with customers, firms should assess and classify both their individual and entity clients in relation to the level of ML/TF Risk that they pose to the business on a risk sensitive basis. The risk classes are Low(L), Medium(M) and High (H). **see Appendix 3 for a detailed customer risk categorisation.**

5.4.2 Following the analysis done, it was been noted that over half of the firms that responded have no clear procedures in place to assess clients at onboarding as required by Article 8 of the law.

5.4.3 The same portion of firms had no firm-wide risk assessment done in regards to the ML risk factors.

Recommendations;

5.4.4 Firms should put in place policies and procedures for assessing and managing ML/TF risks on risk sensitive basis so as to appropriately focus the firms' limited resources on the areas of greatest risk.

5.4.5 Senior management, including the Managing Partners, of the firms should approve all set policies and procedures including those on risk assessment and management.

5.4.6 As per best industry practice, a firm-wide risk assessment should be conducted at least annually, but with new and changing risks considered as and when they are identified for example in circumstances entailing changes in the law, change in services provided.

5.5 Ongoing Customer Due Diligence

5.5.1 From analysis done, 61% of the respondents indicated that there were no procedures for ongoing monitoring of client relationships. Article 9 of law requires for ongoing due diligence to be done by reporting persons. The law is however not clear on the need to keep customer due diligence information up to date. This in turn helps firms to carry out appropriate transaction monitoring and identification of suspicious client behaviour from time to time.

Recommendations;

5.5.2 As per requirement under article 20 of the law on record keeping, there is need to have procedures in place on client information update and frequency so that firms do not at any one time be in possession of obsolete client information for example business profile, place of residence, identification validity.

Frequency should specifically be higher for high-risk categories of clients.

5.6 Sanction and PEP Screening as well as Adverse Media Searches

5.6.1 From the review of responses done, no firm had any dealing with clients from sanctioned countries however notwithstanding the ever changing social, political and economic trends in the world currently, there is need for sector participants to empower their systems well

enough to identify any potential connections to sanctioned countries and their citizens through efficient sanction screening processes.

5.6.2 This process refers to both manual and/or system automated checking and verifying of customer names against the prevailing/existing sanctions lists both local and international such as; the UNSC list, EU list, HMT for the UK and OFAC for the United States government.

5.6.3 This control measure helps the firm to avoid sanction risk (the risk of dealing with individuals, entities or nationals of countries that have been sanctioned for money laundering related predicate offenses) and hefty penalties that await in case of breach of this requirement.

5.6.4 Dealing directly or indirectly, knowingly or unknowingly with sanctioned individuals or entities or countries exposes firms to high vulnerability of being used for ML/TF by criminals.

5.6.5 All sanctioned countries and individuals or institutions listed on the different sanction lists are classified as High Risk and thus require Enhanced Due Diligence and monitoring both at onboarding and transactional levels respectively.

5.6.6 PEP screening mechanism on the other hand involves the firm implementing appropriate systems to determine whether a person or customer is a PEP. Where a customer is identified as a PEP, Enhanced Due Diligence measures shall apply as article 13 and FATF recommendation 12.

5.6.7 As per the survey done, only one firm confirmed to have identified a PEP in their client database.

Recommendation;

5.6.8 While the current standing of the sector information is inclined towards no PEP dominance, the FIC should come out to improve understanding of PEPs amongst sector player including providing more details on examples of who qualifies to be a PEP.

5.6.9 The FIC should arrange practitioner workshops for training on sanctions and how they impact AML/CFT/PoF risk of individual firms and the sector at large.

5.7 Suspicious activity/transaction reporting and tipping-off

5.7.1 Over 90% of response received indicated that there are procedures and systems in place to identify suspicious transactions by firms' staff however, there's indication that some firm staff do not clearly understand their obligation to report such transactions to the firm's MLCO.

5.7.2 Also noted was that report templates are also lacking in 29% of the total firms that responded. This makes it hard for complete and accurate suspicious transaction reporting to be done.

5.7.3 The law however is also silent on the person responsible to make suspicious transaction reports to the FIC and this was noted in the survey responses which indicated that over 61% of the accounting firms have not yet appointed an MLCO.

None of the firms provided information on the exact methods or systems used.

See Appendix 5 for list of common red flags for the accounting sector.

Recommendations;

5.7.4 Automated monitoring and reporting tools or systems are more effective than the manual procedures and should therefore be adopted and implemented by all firms.

5.7.5 The FIC should come up with guiding templates on monitoring and reporting suspicious transactions including reporting forms or systems.

5.7.6 The law should come up with clear guidance on the person responsible for making suspicious reports to competent authorities as per both international standards and best practice among other sectors.

5.8 Internal controls and compliance - Recommendations

In order for firms to have effective RBA, the risk-based process must be embedded within the internal controls of the individual firm and they must be appropriate for the size and complexity of the firm.

5.8.1 Governance

5.8.1.1 Strong senior management leadership and engagement in AML/CFT is an important aspect of the application of the RBA. Senior management must create a culture of compliance, ensuring that staff adhere to the firm's policies, procedures and processes designed to limit and control risks (Tone from the top).

i. Senior management should allocate enough resources both human in the AML compliance department and financial on the implementation of the AML program.

ii. Members of senior management undertaking such responsibilities should receive Continuing Professional Development (CPD) appropriate to their role.

iii. The nature and extent of the AML/CFT controls, as well as compliance with national AML law requirements, need to be proportionate to the risk involved in the services being offered. In addition to other compliance internal controls, the nature and extent of AML/CFT controls will depend upon a number of factors, such as;

a) designating an individual or individuals, at management level responsible for managing AML/CFT compliance program; this person is the firm's MLCO. This individual is in charge of the development, implementation and management of the firm's AML program and acts as a liaison between the firm and the FIA or ICPAU regarding matters related to AML/CFT.

b) designing policies and procedures that focus resources on the firm's higher-risk products, services, clients and geographic locations and include risk-based CDD policies, procedures and processes;

c) ensuring that adequate controls are in place before new services are offered; and

d) ensuring adequate controls for accepting higher risk clients or providing higher risk services, such as; management approval.

i. These policies and procedures should be implemented across the firm by all service lines and include:

a) Performing a regular review of the firm's policies and procedures to ensure that they remain fit for purpose;

b) Performing a regular compliance review that checks that staff are properly implementing the firm's policies and procedures;

c) Providing senior management with a regular report of compliance initiatives, identify compliance deficiencies, corrective action taken, and suspicious transaction reports filed;

d) Planning for changes in management, staff or firm structure so that there is compliance continuity;

e) Focusing on meeting all regulatory record-keeping and reporting requirements, recommendations for AML/CFT compliance and provide for timely updates in response to changes in regulations;

f) Enabling the timely identification of reportable transactions and ensure accurate filing of required reports;

g) Incorporating AML/CFT compliance into job descriptions and performance evaluations of appropriate personnel;

h) Providing for appropriate training to be given to all relevant staff;

i) Having appropriate risk management systems to determine whether a client, potential client, or beneficial owner is a PEP or a person subject to applicable financial sanctions;

j) Providing for adequate controls for higher risk clients and services as necessary (e.g., additional due diligence, evidencing the source of wealth and funds of a client and escalation or additional review and/or consultation);

k) Providing increased focus on the accountant/accounting firm's operations (e.g., services, clients and geographic locations) that are more vulnerable to abuse for ML/TF;

l) Providing for periodic review of the risk assessment and management processes, taking into account the environment within which the accountant/accounting firm operates and the services it provides; and

m) Providing for an AML/CFT compliance function and review programme as appropriate given the scale of the organisation and the nature of the accountant's practice. There is currently an issue with the legislative provisions for the compliance program, which does not specify the role of and attributes of a compliance officer for reporting persons.

ii. Firms should consider using more affordable and proven technology-driven solutions to minimise the risk of error and find efficiencies in their AML/CFT processes such as; E-KYC software, sanction and PEP screening. These systems are also effective and time saving than manual intervention.

5.9 Employee vetting and recruitment - Know Your Employee (KYE)

5.9.1 Firms should set up a KYE program to allow them to understand an employee's background, conflicts of interest and susceptibility to ML/TF complicity at both recruitment and during employment.

5.9.2 A criminally co-opted employee might facilitate ML/TF. There should be policies, procedures, internal controls, job descriptions, codes of conduct and ethics, levels of authority, compliance with personnel laws and regulations, accountability, monitoring, dual control, and other deterrents should be firmly in place.

5.9.3 An effective risk management tool assuring management that the information provided by the applicant is true and that the potential employee has no criminal record should be implemented during both the recruitment and monitoring of firm employees, including police and Interpol checks.

5.9.4 Common employee AML RED Flags include:

i. Employee exaggerates their credentials, background or financial ability

ii. Employee frequently is involved in unresolved exceptions

iii. Employee lives a lavish lifestyle that could not be supported by his or her salary

iv. Employee avoids taking vacations

v. Employee frequently overrides internal controls

vi. Employee often uses company resources to further private interests

vii. Employee assists transactions where the identity of the ultimate beneficiary or counter party is undisclosed

Recommendation;

5.9.5 Firms should consider the skills, knowledge and experience of staff both before appointment and on an ongoing basis. The level of assessment should be proportionate to their role in the firm and the ML/TF risks they may encounter. Assessment may include criminal records checking and other forms of pre-employment screening such as; credit reference checks (as permitted under national legislation) for key staff positions.

5.10 Staff Ongoing Training and Communication

5.10.1 From the survey results, it was noted that more than half of the firms indicated that they conduct AML training to their staff. However, gaps in training were still noted including;

i. Most of the training is at new employee interviews and induction with no ongoing training for existing staff under a specified frequency,

ii. Some firms' training is not tailored to staff role requirements,

iii. Some firms have not made it mandatory for staff to undertake training before commencement in their respective roles,

iv. Some firms' training scope is not robust enough to address all the major elements of AML/CFT/FoP,

v. Close to half of the firms do not carry out training assessments for their staff and had no clear policy on whose responsibility the training is,

vi. Some firms do not have policies in place for consequences of staff not obtaining or attending training sessions,

vii. Over 70% of the firms do not keep logs of the training done including staff name lists.

Recommendations;

5.10.2 Firms should deploy ongoing staff training as required under article 8(2)C of the law. This helps the company in breaching AML/CFT knowledge gaps on the set policies, procedures, controls and law requirements. Employee knowledge and understanding fosters effective customer identification, due diligence, raising awareness of monitoring obligations, suspicious transaction monitoring and reporting.

5.10.3 The extent and intensity of the training should vary according to the responsibilities of the employee, but should address mainly CDD, false documentation training for those undertaking identification and verification duties, or training regarding red flags for those undertaking client/transactional risk assessment.

5.10.4 Trainees should gain an understanding of the services themselves, and how they can be used to launder money so they are better equipped to identify red flags.

5.10.5 Where the firm has identified departments or services lines to be at higher risk of being used for ML/TF such as; the accounting and payroll service providing staff, the firm should consider whether the staff in those departments or service lines would benefit from additional training.

5.10.6 Case studies (both fact-based and hypotheticals) are a good way of bringing the regulations to life and making them more comprehensible.

5.11 Record Keeping of Customer Identification and Transaction details

5.11.1 Records are being kept by firms for a period of at least 10 years as required under article 20 of the law however; internal policies and procedures on record keeping for some firms are not well documented and records are not readily accessible when required.

Recommendations;

5.11.2 Firms should acquire Management Information Systems (MIS) for customer records retention. This also helps in record availability for referral processes in case of customer court filings and proceedings, the need for quick response to information requests from competent authorities such as; ICPAR, FIC.

5.12 Independent AML System Testing and Oversight

5.11.1 From the survey, only three firms confirmed to have in place policies and procedures to carry out independent audit of their AML programs and systems. For those that have the above, reviewers are not sufficiently independent of the firm's AML function.

5.11.2 The national AML/CFT law does not provide for the need for reporting persons to carry out independent reviews/tests of their AML programs to establish efficiency and effectiveness.

Recommendations;

5.11.3 AML system oversight should be responsibility of the MLCO and his team. This involves monitoring the functionality of controls in place and reporting on down time and other malfunctional ties while the independent testing should be done by either a party other than the system users within the company or external parties outside the company.

5.11.4 The most effective tool to monitor the internal controls is a regular (typically at least annually) independent (internal or external) compliance review. If carried out internally, a staff member that has a good working knowledge of the firm's AML/CFT internal control framework, policies and procedures, not a member of the AML compliance team and is sufficiently senior to challenge them should perform the review. The compliance review should include a review of CDD documentation to confirm that staff are properly applying the firm's procedures.

5.11.5 If the compliance review identifies areas of weakness and makes recommendations on how to improve the policies and procedures, then senior management should be informed in report writing and they monitor how the firm is acting on those recommendations.

This exercise helps form management opinion on proper resource allocation.

Overall assessment of the vulnerability risk for the accounting sector of Rwanda was qualitatively assessed as MEDIUM.

6. APPENDICES

6. APPENDICES

APPENDIX 1 – FATF Countries Categorised as high risk

Jurisdictions with strategic deficiencies	High-Risk Jurisdictions subject to a Call for Action	Jurisdiction no longer subject to increased monitoring
Albania, Barbados Burkina Faso, Cambodia Cayman Islands, Haiti, Jamaica, Jordan, Mali, Malta Morocco, Myanmar Nicaragua, Pakistan, Panama Philippines, Senegal, South Sudan, Syria, Turkey Uganda, United Arab, Emirates, Yemen	Democratic People's Republic of Korea (DPRK) Iran	Zimbabwe

APPENDIX 2 – Practitioner response to data provision

S/N	Name of Firm	Name of Practitioner(s)	Data Submission status
1	AKM Consultants	Achilles Kiwanuka Mukwaya	Submitted
2	ALCPA	Akash Anil Ladha	Submitted
3	Anil R T and Co Ltd	Anil Gupta	Submitted
4	AXIOMA CPA LTD	Clement K Bukuru	Submitted
5	BHK Partners	Honorine Umunoza Karuhura	Submitted
6	BIKO & Associates	Francois Bikolimana	Submitted
7	BM & Associates CPA Ltd	Boniface Nzioki Mutua	Submitted
8	Crowe Rwa Ltd	Cephas Ongubo Osoro	Submitted
9	DNR Partners	Dieudonne Ngirimana	Submitted
10	Edes & Associates Consultants Ltd	Frank Sebaziga	Submitted
11	ERNST AND YOUNG	Stephen K Sang	Submitted
12	EXCI-MAA	Pierre Kemeni	Submitted
13	FJ Consultants Ltd	Julian Nabawanuka	Submitted
14	Garnet Partners	Felicien Muvunyi	Submitted
15	GK CPA Limited	Wilfred Gichia Kiunyu	Submitted
16	GPO PARTNERS	Patrick Gashagaza	Submitted
17	HLB- MN	Michael Maina Ndung'U	Submitted
18	ING Associates Ltd	Mudakikwa Justin	Submitted
19	JDD & Associates Ltd	Dusengimana Jean Damascene	Submitted

20	KFV Partners	Milambi Victor	Submitted
21	KMD Partners Ltd	Nsekanabo Isengwe Jean D'Amour	Submitted
22	Mazars Rwanda	Joshua Odhuno	Submitted
23	MJV Consultants	Manish Gupta	Submitted
24	MOM Associates CPAs	Olive Mukankwaya	Submitted
25	MSK CPA LTD	SUNNYKUMAR MATETI	Submitted
26	NAMBIAR Associates	Raghavan N.R Nambiar	Submitted
27	NGUYEN CPA & Associates Ltd	Regis Ringuyeneza	Submitted
28	OA & Associates CPA Ltd	Ayany Otieno	Submitted
29	ON Consulting Group (ONCG) Ltd	OLIVIER NTAWUYIRUSHINTEGE	Submitted
30	PK PARTNERS CPA Ltd	Paul Wagura Kamunu	Submitted
31	RUMA Certified Public Accountants	Obed Wachira Rugara	Submitted
32	SRC Rwanda	ROBERT MURIITHI MUTHIKE	Submitted
33	Susan Irungu and Associates	Susan Irungu	Submitted
34	TELAHIM & Associates LTD	Telesphore Ahimana	Submitted
35	Vanderkenn & Co	Kenneth Karanja Githuma	Submitted
36	Wamira and Associates	Francis Ojwang Wamira	Submitted
37	ABC Consultants Ltd	Ndiyo W. Ndabagayire	Not Submitted
38	AWO PARTNERS Ltd	Andrew Wamira Omondi	Not Submitted
39	BDO EA Rwanda Ltd	Emmanuel Habineza	Not Submitted
40	EDP Accountants & Advisors Ltd	Edson Dufitumukiza	Not Submitted
41	Financial Advisory Services and Training Ltd	Lindsay Hodgson	Not Submitted
42	GNI CERTIFIED PUBLIC ACCOUNTANTS LTD	Ibrahim Ngugi Gatimu	Not Submitted
43	IDENT CPA Limited	Ian Dent	Not Submitted
44	ITAU Auditors Ltd	Ambrose Mutuku Nzamalu	Not Submitted
45	J G Bailey and Associates Ltd	Jimmy Njonge Githere	Not Submitted
46	JNN CPA Ltd	David Ngatho Mbeti	Not Submitted
47	KPMG Rwanda Limited	Stephen Ineget	Not Submitted
48	Maurice & Associates Ltd	Maurice Njaoh	Not Submitted
49	PEWMU Associates Ltd	Muchiri Waititu	Not Submitted
50	PKF Rwanda Ltd	Erick Mbuthia Njuguna	Not Submitted
51	PricewaterhouseCoopers Rwanda Limited	Moses Nyabanda	Not Submitted
52	Raj, Ashiwal & Mehta Associates Ltd	Niranjan Rajagopalan	Not Submitted
53	RSK Associates	Moses Mugadde	Not Submitted

54	SECAF Ltd	Védaste Habimana	Not Submitted
55	SHARMA & VASWANI Associates Ltd	Abhinav Sharma	Not Submitted
56	UT CPA Ltd	Therese Uwamariya	Not Submitted
57	Zim+Partners Ltd	Zitunga R. Daniel	Not Submitted

APPENDIX 3 – Customer risk categories

HIGH	MEDIUM	LOW
Individuals and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile of the customer such as; salaried employees whose salary structures are well defined, individuals from the lower economic strata of the income level whose accounts show minimal balances and low turnover. Typically, low risk indicates normal, expected customer activity.	Clients who are likely to pose a higher-than-average risk to the institution depending on customer's nature and location of activity, sources of funds and his client profile. For example, a retail business that accepts low to moderate levels of cash, but is not considered cash-intensive.	1) Customers linked with High-Risk countries such as; Tax Havens and sanctioned countries have low transaction transparency • Exchange houses like Forex Bureaus, these have weak AML controls, used cars and truck dealers (mostly cash-based transactions and payments to third parties), Labour exporters, Virtual currencies like crypto coins, Gatekeepers, accountants, auditors, lawyers, and notaries (acting on behalf of Ultimate Beneficial Owners) • Customers who have unnecessarily complex or opaque beneficial ownership structures • Customers with unusual account activity • Customers whose transactions lack reasonable economic or lawful purpose • PEPs and their close associates

		1) Non-Resident customers doing business in Rwanda 2) Cash intensive businesses such as; those owned by Real Estate dealers, precious metal dealers, Arms dealers.

APPENDIX 4 – Forms of Sanctions

Travel bans, asset freezes, trade embargoes and the major cause of sanctions include Money Laundering activities, Terrorism and Terrorist Financing, Narcotics trafficking, Human rights violations, Weapons proliferation, Violation of international treaties, such as; arms embargo.

APPENDIX 4 – Common AML/CFT red flags for the accounting sector

(i) Client Behaviour:

a) Complex corporate structure where complexity does not seem to be warranted or relevant to its business activities.
b) PEP who is linked to negative news / crime or their close associate
c) Client has relations with companies with nominee shareholders or bearer shares or has links with shell companies which are based at foreign jurisdiction
d) Client linked to negative news or crime (named in a news report on a crime committed or is under Law Enforcement investigation/inquiry).
e) The client or any of its associated person / entity found positive match while screening against sanction lists.
f) Client who asks for short-cuts and unexplained speed in completing the transaction or is unnecessarily keen about AML/CFT reporting requirements.
g) Client is overly secretive or evasive (such as of who the beneficial owner is, or the source of
h) funds) or provides fabricated records.
i) Unexplained delegation of authority by the client through the use of powers of attorney.
j) Client is actively avoiding personal contact without any plausible reason.
k) Client or transaction is from a high-risk country or jurisdiction.
l) Client owns assets located abroad, not declared in the tax return.
m) Company is invoiced by organizations located at any offshore jurisdiction that does not have adequate money laundering laws and is known for highly secretive banking and corporate tax haven.
n) 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.
o) Company has a long period of inactivity following incorporation, followed by a sudden and unexplained increase in financial activities.
p) Company showing high turnovers in its account but do not have physical presence /apparent commercial activities.

q) Company is registered at an address that is also listed against numerous other companies or legal arrangements, indicating the use of mailbox service.
r) Company beneficial owners, shareholders or directors are also listed as beneficial owners, shareholders or directors in multiple other companies.
s) Clients who offer to pay unusually high levels of fees for services that would not ordinarily warrant such a premium.
t) Clients who change their means of payment frequently for transactions at the last minute and without justification (or with suspect justification).
u) Situations where advice on the setting up of legal arrangements (trusts) may be misused to obscure ownership or real economic purpose or where the legal arrangement holds the shares of a company.

(ii) Transactional Pattern:

a) Complex or unusual transactions, possibly with unrelated parties.
b) Unauthorized or improperly recorded transactions; inadequate audit trails.
c) Instructions to an accountant from the client to conduct transactions without legitimate or economic reason or when such transactions are conducted by the client itself.
d) Client makes large payments to subsidiaries or other entities within the group that do not appear within normal course of business.
e) Client makes payments to other companies with similar or identical directors, shareholders or beneficial owners without any plausible reason.
f) Apparent, structuring / splitting of transactions to avoid AML/CFT reporting thresholds requirements.
g) Client is making unusual payments in cash which does not commensurate with business activities.
h) Unusually high value transactions in relation to what might reasonably be expected of clients with a similar profile.
i) Client is conducting loss making transactions where the loss is avoidable or an absence of documentation to support the client's story, previous transactions or company activities.
j) Transfers of goods that are inherently difficult to value (such as jewels, precious stones, objects of art or antiques, virtual assets), where this is not common for the type of clients, transaction, or with accountant's normal course of business.
k) Transactions using untraceable payment methods, including bearer instruments or new payment methods.
l) Transactions that appear to be routing, with outgoing and incoming transactions similar in size sent and received from the same parties.
m) Transactions where there is lack of information or explanations, or where explanations are unsatisfactory or transactions which are undervalued