

# THE MONEY LAUNDERING FIRM-WIDE RISK ASSESSMENT

AML THEMATIC REVIEW



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PROFESSIONAL  
STANDARDS  
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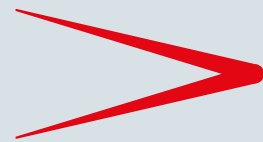
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## METHODOLOGY



## METHODOLOGY

ICAEW has a key role as the largest accountancy professional body supervisor in the UK, supervising around 10,000 firms for anti-money laundering (AML) compliance. Our strategy is to provide 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.

The money laundering regulations (MLRs) require every relevant organisation to take appropriate steps to identify and assess the risks of money laundering and terrorist financing to which its business is subject (regulation 18 (1)). For the purposes of this report and in our own guidance we refer to this as the firm-wide risk assessment. We expect all our firms to have a firm-wide risk assessment and will always review this as part of a firm’s AML monitoring review. We consider it to be the foundation upon which a firm builds its AML policies and procedures, particularly regarding customer due diligence (CDD).

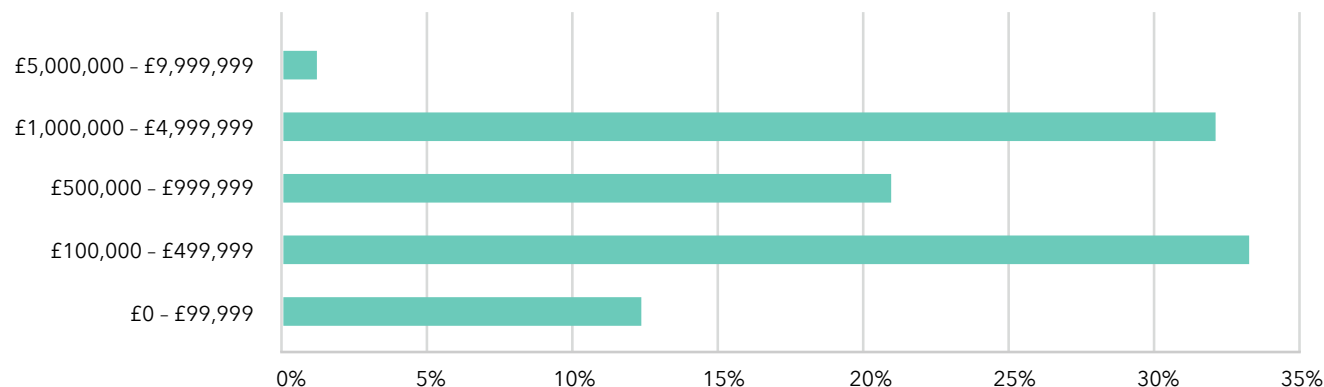
The firm-wide risk assessment is the focus of this year’s thematic review. We contacted the money laundering reporting officer (MLRO) at a sample of 100 accountancy firms, from our supervised population of around 10,000. We asked the MLROs a series of questions and for a copy of their most recently completed firm-wide risk assessment. Our Quality Assurance Department then reviewed the information and risk assessments submitted by the MLROs. Our findings are included in this report alongside our key reflections - we recommend firms pay particular attention to these insights.

We will follow up individually with firms where improvements were needed; or where there was no assessment in place.

This thematic review forms part of our supervisory monitoring program - all firms were required to respond.

The table below summarises the size of firms included in this thematic review.

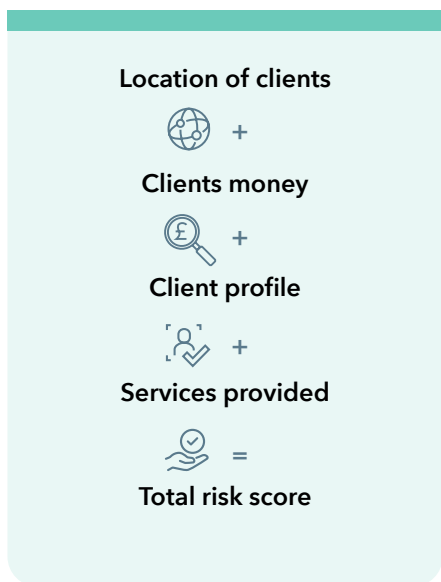
Percentage of respondent firms by turnover



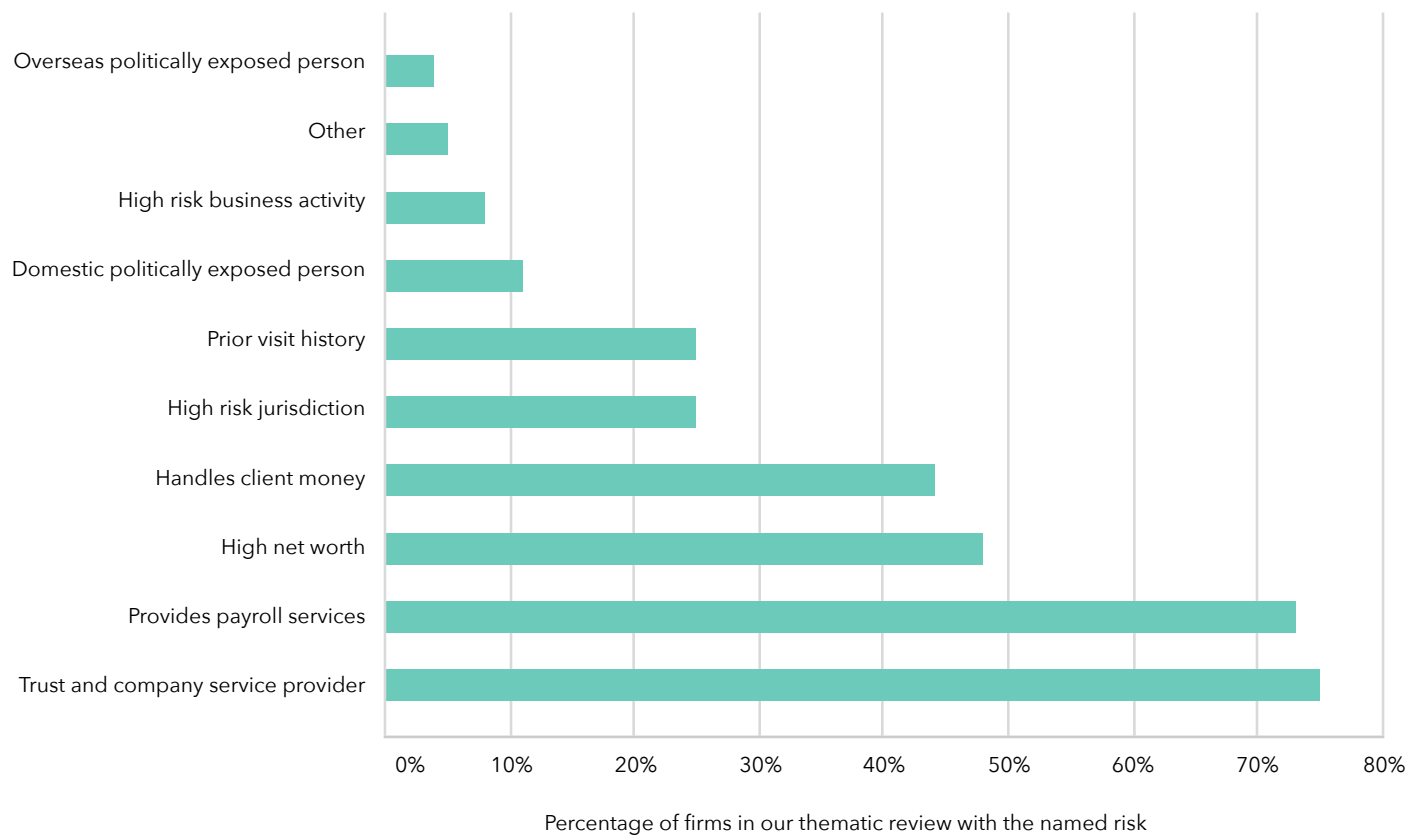


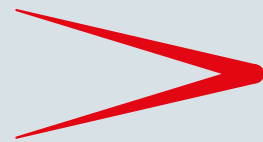
# METHODOLOGY

We use a risk-based approach to monitoring. Every firm we supervise is assigned a risk score. This score is based on the risk profile of the firm’s clients, the services provided, the location of clients, and whether the firm handles client money. All the firms selected had a high or high-medium risk profile.



Risk factors in ICAEW risk score





## FINDINGS



## HOW MANY FIRMS COMPLETED A FIRM-WIDE RISK ASSESSMENT

### WHAT DID WE FIND?

88% of firms included in the thematic review had completed a firm-wide risk assessment. A further 6% submitted what they thought was the assessment but it was actually an AML compliance review.

Our reviewers also see evidence that firms are confusing the two documents when performing monitoring reviews. It is important that all firms understand the difference.

### WHAT ARE FIRMS DOING WELL?

The majority of firms had completed a firm-wide risk assessment. We have noted that this percentage has increased year on year, since the requirement was first introduced in 2017. This indicates that our firms are reflecting more carefully on money laundering risks and considering the mitigations. It enhances our profession's defences, protecting us against the risk of being used as professional enablers by those seeking to legitimise and launder the proceeds of crime.

We expect all firms to have a firm-wide risk assessment.

75% of firms stated that the assessment impacted their CDD procedures. A direct link between the two is often the key to ensuring CDD is completed well.

### WHAT CAN FIRMS DO BETTER?

We asked firms why they had not prepared a firm-wide risk assessment. Most were sole practitioners with little to no staff. They did not consider it to be of value, because they had oversight of all clients and assessed risk at client level.

A firm-wide risk assessment is a regulatory requirement. Therefore, regardless of the size of your firm you must prepare one.

However, the length and complexity will clearly vary according to size. In fact, regulation 18(3) states that the firm-wide risk assessment can reflect the size and nature of the business. Sole practitioners with no staff might find it more practical to prepare a shorter streamlined assessment, whereas a larger firm would have a more comprehensive document, reflecting the variety of service lines and sectors served.

6% of firms stated they had completed a firm-wide risk assessment, but in fact submitted an AML compliance review or a set of AML policies and procedures instead.



### ICAEW KEY REFLECTIONS

You must prepare a firm-wide risk assessment, regardless of the size of your firm.

Ensure you understand what a firm-wide risk assessment is, particularly if you are making use of 'off the shelf' checklist and template packages.

Know the difference from the AML compliance review:

- The firm-wide risk assessment is a tool enabling firms to comply with regulation 18(1). This requires firms to take appropriate steps to identify and assess the risks of money laundering and terrorist financing to which its business is subject.
- The AML compliance review is a tool enabling firms to comply with regulation 21 c. This requires firms to examine and evaluate the adequacy and effectiveness of the policies, controls and procedures adopted to comply with the requirements of the regulations.

A direct link from factors identified in the firm-wide risk assessment to your CDD procedures is often the key to ensuring your CDD is effective at identifying risk within your clients.



## DO FIRMS THINK THE FIRM-WIDE RISK ASSESSMENT ADDS VALUE

### WHAT DID WE FIND?

91% of MLROs stated that preparing a firm-wide risk assessment was a useful exercise for their firm.

### WHAT ARE FIRMS DOING WELL?

It is encouraging, as an AML supervisor, to find that firms are finding this a useful exercise.

Many firms explained why they found it useful. Some of these comments are quoted here and reflect the view of the majority of our respondents.

“ *It is useful to step back and take a high-level review of the firm's risk profile. It also helps to identify any significant changes that may require additional action.* ”

“ *Allows you to consider the risks from the perspective of the firm as a whole, not just individual CDD. It also allows you to apply the various risk alerts and AML risk bulletins to a particular cohort of your clients and feed into the CDD process by creating mitigation strategies.* ”

“ *Our firm-wide risk assessment captures in summary the risks we have identified, the appetite of the firm to engage with those risks, and counter measures (controls) we expect to be put in place by our staff to control and mitigate those risks. The assessment helps the MLRO and team to periodically step back and think about the bigger picture of the firm's AML strategy.* ”

“ *It makes you stop and think.* ”



### ICAEW KEY REFLECTIONS

Do not assume that because you are a smaller firm, your client base is lower risk. Out of the total ICAEW-supervised population of firms categorised as high to high/medium risk, 20.9% have a turnover of less than £300,000.

Most firms stated that preparing a firm-wide risk assessment adds value because:

- It gives the MLRO (and team) the opportunity to stand back and consider the appropriateness and relevance of the firm's AML policies and procedures.
- CDD procedures can be reassessed and checked that they are operating effectively by identifying and mitigating risks.
- The firm has an opportunity to identify and reassess whether new risks that are manifesting in the accountancy sector (referenced in supervisory guidance, AML risk bulletins, risk alerts, AASG Risk Outlook and the National Risk Assessment) are impacting the firm.
- The MLRO can engage with staff, engagement teams and management to discuss the risk profile of the firm. There may be changes to service lines, client profiles, service delivery mechanisms and the handling of client money that need to be considered.

The firm-wide risk assessment is a good opportunity to reflect and to challenge your own view of your client base.





# DO FIRMS THINK THE FIRM-WIDE RISK ASSESSMENT ADDS VALUE

## WHAT CAN FIRMS DO BETTER?

9% of firms felt the assessment did not add value. We examine some of their reasoning and explain what they could do differently to get meaning from this legal requirement.

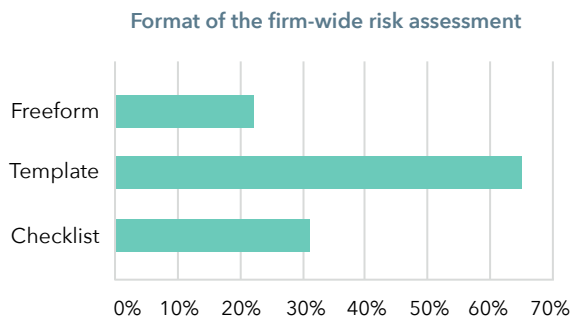
Why firms consider the assessment does not add value	ICAEW response
<p>“ I am a sole practitioner with a few staff. We have few clients, and all AML responsibility is with me.</p> <p>“ All my clients are low risk.</p>	<p>A sole practitioner will have a good understanding of all their clients, and the risks.</p> <p>In this case, the assessment does not need to be a lengthy document, and firms in this position could opt to write a freeform document, which summarises any risks and procedures to mitigate them. Mitigation may include the fact that they have sight of all client files and know the clients well. However, we have reviewed firms where red flags have been missed and we would still recommend referring to checklists or templates when writing a freeform assessment, to ensure you identify all the potential risks.</p> <p>The opportunity to take a step back to consider risks can be valuable.</p> <p>Smaller firms often comment that it is just the larger firms that present a higher risk of professional enabling.</p> <p>In fact, 20.9% of our firms categorised as having a high/high-medium money laundering risk score, have a turnover of less than £300,000.</p>
<p>“ Because I am a sole practitioner with a very small firm and assess each client annually.</p>	<p>Again, we appreciate this might be the case and if so, you can keep the assessment short. It might not change for years. But a regular review could highlight a change in risk. It is particularly helpful to keep abreast of risk bulletins from ICAEW and other organisations to ensure you understand current risks and red flags.</p>
<p>“ If feels like box ticking when really the culture of the firm and how they accept and retain clients is more important.</p> <p>“ All this red tape reduces efficiency and productivity in the workplace which the government wants to improve.</p>	<p>The firm-wide risk assessment does not have to be box-ticking. It can be a freeform document where you consider risks and how you address them. Once completed, it may be that there are few or no changes made year on year. Therefore, it does not have to be time-consuming or reduce efficiency.</p> <p>It can form part of an overall consideration of the strategic direction of the firm.</p>



# USE OF TEMPLATES AND CHECKLISTS

## WHAT DID WE FIND?

Most firms made use of templates and/or checklists, 22% used a freeform document.



## WHAT ARE FIRMS DOING WELL?

Our reviewers who conducted the thematic review felt that templates improved quality by providing structure, particularly for smaller firms. They felt that the use of checklists and templates helped to ensure that risks and mitigating actions and controls were identified.

Freeform firm-wide risk assessments appeared in both the best and worst examples. A lack of structure can lead to missing risks and mitigations, but conversely can lead to well thought out, tailored assessments.

## WHAT CAN FIRMS DO BETTER?

Reviewers noted that some firms who did not use a template or checklist missed areas of risks that should be considered, such as geographical location of clients.

Some firms simply used boilerplate templates and did not adapt them to suit the firm’s own circumstances.

A checklist is a good starting point but should not be the only source of information.

Using a yes/no checklist in isolation, without context, meant that firms could not demonstrate that they had carefully considered risks and mitigated or applied appropriate controls.

Templates on their own can be too simplistic for firms with a more complex, varied client base and a wide service offering.



## ICAEW KEY REFLECTIONS

Checklists and templates work well for smaller, less complex firms.

Freeform templates alongside guidance or a checklist can be a good option and may be the most relevant option for a larger firm.

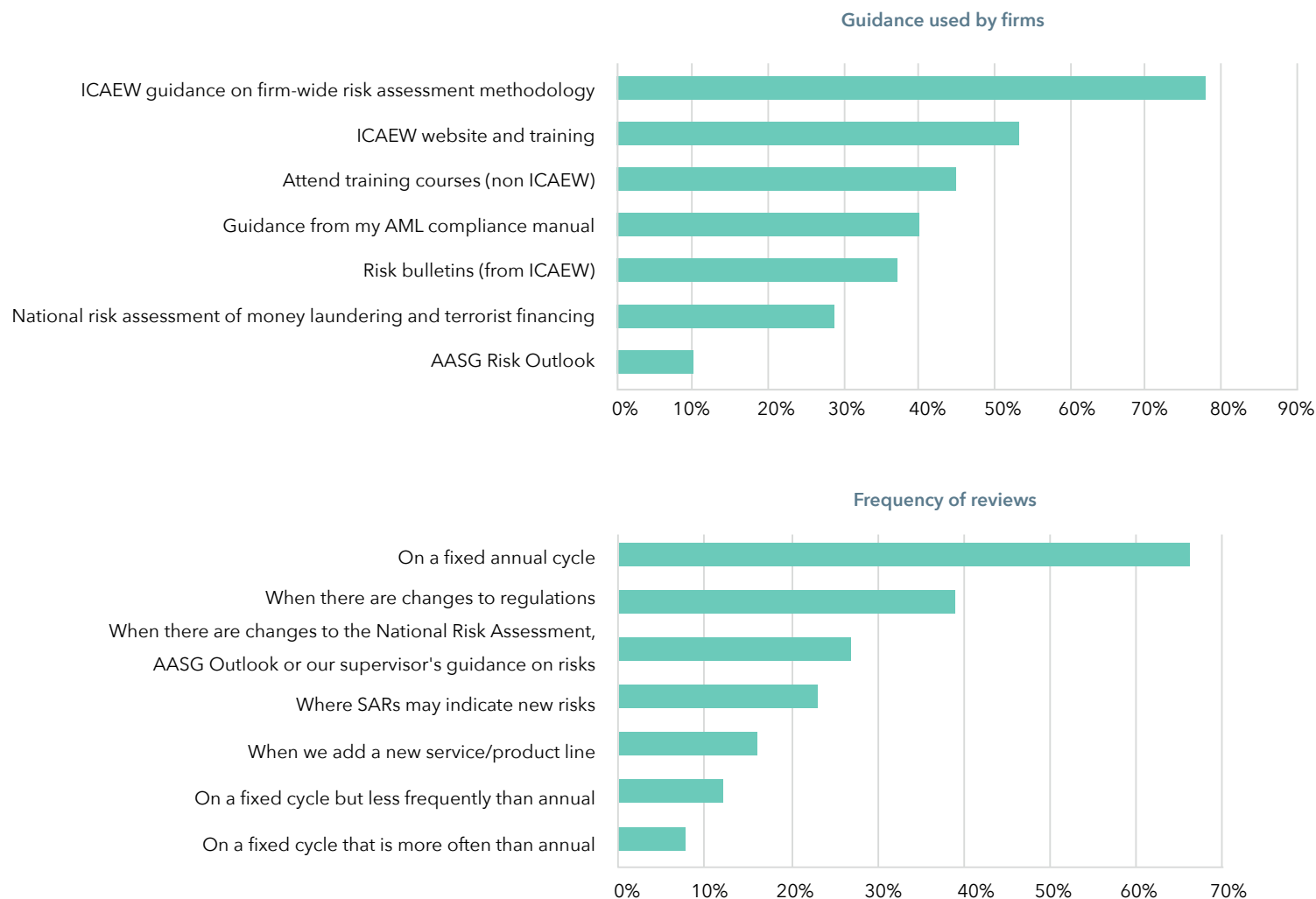
Do not simply follow boiler plate templates with minimal changes. Consider the risks your firm might face and only include these. Ensure that any mitigations and controls are applicable to your firm.



# PREPARATION AND REVIEW

## WHAT DID WE FIND?

These two graphs show the guidance firms used when preparing their firm-wide risk assessment and the frequency that their assessments are reviewed.





## PREPARATION AND REVIEW

### WHAT ARE FIRMS DOING WELL?

Firms are making good use of guidance, for example the Accountancy AML Supervisors Group (AASG) Risk Outlook, AML risk bulletins and the ICAEW guidance and template.

46% of our respondents are making their firm-wide risk assessment accessible to staff; and 38% use it as part of AML training. Staff can understand and spot risks earlier if they have training on what the firm considers the risks to be. We encourage firms to share their assessment with staff to help them understand the risks and identify the red flags.

Most firms review their assessment at least annually. This means there is regular review of the risks and mitigations or controls to ensure they are current. The regulations don't require an annual review, but we do consider it good practice.

97% said they include mitigations and controls to offset their risks.

### WHAT CAN FIRMS DO BETTER?

The MLRs require firms to consider information made available to them by their supervisor. We recommend firms refer to the AASG Risk Outlook, updated in 2024, to read about money laundering risks and red flags. The AASG Risk Outlook reflects the risks included in the National Risk Assessment and is prepared by AASG. Firms should also refer to the risk bulletins that ICAEW emails quarterly to the MLRO - although these may not always be relevant to all firms, they are an important source of emerging threats and trends.



### ICAEW KEY REFLECTIONS

If you have staff, ensure they have access to your firm-wide risk assessment and consider using it as part of AML training for staff. If they understand the risks and the controls, they are more likely to identify red flags and report them.

Refer to the AASG Risk Outlook and risk bulletins when conducting a review, to help you identify risks and red flags.

Try to review the assessment annually and when there are changes in risks. Examples of changes in risk might include: when you add a new service line, a risk bulletin is issued that might impact your firm, when you submit a suspicious activity report, or when there is an update to the National Risk Assessment.



# MONEY LAUNDERING RISKS IDENTIFIED BY OUR FIRMS

## WHAT DID WE FIND?

We asked what factors the firm-wide risk assessment highlighted as having the potential for heightened risk.

The most common risks highlighted by firms were location of client, high net worth clients and payroll.

## RISK SCORING

24% of respondents use a form of risk scoring. Most used categories of low, medium, and high, some used a red, amber, green (RAG) metric where each risk is given a RAG score based on the likelihood and impact.

78% said they considered the likelihood of a risk occurring and the impact of that risk.

## WHAT ARE FIRMS DOING WELL?

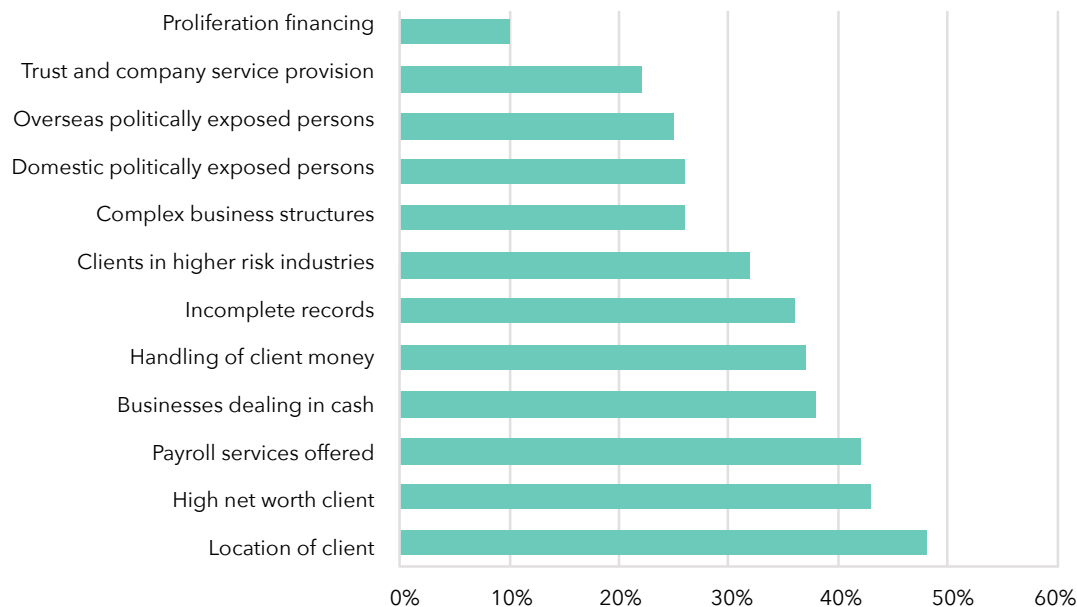
A reviewer noted that one firm had used a scoring matrix for likelihood and impact with 1-5 for impact and 1-5 for likelihood. This provided a robust indication of risk level.

A good range of risks were identified. Firms are clearly making good use of the information available to them, such as the AASG Risk Outlook, AML risk bulletins, the National Risk Assessment and ICAEW guidance.

Many firm-wide risk assessments were heavily tailored to the firm.

Where firms tailored the risks to their firm, these often lead to robust controls and mitigations, particularly in relation to CDD and monitoring.

Most common risks identified





# MONEY LAUNDERING RISKS IDENTIFIED BY OUR FIRMS

## WHAT COULD FIRMS DO BETTER?

We compared the risks highlighted by firms in their assessments to those highlighted in their ICAEW annual return.

Reviewers found risks highlighted in a firm’s annual return were omitted from the firm-wide risk assessment and vice versa. This could be a timing difference; but we encourage you to check that your annual return correctly reflects the risks in your firm and is consistent with those highlighted in your firm-wide risk assessment. Your responses in the annual return form part of ICAEW’s AML risk scoring.

Common discrepancies included omission of the following risks:

- Handling client money
- Offering trust and company services, such as forming companies and acting as a registered office for a client
- Identifying clients in higher risk groups in one document but not the other. (For example, politically exposed persons, clients in high-risk industries or high risk locations.)

## PROLIFERATION FINANCING

Many firms did not consider the risk of proliferation financing.

The MLRs state that you must consider the risk of proliferation financing, either as part of your firm-wide risk assessment or as a separate proliferation financing risk assessment.

For most of you this will be as simple as stating that you have considered the risk and, if appropriate, that there is none.

## PROLIFERATION FINANCING RECOMMENDED RESOURCES



[Watch our AMLbites video on proliferation financing](#)



[Refer to CCAB Guidance](#)



## ICAEW KEY REFLECTIONS

Make sure your annual return accurately reflects the money laundering risks within your client base and that these are similarly included in the firm-wide risk assessment.

You should ensure you understand the descriptions in the ICAEW annual return in relation to high-risk clients. These are regularly updated and explained in the [annual return guidance](#).

Ensure you can evidence that you have considered the risk of proliferation financing.

For large and/or firms with a more varied client base and risk profile, a risk scoring mechanism might assist in highlighting areas requiring additional controls and checks. To assess the money laundering risk, you might want to consider the likelihood of the risk occurring, and the impact if the risk did occur. Most risk management tools will identify a range of likelihood and impact that you can apply to your identified risks. You can determine your own ranges, or use risk management tools that are widely available over the internet.

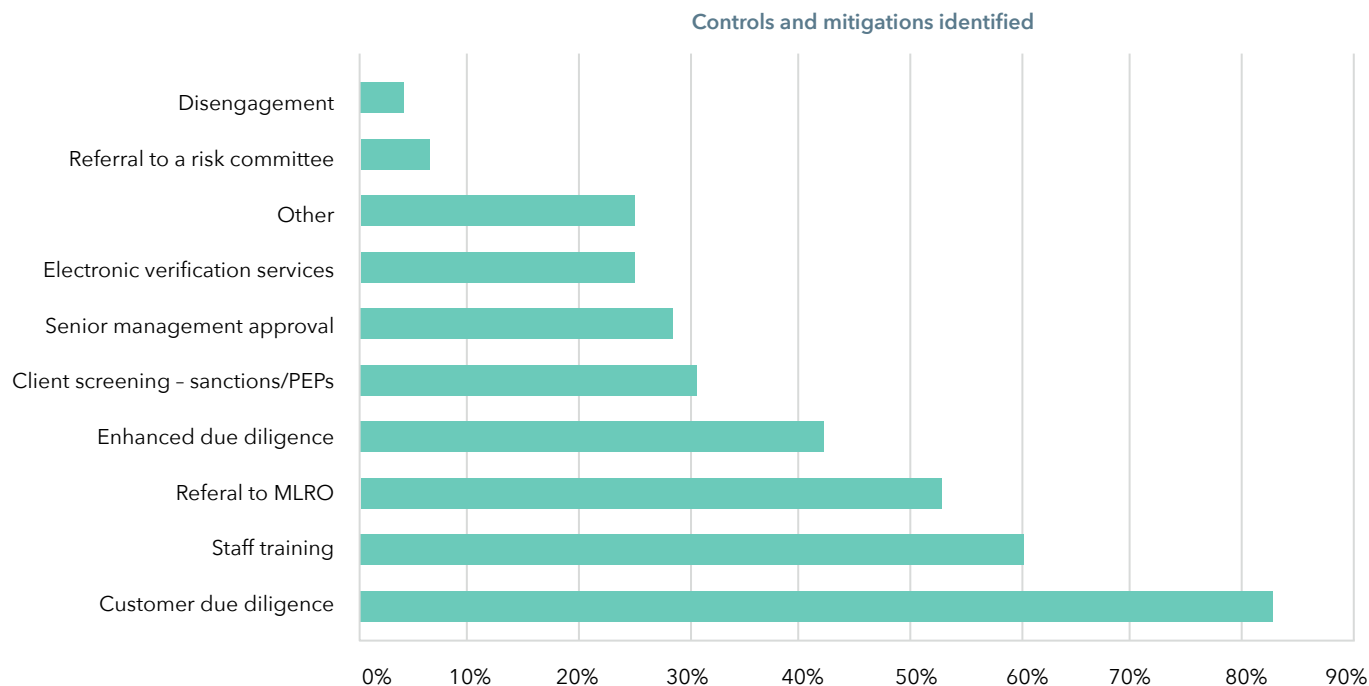


## CONTROLS AND PROCEDURES DESIGNED TO REDUCE AND MITIGATE RISKS

### WHAT DID WE FIND?

97% of our respondents said they considered how to mitigate the risks identified in the firm-wide risk assessment through controls, policies and procedures such as CDD checks.

Not only did firms say they considered the mitigations, the examples we reviewed demonstrated this.





## CONTROLS AND PROCEDURES DESIGNED TO REDUCE AND MITIGATE RISKS

### WHAT ARE FIRMS DOING WELL?

Many of the firms had developed controls and procedures to manage the risks highlighted and we were pleased to see these being listed in the assessments we received. Some excellent and firm-specific examples are shown below:

- Analytical review of the turnover of cash-based businesses.
- Google and open-source checks in potential new clients.
- The use of AI to undertake data scrapes for new customers.
- Clients in high risk third countries are subject to additional procedures such as monitoring transactions monthly for unusual transactions. Monitoring for transfer pricing irregularities.
- Payroll clients submit new-starter forms and photo ID. These are seen at the next site visit.
- Call payroll clients to confirm any requests to change bank details.
- Embedded culture within the firm that staff undertaking bookkeeping and accounts preparation will highlight transactions that seem out of the normal.

- Bookkeeping and accounts work includes a review of bank statement data to ensure validity and consistency with the client's business. Multiple accounts without justification are questioned.
- Check and verify source of funds for high net worth clients. Monitor their wealth and review the income declared on their tax returns.

### WHAT CAN FIRMS DO BETTER?

A minority of firms completed a checklist highlighting risks, but did not include any controls and procedures to justify how they managed that risk.

A minority of firms did not vary controls and procedures for higher risk clients. For example, the controls and mitigations for a politically exposed person (PEP) may differ from those you apply to a client who has a high number of cash only transactions.

We assess effectiveness of a firm's verification and risk mitigation procedures as part of our monitoring process. We have noted that this aspect of CDD is done least well.



### ICAEW KEY REFLECTIONS

Try not to use boiler plate controls and procedures. Consider what your firm actually does in practice to assist in identifying risks and red flags.

Ensure the controls and procedures respond to the risks you have identified.

For example, asking for additional proof of identity for a high risk PEP after finding some adverse media will not mitigate any risk that the PEP may have benefited from corrupt practices - you are merely confirming the PEP is who they say they are.





## FREQUENTLY ASKED QUESTIONS

We have set out below the answers to some of the most common questions firms ask us around the firm-wide risk assessment.

### ? Can the firm-wide risk assessment be drafted by a consultant and then reviewed and signed off by a relevant person?

There's nothing in the MLRs to prohibit this, but as an AML supervisor, we would emphasise that the MLRO is the person who best understands the firm's services, clients, risks and mitigations.

Although the MLRO could pass that information on to consultant, it is likely to be a more robust and efficient exercise if the firm takes ownership and carries out the assessment internally.

So, while there's nothing to say you can't outsource the assessment, we wouldn't recommend it.

### ? If you were starting afresh with AML documentation, would you write the firm-wide risk assessment first, or would you do that last after you had done policies and procedures and CDD for individual clients?

The firm-wide risk assessment should be first. It is the foundation for everything else, including your policies and procedures and CDD. How do you know how to mitigate your risks and build those mitigations into your procedures unless you first recognise and understand those risks?

### ? Are there any risk assessment checklists available for specific sectors, such as cryptocurrencies/assets?

ICAEW does not produce sector-specific checklists. We do, however, produce guidance in the form of [webinars](#) and [factsheets](#).

ICAEW has also published a [factsheet on virtual assets](#) in partnership with the International Federation of Accountants.

### ? Are you happy with firms looking at categories/types of clients in the firm-wide risk assessment, and leaving individual clients to be considered as part of the individual client acceptance?

It's for the firm to decide on its approach. It's whatever is appropriate, based on your firm, your degree of risk and client base. There is no one-size-fits-all approach.

For example, a firm with only five clients might feasibly include all of them individually in its assessment. Or if a firm had only one high net worth individual, then it might note that, and then detail the risks and mitigations within its risk assessment.

### ? How am I going to know about risks I'm not even seeing, for example modern slavery is a topic I know nothing about?

If you're the MLRO, you have an obligation to find out about and understand AML risks and red flags. You can't delegate responsibility and lack of knowledge isn't an excuse or defence if something goes wrong. A key resource to help you stay up to date is the AASG risk bulletins which set out emerging risks and red flags. There is also a lot of other additional information available to help you, including from ICAEW. You could watch our [AMLbites videos](#) or check out our other [webinars](#), [articles](#) and [fact sheets](#).

Our AML educational drama [All Too Familiar](#) also sets out some key red flags and risk indicators around modern slavery. This should help bring some of the issues to life for you.

### ? If nothing has changed in my firm, is the regular review of the firm-wide risk assessment necessary?

You must regularly review the firm-wide risk assessment to ensure it remains relevant and fit-for-purpose. For most firms this is likely to be an annual programme of review by senior management.

You still need to review the assessment but, if nothing has changed, you should simply record that and sign off the review.



## KEY RESOURCES



ICAEW Firm-wide Risk Assessment Methodology Template



AMLbites Videos: Firm-wide Risk Factors



AML Risk Bulletins



ICAEW Annual Return Guidance - High Risk Client Definitions



AASG Risk Outlook



National Risk Assessment



CCAB Anti-money Laundering Guidance for the Accountancy Sector



All Too Familiar

## 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.

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