



The Institute of
Chartered Accountants
of Pakistan

CA
PAKISTAN

AML
Anti-Money Laundering



ANNUAL REPORT
2023

AML SUPERVISION DEPARTMENT

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MESSAGE FROM THE CHAIRMAN



I am pleased to present the Annual Report for the AML Supervision Department and the AML Supervisory Board for the supervisory year 2023.

In response to evolving regulatory standards in Anti-Money Laundering (AML) and Countering Financing of Terrorism (CFT), ICAP was designated as an AML/CFT Regulatory Authority under the Anti-Money Laundering Act, 2010. This designation mandates us to ensure compliance with AML/CFT regulations among our member firms. To this end, ICAP has issued comprehensive “Anti-Money Laundering and Combating the Financing of Terrorism Regulations for Chartered Accountants Reporting Firms” to guide our members.

This report details the proactive measures undertaken by ICAP to support our members in achieving effective compliance with AML/CFT Regulations.

I would like to express my gratitude to the ICAP management and staff, especially Ms. Noureen Merchant, for their dedication to raising awareness and ensuring adherence to AML and CFT regulations.

As my term, along with those of three other members, concluded on the AML Supervisory Board in June 2024, the Board has been reconstituted with Mr. Samiullah Siddiqui appointed as the new Chairman. I deeply appreciate the invaluable contributions and support of the outgoing members Mr. Abdul Wahid, Mr. Muhammad Tanveer Alam, and Mr. Tahir Hassan Qureshi—which have been pivotal to the effective functioning of the AML Supervisory Board.

Finally, I extend my sincere thanks to the ICAP Council for its unwavering guidance and support, which has been instrumental in the successful implementation of AML regulations for our members.

Khalid Rahman, FCA
Chairman, AML Supervisory Board

EXECUTIVE SUMMARY

The Institute of Chartered Accountants of Pakistan (ICAP) has experienced a transformative year in 2023, marked by enhanced regulatory activities. This report encapsulates ICAP's unwavering commitment to excellence, professional integrity, and its proactive approach in adapting to evolving global standards.

The year 2023 has been one of growth and resilience for ICAP. Amidst a challenging economic landscape, ICAP has successfully navigated through regulatory changes, technological advancements, and heightened scrutiny on money laundering and terrorist financing practices. ICAP's efforts have mainly been directed towards strengthening its regulatory framework, enhancing the quality of inspections, and promoting a culture of compliance and transparency within the profession.

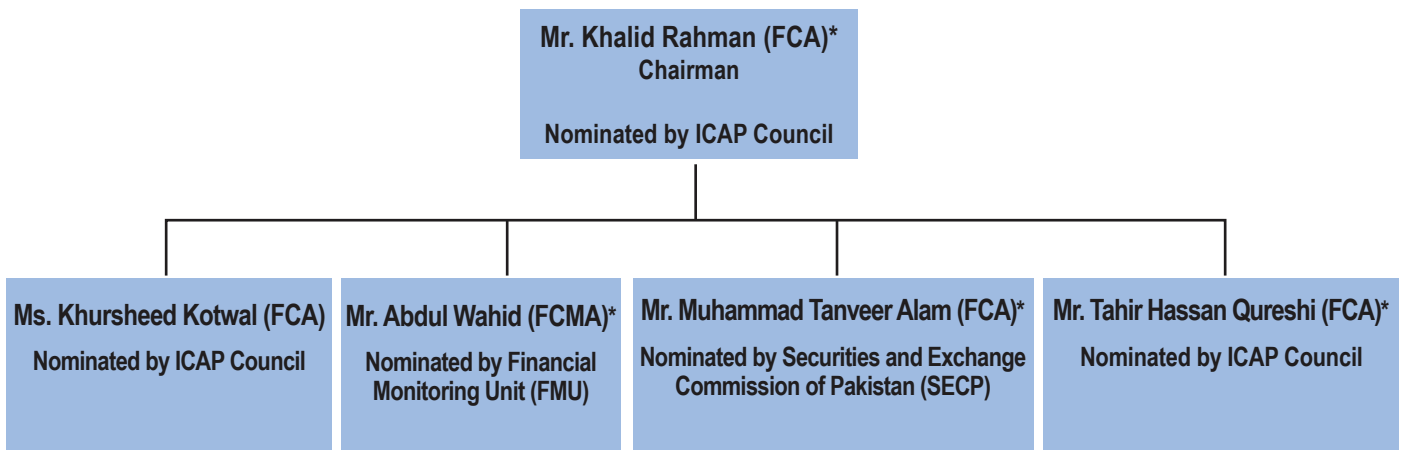
Looking ahead, ICAP remains committed to maintaining the highest standards of professional excellence and ethical conduct. ICAP's strategic priorities for the coming year include further strengthening our regulatory framework and continuing to support its members in navigating the complexities of the accounting and auditing landscape. We are also focused on driving innovation to enhance the quality of inspections and regulatory reporting.

ICAP'S ROLE AS AN AML/CFT REGULATORY AUTHORITY

ICAP plays a pivotal role as an AML/CFT regulatory authority, ensuring its members adhere to stringent anti-money laundering (AML) and countering the financing of terrorism (CFT) laws, rules and regulations. This responsibility is critical for maintaining the profession's integrity and preventing illicit activities.

In line with its obligations under the AML Act, 2010, ICAP has established an independent AML Supervisory Board consisting of five members. This board is supported by a dedicated AML Supervision Department, which conducts regular on-site and off-site inspections to ensure that reporting firms comply with AML/CFT regulations.

COMPOSITION OF THE AML SUPERVISORY BOARD



*These members completed their two terms in June 2024 and have been succeeded by new Board members.

PROFILES OF AML SUPERVISORY BOARD MEMBERS



Khalid Rahman, FCA
Chairman

Mr. Rahman has had a distinguished career with Pakistan Petroleum Limited, where he held several senior management roles over a span of nearly 20 years, including CEO & MD, DMD, CFO, and Company Secretary. Following his tenure there, he was appointed MD/CEO of Sui Southern Gas Company Ltd, a position he held for three years. He also served the Institute of Chartered Accountants of Pakistan as COO/Secretary from 2013 to 2015.

Mr. Rahman was elected as a Council Member of ICAP for the term 2009–2013 and was re-elected for subsequent terms in 2017-2021 and 2022-2026. He served as Vice President of ICAP for the year 2011-2012. Throughout his involvement with ICAP, he chaired several key committees, including the Examinations Committee, Professional Accountants in Business Committee (PAIB), Overseas Coordination Committee, and Governance Committee. Additionally, he was an active member of the Audit Committee, Executive Committee, Investigation Committee, HR Committee, and the Accounting Standards Board. He chaired the AML Supervisory Board until the conclusion of his term in June 2024.

Mr. Abdul Wahid served as a member of the AML Supervisory Board of ICAP for four years until the conclusion of his term in June 2024. He brings extensive supervisory experience in AML/CFT and has been serving as the Director of the Financial Monitoring Unit (FMU), Government of Pakistan, since 2010. In 2018, he played a pivotal role in introducing DNFBPs, including ICAP, to the AML/CFT regime during Pakistan's Mutual Evaluation. He was also instrumental in the development of the "AML & CFT – A Guide for Accountants," issued by ICAP in 2018.



Abdul Wahid, FCMA



Khursheed Kotwal, FCA

Ms. Khursheed Kotwal is the Vice President of the Institute of Chartered Accountants of Pakistan, and Chairperson ICAP Digital Assurance and Accounting Board, ICAP AML Board Member & Board of Governors of PIPFA. She actively participates with the global accounting bodies in CAPA, CAW and SAFA. She is double qualified as a Fellow Chartered Accountant & Fellow Corporate Secretary. She is a Certified Director; the Chairperson of the Audit Committee & an independent Director of the Pakistan Microfinance Network. She is the Founder of a Management Consultancy - Aasman International, and serves as Chief Executive that she started in 2010. She has also worked in Unilever for 18 years in senior leadership positions.

Mr. Tanveer has been working with the Securities and Exchange Commission of Pakistan (SECP) since 2009 and is currently serving as its Additional Director at the Special Investigation Wing, Onsite Department, Supervision Division. At SECP, he has been involved in the supervision of listed companies, stock market participants, and regulated entities, including brokerage houses of the Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited. He specializes in detecting money laundering offenses, corporate crimes, and forensic analysis of financial data. He served as a member of the AML Supervisory Board of ICAP for four years until the conclusion of his term in June 2024.



Muhammad Tanveer Alam
FCA, ACMA



Tahir Hassan Qureshi
FCA

Mr. Tahir has served on various committees of ICAP and the Pakistan Banks' Association. Before joining Allied Bank Limited, he held senior management positions at The Bank of Punjab (General Manager Finance / Member Credit Committee), Habib Bank Limited (Head of Finance), and MCB Bank Ltd (CFO / Company Secretary). He joined Allied Bank Limited (ABL) in 2008 and has since served as Chief of Audit & Risk Review (A&RR), Chief Financial Officer, Chief Operating Officer (COO), and Chief Executive Officer (CEO). He served as a member of the AML Supervisory Board of ICAP for four years until the conclusion of his term in June 2024.

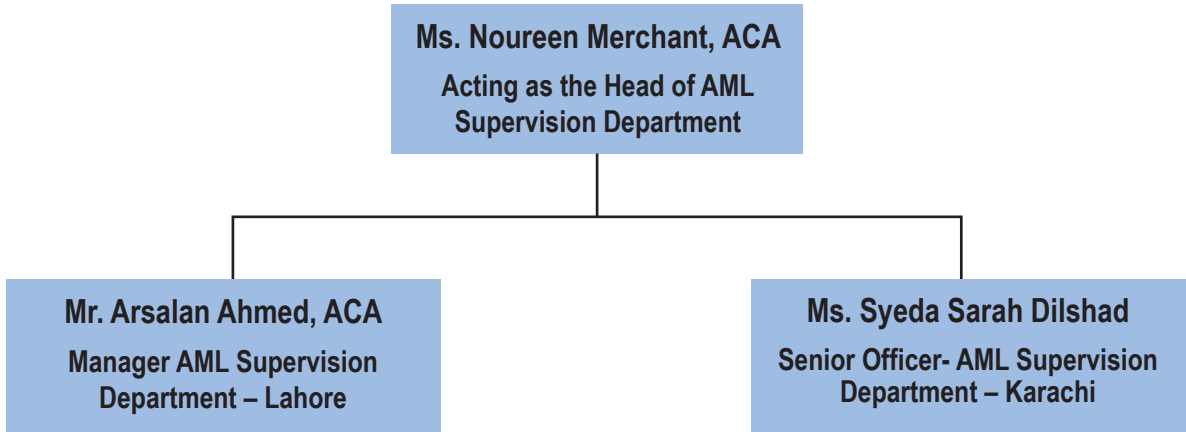
AML SUPERVISORY BOARD – ACTIVITIES

During the year, the AML Supervisory Board undertook the following key activities:

- a. Assessed the risks associated with money laundering (ML) and terrorist financing (TF) affecting ICAP's members, integrating these findings into ICAP's regulatory framework. The Board, through the AML Department, also contributed to Pakistan's National Risk Assessment (NRA) 2023 by providing critical insights and data on the accounting sector's vulnerabilities.
- b. Authorized the comprehensive supervision plan for 2023, setting the strategic direction and priorities for AML/CFT oversight throughout the year.
- c. Monitored the progress of off-site and on-site inspections carried out during the 2023 supervision cycle.
- d. Reviewed findings from inspections, suggested improvements and imposed sanctions on reporting firms where necessary based on compliance breaches.
- e. Provided strategic guidance to the AML Supervision Department on risk assessment practices for reporting firms.
- f. Enhanced collaboration with SECP to share information and improve the effectiveness of AML/CFT laws and regulations.
- g. Arranged seminars and awareness sessions on AML/CFT guidelines and best practices.

AML SUPERVISION DEPARTMENT – ORGANOGRAM

The AML Supervisory Board of ICAP is supported by a dedicated AML Supervision Department, which is instrumental in overseeing and monitoring compliance with AML/CFT regulations. The department's structure is designed to effectively manage its supervisory responsibilities and ensure adherence to regulatory requirements.



ICAP'S APPROACH TO AML SUPERVISION

ICAP's approach to AML supervision ensures effective supervision of its reporting firms and the implementation of necessary measures to secure compliance with the AML Act 2010 and ICAP issued AML/CFT Regulations. This is achieved through various strategies:

- Adopting a risk-based approach to inspections, prioritizing them according to the AML/CFT risk rating of firms. Inspections are conducted based on an AML/CFT risk matrix, initially derived from firms' responses to offsite monitoring questionnaires (Form B).
- Providing Reporting Firm members and the AML team with up-to-date information on domestic and international risks of money laundering and terrorist financing that affect reporting firms and the accounting sector as a whole.
- Disseminating guidance explaining the responsibilities of reporting firms under AML Act, 2010 and the AML/CFT Regulations.
- Offering support to member firms through a dedicated helpline (email address and phone number), assisting them in meeting regulatory requirements.
- Taking enforcement or disciplinary action against firms that do not meet the requirements of the AML/CFT Regulations, in accordance with the AML/CFT Sanctions Rule, 2020, and ICAP's Enforcement Policy.

ANNUAL RETURNS SUBMISSION – OFFSITE MONITORING & RISK RATING OF REPORTING FIRMS

Based on a drive for the submission of forms from July to September 2022, 39 Chartered Accountant firms submitted Form B and were recognized as reporting firms in 2023. These firms provide services that fall under the AML/CFT Regulations (as defined under section 2(xii) of the AML Act 2010), necessitating their adherence to specified AML/CFT compliance measures.

ICAP uses a risk model to assess these firms based on inherent vulnerabilities and mitigating controls, including risk assessment, policies, CDD, and internal controls. The overall risk rating is determined via a heat map that plots mitigating controls against inherent vulnerabilities, aiding in understanding ML and TF risks and resource allocation. The risk assessment for these 39 reporting firms in the 2023 supervision cycle is as follows:

Risk Rating	# of Firms
Very High (VH)	NIL
High (H)	NIL
Medium (M)	13
Low (L)	26
TOTAL	39

LANDSCAPE OF REPORTING FIRMS – RISK ASSESSMENT

Summary of Risk Assessment (Form B)

[1] Sector's inherent characteristics	[2] Nature of products and services provided	[3] Nature of the clientele	[4] Geographic reach of Sector's activities	[5] Nature of Delivery Channels
<p>Number of Reporting Firms: There are 39 firms covered, representing a small segment of the sector.</p> <p>Geographic Concentration: Primarily located in large urban centers of Pakistan.</p> <p>Functional Structure: Relatively simple.</p>	<p>Types of Services: Reporting firms provide both covered accounting services and TCSP (Trust or Company Service Provider) services. TCSP services, though a small percentage of overall business, present higher risks related to Beneficial Ownership transparency.</p> <p>Transaction Volume: Relatively low number of covered transactions.</p>	<p>Client Composition: Includes both natural and legal persons, with the majority maintaining continuing business relationships.</p> <p>High-risk and foreign clients make up a small portion of the business.</p> <p>Client Types: Includes a mix of PEPs (Politically Exposed Persons) and other high-risk clients, though they represent a minimal percentage of the firms' business.</p> <p>Non-resident clients are also a small percentage.</p>	<p>High-Risk Jurisdictions: No linkages identified to DPRK, Myanmar or Iran.</p> <p>Domestic Concerns: Few linkages to high-risk domestic areas (South Punjab, KP, Baluchistan). No offices in FATF-grey-listed countries outside Pakistan.</p>	<p>Onboarding: Majority of the firms onboard clients face-to-face. Bearer cheques or cash are rarely accepted.</p> <p>Channel Complexity: Delivery channels are simple, primarily face-to-face, minimizing anonymity and complexity.</p>

FULL SCOPE ON-SITE & THEMATIC INSPECTIONS

In 2023, the AML Supervision Department conducted its full scope inspection program using a Risk-Based Supervision approach. The inspection strategy for this cycle received approval from the AML Supervisory Board of ICAP. Below are the details of the inspections conducted:

Onsite Full Scope Inspections – Supervision Cycle – 2023		
Reporting Firm Risk Rating	# of ICAP Reporting Firms	# of Firms Inspected
Medium	13	06
Low	26	05
Total	39	11

The thematic inspections, on the other hand, aimed to scrutinize reporting firms' adherence to specific AML/CFT requirements, focusing on:

1. Customer Due Diligence (CDD): Ensuring compliance with CDD requirements, including the verification of beneficial ownership.
2. Enterprise Risk Assessment: Assessing adherence to conducting thorough Enterprise Risk Assessments.
3. Independent Audit Function: Evaluating compliance with implementing an independent audit function to test the firm's AML system.

Thematic inspections, in the year 2023, mostly targeted medium risk rated firms, with a total of three (3) firms undergoing focused inspections. These thematic inspections complement the Full Scope On-Site Inspections carried out under the Risk-Based Supervision methodology.

SANCTIONS IMPOSED ON REPORTING FIRMS

Under the Federal Government's AML/CFT Sanctions Rules 2020 and the ICAP Enforcement Policy, ICAP has a range of proportionate and dissuasive sanctions to enforce compliance with AML/CFT obligations. Sanctions are applied based on the severity of compliance breaches identified during inspections. The above laws allow for a graduated approach, ensuring that the measures taken are proportional, effective, and deterrent. Notably, there has been an improvement in the compliance levels of reporting firms in the 2023 supervision cycle.

Sanction Type	2023
Show Cause	01
Directions to take actions	03
Total	04

The ICAP Executive Committee, comprising three members Mr. Omair Jamal (Chairman), Mr. Kashif Malik (Member), and Mr. Muhammad Imran Khan (Member) serves as the Sanctioning Authority for Level I sanctions as stipulated in ICAP's Enforcement Policy. In this capacity, the IEC is empowered to issue various sanctions, including statements of censure or warnings of reprimand to reporting firms, as well as written warnings to Senior Management Officers. The committee also has the authority to direct firms to comply with specific regulatory requirements within a set timeframe, typically through a remedial action plan, and may instruct firms to conduct internal inquiries where necessary.

Sanctioning decisions made by the IEC are based on recommendations provided by the Head of the Anti-Money Laundering Supervision Department. After the conclusion of each inspection, the IEC carefully assesses the observations presented by the department head before making any decisions. The committee ensures that a comprehensive written record is maintained of all significant decisions and actions taken as the Sanctioning Authority, including instances where the decision was made not to impose sanctions.

In addition to its sanctioning role, the IEC's strategic focus throughout 2023 was on enhancing the effectiveness of AML supervision. In the year 2023, the Committee convened two meetings to fulfill its mandate under the Enforcement Policy.

HIGHLIGHTS OF SUPERVISION CYCLE-2023

During the supervision cycle of 2023, the AML Supervision Department observed notable improvements in the compliance status of reporting firms concerning AML/CFT regulations, compared to previous years.

Key Improvements Observed:

- Enhanced Independent Audit Functions within reporting firms.
- Significant improvements in record-keeping for AML compliance, ensuring better documentation and adherence.
- Increased frequency of AML training for frontline staff, boosting their effectiveness in managing AML responsibilities.

Areas Requiring Further Attention:

- Firms need to develop comprehensive AML/CFT Policies and Procedures to meet regulatory requirements consistently.
- Improved detection of suspicious transactions and prompt reporting to the FMU is necessary.
- Enterprise Risk Assessments should be more inclusive of all relevant risk factors.

AWARENESS SESSIONS/WEBINARS

In 2023, ICAP organized two Awareness Sessions in the form of webinars to enhance understanding of AML/CFT laws, rules and regulations among its members. These sessions were well-attended and aimed to provide critical insights into compliance requirements and best practices.

Key Highlights:

Expert Participation: The sessions featured expert delegations from the Financial Monitoring Unit (FMU), Securities and Exchange Commission of Pakistan (SECP), and member bodies of the South Asian Federation of Accountants (SAFA). These experts provided valuable insights into AML/CFT regulations.

Comprehensive Coverage: The webinars included detailed discussions on critical topics such as Customer Due Diligence (CDD), the Independent Audit Function, and Targeted Financial Sanctions (TFS) and more.

Ongoing Engagement: ICAP remains committed to facilitating continuous learning and updates for its members. Future awareness sessions will be organized to keep members informed about evolving AML/CFT procedures and regulatory changes.

2024 KEY PLANNED ACTIVITIES

Off-Site Monitoring Enhancement

The AML Supervision Department will advance its off-site monitoring efforts by rigorously analyzing Form 'A' and Form 'B' submissions from July 1, 2023, to June 30, 2024. The focus will be on identifying emerging trends and areas of concern, thereby proactively addressing potential risks before they escalate.

Out Reach Programs

ICAP is committed to fostering a culture of compliance and awareness through a dynamic series of outreach initiatives. Our strategy includes interactive webinars and seminars that address specific challenges faced by reporting firms. These programs will be designed to not only meet regulatory requirements but also to empower members with practical tools and insights for effective AML/CFT compliance.

Accelerated On-Site Inspections

To enhance the rigor and efficiency of our on-site inspections, the AML Supervision Department will implement a streamlined risk-based inspection framework. This includes the adoption of advanced checklists to ensure comprehensive assessments and timely feedback. We aim to expedite the inspection process, providing actionable insights that support continuous improvement in AML/CFT practices.

Mutual Cooperation

Recognizing the importance of collaborative efforts, ICAP will strengthen its partnerships with key stakeholders and regulators specially the SECP and FMU. Our approach will involve formalizing information-sharing protocols and coordinating joint initiatives to address AML/CFT challenges. This enhanced cooperation will aim to create a more cohesive regulatory environment and improve overall compliance effectiveness.

AML SUPERVISORY BOARD – MEETINGS AND ATTENDANCE

In 2023, the AML Supervisory Board held four meetings. The attendance record for each member is detailed below:

Name of Members	# of meetings attended	January 17, 2023	April 27, 2023	August 10, 2023	October 16, 2023
Mr. Khalid Rahman – Chairman	04	Attended	Attended	Attended	Attended
Mr. Abdul Wahid - Member	03	Attended	Attended	Leave of absence	Attended
Mr. Tahir Hassan Qureshi - Member	04	Attended	Attended	Attended	Attended
Mr. Muhammad Tanveer Alam - Member	04	Attended	Attended	Attended	Attended
Ms. Khursheed Kotwal - Member	03	Attended	Leave of absence	Attended	Attended

WHAT IS REQUIRED FROM A REPORTING FIRM?

The accountancy sector is a prime target for money laundering and terrorist financing due to its potential to provide legitimacy to illicit activities. Despite being identified as a "Low" risk in the National Risk Assessment of 2023, ICAP's Reporting Firms are crucial in preventing and detecting financial crimes.

To meet regulatory requirements, each Reporting Firm must:

- Ensure Compliance with various AML/CFT Laws and regulations including but not limited to:
 - Adhere to AML Act, 2010 and related laws and regulations.
 - Follow ICAP AML/CFT Regulations 2020.
 - Comply with any additional directives issued by ICAP regarding AML/CFT requirements.
- Refer to ICAP issued Guidelines for Reporting Firms, including:
 - AML/CFT FAQs
 - AML/CFT Guidelines for Accountants
 - FAQs on Targeted Financial Sanctions (TFS)
 - Guidelines on TFS
- Risk Management and Prevention:
 - Conduct a firm-wide risk assessment to identify and understand money laundering and terrorist financing risks.
 - Establish, maintain, and regularly review policies, controls, and procedures to mitigate and manage identified risks.
 - Perform thorough customer due diligence, including risk assessments of clients (including their Beneficial owners) and verification of their identities and sources of funds, proportionate to the risk rating of each client.
 - Provide training to all staff to recognize AML risks, red flags, and suspicious activities.
 - Register the firm on the goAML portal, appoint a nominated officer to report Suspicious Transaction Reports (STRs) to the Financial Monitoring Unit (FMU).
 - Designate a compliance officer to ensure effective communication with the ICAP AML Department on AML/CFT matters.

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