

PROTECTING AGAINST PROFESSIONAL ENABLING

AML SUPERVISION REPORT 2023/2024



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PROFESSIONAL
STANDARDS
DEPARTMENT

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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, which requires supervisors to publish an annual report for the year ended 5 April. This report sets out how ICAEW discharges its obligations as a supervisory authority under The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and information that ICAEW is required to publish under regulation 46A.

FOREWORD



Duncan Wiggetts

Chief Officer

Professional Standards Department, ICAEW

I am pleased to introduce the ICAEW AML Supervision Report for 2023/24 which, as you will see, provides a comprehensive account of ICAEW's supervisory activity and continued work to protect against money laundering and other forms of financial crime within the accountancy sector.

Among my other duties, I am a member of the Economic Crime Strategic Board, co-chaired by the Chancellor and the Home Secretary, representing the accountancy profession as a result of ICAEW being the largest accountancy professional body supervisor. In that role, it is important that I am able to provide assurance to Ministers, senior representatives from law enforcement, from the financial services and other professional services that ICAEW is taking all steps necessary to try to prevent any ICAEW member or firm becoming an unwitting professional enabler of money laundering and to remove from membership those who are found to be in serious breach of the money laundering regulations.

Within the Professional Standards Department, we are always looking for continuous improvement both in the way in which we supervise and regulate and also in the levels of compliance by our

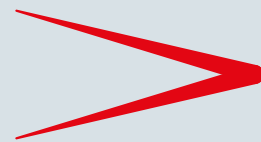
members and firms. For this reason, a decision was taken to re-focus our monitoring methodology away from assessing technical compliance to the *effectiveness* of firms' policies and procedures. While this has resulted in a drop in the percentage of firms who were found to be compliant, the bar was significantly higher so I am pleased that the difference in levels of compliance was so small. And this is not a one-off re-focus, we will continue to raise that bar in years to come.

At the time of publication, we have still not been provided with an indication from HM Treasury as to when we might expect to see a Feedback Statement following the public consultation into the future of AML supervision. While I suspect this has been delayed by the change in Government, it is important that a decision is made soon so that, if ICAEW and the other professional body supervisors are to remain trusted with this important role, we can start to invest further in our resources and capabilities.

I believe that we made a very strong case for the Government to continue to rely on the work of ICAEW and the other professional body supervisors given the progress made in the effectiveness of our combined supervisory activities and given the significant risks which will come with an attempt to create an independent regulatory body. These include the large question mark as to where any such body would be able to recruit professionals with specific AML expertise to replicate the expertise within each of the current supervisors.

Finally, I would like to thank Michelle Giddings, our Head of AML, for all of the work carried out by her and her team to keep ICAEW performing at a high level and to the members of the Practice Assurance Committee who review and take decisions where reports are made of poor compliance by firms. It is an important part of ICAEW's regulatory and supervisory activities that all decisions on how to respond to poor performance are made by an independent committee with a parity of lay members and a lay chair. This structure is in place to provide assurance to the public that non-compliant firms are properly held to account.

PART 1



DELIVERING EFFECTIVE AML SUPERVISION



DELIVERING OUR AML SUPERVISORY STRATEGY



Michelle Giddings

Head of AML

Professional Standards Department, ICAEW

Our AML supervisory strategy responds to the risk of harm from money laundering, terrorist financing, and proliferation financing within our supervised population. We target our resources where the risk is greatest, determining that risk from a range of sources including UK National Risk Assessments, information and intelligence shared with us by other regulatory, supervisory and law enforcement organisations, information submitted to us by the firms via their annual return, our knowledge of the firm based on its supervisory history and complaints made by the public.

We use a range of supervisory tools and methods to assess the compliance of our supervised population, and the effectiveness of the policies and procedures they have put in place. We use our proactive monitoring reviews to ensure we have assessed the compliance of our entire supervised population on a risk-based cycle. This provides us with an excellent understanding of the specific areas within the money laundering regulations (MLRs) that firms are most likely to find challenging, as well as providing an up-to-date picture of AML risk for a cross-section of our firms each year. We started 1,088 proactive monitoring reviews in the year ended 5 April 2024, with 35% of these being to our high and high-medium risk firms.

While the percentage of firms assessed as compliant or generally compliant reduced from 84.4% in FY22/23 to 80.7% this year, this is the result of a change in our monitoring methodology during FY22/23 so that, rather than looking solely at the technical compliance and existence of policies and procedures at our firms, we focus on the effectiveness of those policies and procedures. We have placed more focus on the three stages of CDD and assessed how well firms perform each stage, including reperforming some elements of CDD with open-source checks and identifying risks and red flags. This has meant that technically compliant CDD may not be concluded as 'compliant' if it didn't effectively identify and mitigate all AML risks within the clients or services provided. It is encouraging that a change in focus from compliance to effectiveness has only reduced the number of firms that are compliant or generally compliant by 3.7 percentage points - indicating that many firms were using their designed policies and procedures effectively. But it is also important to remember that comparing findings year-on-year masks the underlying picture because the population of firms we have reviewed are different each year and firms benefit from the training and guidance delivered by our reviewers during their proactive monitoring reviews.

Further details and analysis of these figures are set out in the [key findings from our supervisory activity section](#) of this report.

Investigations are also an important part of our supervisory strategy. When we are made aware of specific events that have occurred through complaints

from the public, information received from law enforcement, other supervisory and regulatory bodies or information in the public domain, we will investigate them outside the proactive monitoring review process. These may be specific events that indicate poor compliance with the MLRs, or in very rare circumstances they may indicate actual cases of money laundering or enabling.

When we identify non-compliance, ineffective procedures or actual money laundering/enabling, we take robust enforcement action. During the period, 39 firms were sanctioned in relation to AML non-compliance and one member was excluded for their role in the facilitation of money laundering.

Delivering supervision that protects against professional enabling

The phrase 'professional enabler' has been used in a variety of contexts to describe a range of bad actors who make money laundering easier in the UK. The [Economic Crime Plan 2023-2026](#) included the first universally accepted definition of 'professional enabler':

“an individual or organisation that is providing professional services that enables criminality. Their behaviour is deliberate, reckless, improper, dishonest and/or negligent through a failure to meet their professional and regulatory obligations”.

Our supervised population is made up of ICAEW members and member firms, who are expected to demonstrate high standards of professional conduct and abide by our regulations and codes, as well as UK laws and regulations.

As an AML supervisor, we believe our role is to ensure that our firms are compliant with the MLRs, such that they never professionally enable because of negligent behaviour. We also work alongside law enforcement and other supervisory and regulatory bodies to gather information and intelligence on our supervised population where behaviour is reckless, improper or dishonest.

The Economic Crime Plan 2023-2026 included an action for the National Economic Crime Centre (NECC) to establish and implement a cross-system strategy for tackling professional enablers with an emphasis on collaborative working and information sharing. We are investing resources to support the NECC in delivering the strategy against professional enabling, helping to understand the threat of money laundering within the accountancy sector and designing appropriate supervisory responses to mitigate those threats.

Assessing effectiveness

The monitoring methodology introduced in FY22/23 that focuses on the three stages of CDD has identified that the least effectively performed stage is verification procedures. Often, this is because the verification procedures designed have not effectively mitigated the identified risks. We explore this further in the [key findings from our supervisory activity section](#) of this report.

The most commonly occurring area of non-compliance is ongoing monitoring with 36.7% of non-compliant firms found to have ineffective ongoing CDD. This is an important area of the MLRs - firms must regularly update their CDD - and we provide help and guidance later in this report.

CPD for the future: reducing risk, enhancing trust

New CPD Regulations came into effect on 1 November 2023. The regulations introduced mandatory minimum CPD hours for ICAEW members and other regulated individuals. By introducing minimum requirements, which can be monitored more effectively, and adopting a risk-based approach, the revised regulations should provide much stronger assurance to the public, oversight regulators and government that ICAEW members are maintaining and enhancing their competence within increasingly complex professional and regulatory environments.

Under the revised regulations, firms are responsible for ensuring ICAEW members and regulated individuals are compliant with the updated requirements, and for maintaining records that can be inspected by our quality assurance reviewers on request.

Updated disciplinary framework

On 1 June 2023, changes to ICAEW's disciplinary framework came into effect. This was the result of a three-year project led by the PSD Chief Officer and overseen by the ICAEW Regulatory Board¹ (IRB). It updated the existing disciplinary scheme to make it more transparent, simpler to understand, and more efficient.

An important change for our AML supervisory work is to the types of sanction which can be offered or imposed. These now include non-financial sanctions, such as a requirement for a member to undertake specific training, or for a firm to implement training in a particular area for relevant teams. These new powers align extremely well with the updated CPD requirements. Consent orders can require a member to carry out more than the minimum requirement of CPD, which we will then monitor to ensure the extra CPD has been carried out.

Changes have also been made to the interim order threshold, which now gives greater protection for the public. Previously, interim orders were only available in extremely limited circumstances. The threshold has been broadened to enable temporary measures to be put in place during the investigation process if there is a clear and obvious concern that there is a risk of significant harm to the public.

¹ A description of the IRB, and its powers, is set out in Appendix 2.

FOCUS**OUR ROLE AS AN AML SUPERVISOR**

We set out our core approach and supervisory strategy on our website including the types of monitoring review we perform and the scope of work within each.

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

FINANCIAL YEAR 2024/2025**Continually evolving our supervisory approach**

We have identified some improvements we can make to enhance our supervisory activity, which we will embed into business-as-usual during FY24/25.

- review our Guidance on Sanctions to ensure the described breaches correlate to requirements in the MLRs making it easier for our regulatory and disciplinary committees to apply the correct sanction;
- improve the way we share information with the NECC on cases where firms have not submitted SARs; and
- better signpost resources to new money laundering reporting officers and compliance officers.

Thematic review: Firm-wide risk assessments

Our thematic review for FY24/25 looks at firm-wide risk assessments. All supervised firms must identify the money laundering risks faced by the different areas of the business, and the clients and markets they serve. The supervised firms must then design effective controls, policies and procedures to mitigate and manage those risks. Generally, when we perform a proactive monitoring review, even where a firm has completed its firm-wide risk assessment, we often identify areas for improvement in terms of the risks they have identified or the mitigating actions they have taken. This thematic review will provide help and guidance to support firms in completing an effective firm-wide risk assessment.

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

The amended Money Laundering Regulations 2017, effective from 10 January 2020, brought in a requirement to report annually on:

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

Raising an AML concern

We have a confidential and anonymous channel for staff at firms to raise an AML concern (icaew.com/AMLconcern). Our firms, their staff and members of the public can complete our [Raising an AML concern form](#) and email it to MLCO@icaew.com. We received 17 reports through this channel during FY23/24 (FY22/23: 11). (This does not include other AML-related complaints that are reported through our [normal complaints process](#).)

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

FOCUS

SUSPICIOUS ACTIVITY REPORTS (SARs)

We have analysed how many SARs are submitted by our firms. Because we collect this data by bands, we can calculate the minimum number submitted. The data shows that ICAEW firms submitted a minimum of 46.9% of all SARs for the sector in FY22/23.²

SARs SUBMITTED BY ICAEW SUPERVISED FIRMS

	2023		2024	
	# Firms	Minimum # SARs	# Firms	Minimum # SARs
0	9,081	-	8,642	-
1 - 5	1,072	1,072	1,081	1,081
6 - 20	158	948	150	900
21+	39	819	42	882
		2,839		2,863

² Total number of SARs taken from the [UKFIU Annual Statistical Report](#).

Duty to report misconduct

ICAEW’s Disciplinary Bye-laws include a requirement for every ICAEW member, firm, or other relevant person 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 MLRs.

ICAEW disciplinary database

The 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 database is a supplement to the published list of future and past hearings, appeals and full reports of disciplinary orders and regulatory decisions made in the last five years. This continues to be available at icaew.com/publichearings.



RESOURCES WE PRODUCE TO SUPPORT COMPLIANCE

It is a crucial part of our role to support our supervised population in understanding what they need to do to comply with the MLRs. During the period, we have worked hard to enrich our online resources and guidance to help our firms understand what is expected, particularly in relation to taking a risk-based approach. Examples of our resources are shown on the right. These are all available via icaew.com/AMLresources

Measuring the impact

We measure the effectiveness of our guidance and information through engagement statistics and feedback from the firms on how useful they have found the information we have provided. Our webinars continue to attract very high numbers of registrations (5,190) and attendees (2,753) with 75% of participants scoring these events 8 or higher out of 10. Our AMLbites videos continue to be extremely popular with over 26,000 unique views during the period of this report and website traffic remains consistently high with an average of c. 6,600 unique visits per month. Our AML-related email campaigns continue to achieve above average click rates and engagement with our LinkedIn activity on AML topics is almost 2% above our target rate. We encourage all firms to continue to use our [feedback channel](#) to tell us what they think about our AML resources and guidance.



All Too Familiar. Our anti-money laundering film, produced in collaboration with HMRC continues to be screened around the world. It has been streamed more than 40,000 times.



AML Risk Bulletins. Our quarterly email to money laundering reporting officers setting out emerging AML risks as identified by the Joint Money Laundering Intelligence Taskforce/National Crime Agency and within the sector.



AML - the essentials. Our quarterly round-up of AML-relevant material. Issues regularly include material on suspicious activity reports, risk and fraud.



Thematic review: MLROs. Our FY23/24 thematic review looks to understand who the MLRO is in our firms, and how they fulfil their responsibilities. We asked about the challenges they face, training, suspicious activity reporting, compliance monitoring and emerging risks within their client base.



AMLbites. A series of 10-minute videos aimed at money laundering reporting officers, compliance principals and people in regulatory roles. They are also useful training tools for staff.



Webinars. A series of live webinars presented by an expert panel where key money laundering topics are demonstrated with the help of case studies and Q&As. The recordings are available to watch again.



Articles. We produced articles that supported firms with difference aspects of AML compliance - including simplified and enhanced due diligence, making sure CDD 'tells the story' and 'Checking the evidence: is your client who they say they are?'

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.

22,000+

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



Q2 2023 – Q1 2024 ...

MAINTAINING THE HIGHEST PROFESSIONAL STANDARDS

1,088

AML monitoring review visits were carried out with ICAEW AML supervised firms.



35%

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



1,896

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



HELP AND SUPPORT

900

AML enquiries were taken by our technical advisory helpline.



26,022

AMLbites views.



TAKING ACTION

39

ICAEW AML supervised firms were sanctioned in relation to AML weaknesses with a total value of £92,025. Penalties ranged from £560 to £8,000. 1 member was excluded.



To support ICAEW AML supervised firms, we published:

- 3 issues of AML - the essentials
- 5 new AMLbites
- 3 risk bulletins
- 3 webinars
- Thematic review: The role of the MLRO
- The 2022/23 AML Supervision Report
- An updated AML compliance checklist



79,536

accessed our AML resources on icaew.com.

2,753

attended webinars.

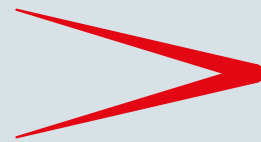


215

ICAEW AML supervised firms reviewed were required to undertake follow-up action to improve their processes.



PART 2



KEY FINDINGS FROM OUR SUPERVISORY ACTIVITY



RISK-BASED APPROACH TO SUPERVISION



Sandy Price

Manager, Anti-money Laundering Compliance
Professional Standards Department, ICAEW

We review firms using a risk-based approach, directing more resources towards those firms that present a higher risk of facilitating money laundering. In January 2021, we refreshed our risk assessment methodology using the updated National Risk Assessment (NRA) published in December 2020. We plan to update our risk assessment methodology next when HM Treasury next revises the NRA.

KEY RISKS

We have identified that the key risks within our supervised population are:

- Trust and company services
- Holding significant clients' money balances
- Payroll services
- Clients based in high-risk countries
- Clients who are foreign politically exposed persons
- Clients with high-risk business activity
- Clients who are high net worth individuals
- Poor compliance history

We use the risks set out in the [AASG Risk Outlook](#) and the [National Risk Assessment](#) to determine which countries or business activities are high-risk.

We set out the full details of how we monitor and assess compliance in our firms on our website.

- ▶ [Find out more about our role as an AML supervisor](#)
- ▶ [Read more detail on what we cover as part of our monitoring reviews](#)

MEASURES WE CARRY OUT TO MONITOR AND ENFORCE COMPLIANCE BY OUR SUPERVISED FIRMS

Assessing risk and monitoring compliance

We collate data from a variety of sources to assess the risk that the firms we supervise may be used to launder the proceeds of crime or terrorist financing. This data includes risk information we collect through the answers firms submit via the ICAEW annual return, as well as disciplinary history, monitoring review history and any information obtained via information and intelligence sharing from other supervisory bodies and law enforcement.

Our monitoring activity is directed at those with highest risk. High-risk firms are reviewed at least every other year, high-medium firms every four years, and medium-low or low risk firms are normally reviewed every eight years, either via onsite or desk-based reviews.

	Total firms	Firms offering accountancy services only	Reviews to firms offering accountancy services only	Firms offering both accountancy and trust and company services	Reviews to firms offering accountancy and trust and company services
High	264	8	5	256	106
High-Medium	1,544	75	20	1,469	250
Medium-Low	5,193	490	74	4,703	439
Low	2,910	2,910	194	–	–
	9,911	3,483	293	6,428	795

Note: This table refers to the number of reviews started in the period.

Monitoring outcomes

	Onsite reviews		Desk-based reviews	
	Total reviews FY23/24	Total reviews FY22/23	Total reviews FY23/24	Total reviews FY22/23
Compliant ³	33	58	121	102
Generally compliant	454	504	289	287
Non compliant	158	114	57	61
Informal actions (follow-up only)	108	70	48	43
Formal actions (reprimand/sanction)	50	44	9	18
TOTAL	645	676	467	450

Note: This table refers to the number of reviews completed in the period.

³ The categories 'compliant', 'generally compliant' and 'non compliant' are set by HM Treasury in their own AML Annual Report, with the accountancy professional body supervisors agreeing a definition for each.

Visits started versus visits completed

A key performance metric for our supervisory approach is 'visits started' – we set the number of proactive monitoring reviews that are cyclically due each year, based on the AML risk rating, and report our performance against this target to our senior management team and to the IRB. Not all visits started during the period will have concluded by the time we analyse the data for this report so we have reported monitoring outcomes on a 'reviews completed' basis.

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 FY22/23, we found that 13.9% were compliant (FY23/24: 14.2%).

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 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 FY23/24, 66.8% were generally compliant (FY22/23: 70.2%).

A **non 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 we will follow up with the firm to ensure those actions have been taken, or we may refer the firm to the Practice Assurance Committee⁴ (PAC). The PAC may refer the firm to the Conduct 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 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 'matters requiring action'.

The percentage of firms assessed as non-compliant was 19.3% compared to 15.6% in FY22/23.

Understanding the effectiveness and impact of our supervisory strategy

We can partly measure our effectiveness through the small number and range of enforcement sanctions issued during the period indicating that the vast majority of our firms are compliant or generally compliant (80.7%). Furthermore, most of these enforcement actions relate to compliance failings, not money laundering itself. Indeed, the percentage of open, or concluded, cases where our supervised firms have facilitated/enabled criminals to launder money continues to be very low, demonstrating our supervisory strategy acts as a credible deterrent.

Many of the 'normal' metrics for measuring improvement or effectiveness mask the underlying picture – to compare findings and trends year on year presents challenges because our populations are different each year and firms benefit from the training and guidance delivered by our reviewers during their proactive monitoring reviews. This was further compounded during FY23/24 by the change in our monitoring methodology during FY22/23 so that, rather than looking solely at the technical compliance and existence of policies and procedures at our firms, we focus on the effectiveness of those policies and procedures and specifically at the three stages of CDD, including reperforming the process during monitoring reviews. This has meant that technically compliant CDD may not be concluded as 'compliant' if it did not effectively identify and mitigate AML risks within the clients or services provided. It is encouraging that a change in focus from compliance

⁴ A description of the Practice Assurance Committee, and its powers, is set out in Appendix 2.

to effectiveness has only reduced the number of firms that are compliant or generally compliant from 84.4% in FY22/23 to 80.7% this year - indicating that many firms were using their designed policies and procedures effectively.

But our supervisory strategy should also be assessed on the significant growth in our educational outreach and the impact this will have on our supervised population's compliance. We hold three webinars a year with attendee numbers regularly exceeding 1,000 and All Too Familiar has been streamed c. 40,000 times, with many of those viewings taking place in front of group audiences. This figure also excludes the offline screenings that are taking place throughout the UK and internationally, demonstrating that the film is being used as a key educational tool in many, many firms.

Understanding whether we have sufficient resources to deliver our supervisory strategy

ICAEW sets targets and key performance indicators (KPIs) which are monitored regularly, and where we identify a risk that these targets or KPIs may not be met, we assess the need to increase resources. The IRB and the Professional Standards management team does this by:

- setting clear and robust annual visit targets. We perform our population-wide AML risk assessment in autumn of each year. We identify the number of firms in each risk category and when their next visit is due, based on the visit cycle for that

risk category. Using this data, we identify the number of reviewer-days required by multiplying the number of reviews times the number of visit days allocated to each review. We then allocate resources within our reviewer population to ensure we meet our regulatory responsibilities.

- monitoring our 'visits started' data to ensure that we are on track to complete the number of AML monitoring reviews we have identified are cyclically due each year. The number of actual visits started is reported monthly to Professional Standards management, and to the IRB and the PAC at each of their meetings.
- setting KPIs that require us to complete our monitoring reviews within a specified period after the onsite/desk-based work is complete. These KPIs ensure that we do not manage our visits started target by starting all the reviews, with no time to complete them. We know that firms achieve better compliance outcomes when they receive prompt feedback from our reviewers and we have a strong ethos that we complete visits in a timely manner.
- setting KPIs on investigations as well as monitoring the number of cases per investigation officer, with clear timeframes set for the stages of an investigation. Performance against these KPIs is reported monthly to Professional Standards management and to the IRB.

How we improve compliance in our firms

Where we raise 'matters requiring action', 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 matters requiring action, explaining what steps they will take to address them with a deadline for completion.

We assess the firm's responses and consider:

- Is there evidence the firm can reach the required standard?
- Is there evidence the firm has the technical understanding to rectify the issue?
- How serious or prevalent was the matter - was it an isolated event, what money laundering risk did the client present and what was the risk of the firm enabling money laundering?
- How committed is the firm to addressing the matters?
- Does the firm's previous monitoring history demonstrate they have the required professional attitude and have fulfilled past assurances?

If we have concerns the firm is not sufficiently committed or able to address the matter, we will take action or ask the firm for further information to confirm they have rectified the issue. For significant concerns - we prepare a report to the PAC setting out the key issue(s) and our recommended course of follow-up action. For less significant concerns - we ask the firm to submit information to support its ongoing compliance.

The PAC⁵ has the power to impose regulatory penalties on a firm where there have been breaches of the MLRs and can require the firm to submit information to demonstrate it is now meeting the required standard. The Guidance on Sanctions for AML breaches aims to deter money laundering by ICAEW supervised firms. Sanctions relating to a firm's failure to have any AML policies and procedures have a starting point calculated at £3,000 per principal, and sanctions relating to a firm failing to implement them start at £2,000 per principal, with a capped maximum fine for the largest firms (which the IRB keeps under review). The starting point can be increased or decreased by the relevant regulatory and disciplinary committees 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 the MLRs.

If we are satisfied that the firm has the commitment and ability to rectify a matter, and the matter requiring action 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. We will check that the firm has dealt with any matters requiring action 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.

CASE STUDY 1

Monitoring activity



We carried out an onsite review to a firm with a medium-low AML risk score.

During our review of the effectiveness of the CDD, we identified one client that had operations in a high risk third country, which the firm had concluded as normal risk and had not performed the full set of enhanced due diligence measures listed in regulation 33. This was the only risk factor on the client. We also identified two clients where the firm had not documented ongoing monitoring. We saw evidence of ongoing due diligence performed on other clients.

In its response to our findings, the firm confirmed that it had reviewed its entire client base to ensure that they had not missed any other high-risk factors. It also described the enhanced due diligence procedures that were now in place in relation to the higher risk client; and confirmed these would be applied to other such clients in future. These procedures were extensive, appropriate to the risk and compliant with the MLRs. There was no evidence of actual money laundering at the client.

The firm also confirmed that ongoing due diligence had been performed on all clients and explained that the firm had updated its procedures to ensure there was evidence that all higher risk client were reviewed at least every six months and standard risk clients were reviewed annually.

We closed the monitoring review based on the firm's satisfactory responses.

⁵ A description of the Practice Assurance Committee, and its powers, is set out in Appendix 2.

CASE STUDY 2

Monitoring activity



We undertook a focused anti-money laundering only, desk-based review on a firm with a high-medium risk score, resulting from a client base with links to higher risk countries, complex business structures and the nature of their business activities.

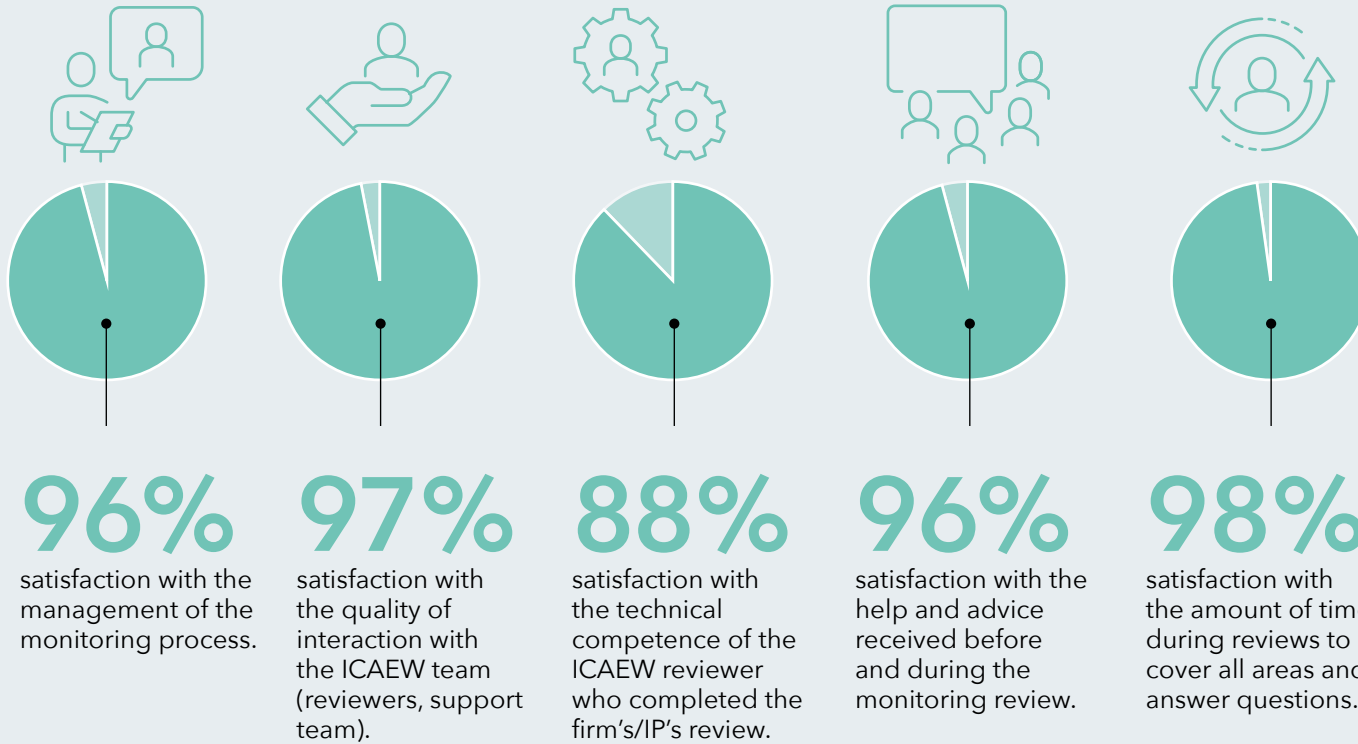
As part of our review of the effectiveness of CDD, we performed open source checks on a sample of the firm's clients. These revealed adverse media and raised the risk of a client being involved in money laundering. The firm had rightly concluded that these were high-risk clients but had not documented its assessment of those risks. In addition, the firm had completed a firm-wide risk assessment but this did not identify or mitigate all AML risks we had identified in the firm.

We concluded the review as 'non-compliant' with the firm requiring formal follow-up action. We asked the firm to submit its revised CDD for the high-risk clients we reviewed and a revised firm-wide risk assessment. The firm submitted further verification procedures, which were improved and did deal with the risks identified, but it still did not supply a documented risk assessment. Its firm-wide risk assessment was also improved, but it still omitted some of the risks linked to their higher risk clients.

We asked for further follow-up to include the submission of the results of an external AML compliance review. The external review needed to include a review of the quality of CDD carried out, specifically including the higher risk clients, as well as a review of the latest firm-wide risk assessment. The firm remains in ongoing monitoring and has been referred to the Conduct Department for further investigation.

FIRM FEEDBACK

ICAEW QUALITY ASSURANCE MONITORING: FEEDBACK FIGURES (2023 OVERVIEW OF ALL VISIT TYPES)*



*Sample size: 471 respondents 2,027 visits 23% response rate

ENFORCEMENT ACTION

	Year ended 5 April 2024	Year ended 5 April 2023
ICAEW members excluded	1	2
Number of severe reprimands	39	35
Sum of fines on relevant persons and firms	£92,025	£218,275
Range of fines on relevant persons and firms	£560 - £8,000	£350 - £32,725

Not all enforcement actions come from monitoring visits. We also take enforcement action following an investigation into a complaint from the public or another external party.

CASE STUDY 3

Enforcement activity



We concluded an onsite monitoring review in June 2023 to a 'regional' firm and found extensive inadequacies in the firm's AML procedures including documentation of risk assessments and ongoing customer due diligence. We reported the firm to the Practice Assurance Committee (PAC) for formal follow-up action, which considered the case in November 2023. The PAC decided to require the firm to update CDD for all clients by 31 May 2024 and also decided to require the firm to have a follow-up visit, paid for by the firm, by 31 July 2024. The firm was also issued with a Practice Assurance penalty of £4,000.

FOCUS

Taking action on unsupervised firms



ICAEW takes action against firms that have been identified as providing accountancy services but are not subject to AML supervision. In some cases, these firms have restructured themselves in such a way as to fall outside of the definition of an ICAEW member firm and are therefore no longer automatically subject to Practice Assurance and AML supervision, in others the member has failed to notify ICAEW that they are in public practice.

We identified one member that had failed to notify ICAEW of the formation of a company through which they were providing accountancy services. On investigation, we identified that the firm wasn't AML supervised between 23 June 2014 and 22 May 2023. The Conduct Committee made an order that the member be severely reprimanded, fined £3,500 and pay costs of £3,025.



WHAT DO WE FIND ON PROACTIVE MONITORING REVIEWS

We have presented our most common findings for each of the three stages of CDD in line with our updated monitoring methodology, including our assessment of how well firms perform each stage.

IDENTIFYING THE CLIENT



- At 27.4% of non-compliant firms, we found that the firm had performed ineffective client identification procedures. In some cases, the firm had failed to properly identify all of the beneficial owners. In others, the firm had failed to properly understand the nature of the client's business, or the jurisdictions that it operated in. During our reviews, we perform basic open source checks on the client and for some non-compliant firms, we identified information about the client that the firm didn't know.

[Access recommended resources and guidance to support compliance in this area](#)

ASSESSING RISKS



- At 25.6% of non-compliant firms, we found ineffective risk assessment documentation. During our monitoring reviews, we re-perform the risk assessment to check that the firm has identified all the risks. We do this by reviewing the know your client information as well as open-source information about the client, and cross-checking this information with sources of risks and red-flags such as the AASG Risk Outlook. Ineffective risk assessment documentation is where the firm has not documented all the same risks that we identified but where the firm is able to discuss and describe the risks.
- At 27.9% of non-compliant firms, we found that the firm had failed to perform risk assessments on any of their clients. Risk assessments are a core element of the MLRs and all firms must perform a risk assessment to direct the amount of verification work they do.

[Access recommended resources and guidance to support compliance in this area](#)

VERIFICATION



- Of the three stages of CDD, verification was performed least effectively with 34.4% of firms performing ineffective verification procedures. Where we have raised this area of non-compliance, the firm had not gathered sufficient evidence to manage or mitigate the risk identified. In some cases, the firm simply performed more ID verification on a beneficial owner, when the AML risk relates to other factors such as transactions in a high-risk third country. Firms must tailor their verification work to ensure they gather enough evidence to satisfy themselves that the risk of being used to launder is sufficiently reduced.

[Access recommended resources and guidance to support compliance in this area](#)

There are other areas of the regulation that appear in our findings more than others:

Finding	% of non-compliant firms		Resources
No ongoing CDD	36.7%	<p>We find that firms are not performing, and updating, their 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. Some firms may have considered whether there are changes but not recorded the review. In some firms, their electronic CDD system makes it difficult to document how they have updated their review.</p> <p>Firms should regularly review the documentation they have obtained as part of their know your client checks. If any of the information has changed, it should be fed 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 politically exposed person or if a suspicious activity report has been made.</p>	<p>Watch our AMLbites CDD part 3 for best practice tips on performing ongoing CDD</p> <p>Guidance from the CCAB on AML and Counter-Terrorist Financing for the Accountancy Sector</p> <p>Watch our webinar on how CDD should operate in practice</p>
Firm-wide risk assessment	27.9%	<p>The risk-based approach underpins the MLRs - 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, firms 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). Firms can then design their policies and procedures to respond to the level of risk identified.</p> <p>Reviewers will compare the risks the firm has identified in its own assessments with the knowledge the reviewer has gained about the firm (taken from opening meeting discussions, annual return information and other client data) to ensure that the firm-wide risk assessment is comprehensive and complete. They will also use the National Risk Assessment, AASG Risk Outlook and ICAEW AML risk bulletins as reference tools to ensure that the approach is appropriate and complete. The reviewer will also assess the mitigating actions described in the firm-wide risk assessment and ensure that what the firm has designed will be relevant and effective to mitigate the firm's gross risk profile as well as ensuring that staff are implementing those mitigating actions.</p> <p>Whereas, in the past, we have found that firms hadn't performed a firm-wide risk assessment, now we find that firms are performing one but that the assessment doesn't cover all the risks faced by the firm, or fails to conclude on the level of risk.</p>	<p>Follow our firm-wide risk assessment methodology template</p> <p>Read the National Risk Assessment 2020 including our summary of the NRA</p> <p>Read the AASG Risk Outlook</p> <p>Watch our AMLbites videos on firm-wide risk assessments and the AASG Risk Outlook</p>


Finding	% of non-compliant firms		Resources
Compliance review	26.5%	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 firms should design this to be as independent as possible, given the size and nature of the firm. Where firms identify any gaps or weaknesses, they should document how they intend to address them.	<p>Use our AML compliance review template</p> <p>Read CCAB's Anti-Money Laundering and Counter-Terrorist Financing Guidance for the Accountancy Sector</p>
AML training	25.1%	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.	<p>Show your staff All Too Familiar</p> <p>Show your teams the AMLbites videos</p> <p>Watch our webinars and read the answers to some frequently asked questions</p> <p>Ensure your teams are signed up to receive AML – the Essentials</p>
PSC Reporting	19.0%	<p>A person with significant control (PSC) is someone who owns or controls a company.</p> <p>If firms identify a material discrepancy between the information they gather while carrying out their regulatory obligations on their corporate clients and the information their client has provided on the PSC register, they must report that discrepancy to Companies House.</p>	<p>Use our guidance on reporting a discrepancy</p> <p>Read the government guidance on reporting PSC register discrepancies</p>




THEMES BEHIND NON-COMPLIANCE

We review cases of non-compliance to understand the root causes. The most common themes behind non-compliance are:


LACK OF KNOWLEDGE / UNDERSTANDING OF REGULATIONS

 We generally find that firms are trying their best and will believe that they have good compliance, policies and procedures in place but our monitoring reviews find that they have failed to grasp the requirements fully. Firms can be overly focused on collecting passports/ID verification and don't devote enough time to identifying risks within their clients and/or don't perform enough work to mitigate those risks. We also find that firms have not regularly revisited their risk assessments and mitigation work.


LACK OF UNDERSTANDING OF RISK

 Firms fail to identify obvious risks and red flags within their clients.

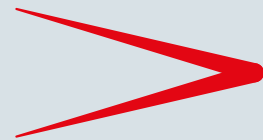
'IT WILL NEVER HAPPEN TO ME'

 Firms assume that 'it will never happen to them', leading them to fail to identify obvious risks and red flags within their clients.

INSUFFICIENT RESOURCE ALLOCATED TO AML

 We have found some of our largest firms have money laundering reporting officers or compliance principals with insufficient time and resources to dedicate to AML compliance.

PART 3



APPENDICES

APPENDIX 1

ANALYSIS OF ICAEW'S SUPERVISED POPULATION

	FY23/24	FY22/23
Total size of supervised population		
Relevant firms	9,911	10,402
Total 'BOOMs' as defined in Regulation 26	30,425	28,724
Providing trust and company services		
Number of firms	6,428	6,745
The number of firms offering each trust and company service is shown below		
Company formation	4,091	5,079
Providing registered office	5,512	5,814
Arranging/acting as director/secretary/trustee	1,683	1,805

APPENDIX 2

OVERSIGHT OF ICAEW'S REGULATORY AND DISCIPLINARY FUNCTIONS

The ICAEW Regulatory Board (IRB) has governed ICAEW's regulatory and disciplinary functions since 2016. The IRB has parity of lay and chartered accountant members with a lay chair who has a casting vote. A lay member is someone who is not, and has never been, a member, affiliate or employee of ICAEW or any accountancy body. The IRB has its own independent nominations committee - the Regulatory & Conduct Appointments Committee (RACAC).

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 clearly set out 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 Financial Reporting Council (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 the Office for Professional Body Anti-Money Laundering Supervision (OPBAS) and from time to time by the Insolvency Service and the Financial Conduct Authority (FCA).

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

INDEPENDENT DECISION-MAKING ON REGULATORY ISSUES/DISCIPLINARY CASES

All significant decisions on AML regulatory matters are made by the Practice Assurance Committee (PAC) and the Conduct Committee. These committees are independent from staff and comprise of a parity of lay and chartered accountants with a lay chair who has a casting vote. This maintains an important balance of technical insight from the chartered accountant members and public interest insight from the lay members.

Members of these committees are appointed by the RACAC which has a majority of lay members and a lay chair and which reports to the ICAEW Board. The RACAC chair is not a member of any of the regulatory committees or the IRB.

Where regulatory action may be appropriate following a quality assurance monitoring visit, the PAC will consider whether such action is appropriate, which could include one or more of the following outcomes:

- licence/registration withdrawal;
- impose conditions/restrictions;
- offer a regulatory penalty.

The Conduct Committee considers investigation reports prepared by ICAEW's Conduct Department in respect of disciplinary matters. The Conduct Committee also considers challenges by complainants to the rejection of complaints by Conduct Department staff at the assessment stage and determinations by staff following an investigation that there is no liability.

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

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

APPENDIX 3 GLOSSARY

AASG	Accountancy AML Supervisors Group
AML	anti-money laundering
BOOM	beneficial owner, officer or manager
CDD	customer due diligence The process by which the identity of a client is established, a client risk assessment performed and the process of verification, for both new and existing clients.
EDD	enhanced due diligence
IRB	ICAEW Regulatory Board
JMLIT	Joint Money Laundering Intelligence Taskforce
KYC	know your client
MLRs/the Regulations	Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
MLRO	money laundering reporting officer
MLCP	money laundering compliance principal
NCA	National Crime Agency
NECC	National Economic Crime Centre
NRA	National Risk Assessment
OPBAS	Office for Professional Body AML Supervision
PAC	Practice Assurance Committee

PEP	politically exposed person An individual who is entrusted with prominent public functions, other than as a middle-ranking or more junior official.
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
PSD	ICAEW's Professional Standards Department
QAD	ICAEW's Quality Assurance Department
SAR	suspicious activity report
SDD	simplified due diligence
TCSPs	trust or company service providers

ICAEW's regulatory and conduct roles

Our role as an improvement regulator is to strengthen confidence and trust in those regulated by ICAEW.

We do this by enabling, evaluating and enforcing the standards expected by the profession, oversight regulators and government.

ICAEW's regulation and conduct roles are separated from ICAEW's other activities through internal governance so that we can monitor, support and take steps to ensure change if standards are not met. These roles are carried out by the Professional Standards Department and overseen by the ICAEW Regulatory Board and oversight regulators including the Financial Reporting Council, Office for Professional Body Anti-Money Laundering Supervision, the Insolvency Service and the Legal Services Board.

We:

- **authorise** firms and individuals to undertake work regulated by law: audit, local audit, investment business, insolvency and probate;
- **support** professional standards in general accountancy practice through our Practice Assurance scheme;
- **provide** robust anti-money laundering supervision and monitoring;
- **monitor** registered firms and individuals to ensure they operate in accordance with laws, regulations and expected professional standards;
- **investigate** complaints and hold ICAEW Chartered Accountants and students, ICAEW-supervised firms and regulated and affiliated individuals to account where they fall short of the required standards;
- **respond** and comment on proposed changes to the law and regulation; and
- **educate** through guidance and advice to help ICAEW's regulated community comply with laws, regulations and expected professional standards.

Chartered accountants are talented, ethical and committed professionals. ICAEW represents more than 208,000 members and students around the world. 99 of the top 100 global brands employ ICAEW 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 around 11,500 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 working towards becoming net zero, demonstrating our commitment to tackle climate change and supporting the UN Sustainable Development Goal 13.

ICAEW is a founding member of Chartered Accountants Worldwide (CAW), a global family that connects over 1.8m chartered accountants and students in more than 190 countries. Together, we support, develop and promote the role of chartered accountants as trusted business leaders, difference makers and advisers.

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.

www.charteredaccountantsworldwide.com
www.globalaccountingalliance.com

* includes parent companies. Source: ICAEW member data February 2024, Interbrand, Best Global Brands 2023

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