

Harnessing intelligence

AML SUPERVISION REPORT 2020/2021

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In April 2021, HM Treasury and OPBAS published guidance on the annual report required of professional body supervisors under Regulation 46A of The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR17), which requires supervisors to publish a report for the year ended 5 April 2021 (FY20/21) and to combine the supervisory and monitoring reports that we have previously published. This report sets out how ICAEW discharges its obligations as a supervisory authority under MLR17 and information that ICAEW is required to publish under Regulation 46A.

Foreword

I am delighted to introduce our annual anti-money laundering (AML) supervision report for FY20/21.

The COVID-19 pandemic presented ICAEW with a most unusual set of circumstances and forced the Professional Standards Department (PSD) to adapt and respond to the challenges quickly and effectively, to ensure that its supervisory work remained uninterrupted.

The PSD continued to deliver all its functions smoothly, with a move to online working allowing minimal disruption to regulatory, disciplinary and monitoring work. This is evident in the fact that the ICAEW Quality Assurance Department (QAD) conducted over 1,300 reviews and 14.9% of these were to those firms presenting the highest risk of AML.

ICAEW's Regulatory Board (IRB) and the AML Project Board are pleased to see that there has been a reduction in the number of firms assessed as non-compliant, reducing from 16.1% in 2019 to 6.0% in the current year. This is the result of our ongoing monitoring effort – we are now coming to the end of our second cycle of monitoring reviews meaning that we have reviewed almost every firm at least twice – and our proactive work on reminding firms to deal with the action plans from previous reviews, implementing the necessary changes to be AML compliant.

An area of our work that suffered significant impact due to the pandemic was the holding of disciplinary tribunals. While the PSD was able to move almost instantly to virtual meetings for the Investigation Committee and the Practice Assurance Committee, disciplinary tribunals were cancelled until July when we were able to explore holding tribunals on a virtual platform. During the period of this report, we expelled seven members for AML matters and issued 55 severe reprimands and fines totalling almost £178,000.

The AML Project Board has also overseen an ambitious programme of work, assessing the progress made on the strategy set in 2019. This focused firstly on improving the PSD's intelligence-gathering and intelligence-sharing resources and capability. We have made significant improvements, including the recruitment of additional specialist resources into the team, and Part 1 of this report details the range of work the PSD has been involved in.

A second area identified by the AML Project Board for improvement was the quality of Suspicious Activity Reports (SARs) being filed by ICAEW firms and the need for ICAEW Chartered Accountants to provide high value intelligence to law enforcement. The PSD conducted a thematic review into the procedures put in place by firms for the reporting of suspicious activity, their staff training, and the number and nature of internal and external SARs.

In September 2020, OPBAS performed their second oversight inspection. As part of that, I was interviewed by OPBAS staff about supervision by the IRB and the AML Project Board. We discussed the improvements being made by the PSD, and on the strategy in place to continue to enhance the PSD's AML supervisory work.

The AML Project Board strongly feels that, as trusted professionals, ICAEW members and member firms are at risk of being a gateway through which criminals seek to legitimise unlawful activity. The illegal trade in drugs, proceeds of crime and other criminal activity generally result in the money laundering of the ill-gotten gains. Although many chartered accountants may never encounter economic crime, others may, either directly or in their wider professional lives. As the largest accountancy professional body supervisor, ICAEW plays an important role in ensuring that our firms create and continue to maintain barriers to criminals using accountancy and other services.

We continue to design and deliver robust AML supervision through a risk-based regime, focusing our efforts on firms where the risk that they will be used to enable money laundering is highest.

I would like to finish by thanking the members of the AML Project Board and QAD staff who have worked so hard to deliver our AML supervision and for their assistance in producing this report.

Philip Nicol-Gent
Chair, ICAEW AML Project Board
Vice-Chair, ICAEW Regulatory Board

Independent governance

ICAEW has had an independent regulatory board, the ICAEW Regulatory Board (IRB), governing its regulatory and disciplinary functions since 2015. The IRB has parity of lay and chartered accountant members with a lay chair (Michael Caplan QC) who has a casting vote. The IRB has its own independent nominations committee – the Regulatory and Conduct Appointments Committee – chaired by Sara Nathan OBE. The AML Project Board is a sub-committee of the IRB.

The IRB has a wide remit including the setting of strategy and budget, determining regulatory fees and supervision of the performance of all disciplinary and regulatory committees.

The IRB's Terms of Reference make clear that its primary objective is to act in the public interest, not the interest of ICAEW members or firms. Meetings of the IRB are attended annually by a range of external oversight bodies including the FRC, the Insolvency Service and the Legal Services Board (LSB). ICAEW's governance arrangements, and the separation of ICAEW's regulatory functions from its representative functions, are inspected every year by the FRC, every two years by OPBAS and from time to time by the Insolvency Service and the FCA.

ICAEW is compliant with the internal governance rules issued by the LSB which require an independent regulatory board, independent appointment committee, independent budget-setting and complete separation of the regulatory functions.

The IRB created the AML Project Board in 2019 to direct and evolve ICAEW's AML supervision strategy and to oversee ICAEW's implementation of that ICAEW strategy.

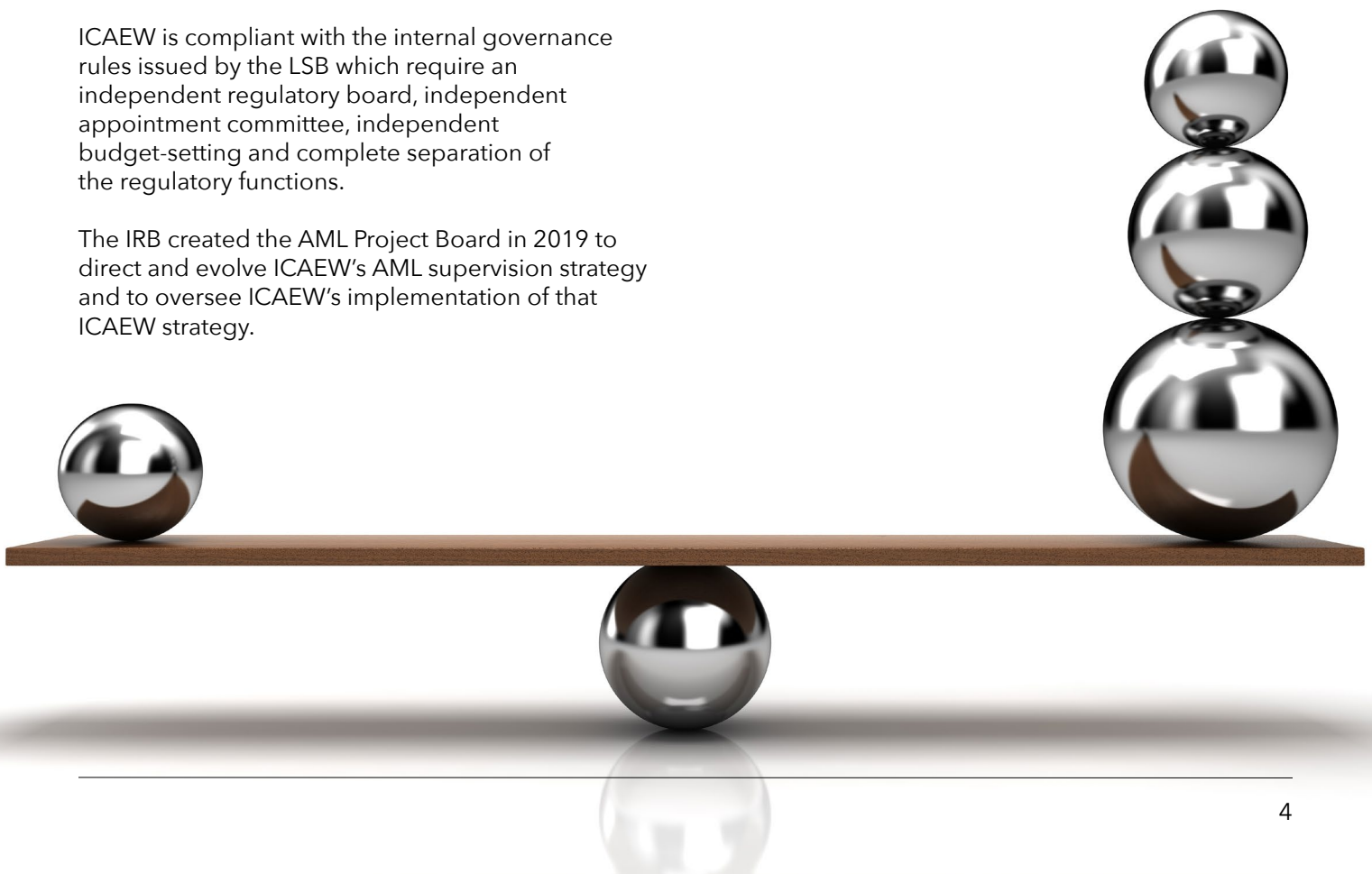
INDEPENDENT DECISION-MAKING ON REGULATORY ISSUES/DISCIPLINARY CASES

ICAEW's Regulatory Committees (Audit Registration Committee, the Insolvency Licensing Committee, the Probate Committee, and the Investment Business Committee) which make all decisions in respect of the granting and withdrawal of licences to firms/insolvency practitioners to carry out regulated work, all have parity of lay and chartered accountant members with lay chairs.

The Investigation Committee, which deals with less serious complaints, has parity of lay and chartered accountant members with a lay chair.

The Disciplinary Tribunals, which deal with more serious complaints, have a majority of lay members (2:1).

The Appeal Panels, which hear appeals from Tribunal decisions, have a majority of lay members (3:2).



Part 1
Delivering effective
AML supervision



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

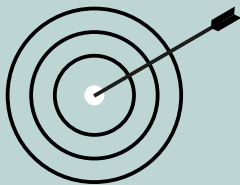
Our strategy is to provide robust anti-money laundering supervision through a risk-based regime. We focus our efforts on firms where the risk that they will be used to enable money laundering is highest.

We supervise and monitor **c.11,000** firms for anti-money laundering activity.

21,000+ the number of monitoring reviews we have carried out at firms since the introduction of AML supervision in 2007.

FY20/21 ... MAINTAINING THE HIGHEST PROFESSIONAL STANDARDS

We have maintained our supervisory work despite the challenges we faced due to COVID-19. We have continued to work from home with our quality assurance reviewers performing desk-based reviews to our firms.



1,370 AML monitoring review visits were carried out, with ICAEW AML firms.

15% of these were categorised as medium-high or high risk of being used to enable money laundering.



1,185

criminal record checks were reviewed as part of our monitoring and application process.

HELP AND SUPPORT



1,617 AML enquiries were taken by our technical advisory helpline.

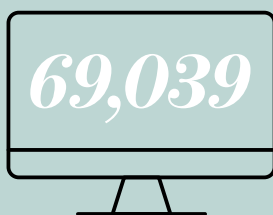


14 separate email communications (including 5 risk bulletins) were sent to money laundering reporting officers and compliance principals.

TAKING ACTION



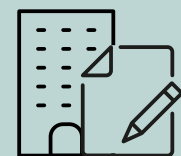
62 ICAEW AML supervised firms were sanctioned in relation to AML weaknesses.



69,039 accessed our AML resources on [icaew.com](https://www.icaew.com)



1,000+ firms are using the ICAEW AML service, that provides online access to AML training [icaew.com/aml](https://www.icaew.com/aml)



38 firms were required to undertake follow-up action to improve their processes, following a quality assurance review.



REPORT FROM THE CHIEF OFFICER, PROFESSIONAL STANDARDS DEPARTMENT

IMPACT OF THE PANDEMIC ON OPERATIONS

In my operational summary in the [2020 IRB annual report](#), I explain how most staff and functions were able to transition seamlessly to online working, aided by the earlier investments we had made in developing electronic case management and digital filing systems which can be accessed just as easily from outside of the office environment. We clearly communicated through statements on our website and [AML - the essentials](#) how we intended to work during lockdown, what allowances we would make and what we expected of ICAEW members and firms. We have tried throughout this difficult period, whether it be in relation to a monitoring visit or a request for documentation to assist an investigation, to strike the right balance between being sympathetic to difficulties experienced by members and firms due to the lockdown and making it clear that we would be expecting members and firms to maintain the same high professional standards.

Inevitably, some areas of our work were impacted by the lockdowns. In a normal year, over 60% of our quality assurance visits are carried out onsite at firms. All onsite visits were converted to remote visits from March through to the end of the year. It was great to see how the QAD management team adapted quickly and put in place a programme for carrying out all visits remotely by remodelling them as desktop reviews. The fact that we were able to complete almost 80% of the reviews we managed to complete in 2019 – the last ‘normal’ year – is fantastic.

DEVELOPING OUR ONGOING STRATEGY AND ROLE IN THE SUPERVISORY LANDSCAPE

During FY20/21, we have implemented new initiatives to support our ongoing strategy and to tie our supervisory efforts to the UK Government’s Economic Crime Plan (2019-2022). As an AML supervisor in the accountancy sector, ICAEW has contributed to the work on improving the quality of Suspicious Activity Reports, information and intelligence sharing between sectors, and improving our understanding of AML risk.

Leading the charge is the AML project board. It has undertaken an extensive programme of work to ensure we are supervising effectively and that firms operate to the required standards. It has also considered the findings and recommendations from the second OPBAS assessment and identified a suite of responses to continue our journey of furthering and enhancing our AML supervision.

ICAEW continues to be at the forefront of AML supervision and throughout 2021 ICAEW’s Michelle Giddings, Head of AML, has been elected as Chair of the AML Supervisors Forum, set up by HM Treasury under the 2007 Money Laundering Regulations.

IMPROVING THE QUALITY OF SARs

In November, we published the results of our SARs Thematic Review 2020. Our aim was to collect data and look for trends and correlations that could allow a greater understanding of firms’ vulnerabilities and threats. Then, we could help firms train staff to better spot potentially suspicious activities and improve the quality of the SARs they submit so that they provide high value intelligence to law enforcement. The findings indicated a range of areas where firms could improve their procedures, but also identified areas of good practice. [Read the report](#)

INFORMATION AND INTELLIGENCE SHARING TO ENHANCE OUR UNDERSTANDING OF RISK

We have created a new intelligence unit to identify and assess emerging anti-money laundering risks in the accountancy sector through our monitoring and disciplinary work. Along with other supervisors and law enforcement agencies, the unit shares intelligence on these risks so we can better inform the public and our members. The intelligence unit has advanced our understanding of risk and enabled us to enhance our monitoring regime with more risk-based reviews.

Equally, as members of the Financial Crime Information Network (FIN-NET), we are driving better visibility of the AML risk faced by firms. With the combined resources of FIN-NET and our membership of the Information Sharing Expert Working Group (ISEWG), we are continuing to improve intelligence and intelligence-related information sharing between accountancy sector professional body supervisors, and law enforcement agencies. More can be done, and we welcome the government's efforts to enable better reciprocal sharing. Having invested heavily in this area since the beginning of 2020, we now need better quality information from law enforcement.

We also routinely convert the observations we make into *Risk Bulletins* and alerts for our member firms, so they are better informed on how to identify and report potential risks. We have so far issued five *Risk Bulletins* containing 12 alerts, including an early indication of the AML risk specific to COVID-19 associated fraud. To enhance and challenge our understanding of AML risks, we continued to build our relationships with the National Economic Crime Centre, National Crime Agency (NCA), law enforcement and supervisors outside of the accountancy sector.

OUR ROLE AS AN AML SUPERVISOR

In our 2020 report, we set out our approach to AML supervision. Our core approach and supervisory strategy has remained the same during the year ended 5 April 2021 (FY20/21).

[Access the full details of our responsibilities and how we discharge our obligations](#)

Duncan Wiggetts
Chief Officer, Professional Standards Department,
ICAEW



ICAEW RISK OUTLOOK



In January 2021, the Accountancy AML Supervisors Group (AASG) published the [AASG Risk Outlook](#). This document set out the key risks and red-flag indicators that the AASG considers relevant to the accountancy sector. The AASG Risk Outlook draws on the [National Risk Assessment](#), as well as additional risks that the AASG has identified through its own supervisory activity.

Firms should regularly review their own firm-wide risk assessment considering the AASG Risk Outlook and ICAEW *Risk Bulletins*.



SUPERVISING TRUST AND COMPANY SERVICES WITHIN THE ACCOUNTANCY SECTOR

As well as being the largest accountancy professional body supervisor, ICAEW is also the largest supervisor of firms providing trust and company services - with over 6,800 of the supervised accountancy firms also providing trust and company services (29% of the total number of firms on HMRC’s Trust and Company Service Provider (TCSP) register).

In the **2020 National Risk Assessment**, HM Treasury revised the risk of TCSPs from medium to high. It noted that TCSP services continue to be the highest risk services provided by accountancy service providers (ASPs) for money laundering. TCSP services can be exploited, either wittingly or unwittingly to enable the laundering of significant illicit funds through companies, partnerships and trusts. Trust and company services can enhance the attractiveness of companies and partnerships to criminals, for example increasing anonymity or creating complex structures. While the NRA assessed that the majority of UK TCSPs adequately risk assess their clients and seek to understand the nature of their customers’ business activity, it is almost certain that a relatively small number do not fully understand the risks involved. Evidence has demonstrated the laundering of millions of pounds through UK legal entities established by TCSPs.

The key risks in this area are:

- **Company formation.** As a standalone service, company formation offers less exposure to potential abuse, and it is therefore considered lower risk. However, when coupled with other high-risk services or high-risk factors, such as a third party outside of the UK, the level of risk increases.
- **Registered office or nominee directorship services** are also at risk of exploitation for money laundering as those services can enable concealment of beneficial ownership or be used to facilitate the movement of money to offshore jurisdictions.
- **Overseas TCSPs.** The 2020 National Risk Assessment explains that UK TCSPs can provide services directly to overseas TCSPs. Overseas TCSPs are not subject to the UK money laundering regulations (MLRs) and therefore there is limited visibility of the type and nature of CDD carried out.

In our supervised population, those firms that offer trust and company services mostly provide either company formation or registered office services.

Total firms offering trust/company services	6,842
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Breakdown of services:	
Company formation	5,046
Provide registered office	5,947
Arrange/act as director/secretary	1,865
Firm acts as trustee	1,330

Trust and company services are provided in conjunction with the main accountancy services, or perhaps via a separate legal entity attached to the main practice. Because of this, when we perform our supervisory functions on the firm, we are assessing the AML compliance in relation to both the accountancy and trust and company services.

The MLRs define a TCSP as a firm or sole practitioner which by way of business, forms companies or other legal persons; acts as or arranges for someone else to act as a company director, partner or nominee shareholder; provides a registered office or business address or similar; and/or acts as or arranges for someone else to act as a trustee for a trust or similar arrangement. The provision of TCSP services involves various professional service sectors including ASPs, many of which provide these services as add-on services to their core business activity.

We expect our supervised firms to understand the risk of trust and company services and in their firm-wide risk assessments, as well as in the client risk assessment, and ensure their CDD procedures include sufficient actions to mitigate the money laundering risk presented.

We find that, for most of the firms providing trust and company services, they are providing a small amount of company formation work and company secretarial work for established clients to support the client in fulfilling their obligations with Companies House. This work is almost exclusively seen where there are simple business structures and an ongoing relationship with the clients.

This knowledge is built up through our ongoing, proactive monitoring work. In FY20/21, we conducted 1,370 monitoring reviews and of these, 697 were to firms that also provided trust and company services. Of the reviews concluded, 90% were found to be compliant, or generally compliant.

During FY21/22, ICAEW will conduct a TCSP thematic review to explore the reality of the risks faced by our firms when providing these services. See [Looking Forward](#).

We have also started to analyse data available at Companies House to help shape our monitoring reviews. By providing our reviewers with information on the number of businesses with their registered office at the firm's address, or the number of directorships held by the principals of the firm, they can understand the trust and company service risk presented by the firm and tailor their samples and testing to address that risk.

RESOURCES

[National Risk Assessment of money laundering and terrorist financing](#)

[AASG Risk Outlook](#)

[IFAC/ICAEW The Basics - Company Formation](#)





ICAEW ENGAGEMENT WITH THE AML SUPERVISORY COMMUNITY

FOCUS

Staff across ICAEW engage with UK Government and law enforcement agencies, as well as international and pan-institute bodies, to direct, support and assist in combatting economic crime. Below is a list of the boards, committees, forums and working groups that ICAEW attends.

ECONOMIC CRIME PLAN

Economic Crime Strategic Board - co-chaired by the Chancellor and the Home Secretary. Sets priorities, directs resources and scrutinises performance against the economic crime threat. Its membership includes ministers, government officials and senior representatives from supervisory and law enforcement authorities, and the private sector.



Sustainable Resource Model Working Group - sub-group of the Economic Crime Plan responsible for designing the sustainable resource model, in particular the Economic Crime Levy.

Supervisory impact working group - ad hoc working group, chaired by HM Treasury policy staff. Working on the Economic Crime Levy consultation responses and the mechanism for determining and setting the levy.

Trust and Company Service Providers (TCSP) Action Plan - capture and coordinate existing activities - carried out by law enforcement, supervisors and HMG - that are already working to reducing the money laundering risks through TCSPs - but also to build a longer-term work programme that targets intervention and specific intelligence gaps that sits between the transformational changes put in place by Companies House Reform.

FRAUD AGENDA



Fraud charter working party - drafting party for the accountancy sector fraud charter and comprises representatives from the accountancy professional body supervisors and Home Office.

Fraud Advisory Panel - brings together fraud professionals from all sectors to improve fraud resilience across society and around the world.

SUSPICIOUS ACTIVITY REPORTING (SARs)



Anti-Money Laundering Supervisors Forum – promotes a coherent and effective approach to anti-money laundering supervision in the UK.
Chair: Michelle Giddings, ICAEW.

Accountancy AML Supervisors Group – provides an open forum focusing on sector specific issues arising in relation to AML/CTF obligations arising either for members of the regulated sector as supervised, or supervisors themselves.

INTELLIGENCE - UNDERSTANDING AND SHAPING THE ECONOMIC CRIME RISK



Information Sharing Expert Working Group – advances and improves intelligence and intelligence-related information sharing between accountancy sector professional body supervisors (PBSs), anti-money laundering statutory supervisors and law enforcement agencies at both the strategic (themes and trends) and tactical (firm/investigation) level.

Financial Crime Information Network (FIN-NET) – allows the sharing of information between law enforcement and regulators on specific individuals and entities.

Money Laundering Public-Private Threat Group – coordinates the UK's collective public-private threat assessment and money laundering response activity, to maximise the use of our collective resources to understand, identify, prevent and disrupt money laundering.

Fraud Public-Private Threat Group – coordinates the UK's collective public-private threat assessment and fraud response activity, to maximise the use of our collective resources to understand, identify, prevent and disrupt fraud.

SUSPICIOUS ACTIVITY REPORTING (SARs)



National Cross Sector SAR Forum – liaison across law enforcement and all regulated sectors to discuss current developments in SARs reporting and sharing latest initiatives.

SARs Engagement Group (NCA and firms) – liaison group between the UKFIU and large/mid-tier firms to discuss emerging threats and trends, SARs good practice and identify guidance and training material.

SARs Reform Change Forum – liaison group between UKFIU and SARs Reform Change management team and the reporter community on upcoming changes to the SARs reporting regime.

INTERNATIONAL AND PAN-INSTITUTE



Accountancy Europe AML working party

CCAB Economic Crime Panel – co-ordinates accountancy sector AML guidance, including AMLGAS – the HMT approved guidance for the accountancy sector.



HOW OUR FIRMS REPORT ACTUAL OR POTENTIAL BREACHES OF THE MONEY LAUNDERING REGULATIONS

The amended Money Laundering Regulations 2017 brought in a requirement to report annually on:

- the measures we have taken to encourage our supervised firms to report actual or potential breaches of the Money Laundering Regulations 2017; and
- the number of reports received from our supervised firms about actual or potential breaches of the Money Laundering Regulations 2017.

RAISING AN AML CONCERN

Our firms, their staff and members of the public can **raise an AML concern** if they believe an ICAEW supervised firm is breaching MLR17.

This is a confidential and anonymous channel. We received 30 reports through this channel during the period.

For more information visit [icaew.com/amlconcern](https://www.icaew.com/amlconcern).

We take the appropriate steps to protect the identity of anyone who wishes to remain anonymous.

DUTY TO REPORT MISCONDUCT

ICAEW's Disciplinary Bye-laws include a requirement for every ICAEW member to report any information they have that indicates that another ICAEW member and/or firm may have committed serious misconduct, including serious breaches of the Money Laundering Regulations 2017.



LOOKING FORWARD

EDUCATION AND GUIDANCE - SUPPORTING FIRMS TO IMPROVE COMPLIANCE

TRAINING AND WEBINARS FOR 2021/22

We have planned a suite of webinars, articles and guidance aimed at supporting the MLRO in their role and understanding of how, or when, to report SARs. We have already delivered some of this material at the date of publication of this report.

- SARs engagement webinars - we have planned a suite of webinars aimed at supporting the MLRO in their role and understanding how/when to report SARs.
 - Improving the quality of SARs - Recorded in April 2021.
 - DAMLs and tipping off - Recorded in July 2021.
- Interview with Martin Cox, Head of Engagement, Communications and Risk Management at the UKFIU (published May 2021) on the importance of SARs and ensuring the quality of the SAR is good.
- The role of the MLRO in practice. Interviews with experienced MLROs to explore the day job of an MLRO.
- Article on returning to the office - refresh your AML culture was shared with MLROs (September 2021).
- AMLbites - A new resource for firms. This series of 10-20 minute pre-recorded webinars cover different areas of AML compliance.

RISK-BASED APPROACH

QAD's general approach will become far more AML-risk based. Data that has been compiled on firms' AML risks will be used to ensure a focused and targeted review of firms that are seen as high or high-medium risk. QAD's monitoring visits will also place more focus on firms' reporting of suspicious activities by their clients.

IDENTIFYING, AND PUBLISHING INFORMATION ON, AML RISK

ICAEW recognises that its firms can only implement an effective risk-based approach and increase the number of SARs they submit if they know what money laundering risks look like. ICAEW continues to work with law enforcement and other professional body supervisors, through the ISEWG to identify current money laundering typologies and to

adapt the typologies issued by the JMLIT for the accountancy sector. We plan to continue to publish *Risk Bulletins* throughout 2021/22. These will include a focus on environmental crime, in line with recent FATF guidance.

TRUST AND COMPANY SERVICE PROVIDERS (TCSPs)

The National Risk Assessment 2020 identified trust and company service providers as being at a high risk of being used by criminals to facilitate money laundering. Many of our firms provide such services, for example forming companies for their clients and providing registered office addresses.

To inform the debate, and our own assessment of the AML risks in the accountancy sector, we will conduct a TCSP thematic review to explore the reality of the risks faced by our firms when providing these services. Where there are risks, we aim to determine how well these risks are understood and mitigated by our firms. We also aim to identify how we can improve guidance and support to firms providing TCSP services. We will also work with HM Treasury, Companies House, HMRC and NECC to identify risk profiles within trust and company service providers.

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 accountancy professionals of the important role they can play in the detection and prevention of money laundering. At the date of this report, the film is being edited and will launch in January 2022. This film will be distributed to all firms supervised by ICAEW and HMRC and it will also be made available to all the other AML professional body supervisors.

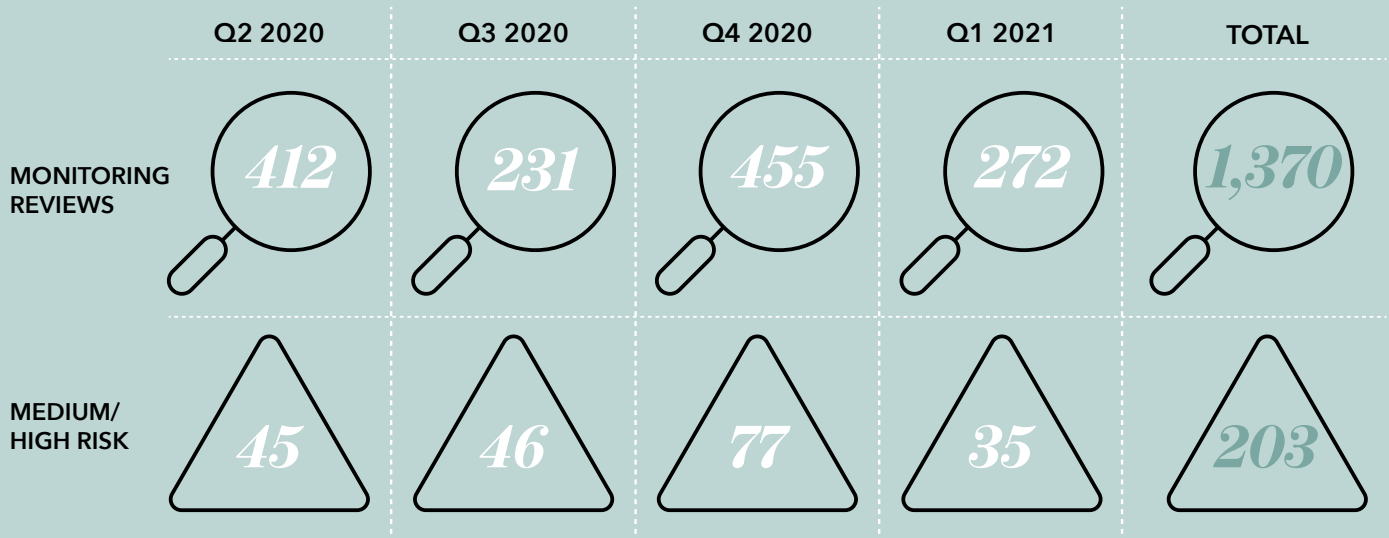
***Part 2 – Key findings
from our supervisory activity***





MONITORING AND ENFORCING COMPLIANCE BY OUR SUPERVISED FIRMS - BY MICHELLE GIDDINGS, HEAD OF AML

2020/21 SUPERVISORY REPORT DATA



14.9% of 2020/21 monitoring reviews were of high/high-medium risk firms

RISK-BASED APPROACH TO SUPERVISION

We review firms on a risk-based approach, directing our resources towards those firms that present higher risk of money laundering. In January 2021, we refreshed our risk assessment methodology using the updated National Risk Assessment published in December 2020.

Using this new risk assessment methodology, we saw an increase in the number of our firms assessed as high risk (2.6%). We aim to review these firms at least every other year. Our visit strategy for FY20/21 was based on the previous risk assessment methodology and we reviewed high risk firms. A review of a high-risk firm will normally last several days and may encompass thematic risk areas or concentrate on firm-wide compliance.

18.7% of our population is assessed as high-medium risk and we review these firms at least every four years.

78.7% of our firms are medium-low or low risk. We review these firms every eight years either onsite or via a desk-based method.

For the first time, we have analysed the number of monitoring reviews by those firms that only offer accountancy services and those that offer both accountancy services and trust and company services.

Risk	As at January 2021 ¹			Year ended 5 April 2021 ²			Year ended 31 December 2019 ³
	Total firms	Accountancy service providers	Accountancy and trust and company service providers	Total reviews	Accountancy service providers	Accountancy and trust and company service providers	Total reviews
High	273	3	270	42	–	42	49
High-Medium	1,968	56	1,912	182	15	167	324
Medium-Low	5,074	414	4,660	541	57	484	841
Low	3,215	3,215	–	601	601	–	511
	10,530	3,688	6,842	1,366	673	693	1,725

¹Using 2021 risk assessment methodology

²Year ended 5 April 2021, in line with HM Treasury and OPBAS guidance

³Year ended 31 December 2019, as reported in our 2020 report

MONITORING DURING A PANDEMIC

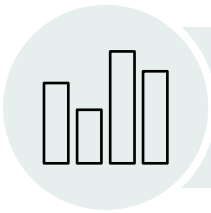
In a normal year we undertake a mix of reviews, some desk-based, but many are onsite. In line with government guidance, we stopped carrying out onsite monitoring reviews on 15 March 2020 and put alternative procedures in place to continue to carry out as many of our scheduled visits as possible.

We adapted our onsite review approach to carry out remote reviews. These are different to our usual desk-based reviews, which tend to be for smaller, lower risk practices. Our remote reviews are more extensive and still involve us looking at client files. In most cases firms shared information with us using a secure file transfer portal and we reviewed it offsite. We conducted most of our discussions with firms by video conference using a variety of platforms. We've been grateful that many firms have carried on with business as usual and have helped us find a way to carry out our reviews. Against all odds, we've managed to adapt and keep going to fulfil our responsibilities.



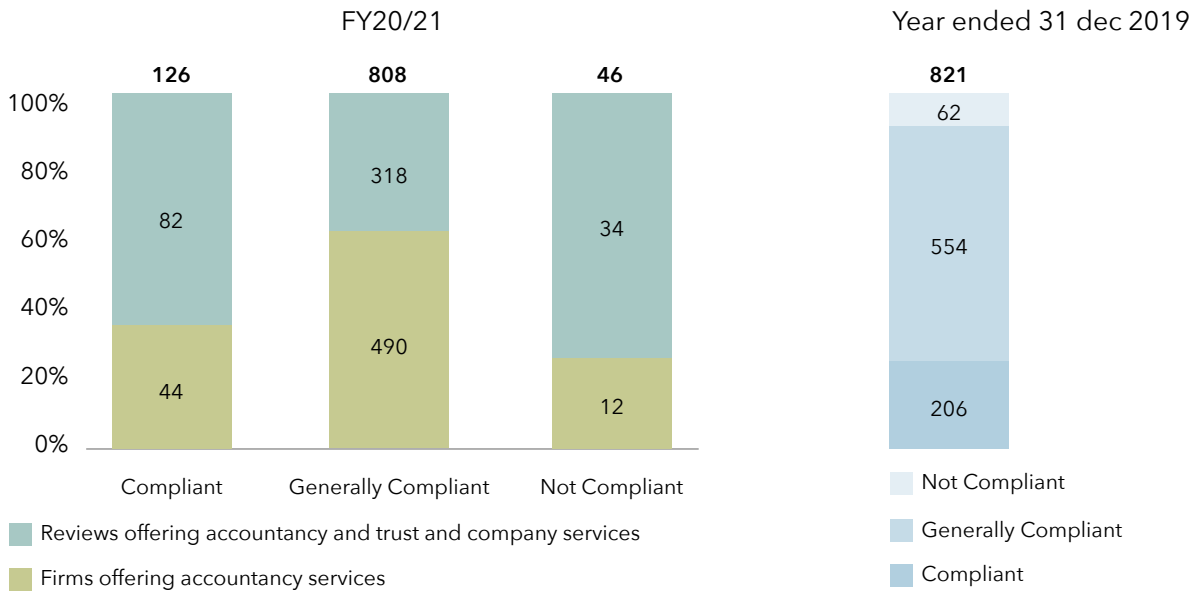
AREA OF FOCUS

Each year our Practice Assurance reviews include an area of focus and in 2020, we focused on how firms have incorporated the requirements of the Professional Conduct in Relation to Tax Tax (PCRT) into their policies and procedures. It sets out the high ethical standards which form the core of the tripartite relationship between tax adviser, client and HMRC. PCRT has been endorsed by HMRC as an acceptable basis for dealings between members and HMRC. Compliance with PCRT is mandatory for ICAEW members. They must be familiar with and comply with PCRT and a failure to do so may result in disciplinary action. This is an important piece of work to understand the AML risk associated with tax evasion amongst our firms. The findings are presented in our report - [Practice Assurance Monitoring 2021](#).

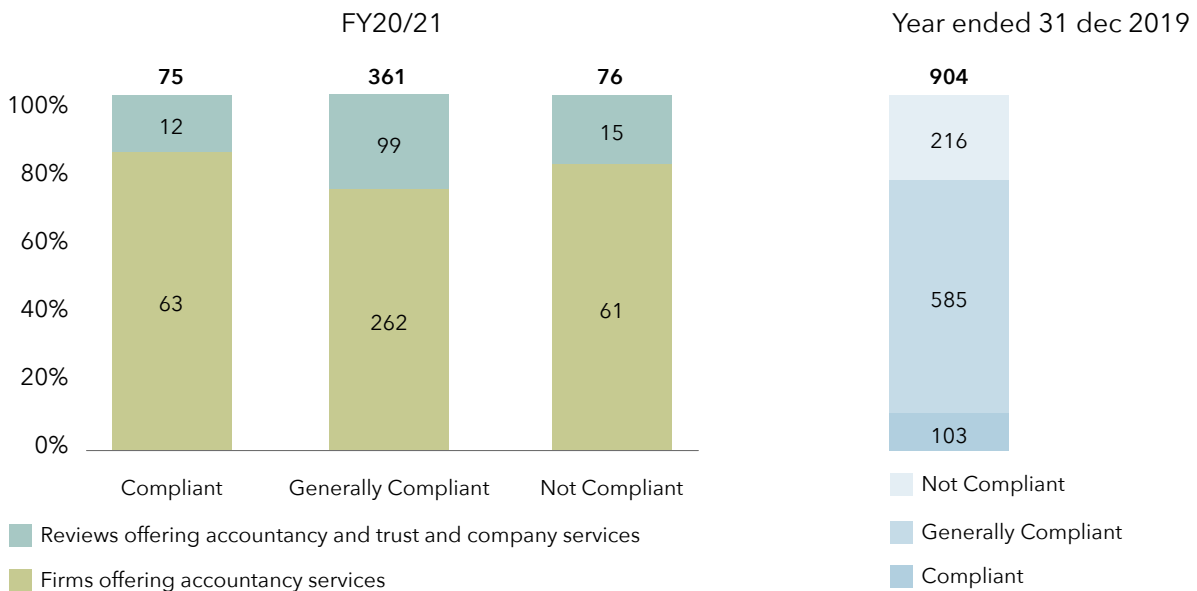


MONITORING OUTCOMES

DESK BASED REVIEWS



REMOTE REVIEWS



FY20/21

Of the 107 firms requiring action, we concluded informal follow ups were needed at 78 firms. The remaining 29 firms were referred to the PAC for formal action in respect of the findings we identified.

80 of the firms requiring action carry out both accountancy and trust and company services.

COMPLIANCE WITHIN OUR FIRMS

A **compliant** firm has effective systems and controls (including training) in place to both minimise the likelihood of the firm's involvement in financial crime, and report suspicious activity, with evidence that these policies, procedures and controls are used and reviewed for effectiveness on a regular basis. Of the firms we reviewed in FY20/21, we found that 14% were compliant (2019: 18%).

A **generally compliant** firm has systems and controls (including training) in place to both minimise the likelihood of the firm's involvement in financial crime, and report suspicious activity, but improvements can be made to and/or there is a lack of evidence to demonstrate that the infrastructure is embedded into the firm or reviewed for effectiveness on a regular basis. We ask the firm to explain what it will do to rectify the weaknesses we have identified and check the firm has made the necessary changes as part of our next monitoring review. Of the firms we reviewed in FY20/21, we found that 76% were generally compliant (2019: 66%).

A **not compliant** firm is where the systems and controls (including training) within the firm are lacking to the extent that the firm would be vulnerable to exploitation by criminals in pursuit of disguising the proceeds of crime. In these cases, we will ask the firm to agree to an action plan and follow up with the firm to ensure that those actions have been taken, or we may refer the firm to the Practice Assurance Committee (PAC). Of the firms we reviewed in FY20/21, we found that 6% were not compliant (2019: 16%). The PAC may refer the firm to the Investigation Committee for further investigation or sanction.

We may also report a firm to the PAC if, at a subsequent review, we find the firm failed to address issues raised at their previous reviews. Firms should carefully review the closing record from the last Practice Assurance review and ensure they have taken action to address all the findings.

HOW WE IMPROVE COMPLIANCE IN OUR FIRMS

Where we raise findings, we set out a summary of the issue(s) 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 have the required professional attitude and that they fulfil 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(s) 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 PAC setting out the key issue and our recommended course of action. The PAC 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. The Guidance on Sanctions for AML breaches aim to deter money laundering by ICAEW supervised firms. Sanctions relating to a firm's failure to have AML policies and procedures or to implement them have a starting point calculated as £3,000/£2,000 per principal with a 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.

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 PAC.



ENFORCEMENT ACTION

	Year ended 5 April 2021	Year ended 31 Dec 2019
Members expelled	7	8
Number of severe reprimands	55	38
Sum of fines on relevant persons	£179,577	£90,350
Range of fines on relevant persons	£12,000 - £630	£10,000 - £700

Not all enforcement actions come from monitoring visits. We also investigate complaints from the public.



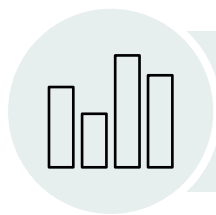
CASE STUDY

Mr A failed to respond to the closing meeting record issued to him following his QAD visit, which included matters requiring action in relation to his AML procedures. He also failed to inform ICAEW of any alternative dates for a follow-up visit. The Tribunal was satisfied that Mr A failed to correspond and co-operate with ICAEW and that his failure to respond and engage was wilful and deliberate. The Tribunal concluded that the only sanction available to it was exclusion.

ICAEW DISCIPLINARY DATABASE

It is in the public and the profession’s interest that information about disciplinary and regulatory orders against ICAEW firms and members is available and accessible.

The new ICAEW Disciplinary Database enables users to search for a disciplinary or regulatory record without needing to know when the hearing took place. The functionality of this new database is a supplement to the existing list of future and past hearings and appeals and full reports of disciplinary orders and regulatory decisions made in the last five years.



MOST COMMON FINDINGS

Although we concluded 90% of our monitoring reviews with the firm being compliant or generally compliant and without the need to take any further action, we do still find that we raise some findings more often than others – and more importantly, these are largely the same findings year-on-year.

	No of firms ⁵	% firms	FY20/21	2019
Firm-wide risk assessments	197	14%	1	1
Updating CDD	189	14%	2	2
Risk assessing clients	170	12%	3	3
Incomplete criminal record checks on BOOMs	159	12%	4	4
Review of policies, controls and procedures	144	11%	5	5
Reporting discrepancies in PSC register	126	9%	6	–
Client due diligence on new clients	104	8%	7	7
Training	98	7%	8	6
No written procedures	90	7%	9	8
No AML supervisor	36	3%	10	10

⁵We may raise more than one finding at a firm so the same firm may appear across a few categories.

Below, we have set out our most common findings and repeated 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.

We may also report a firm to the PAC if, at a subsequent review, we find the firm failed to address issues raised at their previous reviews. Firms should carefully review the closing record from the last Practice Assurance review and ensure they have taken action to address all the findings.

A new entry on the list is reporting discrepancies in the PSC register. The discrepancy reporting obligation applies to AML regulated firms.

Before establishing a business relationship, with a UK company, unregistered company, LLP or Scottish limited partnership, the firm must obtain proof of their client's registration on the People with Significant Control (PSC) register, or an excerpt of the register. If the firm identifies a discrepancy between the information that they gather while carrying out their duties under the MLRs, and the information that is on the PSC register or TRS, the firm must report that discrepancy to Companies House or HMRC as applicable.

The firm should have policies and procedures in place for how to record that they've identified a discrepancy and how to report it to Companies House. [Access further guidance](#)

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 – firms should focus their resources on the services and clients that have the highest risk of money laundering. To determine how and where resources should be focused, the firm must perform a risk assessment to understand the risk that the firm may be used to conceal or launder the proceeds of a crime. The assessment should consider 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). The firm can then design its policies and procedures to respond to the level of risk identified.

[Read further guidance](#)

UPDATING CLIENT DUE DILIGENCE

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.

The engagement team should regularly review the documentation it has obtained as part of the know-your-client checks. If any of the information has changed, the engagement team 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.

Our series of short videos, AMLbites, provide best practice guidance on how to perform CDD.

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 all supervised firms to perform a risk assessment of each client, that considers those risks identified in its firm-wide risk assessment. The client risk assessment will direct the amount and type of information the 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.

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 the firm and ask it to send the certificates to us.

[Read further guidance on criminal checks](#)

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 firm's AML policies, controls and procedures. Sole practitioners with no employees are exempt from this requirement. Firms should plan to regularly review their AML policies, controls and procedures. It doesn't need to be an external review but the firm should design this to be as independent as possible, given the size and nature of the firm. Where the firm identifies any gaps or weaknesses, it should document how it intends to address them.

At the end of 2020, we updated our AML compliance review template. [Access the latest version](#)

CLIENT DUE DILIGENCE ON NEW CLIENTS

We found that some firms don't perform CDD 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.

Firms should perform CCD on all new clients. This means that the engagement team should gather information on the client to determine who the client is, what it does and who the beneficial owner is. Using this information, the firm should perform an AML risk assessment, considering those risks identified in the firm-wide risk assessment. It must then take steps to check the client is who they say they are. The amount of evidence the firm needs to gather will be determined by the AML risk profile of the client.

TRAINING

We find that some firms haven't provided sufficient AML training to their staff. 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 always follow their training.

WRITTEN PROCEDURES

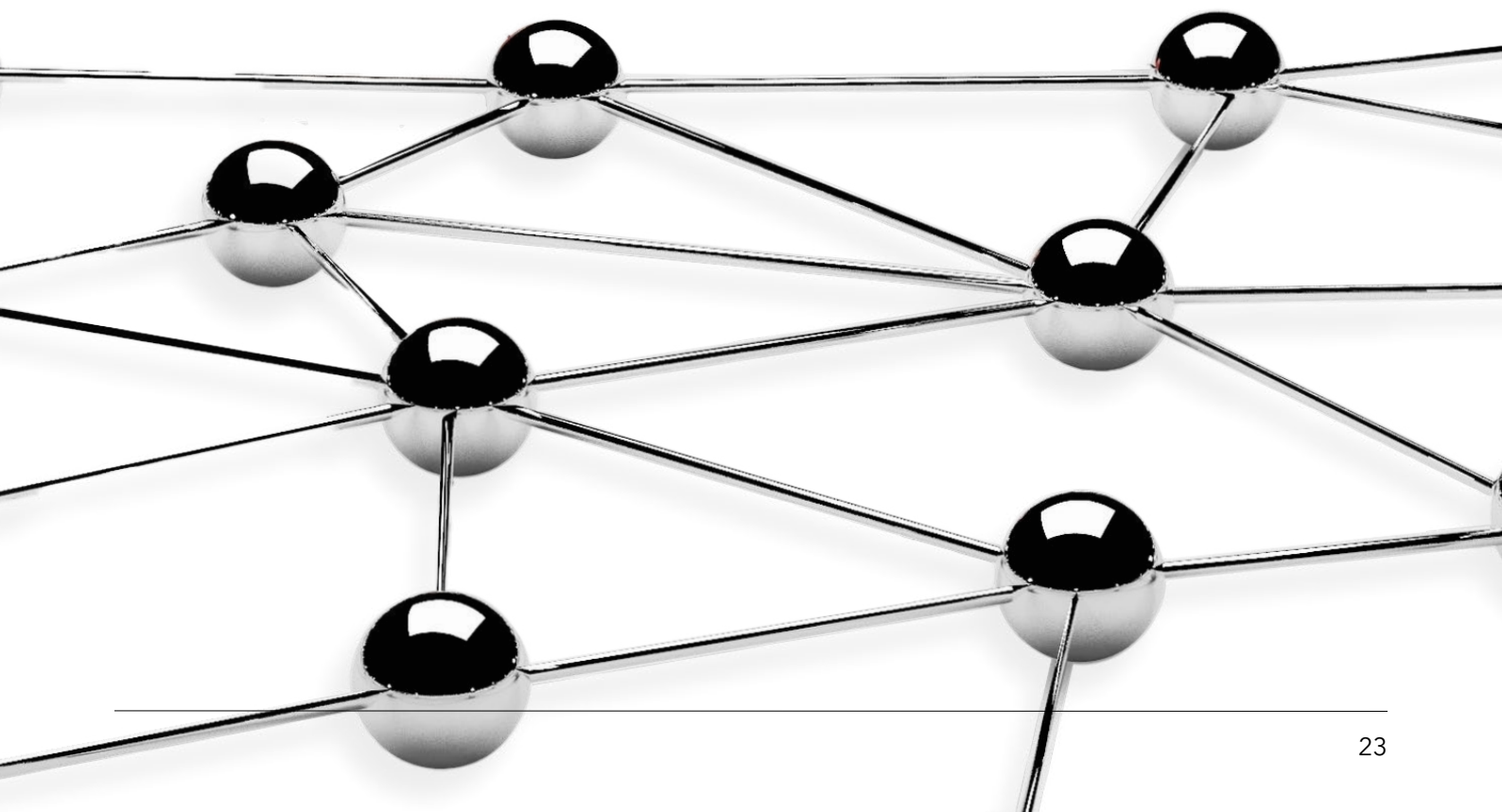
We will ask to see the firm's written procedures that set out how the firm complies with the MLRs. Where the firm has subscribed to a training provider manual, we will expect to see this tailored to the circumstances of the firm. At some firms, we find that they don't have any written procedures or that they aren't sufficiently tailored to how the firm performs its CDD checks.

In early 2021, we published a [template](#) targeted at new firms, sole practitioners and smaller firms who are looking for guidance on how to structure their AML policy and procedure documentation.

NO AML SUPERVISOR

We automatically supervise our member firms through ICAEW's Practice Assurance scheme. Where we find that a firm isn't supervised, it is normally because the firm thinks it is an ICAEW member firm, but it isn't.

It is important that ICAEW members check that their firm meets the definition of an ICAEW member firm and are therefore in the PA scheme and supervised by ICAEW for AML. If a firm doesn't meet the definition, it can [apply to be supervised by ICAEW here](#).





GUIDANCE AND TRAINING MATERIALS FOR FIRMS

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.

During FY20/21, we have worked hard to enrich our online resources and guidance.



ICAEW summary of the National Risk Assessment and the AASG risk outlook.



Webinar to 200 insolvency practitioners to raise AML awareness **AML requirements for IPs - what do I need to be aware of?** (March 2021).



AML Risk Bulletins - 5 issues including 12 alerts. Our quarterly email to MLROs setting out emerging AML risks as identified by JMLIT/NCA and within the sector, including our COVID risk bulletin.



Updated AML compliance review helpsheet and a template on AML policies and procedures.



Video on how to use **open source** information to know clients better.



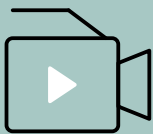
IFAC/ICAEW series - AML the basics. These resources are primarily for small and medium practices, and accountants less familiar with AML, while also guiding those looking for a quick refresher or reference.



Helpsheets on fraud issues for **members in business** and **members in practice**.



Economic Crime Awareness month (March) - a range of articles across ICAEW Daily/Monthly e-newsletters. Focused on fraud (psychology of financial fraud, invoice fraud, the role of Companies House and upcoming reform, lessons learnt from COVID fraud, red flags of economic crime from Met Police, risk of fraud within business). [Access the full range of articles](#)



Fraud video series - **invoice fraud**, **fraud committed by staff and contractors**; and the **CFO that tried to trick the market**.



SARs Thematic Review - Our aim was to identify:

- collect data and look for trends and correlations that allow a greater understanding of vulnerabilities and threats;
- identify ways in which firms can train staff to better spot potentially suspicious activities;
- identify best practice; and
- how we can help firms improve the quality of the SARs they submit.



Launch of the Fraud Advisory Helpline - anonymous telephone service offering supportive practical advice to ICAEW members, affiliates, ICAEW students and staff in **eligible firms**.



Webpages refreshed, to replicate and support the chapters for the AML Guidance for the Accountancy Sector.



SARs webinar in conjunction with the NCA. Attended by over 500 people.



AML - the essentials issues 16, 17, 18, 19 and 20. Our quarterly round-up of AML-relevant material.

A confidential and anonymous channel is available for firms to raise an AML concern. This is available for firms and the public to use. [Find out more](#)

USEFUL LINKS

[icaew.com/moneylaundering](https://www.icaew.com/moneylaundering)
[icaew.com/aml-supervision](https://www.icaew.com/aml-supervision)
[icaew.com/aml-concerns](https://www.icaew.com/aml-concerns)

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

Glossary

AASG	Accountancy AML Supervisors Group	MLRO	Money Laundering Reporting Officer
AML	anti-money laundering	NCA	National Crime Agency
AML/CTF	anti-money laundering and counter terrorist financing	NECC	National Economic Crime Centre
AMLSF	Anti-Money Laundering Supervisors Forum	NRA	National Risk Assessment
CDD	customer due diligence The process by which the identity of a client is established and verified, for both new and existing clients.	OPBAS	Office for Professional Body AML Supervision
DAML	Defence Against Money Laundering or DAML (Previously referred to as 'consent'). A defence to carrying out an activity which you know, or suspect would otherwise constitute a primary money laundering offence. Generally granted by the NCA. The definition of, and governing legislation for, DAMLs can be found in s335 of POCA, which also deals with the passing of a DAML from the MLRO to the individual concerned s336 of POCA.	PBS	Professional Body Supervisor
ECSB	Economic Crime Strategic Board	PEP	Politically Exposed Person. An individual who is entrusted with prominent public functions, other than as a middle-ranking or more junior official.
EDD	enhanced due diligence	PPTG	Public Private Threat Group
FIN-NET	Financial Crime Information Network	PSC	Persons with Significant Control All companies are required to keep a register of the people who can influence or control a company, that is, the PSC of the company. The register is held by the company and at Companies House
IRB	ICAEW Regulatory Board	PSD	ICAEW's Professional Standards Department
ISEWG	Information Sharing Expert Working Group	QAD	ICAEW's Quality Assurance Department
JMLIT	Joint Money Laundering Intelligence Taskforce	RBA	risk-based approach
KYC	know your client	SAR	suspicious activity report
ML	money laundering	SDD	simplified due diligence
ML/TF	money laundering and terrorist financing	SIS	Shared Intelligence Service
MLRs/the Regulations	Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017	TCSPs	Trust or Company Service Providers
		TF	terrorist financing
		UBO	ultimate beneficial owner
		UKFIU	UK Financial Intelligence Unit

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.

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Chartered accountants are talented, ethical and committed professionals. There are more than 1.8m chartered accountants and students in the world, and more than 187,800 of them are members and students of ICAEW. All of the top 100 global brands employ chartered accountants.*

Founded in 1880, ICAEW has a long history of serving the public interest and we continue to work with governments, regulators and business leaders globally. And, as a world-leading improvement regulator, we supervise and monitor over 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

We promote inclusivity, diversity and fairness and we give talented professionals the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

ICAEW is the first major professional body to be carbon neutral, demonstrating our commitment to tackle climate change and supporting UN Sustainable Development Goal 13.

We are proud to be a founding member of Chartered Accountants Worldwide, a network of 750,000 members across 190 countries which promotes the expertise and skills of chartered accountants around the world.

We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create sustainable economies and a better future for all.

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* Source: CAW, 2020 - Interbrand, Best Global Brands 2019



ICAEW is
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