

# *Upholding a robust defence*

ANTI-MONEY LAUNDERING MONITORING 2020



The impact of money laundering is devastating - it enables serious organised crime such as modern slavery, drugs trafficking, fraud, corruption and terrorism.

That is why our role as the largest accountancy professional body supervisor in the UK is so important. We are the first-line supervisory defence against this threat in relation to around 11,000 firms.

Our strategy is to provide robust anti-money laundering supervision through a risk-based regime, focussing our efforts on firms where the risk that they will be used to enable money laundering is highest.

This report explains the key findings from our monitoring activity in 2019 and explains to firms what their next monitoring review might involve. We have set out guidance on our most common findings to help firms remain compliant.



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# *Introduction*

Criminals are attracted to the accountancy sector as a way of giving legitimacy to businesses that are a front for money laundering. Accountancy services may be used to create corporate structures or help to legitimise the movement of proceeds of funds. Because of this, the UK National Risk Assessment of Money Laundering and Terrorist Financing (NRA) 2017 assessed accountancy services as being a high risk of money laundering.

Chartered accountants and ICAEW firms are particularly attractive for those seeking to engage in money laundering due to the credibility that their services can offer.

If you are concerned that a firm supervised by ICAEW has breached, or potentially breached, the Money Laundering Regulations, you can raise your concern through a confidential and anonymous channel at [icaew.com/AMLconcerns](https://www.icaew.com/AMLconcerns).

To address and mitigate this risk, we deliver a proactive monitoring approach that ensures we regularly review all of our firms, on a risk-based cycle. We have performed in excess of 20,000 monitoring reviews since the introduction of anti-money laundering supervision in 2007.

A significant majority of our monitoring reviews show positive results. However, we do find that we raise findings on the same areas of compliance weakness. This guide highlights the most common areas of non-compliance with the Money Laundering Regulations 2017 (MLR17) we identified during monitoring reviews in 2019. We've also included some information about ICAEW's AML monitoring processes and our supervisory role.

You will also find a comprehensive guide to the many resources available to you as an ICAEW AML supervised firm, which includes *AML - the essentials* and news of our upcoming ICAEW training film. A full list of AML-related resources is available on [page 11](#).

# ICAEW is the largest accountancy professional body supervisor for anti-money laundering in the UK

Our strategy is to provide robust anti-money laundering (AML) supervision through a risk-based regime. We focus our efforts on firms where the risk that they will be used to enable money laundering is highest.

We supervise and monitor

**c.11,000**

firms for anti-money laundering activity.

**20,000+**

the number of monitoring reviews we have carried out at firms since the introduction of AML supervision in 2007.

In 2019 ...

## MAINTAINING THE HIGHEST PROFESSIONAL STANDARDS

**1,725**



AML reviews carried out with ICAEW supervised AML firms.

We visit

**100%**



of firms we categorise as high-risk over a two-year cycle.

All ICAEW supervised firms are required to submit an annual return. The ICAEW annual return provides us with constant monitoring and risk assessment information about firms.



We review all the firms we supervise on a risk-based cycle. The frequency of these reviews is determined by the risk profiles we prepare on our firms using annual return data, complaints information or intelligence from law enforcement. Visit cycles vary from annual to eight years, depending on risk.



**All our Quality Assurance reviewers and the ICAEW Regulatory Board members received external-led training on AML to ensure consistency and quality of knowledge.**

## PROTECTING THE PUBLIC

**3 in 5**



SARs submitted by the accountancy sector to the National Crime Agency came from ICAEW firms.

## HELP AND SUPPORT

**1,500+**



AML enquiries taken by our technical advisory helpline from firms and members.

**126,000+**



unique visits to our AML resources on [icaew.com](http://icaew.com)

## TAKING ACTION

38 ICAEW firms were disciplined in relation to AML issues and fined a total of



**£90,350**

**4**



issues of the ICAEW regulatory e-update, *AML - the essentials* were sent to our AML supervised firms and ICAEW members.

**23,000**



the average number of recipients for each issue of *AML - the essentials*. We also sent solus emails to our firms advising of regulatory changes throughout the year.

# *Our most common findings*

Although we conclude a significant number of our monitoring reviews without the need to take any further action, we do still find that we raise some findings more often than others. Below, we have set out our most common findings and our expectations of what firms need to do to comply. Firms should review each of these areas and challenge themselves as to whether they are meeting the required standard.

## 1. Firm-wide risk assessments

Our most common significant finding is a lack of firm-wide risk assessment or significant issues with the quality of the risk assessment.

The risk based approach underpins the MLR17 – you should focus your resources on the services and clients that have the highest risk of money laundering. To determine how and where resources should be focused, you must perform a risk assessment at the firm level to understand the risk that the firm may be used to conceal or launder the proceeds of a crime. The assessment should take into account factors such as the customer base, the countries and geographies in which the firm operates, and the products and services offered (eg, clients' money accounts or incomplete records engagements). Your firm can then design its policies and procedures to respond to the level of risk identified.

## 2. Updating CDD

We find that firms are not performing, and updating, their client due diligence (CDD) throughout the duration of the client relationship. We raise this finding if there is no evidence of updated CDD on at least one of our sampled client files. Some of the firms in this bracket will have updated CDD on some of their clients but not all.

You should regularly review the documentation your firm obtained as part of the know-your-client checks. If any of the information has changed, you should feed the changes back into the client risk assessment.

The frequency of the review should be determined on a risk basis but there may also be trigger events such as providing a new service to an existing client, significant changes to key office holders, the introduction of a PEP or if a SAR has been made.

Ongoing monitoring also involves the scrutiny of client activities to make sure they are consistent with your knowledge and understanding of the client and its operations.

## 3. Risk assessing clients

Our third most common finding is that the firm had failed to perform a risk assessment of the client. Often, the firm has focused on verifying the identity of the client without assessing the risk to determine the amount of evidence that must be obtained. We raise this finding if there is no evidence of a client risk assessment on at least one of our sampled client files. Some of the firms in this bracket will have performed a client risk assessment on some of their clients but not all.

The MLR17 requires your firm to perform a risk assessment of each client, that takes into account those risks identified in its firm-wide risk assessment. The client risk assessment will direct the amount and type of information your firm needs to obtain to confirm the identity of the client. The risk assessment is important because it will identify when the firm should perform Enhanced Due Diligence on high risk clients, or where it can perform Simplified Due Diligence on low risk clients.

#### 4. Criminal record checks on BOOMs

We find that some firms haven't yet obtained criminal record certificates for the beneficial owners, officers and managers (BOOMs) in the firm.

Since 26 June 2018, all our supervised firms must take reasonable care to ensure no-one is appointed, or continues to act, as a BOOM without ICAEW's approval. ICAEW can only approve a BOOM if that individual has no relevant unspent criminal convictions and so, to prove that we can approve a BOOM, we require all BOOMs to obtain criminal record checks. We review these checks during onsite monitoring visits, or we may write to your firm and ask you to send the certificates to us.

[icaew.com/criminalchecks](https://www.icaew.com/criminalchecks)

#### 5. Review of policies, controls and procedures

We find that some of the firms we review haven't performed a regular review of the adequacy and effectiveness of their policies, controls and procedures.

The regulations say that firms must establish an independent audit function to assess the adequacy and effectiveness of the firms AML policies, controls and procedures. Sole practitioners with no employees are exempt from this requirement. You should plan to regularly review your AML policies, controls and procedures - it doesn't need to be an external review but you should design this to be as independent as possible, given the size and nature of your firm. Where your firm identifies any gaps or weaknesses, you should document how you intend to address them.

#### 6. Training

We find that some firms haven't provided sufficient AML training to their staff. You should ensure that your staff:

- are aware of their legal and regulatory duties;
- understand how to put these requirements into practice in the roles, by using your firm's policies and procedures; and
- are continuously updated about changes in the money laundering risks faced by your firm and any changes to your firm's policies and procedures.

It's a good idea to design a formal training plan to ensure the right staff receive the right training and firms should keep a log of staff training. Getting staff to sign and date the log can help emphasise how important it is that they follow their training at all times.

#### 7. Client due diligence on new clients

We found that some firms don't perform client due diligence on all their new clients. We raise this finding if there is no evidence of a client risk assessment on at least one of our sampled client files. Some of the firms in this bracket will have performed a client risk assessment on some of their clients but not all.

You should perform client due diligence on all new clients. This means that you should gather information on the client to determine who the client is, what it does and who the beneficial owner is. Using this information, you should perform an AML risk assessment, taking into account those risks identified in the firm-wide risk assessment. Your firm must then take steps to check the client is who they say they are. The amount of evidence you need to gather will be determined by the AML risk profile of the client.

# *How we improve compliance in our firms*

Where we raise findings we set out a summary of the issue we have identified and our expectations of the firm in a closing meeting record. The firm is required to respond to each of the findings, explaining what action they will take to address them with a deadline for completion.

We assess the firm's responses and consider whether we think the firm has sufficient technical know-how and resources to address the findings. This may include considering whether we have seen any evidence to suggest that the firm can reach the required standard and has the technical understanding to rectify the issue. We will also consider the seriousness or prevalence of the finding itself (ie, was it an isolated event). Finally, we assess the firm's commitment to address the findings and will use the firm's previous visit history to assess whether our experience shows that they fulfill assurances they have made to us in the past.

In cases where we have concerns that the firm isn't sufficiently committed or able to address the finding we will take further action or ask the firm for further information to confirm that they have rectified the issue.

Where we have less significant concerns, this further action may be through informal follow-up, with the firm submitting information to support its ongoing compliance.

Where we have significant concerns, we will prepare a report to the Practice Assurance Committee (PAC) setting out the key issue and our recommended course of action. The PAC (since 1 July 2019) has the power to impose regulatory penalties to a firm where there have been breaches of the MLR17 and can require the firm to submit information to demonstrate it is now meeting the required standard.

Firms will not be released from this ongoing monitoring until we are satisfied that they are complying with MLR17.

If we are satisfied that the firm has the commitment and ability and the finding itself wasn't serious or systematic, we will close our monitoring review with no further action. We will, however, expect the firm to put things right and we will check that the firm has dealt with any matters requiring action or principal findings we identified at the next Practice Assurance review. If there are outstanding actions when we perform our next review, we may refer the firm to the Practice Assurance Committee.



# Results of our monitoring activity 2019

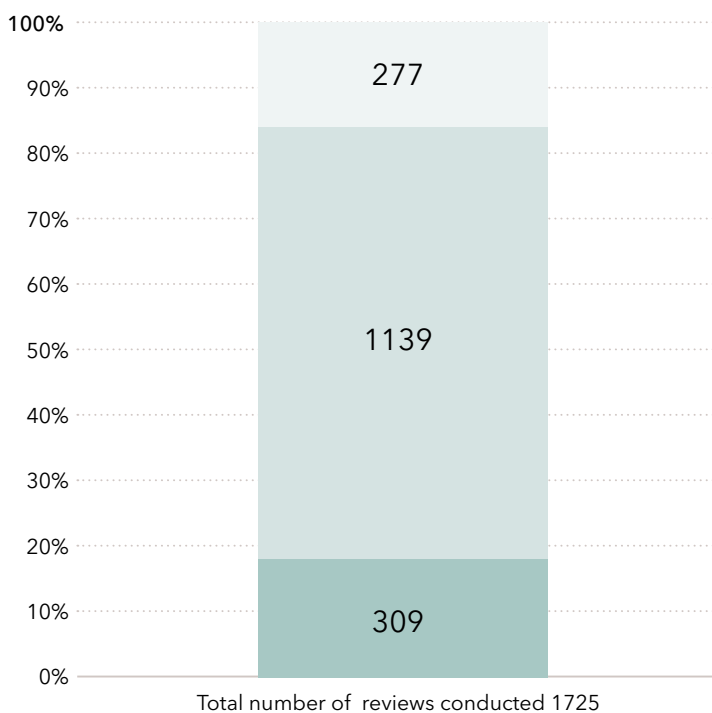
We review firms on a risk-based approach, directing our resources on those firms that present higher risk of money laundering.

Approximately 1% of our supervised population is assessed as high risk and we review these firms at least every other year. The review will normally last several days and may encompass thematic risk areas or concentrate on firm-wide compliance.

16% of our population is assessed as medium risk and we review these firms at least every four years. We normally spend at least two days onsite and will cover all areas of compliance as well as some areas of focus.

83% of our firms are normal or low risk. We review these firms every eight years either onsite or via a desk-based method.

## Monitoring review outcomes



At 309 firms, we identified no breaches of the MLR17. At 1,139 firms, we did identify breaches but were satisfied that the firm had the commitment and ability to address the findings and that the breaches themselves weren't significant.

At 277 firms, we concluded that the firm required informal follow-up action (148), or that we should refer the firm to the PAC, in respect of the findings we identified (129).

**Number and type of enforcement actions**

Members expelled	8
Number of severe reprimands	38
Total sum of fines issued	<b>£90,350</b>

Not all enforcement actions come from monitoring visits. We also investigate complaints from the public. Since 1 July 2019 the PAC has the power to impose regulatory penalties to a firm where there have been breaches of the Money Laundering Regulations.

At the same time, we issued new Guidance on Sanctions for AML breaches which aim to deter money laundering by ICAEW supervised firms. In particular, sanctions relating to a firm's failure to have AML policies and procedures or to implement them now have a starting point calculated as £3,000/£2,000 per principal with capped maximum fine for the largest firms. The starting point can be increased or decreased by the relevant professional standards committees and tribunals depending on the presence of aggravating and mitigating factors.

# *ICAEW AML supervision and monitoring*

## **ONSITE REVIEWS**

ICAEW quality assurance reviewers gather information about the firm's procedures during the opening meeting discussions, from a brief review of the firm's AML procedures manual, compliance reviews and from client file reviews.

Examples of things our reviewers will check - that your firm has/is:

- obtained criminal record check certificates for all its BOOMs and that these are 'clean';
- performed a firm-wide risk assessment and that this is consistent with the information provided in the annual return and the opening meeting discussion;
- conducting client due diligence on a risk-sensitive basis;
- recognised clients and situations where enhanced due diligence is required;
- monitoring its compliance with anti-money laundering policies and procedures;
- identifying 'trigger events' to update CDD on existing clients;
- sufficient information on file to demonstrate that the identity of the client has been verified and suitable evidence retained;
- provided information in the annual return that is a true reflection of the firm's anti-money laundering procedures and the risk profile of the firm's client and services;
- a money laundering reporting officer (MLRO) in post who is aware of their responsibilities;
- internal procedures in place for making suspicious activity reports to the money laundering reporting office (MLRO); and
- ensured all relevant employees have received appropriate training relating to money laundering.

If your firm has submitted any Suspicious Activity Reports (SARs) to the National Crime Agency, we will check the disclosed information is of good quality and complete.

Through our review of the firm's documentation and its client work, we will ensure that your firm consistently applies its procedures across all business streams and that they are effective. We select a risk-based sample of client files and CDD documentation. The number of files will vary according to the size of your firm and the AML risks within the firm's client base and the services it provides.

We set out our review findings in the closing meeting record. We require your firm to respond to each of the findings we raise, setting out what action they will take to address them. We assess whether the firm has the commitment and ability to address the issues.

## **DESK-BASED REVIEWS**

Our desk-based reviews fall into three categories.

- Desktop - we ask the firm to complete a questionnaire about their procedures including AML procedures and to submit examples of CDD for new clients and ongoing CDD for existing clients. We review these examples and if the reviewer has any questions or requires more information she/he will telephone the firm and discuss the issue. We may request further evidence in some cases.
- Telephone - we ask the firm to complete a questionnaire about its AML procedures and to submit examples of CDD for new clients and ongoing CDD for existing clients. We review this information before the telephone call. During the call the reviewer will discuss the information provided and the procedures followed by the firm. We may request further evidence in some cases.
- New firm webinar - we ask new firms to view a 45-minute webinar that introduces them to the regulations we require firms to follow. A reviewer will then telephone the firm to discuss the firm's activities and set-up and any questions and issues arising. Our aim is to help new firms to set up appropriate procedures to enable them to comply with all the relevant regulations from the beginning of the practice.

We discuss the same matters at our desk-based reviews as we do at our onsite reviews.

## **YOUR FIRM'S NEXT AML MONITORING REVIEW**

Our approach to AML supervision ensures we can effectively monitor our firms and take measures when necessary to secure compliance with the Money Laundering Regulations 2017.

We determine the timing of your firm's next AML monitoring review according to the risk profile we prepare using annual return data, complaints information (if applicable) and intelligence from law enforcement. Visit cycles vary from one to eight years, depending on risk.

One of our very experienced team of reviewers will carry out your review. As well as being chartered accountants, they receive regular training to ensure they are equipped to take appropriate decisions on the suitability of anti-money laundering policies and procedures and the latest guidance on domestic and international risks of money laundering and terrorist financing affecting the accountancy sector.

Depending on the risk profile of your firm, we will carry out one of the following types of review. This will be explained when we contact you to arrange your review.

# *Continuous improvement: important changes in 2020/21*

## **5MLD AND AMENDED MONEY LAUNDERING REGULATIONS**

The 5<sup>th</sup> Money Laundering Directive came into effect in January 2020. Regulations under the directive require firms to report any discrepancies between the information they are given on a new client with that held on the Persons of Significant Control register at Companies House. From 2020, ICAEW will assess how firms incorporate the new requirements of the amended Money Laundering Regulations 2017 in their anti-money laundering procedures and will check that firms are reporting discrepancies.

## **RISK-BASED APPROACH**

Our approach will become far more AML-risk based, using data that has been compiled on firms' AML risks to ensure a more focused and targeted review of firms that are seen as high- or medium-risk. The highest risk firms will have their AML procedures monitored separately from the rest of their Practice Assurance review to ensure more time and resource is given to this work. Our quality assurance monitoring visits will also place more focus on firms' reporting of suspicious activities by their clients.

## **SPOTLIGHT ON SARs**

ICAEW is working hard to help the NCA to combat money laundering and we are stepping up our activity in 2020 by working to continuously improve the quality of SARs submitted to the NCA by ICAEW firms. From the start of this year, all ICAEW AML monitoring onsite visits will include a review of SARs that firms have filed with the NCA to make sure the information provided is as complete and accurate as possible. Early in 2020 we invited the UK Financial Intelligence Unit to our internal training event to explore what 'good quality SARs' are so that our reviewers are well placed to provide robust feedback to firms on how to improve SARs. We will also continue to look into firms' AML policies and procedures to try to identify ways the firms can train their staff in looking out for suspicious items.

We are also planning a thematic review on SARs. We will conduct the review in the highest-risk firms, and largest reporters, to collect data and look for trends and correlations that allow a greater understanding of vulnerabilities and threats and to identify ways in which firms can train staff in how to better spot potentially suspicious issues. We will meet with firms to understand their internal SAR policy, how they train their staff, how the MLRO decides when to report to the NCA and review a sample of internal and external SARs to check the quality of the data.

## **IDENTIFYING AND PUBLISHING INFORMATION ON AML RISK**

ICAEW recognises that its firms can only increase the number of SARs they submit if they know what money laundering risks look like. ICAEW is working with law enforcement and other professional body supervisors, through the Information Sharing Expert Working Group to identify current money laundering typologies and to adapt the typologies issued by Joint Money Laundering Intelligence Taskforce to the accountancy sector. We plan to publish a suite of risk bulletins and typologies throughout 2020.

We will also publish our risk outlook, which sets out our assessment of the AML risks faced by our supervised population.

## **IMPACT OF COVID-19**

At the time of writing this report (May 2020) we are still working towards meeting our 2020 targets and beyond. However much of this work is being undertaken remotely, while social distancing rules are in place. Further information on how ICAEW's Professional Standards team is operating during this period can be found at [icaew.com/regulation](https://www.icaew.com/regulation)

# *ICAEW resources*

## **SUPPORT AND GUIDANCE**

We publish a wealth of support and formal guidance which is designed to help our firms understand what is expected, particularly in relation to taking a risk-based approach.

We also publish other guidance and materials that explain the responsibilities of accountancy firms under the Proceeds of Crime Act 2002 (POCA) and the Money Laundering Regulations 2017, and what we consider is best practice.

Our quarterly newsletter, *AML - the essentials*, is issued by the ICAEW Professional Standards Department to help firms keep up to date with the key changes in the money laundering regime and help inform their risk assessment, policies and procedures. We email ICAEW money laundering reporting officers when a new issue is available.

A confidential and anonymous channel is available for firms to raise an AML concern. This is available for your firm and the public to use. Please complete our 'Raising an AML concern' form and email it to [MLCO@icaew.com](mailto:MLCO@icaew.com). Further information is available at [icaew.com/AMLconcerns](https://www.icaew.com/AMLconcerns)

## **USEFUL LINKS**

[icaew.com/moneylaundering](https://www.icaew.com/moneylaundering)

[icaew.com/amlsupervision](https://www.icaew.com/amlsupervision)

[icaew.com/regulatorynews](https://www.icaew.com/regulatorynews)

[icaew.com/amlconcerns](https://www.icaew.com/amlconcerns)

[icaew.com/helpsheets](https://www.icaew.com/helpsheets)

[icaew.com/regulation](https://www.icaew.com/regulation)

[icaew.com/helplines](https://www.icaew.com/helplines)

[icaew.com/cpd](https://www.icaew.com/cpd)

## **OUR NEXT ICAEW EDUCATIONAL FILM**

ICAEW educational training films stimulate conversations and debates. Used around the world, ICAEW films support the training needs and business development opportunities of accountancy firms, they are used as a teaching tool by universities and for workshops for senior management and boards of directors of medium and large companies.

We are working with HMRC to produce our next film which will raise awareness among professionals of the important role they can play in the detection and prevention of money laundering. We hope to launch this in 2021.

Find out more about ICAEW films at [icaew.com/films](https://www.icaew.com/films)



## Our role as a world-leading improvement regulator

We protect the public interest by making sure ICAEW's firms, members, students and affiliates maintain the highest standards of professional competency and conduct.

ICAEW's regulatory and disciplinary roles are separated from ICAEW's other activities so that we can monitor, support or take steps to ensure change if standards are not met. These roles are carried out by the Professional Standards Department and overseen by the independent ICAEW Regulatory Board (IRB).

Our role is to:

- **authorise** ICAEW firms, members and affiliates to undertake work regulated by law: audit, local audit, investment business, insolvency and probate;
- **support** the highest professional standards in general accountancy practice through our Practice Assurance scheme;
- **provide** robust anti-money laundering supervision and monitoring;
- **monitor** ICAEW firms and insolvency practitioners to ensure they operate correctly and to the highest standards;
- **investigate** complaints and hold ICAEW firms and members to account where they fall short of standards;
- **respond** and comment on proposed changes to the law and regulation; and
- **educate** through guidance and advice to help stakeholders comply with laws, regulations and professional standards.

Chartered accountants are talented, ethical and committed professionals. There are more than 1.8m chartered accountants and students around the world, and more than 184,500 of them are members and students of ICAEW.

We believe that chartered accountancy can be a force for positive change. So we attract the brightest and best people and give them the skills and values they need to ensure businesses are successful, societies prosper and our planet's resources are managed sustainably.

Founded in 1880, we have a long history of contribution to the public interest and we continue to nurture collaborative global connections with governments, regulators and business leaders. By sharing our insight, expertise and understanding we can create a world of strong economies and a sustainable future.

[www.charteredaccountantsworldwide.com](http://www.charteredaccountantsworldwide.com)  
[www.globalaccountingalliance.com](http://www.globalaccountingalliance.com)

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