For the period
6 April 2023 to 5 April 2024

Anti-Money Laundering Supervision Report

Contents

Key terms

Term	Meaning
AML	Anti-money laundering
BOOM	Beneficial owner, officer, or manager (in relation to our firms)
CDD	Customer due diligence (when identifying clients)
CTPF	Counter-terrorist proliferation financing
FCA	Financial Conduct Authority
HMT	HM Treasury
ICAS	Institute of Chartered Accountants of Scotland
KYC	'Know your client' processes
MLCP	Money Laundering Compliance Principal
Money Laundering Regulations (MLRs)	The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
MLRO	Money Laundering Reporting Officer (a role in firms)
NCA	National Crime Agency
OPBAS	The Office for Professional Body AML Supervision
SAR	Suspicious Activity Report

About ICAS

ICAS (The Institute of Chartered Accountant of Scotland) is the world's oldest professional body of accountants. We represent over 24,000 members working in the UK and around the world. Our members work in private practice and in a range of businesses, as well as in the public and not for profit sectors. They contribute significantly to society.

ICAS' Royal Charter requires that we act in the public interest. Our regulatory functions are designed and exercised to place the public interest first. Our Charter also requires ICAS to represent its members' views and protect their interests. On the rare occasion that these are at odds with the public interest, it is the public interest that must be paramount.

ICAS is a Professional Body Supervisor (PBS) for anti-money laundering (AML) and counter terrorist and proliferation financing (CTPF). We supervise more than 800 firms for AML/CTPF compliance, most of which are based in Scotland.

The Regulation Board is the body appointed by ICAS' Council to be responsible for regulation and regulatory policy at ICAS, including our approach to AML/CTPF. In addition to overseeing how ICAS maintains professional standards amongst members, students, affiliates, and firms, the Regulation Board is also a strategic body, discussing developments in regulation and closely monitoring ICAS' engagement with its oversight regulators.

Foreword from the Chair of the Regulation Board

I am delighted to present this report of ICAS' activities as an AML supervisor. It covers the 12-month period from 6 April 2023 to 5 April 2024.

In my first six months as Chair I can see that AML/CTPF compliance is a key part of ICAS' regulatory portfolio. The Board discusses associated issues in detail at every meeting. The Board knows this is an important, but challenging area for our supervised firms, given they must achieve appropriate levels of compliance alongside servicing their clients.

Very few firms set out to do the wrong thing. ICAS' regulatory teams often find that AML/CTPF failures arise by accident. This might be through misunderstanding or the pressures of work. It is the regulatory teams' job to help firms spot these issues, and then to support firms through remediation where necessary. The Regulation Board understands that AML/CTPF support is important to supervised firms. We expect this to be a growing priority in the years ahead.

The latest monitoring results in the report show an improvement in compliance levels. There has been a decrease in the number of repeat issues and most firms are doing a good job with the basics. As expected, the move to a risk-based monitoring approach has highlighted other concerns. The Board and the Regulatory Committees will keep a close eye on these going forwards.

As noted in previous reports, ICAS' work as an AML supervisor is crucial in two ways. In the first place to protect the public interest. And, in the second, to help firms protect their reputation as trusted advisers to their clients. ICAS Council supports the Regulation Board and the ICAS Executive Team in this. There is great commitment in ICAS to improving the effectiveness of its AML supervision. Accomplishment of which will lead to raising the compliance levels of our firms.

John Sutherland
Chair of the Regulation Board

Our public report

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs) require AML supervisors – such as ICAS – to publish an annual report setting out how they discharge their supervisory obligations. We have published a report each year since 2019 and were one of the first supervisors to do so.

The main purpose of this report is to provide supervised firms, stakeholders, and interested parties with a better understanding of the actions which ICAS undertakes as an AML supervisor. This will increase transparency and provide reassurance as to the robust nature of our activities.

The report covers the period 6 April 2023 to 5 April 2024, and should be read alongside other information on AML which is published by ICAS.

All references to AML in this report should be read to include CTPF, where appropriate.

Our commitment

ICAS is committed to raising the level of compliance of its members and firms with the requirements of the AML legislation. We achieve this through robust supervisory activities, targeted support, and by working collaboratively with OPBAS and other supervisors to agree and promote best practice.

What we have achieved

We believe that ICAS' effectiveness as an AML supervisor has increased steadily over recent years, with measurable evidence of success. In part, this comes as a result of several important changes to our supervisory approach, including:

- **A bigger team, with dedicated AML resource**
- **Acquiring more relevant data from our firms**
- **A more risk-focused approach to monitoring**
- **We're visiting more firms at their offices, post-Covid**
- **Better firm engagement**
- **Improved communications through 'Regulation News'**
- **Enhanced AML training for ICAS staff**
- **Working more closely with other supervisors**

What we have planned

While good progress has been made in recent years, we know that the demands on AML supervisors are increasing, and we cannot afford to sit still. We have an evolving AML workplan, responding to developing risks, and working alongside OPBAS and the other supervisors.

Regular AML videos published for guidance

Publication of thematic review findings

A revised approach to regulatory enforcement

Continued evolution of our monitoring approach

Sharing 'All too familiar' video and facilitated training

Further review of firms providing TCSP services

Some of this work will have been completed by the publication of this report, but falls outside the reporting period (6 April 2023 – 5 April 2024).

ICAS Regulation Strategy

Published in September 2023, the ICAS Regulation Strategy sets our goal as promoting trust in the accountancy profession through excellence in regulation. Achieving this requires vigilance to ensure that we are maintaining appropriate standards of AML compliance amongst supervised firms.

Regulation remains core to the work of ICAS and our Council, with a commitment to this included in the wider ICAS 2030 Strategy, which places ethical leadership at the heart of everything we do.

While regulatory and enforcement actions will always be an integral part of what we do, ICAS is also looking at what more we can to support our supervised firms, in the knowledge that we are all working together towards a shared aim of reducing the risk and impact of financial crime.

HMT consultation

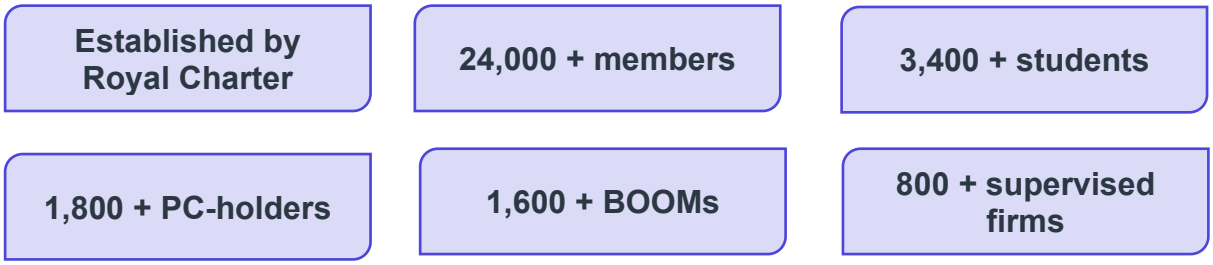
As noted in our report last year, a consultation paper was published in June 2023, setting out four options to change the supervision model for AML in the UK:

- OPBAS+, with OPBAS being given enhanced powers.
- Consolidation of the professional body supervisors, possibly with one supervisor for accountancy.
- A single body undertakes all AML supervision in the accountancy and legal sectors.
- A single AML supervisor, also taking on the supervisory responsibilities of the FCA and the Gambling Commission.

ICAS' response (available here) argued in favour of OPBAS+, expressing strong concerns over the other options, which we believe could significantly disrupt the positive progress which has been made over recent years in improving AML effectiveness in the UK.

We are not sure when next steps will be announced in respect of the consultation. ICAS believes it is in the interests of all stakeholders that the position is confirmed as soon as possible, as ongoing investment in our AML functions requires some level of certainty in our role.

ICAS at a glance



Most of the firms that we supervise for AML are smaller practices, based in Scotland. We do, however, supervise firms in various shapes and sizes across the UK.

ICAS AML supervision – overview

Governance

The Regulation Board ('the Board') is the executive board established by Council for setting policy and procedures relating to the regulatory functions of ICAS, including AML supervision. AML is a key focus of every Board meeting, as recorded in the meeting notes which are published on the ICAS website (here). The Board receives reports and statistical information, allowing it to set and oversee ICAS' general AML strategy. It reports into Council and the Oversight Board, with the Chair of the Regulation Board (a Public Interest Member) sitting on both of these bodies.

Operational AML functions are delegated to two regulatory committees: the Authorisation Committee (which deals with licensing, regulatory monitoring, and CPD), and the Investigation Committee (which investigates and assesses alleged breaches of rules, regulations, etc). Where a case against a member or firm is sufficiently serious as to require a disciplinary hearing, ICAS operates independent Discipline and Appeal Tribunals, which are overseen by the Discipline Board (here).

All boards, committees, and panels are constituted under published Regulations and comprise of a mixture of Chartered Accountants and lay members (including legally qualified chairs for the tribunals).

ICAS Anti-Money Laundering Regulations

ICAS first published AML Regulations in 2019. These Regulations (as amended) set out the framework which ICAS follows when supervising firms, in line with relevant legislation. Importantly, the Regulations set out the supervision application process and the obligations of supervised firms.

Supervisory activities

ICAS is an AML supervisor recognised under Schedule 1 of the Money Laundering Regulations. This status brings with it a range of responsibilities, as set out in the 'Sourcebook for professional body anti-money laundering supervisors', published by OPBAS.

Our main supervisory functions are:

- Licensing firms and individuals that are supervised by ICAS for AML purposes.
- Monitoring AML compliance through on-site and desktop inspection visits.
- Gathering data from our supervised population through annual returns and thematic reviews to inform risk analysis of our supervised population.
- Oversight of CPD (Continuing Professional Development).
- Taking appropriate enforcement action where there is a failure to meet required standards.
- Promoting best practice in AML through articles, webinars, and other engagement.

In discharging these functions, we work closely with OPBAS and the other professional body supervisors; particularly those in the accountancy sector. We are a member of several AML groups, including the AML Accountancy Supervisors Group ('AASG'), and the Anti-Money Laundering Supervisors Forum ('AMLSF').

Risk-based approach

All of ICAS' functions as an AML supervisor are conducted using a risk-based approach. We take a proportionate approach to supervision, primarily focusing our attention on areas where the highest risk of money laundering activity occurs, whilst also taking account of the impact of such risks (i.e. probability and impact).

Every firm that is supervised by ICAS for AML is assigned a risk rating, which impacts the level and frequency of ICAS' supervision. The calculation of the rating is made using an assessment tool which draws on a number of factors, including the size of the firm, its client base, its compliance history, and any material changes in its operation. We also take account of what is happening more generally in the accountancy sector, working closely with other supervisors as well as law enforcement agencies.

Risk ratings are subject to regular reviews and will increase or decrease as appropriate.

AML monitoring procedures

Introduction

We continue to make improvements and enhancements to our monitoring function in order to provide high-quality AML supervision, responding to the growing expectations of OPBAS and our other stakeholders.

In July 2022, we removed AML monitoring work from our Practice Monitoring regime – which covers practising certificate holders – introducing a standalone AML monitoring process. This ensured that AML monitoring has been given a greater priority for ICAS and our firms.

Having achieved this, in August 2023 we introduced a new risk-based monitoring regime, which is explained in more detail below. We also increased our AML monitoring resources.

We will continue to regularly review our monitoring approach to ensure that it is operating effectively.

Who we monitor

We undertake AML monitoring reviews for all firms which are supervised by ICAS for AML. In addition to examining firm-wide risks and compliance processes, we review the work of individual principals (partners, directors, etc) and employees.

While firms vary in size, the majority of entities are sole practitioners, or firms with two or three principals, based in Scotland.

How we risk assess firms

Each firm must submit an AML Declaration to ICAS each year. The information submitted highlights the AML risks faced by the firm. The return includes questions on the nature of the firm's clients, the services provided, various AML compliance questions, and other risk factors. The declaration is updated annually to ensure that it reflects current ML/CTF risks. Many of the questions derive directly from risks highlighted in the National Risk Assessment and from the risk intelligence we receive from regulatory and supervisory sources and law enforcement.

The responses provided by firms are collated, with risk scores and weightings allocated, giving every firm an overall AML risk score. We revise risk scores based on any additional intelligence received in relation to each firm from law enforcement, complaint investigations, disciplinary proceedings, other monitoring visits to the firm, compliance history, and other external and internal sources.

Once all firms have a risk score, we allocate them into one of the following risk categories:

- Lowest
- Low
- Medium
- High
- Highest

From 1 August 2023 onwards, the risk category has determined:

- How often a firm is reviewed.
- How the firm is reviewed.
- How the Authorisation Committee will deal with serious non-compliance.

Risk assessments are refreshed in response to new information, with each firm's risk assessment also being reviewed and updated as part of our monitoring process, as explained below.

How we monitor on a risk basis

Under our old monitoring regime, all firms would have received a monitoring visit once in each monitoring cycle. Monitoring work focused primarily on AML compliance, with the work conducted on each visit being broadly similar.

As reported last year, by the end of 2022 we could demonstrate significant progress on AML compliance within our supervised population, with the results between 2018 and 2022 showing steady and significant improvements. This was, however, based on a monitoring approach which focused on overall compliance processes, and particularly on the firm's AML policies and procedures for typical clients of the firm.

2023 was the right time for us to refresh our monitoring approach and to consider a more nuanced risk-based approach, not only using the newly-developed risk model to inform visit scheduling (when and how frequently firms are visited), but also to take a more risk-based approach to the work conducted by our reviewers during the visit.

The new monitoring programme was launched on 1 August 2023, which means that it was in operation for eight of the 12 months covered by this report.

Under the new regime, our monitoring resources are focused according to risk. We spend more time reviewing firms which are higher on the risk scale, and by extension, more time reviewing their higher risk clients and services.

The level of risk determines the frequency and nature of ICAS monitoring visits, as follows:

- Highest/high risk – approximately every two years – more likely to be onsite visit.
- Medium risk – approximately every four years – may be either onsite or desktop visit.
- Lowest/low risk – every 4-10 years – more likely to be a desktop visit.

Onsite reviews: the review is undertaken with the reviewer attending the firm's office for at least part of the review process. These usually include face-to-face opening and closing meetings with the firm's MLRO and compliance team, with review work being undertaken by the reviewer onsite.

Desktop reviews: reviews are conducted remotely and do not require the reviewer to attend the firm's office. To facilitate this, firms share various documents with the reviewer in advance of the review, so that these can be considered remotely. Whilst opening and closing meetings with the MLRO and compliance team are required, these are usually through video-conferencing facilities.

Whilst still reviewing the general levels of procedural compliance, the monitoring review focuses more on the effectiveness of the firm's risk management, policies and procedures by looking at the firm's biggest risks and assessing how these are being handled.

We start monitoring reviews with the firm's risk assessment, comparing it to the most recent ICAS AML Declaration submitted by the firm, as well as its Firm-Wide Risk Assessment. This allows us to assess the risk factors present in the firm (updating our risk assessment as previously explained). We then focus much of our monitoring work on file reviews, which are selected on a risk basis. These reviews focus on the firm's identification and treatment of these risks.

As well as checking AML compliance, as before, the review focuses more on the AML risks being faced by the firm and how the firm manages those risks.

The monitoring reviews now generally take longer as more time is required by the reviewers in conducting research during the visit and in closing down queries with the firm.

As in previous years, further sector-specific AML checks are conducted during Audit Monitoring and Insolvency Monitoring visits to ensure that these specialist engagements also cover the appropriate AML procedures.

Who conducts the monitoring

The Regulatory Monitoring Team consists of qualified accountants and AML professionals employed by ICAS as monitoring reviewers. Our team members have the relevant knowledge, skills, and experience to undertake reviews.

In 2023 and 2024, we expanded the resource in our monitoring function, recruiting an additional five reviewers, with all new AML reviewers having undergone intensive induction and training before being allowed to lead AML Monitoring visits.

All reviewers are subject to quality control review to ensure consistency across the team, with new reviewers subject to more detailed review. There is also significant consultation during monitoring visits on any more complex issues that arise.

How a visit is conducted

The underlying aim of the monitoring process has always been to establish the extent to which supervised firms are meeting their obligations under the MLRs, the CCAB's 'Anti-Money Laundering and Counter-Terrorist Financing Guidance for the Accountancy Sector', as well as other regulations and guidance issued by ICAS.

Our previous regime was more focused on overall AML compliance. Our new regime is now fully risk-focused, so in addition to monitoring overall compliance, the visit approach aims to identify the most significant risk factors being faced by the firm, seeking to understand the firm's risk management.

We take a 'scaled-up' approach to our risk-based monitoring. If there are more risk factors present in the firm, it is likely that the scope of the visit will be wider. Therefore, lower and low risk visits are usually shorter, with more time required for medium to high-highest risk firm reviews.

The following matters are addressed in all reviews:

- Checking to ensure that the appropriate AML governance is in place within the firm by:
    - Assessing whether an appropriate MLRO and MLCP have been appointed who is / are suitably experienced and competent person(s). This also includes an assessment of whether sufficient resources have been devoted to AML compliance.
    - Assessing whether all beneficial owners, officers, and managers (BOOMs) in the firm have been approved by ICAS.
- Conducting internet and Companies House searches over the firm to check whether there are any specific AML risk factors to follow up. (For example, a Companies House search could identify that principals in the firm have directorships which could fall into TCSP services if billed through the firm, or could identify additional entities providing accountancy services which are not AML supervised).
- Discussions with the firm to assess the understanding of the AML risks which it faces.
- Assessing the effectiveness of the firm's Firm-Wide Risk Assessment and AML Declaration in identifying the risks and reporting them to ICAS.
- Concluding on the overall risk assessment of the firm and highlighting potential deficiencies.
- Assessing the adequacy of the firm's AML policies, procedures, and training. While on the lowest risk visits, this is through discussion only, on all other visits this is by reviewing the policies and procedures, training records, and via file reviews (see below).
- Considering whether there are any risks identified in the firm's bank accounts. On the lowest risk visits this is by discussion only, but on all other visits by the review of the bank accounts.
- The firm's reporting procedures are assessed for adequacy, with a review of Suspicious Activity Reports which may have been submitted to the NCA.

With the exception of visits to lowest risk firms, client engagements are reviewed to assess customer due diligence as follows:

- On low-risk visits, we may only look at one file, usually to confirm that the firm's policies and procedures are operating as stated.
- On medium, high, and highest risk visits, the reviewer will conduct a risk-based file selection to ensure that a sample of engagements are reviewed to cover the risk factors identified.
- The engagement reviews focus on how the firm is adequately mitigating or safeguarding those risks by assessing the adequacy of the firm's customer due diligence procedures applied to those engagements.
- This review includes assessing whether:
    - Directors and beneficial owners have been identified and verified, particularly in complex and unusual business structures.
    - Sufficient research has been conducted to gather adequate know your client information to support the client risk assessment.
    - This information has been appropriately analysed to conduct an effective client risk assessment.
    - The extent of due diligence overall appears sufficient for the level of risk identified.
    - The firm's risk assessment and due diligence are being kept up to date by appropriate ongoing monitoring, based on the client risk assessment.

The reviews also follow up any AML issues which were identified by ICAS in previous monitoring reviews, to ensure that these have been satisfactorily addressed.

How the visit concludes

At the conclusion of the monitoring fieldwork, the reviewer arranges a closing meeting with the MLRO to discuss the preliminary findings (either in person at the firm's office, or remotely).

The reviewer then drafts a report, setting out the findings in more detail, which is provided to the firm, with a request to provide a detailed action plan, responding to the report, and explaining how any issues will be addressed, along with timescales. Certain follow-up action is discussed and agreed with the MLRO & MLCP at the close-down of the visit, with the expectation being that such action will be taken as soon as is reasonably possible, usually within one month of the visit.

All reports are subject to an internal quality review in ICAS, to ensure consistency across all reviewers, that the correct review methodology has been followed, and that the reviewer's conclusions are fair and balanced.

The role of the Authorisation Committee

Monitoring reports which have been assessed as 'compliant' can be closed down by the Monitoring Team with no further action required, and no need for referral to the Committee

Monitoring reports assessed as 'generally compliant' or 'non-compliant' will require the firm to complete specified follow-up action, which in the vast majority of cases means a follow-up check conducted by the Monitoring Team.

The close-down of each monitoring visit assessed as 'generally compliant' is considered by a member of the Authorisation Committee who is an accountant with relevant experience.

Where the monitoring visit is assessed as 'non-compliant', the closedown of the visit is considered by the full Committee in plenary session, to decide whether any further regulatory is required. The Committee meets approximately once every two months.

ICAS' AML Regulatory Actions Guidance sets out the regulatory actions available to the Committee, as well as the decision-making process. In the majority of cases during 2023/24, this involved follow-up checks, however further sanctions are available for more serious visit outcomes.

ICAS is currently trialling a new regulatory penalty regime, which we expect to introduce in 2025.

AML monitoring – 2023/24 outcomes

This section of the report sets out the main monitoring activities conducted in 2023/24 and the key findings and conclusions.

Risk-based reviews in 2023/4

Visits by risk

During the period covered by this report, 96 firms were visited, which is the highest number in a 12-month period since 2019.

As explained above, we adopted a more risk-based monitoring approach in August 2023, ensuring that a sample of firms from each category are reviewed every year. Of the 96 firms visited in the current period, 41 were conducted under the old regime (dating pre-1 August 2023) and 55 were conducted under the new risk-based regime.

During 2023/4 of the 96 firms visited, 60 (63%) were to firms in the highest-high-medium risk categories. The figures below showed the visits conducted in each category.

- As explained above, highest and high-risk firms are usually visited onsite, but there were a few exceptional circumstances that required the full scope high risk review to be conducted remotely.
- Medium visits can be conducted using either method but were predominantly conducted onsite.
- Low and lowest-risk firms are predominantly remote desktop reviews, with only one exception during the year.

If it becomes clear during the visit that the refreshed risk assessment, conducted by the reviewer as part of the visit, has changed the firm's risk categorisation, the reviewer will undertake the visit on the basis of the revised risk categorisation.

Risk	No. desktop reviews	No. onsite reviews	Total
Highest	0	2	2
High	2	9	11
Medium	18	29	47
Low	23	1	24
Lowest	12	0	12
Total	**55**	**41**	**96**

Key risks

We risk assess our firms against a wide range of risks as explained earlier in the report.

The most significant risks in our supervised population are currently:

- Clients connected with high risk or sanctioned countries.
- Clients on any sanction list (there should be none).
- Clients operating cash-based businesses.
- Clients in high-risk industries.
- Clients based overseas.
- Clients involved in industries vulnerable to human trafficking (e.g. employment agencies, clients using casual labour, catering sector etc).
- International PEP clients.
- Clients with complex structures / issues with identifying beneficial ownership.
- Providing TCSP services, in particular:
  - Company, trust, LLP, SLP formation services.
  - Conducting TCSP services for non-clients.
- Providing insolvency services (this is monitored through a separate process).
- Providing payroll services.

- Acting as a UK-regulated agent for an overseas entity.
- Poor compliance history.
- High levels of clients' money.

Firms that sit in the high and highest risk categories tend to be either firms with a combination of some of the factors above, or are larger firms which have a diverse range of clients and client services

Changes to risk categorisations during the visit

As explained above, under the new monitoring regime, the risk assessment attached to the firm, which is mainly, but not exclusively, derived from the firm's responses to their AML declaration, is refreshed during the monitoring visit.

The total movement in risks during the first eight months of operation of the new risk-based monitoring regime is summarised as follows:

Movements in the ICAS risk assessment of each firm following the monitoring visit:				
			No. of firms	**% of firms**
Stayed the same			**39**	**71%**
Changed:	**Risk category before visit**	**Risk category after visit**		
Reduced:	High	Medium	**3**	**5%**
Increased:				
	Low	Medium	**11**	**20%**
	Medium	High	**2**	**4%**
Visits under new regime			**55**	**100%**

This demonstrates that most firms (71%) were found to have been appropriately risk-assessed by ICAS based on the information they submitted on their AML declarations. However, 16 firms (29%) had a change in their risk assessment as a result of additional information identified during the monitoring visit, i.e. information that had not been reported to ICAS in the firm's AML declaration.

The movement between high to medium (3) and medium to high (2) shows that the net movement was small between those categories.

Of the 29 visits to low and lowest-risk firms under the new regime, there were 11 firms which changed from a low to a medium classification following the visit. No firms were moved from low to high-risk.

These discrepancies were mainly due to a misinterpretation of questions in the AML Declaration, or omitting to identify that the risk applied to the firm due to a lack of understanding of the risk.

The top five risk factors missed by firms in their AML declaration were as follows:

- Overseas clients.
- Cash-based businesses.
- High risk industries.
- Industries susceptible to human trafficking.
- TCSP services.

If a firm's risk category is changed early in the visit process then the visit will be conducted on the basis of the revised risk category.

Given the identification of under-reporting in firms in the low and lowest risk categories, in early 2025 we will be conducting a dip sample of firms' risk assessments in these categories. We will identify any required follow-up action for ICAS and will publish our findings with messaging for firms. We also intend to provide more guidance to firms on the risk questions contained in the AML Declaration for 2025.

Comparing visit numbers

We were able to successfully recruit five new reviewers in 2023/4. All of them have received extensive and intensive training, including shadowing more experienced reviewers on visits. With the team now fully trained, we expect visit numbers to increase in the coming years.

The chart below illustrates the mix of firms which were reviewed and the types of review which were undertaken in each period.

(NB: between 2020 and 2022, 'remote' visits were visits that would have been onsite visits had it not been for the Covid-19 lockdown restrictions).

	Review type				
Year	Telephone	Desktop	Onsite	Remote	Total
2015	9	35	122		166
2016	24	61	135		220
2017	19	45	118		182
2018	2	30	129		161
2019	0	18	71		89
2020/21	0	58	9	23	90
2021/22	0	33	30	6	69
2022/23	0	31	56	0	87
2023/24	N/A	55	41	N/A	96

Size of firms reviewed

While the sizes of firms visited in 2023/4 was broadly comparable with those reviewed in 2022/3, there was a slightly smaller proportion of larger firms visited.

	Size of firm			
Year	Sole practitioners	2-3 partners	4+ partners	Total
2015	110	34	22	166
2016	156	48	16	220
2017	136	33	13	182
2018	116	42	3	161
2019	59	19	11	89
2020/21	70	12	8	90
2021/22	39	14	16	69
2022/23 as %	**55%**	**28%**	**17%**	**100%**
2023/24	54	29	13	96
2023/24 as %	**56%**	**30%**	**14%**	**100%**

Visit outcomes

This was a transitional year in which we moved from a more cyclical approach to a more risk-based monitoring approach.

Overall, it is pleasing to see that the proportion of 'compliant' firms increased from 45% to 61%, meaning that more firms achieved acceptable standards of compliance, with fewer firms required to complete follow-up action.

There were also very few firms with repeat issues from their previous visit, with most of the issues identified in visits being new issues. This shows that firms have been committed to AML compliance and have taken appropriate follow up action, where required. It also demonstrates that our monitoring programme has been effective in driving improvements year-on-year. This is covered again later in this report with specific case studies demonstrating the effectiveness of our monitoring regime.

At the other end of the scale the number of 'non-compliant' firms has increased from 10% in 2022/3 to 15% in 2023/4 (meaning that there has been a significant reduction in 'generally-compliant' this year). This is not due to poorer compliance but due to the change in monitoring regime, with the findings for the firms with poorest outcomes becoming less 'procedural' and more 'core CDD', therefore warranting a 'non-compliant' rather than a 'generally compliant' grading as explained below.

At first glance, some of the report statistics – particularly those for CDD compliance – could be interpreted to mean worsening performance. However, the transition to our new monitoring approach has resulted in more in-depth risk reviews, teasing out new findings for firms to address, in line with OPBAS' expectations. Essentially, our scope is more detailed, and the bar has been raised.

Our current visit approach focuses on the most significant AML risks faced by the firm and conducting a deep dive into whether their CDD approach sufficiently deals with those risks i.e. whether the firm's policies and procedures have been effective.

In the main, while we have found that firms are dealing well with standard clients, they are not always recognising all of the higher AML risks and applying appropriate enhanced due diligence measures. Despite the majority of clients being dealt with appropriately by firms, highest risk clients pose the greatest threat to firms. Therefore, where deficiencies are found, we are raising CDD breaches on the visit report and, where necessary, we take appropriate follow-up action.

This shows that we are continuing to take a more robust approach to non-compliance, in line with the expectations of OPBAS and other stakeholders.

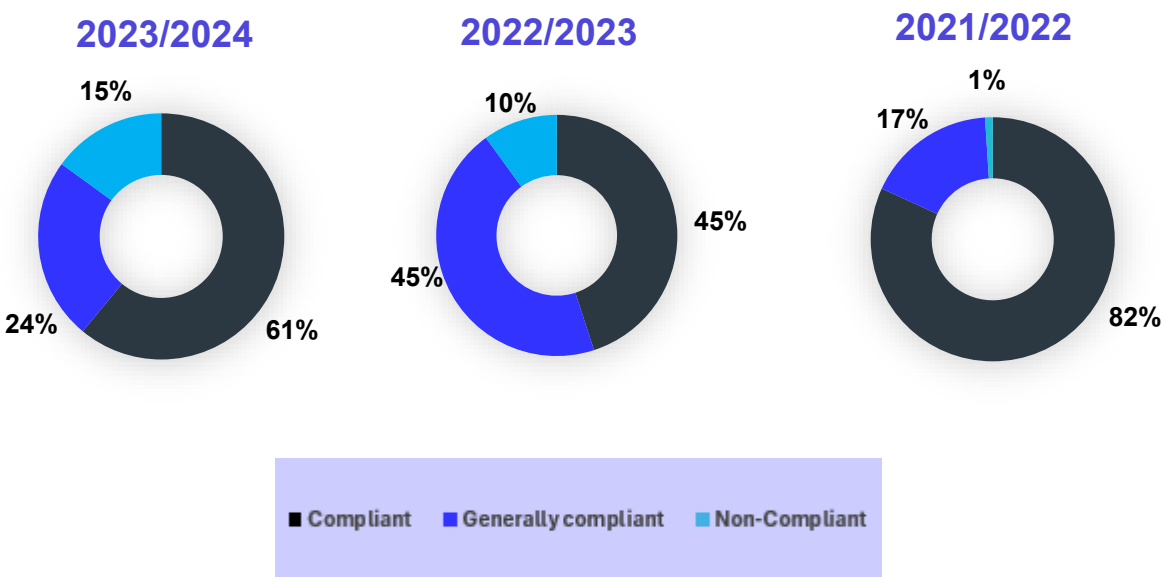
Visit outcomes by numbers

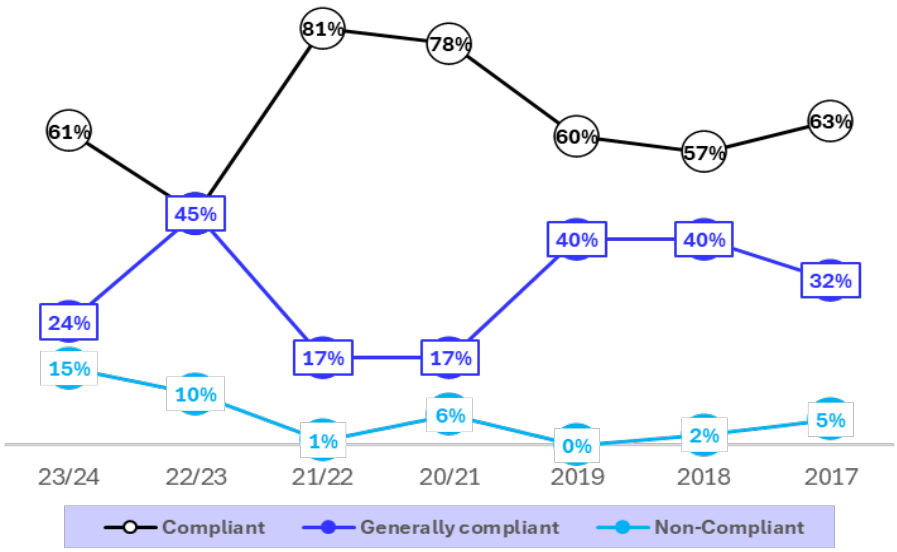
Monitoring review outcomes	23/24	22/23	21/22	20/21	2019	2018	2017
Compliant	59	39	56	70	53	92	114
Generally compliant	23	39	12	15	36	65	58
Non-compliant	14	9	1	5	0	4	10
Total	**96**	**87**	**69**	**90**	**89**	**161**	**182**

Compliance percentages

Monitoring review outcomes	23/24	22/23	21/22	20/21	2019	2018	2017
Compliant	61%	45%	81%	78%	60%	57%	63%
Generally compliant	24%	45%	17%	17%	40%	40%	32%
Non-compliant	15%	10%	1%	6%	0%	2%	5%

Some of the percentages listed in previous years were rounded up or down.





Movements in compliance from one visit to the next

The table below sets out the overall movement in visit outcomes for each firm visited in 2023/4, comparing each firm's previous monitoring visit outcome to the current visit. Again, it must be emphasised that there has been a significant monitoring regime change.

Worsened	**14**
Generally compliant to non-compliant	6
Compliant to non-compliant	3
Compliant to generally compliant	5
Stayed same	**33**
Non-compliant to non-compliant	2
Generally compliant to generally compliant	10
Compliant to compliant	21

Improved	**11**
Generally compliant to compliant	11
First visit	**38**
Non-compliant	3
Generally compliant	8
Compliant	27
	96

It's good to see that the vast majority of firms (71%) receiving their first visit were found to be 'compliant' and that very few firms being reviewed for the first time were given the most serious outcome (less than 8%).

Our course for new PC holders is an important resource for members setting up in practice, covering the main AML requirements that firms should be aware of. We will continue to consider what more ICAS could do to assist new practitioners.

Of the remaining firms:

- Of the 29 firms which were 'compliant' at the last visit – 73% maintained good compliance, five were 'generally-compliant' (17%), and three slipped to 'non-compliant' (10%).
- Of the 27 firms which were 'generally-compliant' at the last visit – 10 stayed 'generally-compliant' (37%), and three became 'non-compliant' (12%). More pleasingly, 41% improved to 'compliant'.
- Both firms previously 'non-compliant' were classified again as 'non-compliant' at this visit.

A number of important conclusions can be reached from the above:

- The vast majority of firms (61%) showed they have been on a good compliance trajectory (27 first-time compliant, 21 existing firms compliant, and 11 firms had improved from 'generally compliant' to 'compliant'). This is despite the significant regime change.
- The previous two 'non-compliant' firms stayed poor. We will continue to monitor these movements and consider the implications for our follow-up and regulatory action.

The reasons for firms staying or becoming 'non-compliant' are analysed further below.

Analysis of firms with poorest outcomes

We have conducted an analysis of the 14 'non-compliant' firms (excluding the three first-time visits) to give us a better understanding of the main reasons for the non-compliance.

- There were only five firms where material repeated compliance failings were identified, i.e. where the firm made improvements after the last visit and then did not maintain good standards. These repeat breaches resulted in the firm being classified as 'non-compliant'. This accounts for the two non-compliant firms which were still non-compliant at the next visit, and three of the generally compliant firms that moved to non-compliant.
- Five firms had experienced a change of circumstances which contributed to their non-compliance (e.g. changes in ownership/control, ill-health, retirements, and/or staffing shortages). This accounts for two of the 'compliant' firms moving to 'non-compliant', and three firms moving from 'generally-compliant' to 'non-compliant'.
- One firm was classified as non-compliant (from 'compliant' previously), mainly due to the new monitoring regime teasing out issues with how the firm had dealt with its higher risk clients.

This shows that there are very few firms with repeat compliance failings at the time of their next monitoring visit (five firms out of 96, or 5%). This demonstrates that our monitoring regime is operating effectively and driving improvements.

An important message for firms is that those at the lowest end of the compliance spectrum find it difficult to improve. These firms are firmly on the Authorisation Committee's radar and likely to receive the toughest regulatory action.

AML monitoring – comparison to prior years

This section of the report provides a short summary of the more common AML compliance issues which have been identified by ICAS through AML monitoring work.

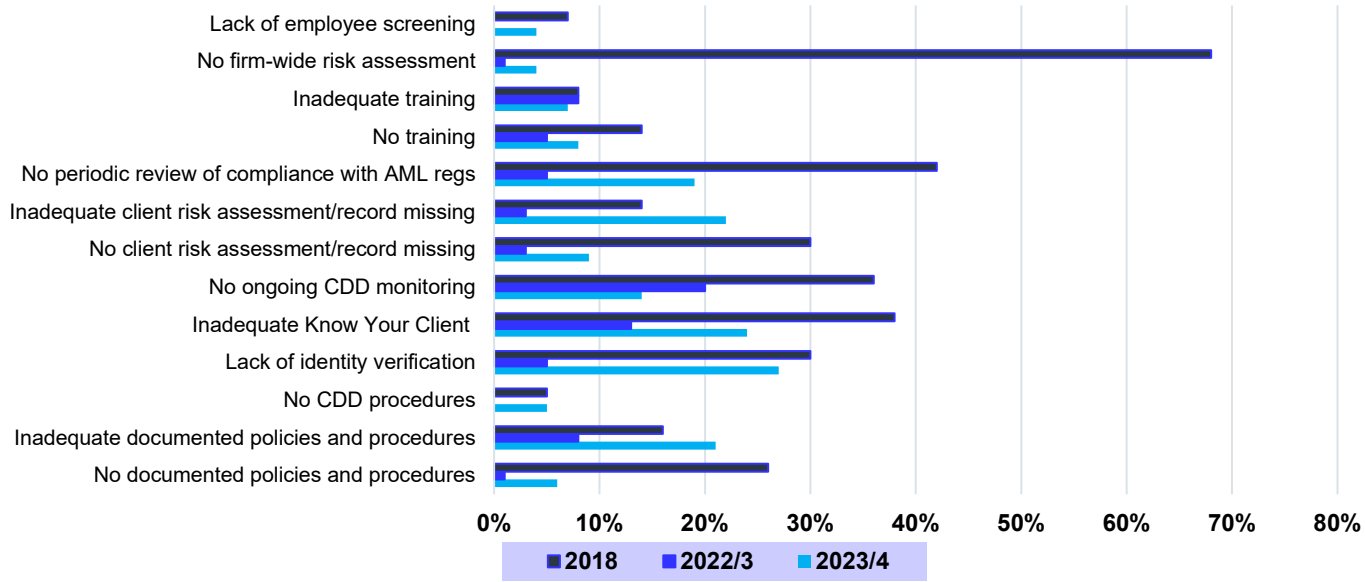
Comparison to when the MLRs came into force

We have adopted a low tolerance approach for non-compliance since the MLRs came into effect in 2017, conducting a significant number of follow-up checks with firms to ensure that improvements are made. This approach has improved compliance levels, with a low incidence of repeat failings.

We can clearly demonstrate this by comparing compliance failings in 2022/23 to those in 2018, the first full year of the MLRs. This shows that our previous ICAS' monitoring approach was effective in driving improvements in our supervised population.

While the figures show a decrease compliance between 2023/24 and 2022/23, as explained above, the figures must be read with care. Rather than firms getting worse, the more obvious explanation is the change in our monitoring regime, with the closer focus on higher risk clients exposing CDD failings in relation to firm's non-standard clients i.e. the bar has been raised. This will be a focus of education going forward to our firms.

Comparing compliance failings between 2018 and 2023/24 (and 2022/23)



Our most common findings

It is not surprising that the evolution of our monitoring regime has led to a change in the top five compliance failings which have been identified. As our new monitoring approach focuses on our firms' CDD for higher risk clients, our findings are now more CDD-related.

Generally, firms are dealing more satisfactorily with their standard client base. Issues mainly arise for firms dealing with smaller numbers of 'outlier' clients which are potentially higher risk.

This is explained further in the Customer Due Diligence section below.

The top five 2023/24	2023/24	2022/23	2021/22
Identity verification	27%	5%	2%
Know Your Client	24%	13%	4%
Client risk assessment	22%	3%	12%

Policies & procedures	21%	8%	13%
Customer due diligence (CDD) / EDD	21%	N/A	N/A
% represents the % of firms visited			

We cover each of these areas in more detail later in the report.

How this compares to last year

Whilst there has been a change in regime, the compliance aspects previously reviewed through the previous monitoring regime are still reviewed in the current regime, including an assessment of how the firm has addressed any previous visit findings. The table below shows the compliance figures this year for the issues that were in the 'Top Five' last year.

With the exception of data handling requirements and training, it is positive to note that there have been improvements in the other areas previously reported.

The reason that data handling has not been classified this year as a significant 'Top Five' finding is that data handling, while important, is an adjunct to the core AML issues and therefore doesn't have the same significance as the other issues raised.

The top five 2022/23	2023/24	2022/23	2021/22
Data handling issues	60%	26%	13%
Whole firm risk assessment not consistent with ICAS review	18%	48%	1%
Lack of ICAS approval of BOOMs	10%	25%	29%
Lack of sufficient ongoing monitoring of CDD	14%	20%	12%
Lack of evidence of adequate AML staff training	8%	5%	14%
% represents the % of firms visited			

AML monitoring – deep dive into CDD

This section of the report covers the main CDD findings identified during 2023/4.

CDD is at the core of AML compliance. It covers the approach firms take to identifying and verifying the existence of the client, maintaining records of their knowledge of the client, and assessing the specific money laundering risk factors they associate with the client and mitigating those risks. This work must be subject to ongoing monitoring to make sure the firm responds in a timely and effective manner to changing and emerging risks.

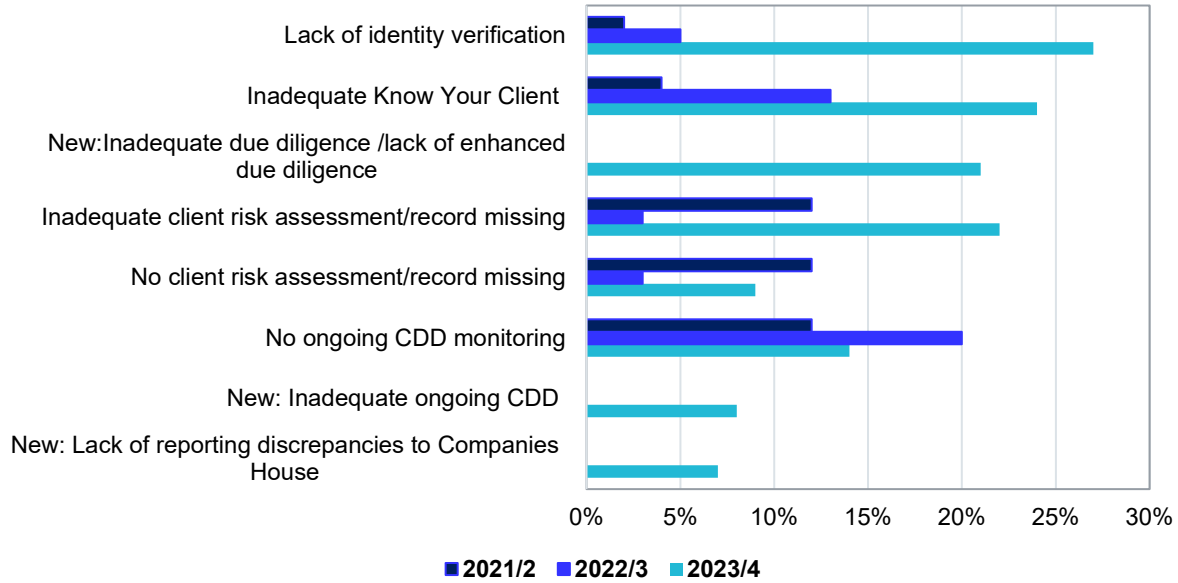
As illustrated in the comparison between 2018 and 2022/23, we have seen significant improvements in CDD compliance procedures over the last few years, with compliance rates being generally good in 2022/23.

However in 2023/4, under our new monitoring regime, we are diving deeper into CDD, with a particular focus on CDD effectiveness and on how higher risk situations are being handled by the firm. This results in the monitoring team spending more time on client research and raising queries with the firm.

As previously explained, whilst firms are handling their more standard client base well, their high-risk clients are usually outliers, with firms not always dealing with them in sufficient detail. This has driven the increase in CDD effectiveness failings as noted below. These should be considered as new issues as they are different from the more general CDD procedural issues raised in previous years.
It is heartening to see that the ongoing monitoring, through which firms keep their CDD up to date, has improved over last year, as this was one of the key issues highlighted in last year's report.

To bring this to life, we include some case studies below. Given the iterative nature of each step of the CDD process, the examples cover wider points than just that area of CDD being mentioned.

CDD most common issues / trends



1. CDD: Verification of client identification /verification

% represents the % of firms visited	2023/24	2022/23	2021/22
Lack of identity verification	27%	5%	2%

Firms must identify the directors and beneficial owners of each client, verifying those individuals on a risk basis i.e. obtaining proof that they are who they say they are, either via identification documents, such as passports and driving licences, or through electronic identification checks.

Guidance is available for members in the CCAB Anti-Money Laundering, Counter-Terrorist and Counter Proliferation Financing Guidance for the Accountancy Sector ('CCAB AML Guidance') that explains how verification should be conducted.

Whilst most firms generally have a satisfactory standards of client identification and verification for standard clients, we are identifying more issues arising out of our review of higher risk clients, as explained below.

Issues have been identified in the following areas:

- Complex/Unusual group structures
- Verifying directors/beneficial owners
- Use of electronic platforms

Complex/unusual group structures – understanding the identity of beneficial owners and directors

Some firms had clients with complex or unusual group structures, with the firm not fully understanding the group structure or conducting sufficient research to understood who the beneficial owners were at the 'top of the chain' and, by extension, had not verified these individuals. This included firms with clients with foreign ownership which can indicate higher risk.

The identity requirements are clarified in B2.2. of the CCAB AML Guidance which states that the following should be identified:

"Any shareholders/members who ultimately own or control more than 25% of the shares or voting rights (directly or indirectly including bearer shares), or any individual who otherwise exercises control over management. These individuals are the beneficial owners (BOs); The full names of all directors (or equivalent) and senior persons responsible for the operations".

Verification of directors and beneficial owners on a risk basis

Verification is the process by which firms check that the owner or director is who they say they are.

In a number of cases firms had not verified all directors and beneficial owners of the client, and the verification approach conducted did not fully meet the risk-based requirements of the CCAB AML Guidance. The requirements are explained as follows:

Directors

The CCAB AML Guidance allows for verification of directors to be conducted on a risk basis as follows:

B.2.4 "*The names of directors should be verified on a risk-based approach, so more verification work should be performed for higher-risk clients. The business should assess which directors require identity verification (see below). The subsequent work should include verifying both the director's name and their identity – i.e. that they are who they say they are".*

B.2.5 "*When applying a risk-based approach to verification of directors, the business should assess the overall client risk (see Chapter Four of this guidance) by considering the following:*

- *The type of client;*
- *The country or geographic areas in which it operates;*
- *The product or service being provided; and*
- *The delivery channel being used.*

For a normal risk client, the business should verify the identity of the director who is the key client contact. Verification of additional directors should be considered for high-risk clients. When undertaking verification of director identity, businesses should consider the risk of identity theft and the use of false documents. Businesses must be able to explain how they have applied a risk-based approach to the verification of directors and ensure that the rationale is documented".

Beneficial owners

The CCAB AML Guidance allows for verification of directors to be conducted on a risk basis as follows:

B.2.3 *"BOs should be verified on a risk-based approach, so for higher-risk clients, more verification work should be performed. If the business has exhausted all possible means of identifying the BO of the company/LLP, the business must take reasonable measures to verify the identity of the senior person in the company/LLP who is responsible for managing it, and keep records in writing of all the actions the business has taken and difficulties it has encountered".*

On a number of visits we saw firms:

- Not verifying a sufficient number of directors/beneficial owners for clients which were clearly higher risk, such as clients with overseas connections, and clients with unusual or complex groups.
- Verifying the directors/beneficial owners where the data was easier to access, but not verifying the individuals that were less accessible and more likely higher risk.

- Failing to verify the director who is the key contact.
- Where a sample of directors/beneficial owners being verified did appear a reasonable approach in the circumstances, not setting out the reasons for this approach in writing.

Use of electronic platforms

It is important to emphasise that using an appropriate electronic platform provides a far richer source of CDD evidence than conducting identity and verification checks manually. As such, ICAS highly recommends that firms consider their use.

However, the CCAB AML Guidance requires firms which are using electronic platforms as their sole source of evidence to verify client identification require to ensure that the platform meets the necessary criteria so that the platform is indeed providing sufficient information to confirm that the person is who they say they are.

In order to check whether a platform can be fully relied upon, without other sources of evidence, the firm must satisfy themselves that the information provided through the electronic platform is reliable, comprehensive, accurate, secure, and capable of providing an appropriate level of assurance of a person's identity, considering the following:

- Does the system draw on multiple sources?
- Are the sources checked and reviewed regularly?
- Are there control mechanisms to ensure data quality and reliability?
- Is the information accessible?
- Does the system provide adequate evidence that the client is who they claim to be?

Where relying soley on electronic checks for verification, firms should obtain and evidence confirmation that the software provider can meet these criteria. If the provider cannot, the firm must ensure manual additional checks are carried out and recorded.

Key learning points – identification & verification

- Firms must identify all beneficial owners and directors.
- The key contact director(s) identity/identities must be verified.
- Other directors may be verified on a risk basis but if not 100% verification the firm must record and justify its approach.
- While the CCAB AML Guidance allows for beneficial owners to be verified on a risk basis (recording justification for not vouching 100%), as ICAS best practice advice is that as there are only ever a maximum of three beneficial owners for any client (given the >25% rule), it is reasonable to expect firms to verify all beneficial owners.
- Using an electronic platform is a rich source of information that is better than manual checks, but firms must check for certain criteria if relying solely on an electronic platform. If it doesn't then further evidence must be obtained manually
- Finally, we are reporting a new finding of firms not reporting discrepancies in Persons of Significant Control (PSC) at Companies House. On a small number of visits we noted that our own Companies House search identified different PSCs or directors than recorded by the firm. Firms are reminded to regularly check Companies House and to remember their reporting obligations for discrepancies.

Case study – what good looks like when dealing with complex groups

- A monitoring review to a sole practitioner tax specialist with only a small portfolio of very specialist niche clients.
- One of the clients selected for review during the monitoring visit was a client with a complex group structure owned via a trust established in an offshore jurisdiction.
- The client has international interests in an industry considered high-risk by FATF / the National Risk Assessment.

A detailed KYC/CDD memo was noted on file, including evidence of the following considerations:

- The full group structure was recorded on file.
- The CDD recorded and verified all beneficiaries and trustees.

- Extracts from the FATF website were retained on file and used to determine whether there had been any change in the compliance with Regulations for the geographies where clients were based.
- The OFSI consolidated sanctions list was retained and file and used to determine if there were any positive search results for clients including their related organisations. No positive results were noted from these searches.
- The Transparency International Corruption Perception Index was retained on file and used to identify any changes to the index for clients' geographies and the ranking of those geographies. No material changes were noted.
- The CDD also recorded the outcome of internet and other relevant CDD searches.
- There was a detailed explanation of source of wealth noted.
- CDD was monitored at each interaction with the client, with the memo updated and dated.

Conclusion – while this case-study shows all aspects of CDD – not just client identification and verification – it shows that the firm obtained a good understanding of the organisation structure and conducted identification and verification checks accordingly.

2. Know Your Client ('KYC')

% represents the % of firms visited	**2023/24**	**2022/23**	**2021/22**
Inadequate Know Your Client to support risk assessment	24%	13%	4%

The breaches raised under the previous monitoring regime would have been in relation to firms with KYC gaps (i.e. client engagements without KYC).

With our monitoring approach evolving to look at the effectiveness of CDD, the findings are now more focused on the sufficiency of the KYC information gathered (i.e. the research conducted) to support the client risk assessment. The risk factors are covered in the next section of the report but it is important that firms gather sufficient date to be able to assess every risk factor.

For example, for a high-net worth client, we would look at whether sufficient information has been obtained about the client's various sources of wealth in order to make an appropriate risk assessment of that client, with the CCAB Guidance stating:

"Where appropriate, evidence can be obtained from searching public information sources like the internet, company registers and land registers. If the client's funds/wealth have been derived from, say, employment, property sales, investment sales, inheritance or divorce settlements, then it may be appropriate to obtain documentary proof".

The following case study provides a good example of some research that one firm we visited conducted as part of its 'KYC'.

Case study – what good looks like for KYC for a high-net-worth client

- A monitoring visit to a sole practitioner tax specialist.
- During the monitoring visit a high-net-worth client was selected for review, with the client being from a wealth family, and the settlor and principal beneficiary of an overseas trust. The trust owns significant investment holdings in corporate entities globally.

The CDD was well-documented, including:

- A detailed ownership structure on file.
- Companies verified through company searches, share certificates, and media searches.
- Passport ID noted on file, as well as detailed tax and residence documentation for the beneficiary, settlor and trustees.
- Detailed KYC was maintained on file.
- The CDD summarised the history of the client , referring a number of philanthropic interests, with links to various articles as evidence. Our reviewers carried out media searches to confirm it was consistent with that noted in the CDD.
- The CDD documentation included a list of all investment holdings and the nature of each of the businesses, with research into each.

- Very detailed documentation regarding original source of wealth and subsequent increase in wealth since original inheritance noted on file.
- The CDD documented the associated AML risks.
- There was a detailed risk assessment on file covering client risk, service risk, geographic risk, delivery channel and overall risk.
- The CDD was kept up to date with regular ongoing monitoring.

Conclusion – while this example covers all of the CDD steps taken, it demonstrates that significant research was conducted on the client's original legacy wealth and subsequent growth in wealth, their current investments, media checks etc. to enable the firm to conduct a thorough risk assessment.

Similarly, if a client is in a high-risk industry such as transport, munitions, pharmaceuticals etc, then we would expect firms to have thoroughly researched the nature of the goods / services provided, the nature of the suppliers, customers etc. Firms must also remain alert to the risks of proliferation and its financing, and trade-based money laundering, and gather sufficient KYC information to be able to assess those risks appropriately where the nature of the client indicates that there are increased risks.

The following case study is an example of a high-risk industry client where our reviewed identified that insufficient KYC information had been obtained.

Case study – deficiencies identified with KYC for a high-risk industry

The firm failed to recognise risk flags and did not conduct sufficient KYC to research them in support of its risk assessment. The following risks were missed: overseas connections, high risk industry, and dual-use goods / proliferation risks

While the first two of these are more self-explanatory, the latter requires further explanation.

- A monitoring visit to a medium sized corporate firm located in a city-centre location with a wide mix of corporate clients, some of a higher risk nature.
- During risk assessment discussions it was identified that the firm had a client in a high-risk industry that had the potential to be dual use and therefore a potential proliferation risk. The client also had overseas connections to countries that were involved in conflicts, albeit not a sanctioned country.
- The client was selected for an engagement review during the AML Monitoring visit.
- A director based overseas had not been verified with no justification
- The firm's risk assessment had not considered the risk of proliferation as part of the firm-wide risk assessment and the CDD for the client did not consider the particular risks re overseas connections, high-risk industry or dual-use / proliferation.
- No consideration was given to the source of wealth of the beneficial owners or source of funds.
- As part of the review, we asked general questions around the nature of the goods supplied, the nature of the customers and where the customers were based. The enquires highlighted that sales were being made to a number of countries that would be considered riskier, but none on the FATF high-risk or sanctions list. The file did not record any of these considerations.

Conclusion – the firm failed to identify the main risks presented and had therefore not gathered sufficient KYC information (nature of goods / services; customers, suppliers etc) to conduct an effective risk assessment.

In concluding the review, we highlighted the risks to the firm and asked it to conduct more research and satisfy itself that the risks could be mitigated. We later conducted a follow-up check to ensure that the risks were being considered appropriately.

3. Client risk assessment

% represents the % of firms visited	2023/24	2022/23	2021/22
Inadequate client risk assessment	22%	3%	12%

We are reporting an increase in non-compliance in this area due to our deeper dives on higher risk clients in visits where we are now assessing the effectiveness of the firm's assessment of all the risk factors presented.

Assessment of all risk factors

We are finding that firms are generally more comfortable with assessing common risks, like cash-based businesses, but will sometimes fail to identify other less common higher-risk factors, such as clients with overseas connections, or clients operating in a high-risk industry (see previous case-study). In some cases, this can be attributed to a lack of understanding by the firm of risks faced.

Firms are reminded that the following risk factors must be considered:

- Geographic risk factors.
- Customer risk factors.
- Nature of Product, services.
- Transactions.
- Delivery channels.

A number of these risk factors have been covered below by way of illustration.

Geographic risk factor – overseas connections

This is one of the most common risk factors where firms have conducted insufficient research and ineffective risk assessment. It is not unusual to find that – even in the smallest or most rural of firms – that there is at least one client with an overseas connection.

Common issues we identify are:

- Not fully exploring, or recording, what the nature of the overseas connection is and the impact that it has on the risk assessment, e.g. where the client is resident, the nature of the ongoing connection to the other country, the reasons for the connection with the UK, why the firm is acting for the client, the nature of overseas trading etc.
- Not considering and recording whether that country is on the grey or black FATF list and the implications of this for the risk assessment and required level of CDD.
- Not considering and recording whether the connection is to a country on a sanctions list, and if it is, not fully recording all the sanctions considerations (i.e. explaining why acting for the client does not breach any sanctions).

Customer risk factor – cash-based business

This is one of the most common risk factors seen on monitoring visits. While it is one of the most well-documented areas for many firms, some firms are still not getting it right.

A common response we receive is that the firm no longer handles cash and mainly receives electronic payments. This does not necessarily reduce the risk of proceeds of crime being washed through a company's books. The firm needs to understand what the actual risk is of monies being introduced, by whatever method, from non-bona fide sources.

Looking at absolute turnover and gross margins is not sufficient. The firm should sense check how the figures stack up relative to other relevant factors. In the example provided in last year's report, for example, we looked at the turnover compared to the number of covers the restaurant did in an evening. We are providing another real-life example as further demonstration.

Worked example (taken from a real practice example)

A firm was asked to act for a pizza takeaway that mainly takes payment through credit cards, but also accepts cash payments from customers.

The firm provides accountancy, tax, and VAT compliance services. Comparing the turnover year-on-year didn't show any significant fluctuations in either turnover or gross margin.

However, a simple process of calculating the number of pizzas that would have to be sold during its opening hours to generate the turnover declared demonstrated that the business would have had to have made a pizza every 30 seconds with only one pizza oven.

The firm declined to act for the client, submitting a SAR.

This was a simple quick calculation that did not take a lot of effort for the firm but provided significant evidence.

Disconnect between the risk assessment and level of due diligence

We often also see a 'disconnect' between the risk assessment performed by firms and the actual level of CDD. For example, it is not unusual for firms to have conducted enhanced research work for payroll engagement, but omitting to mention this payroll risk on their client risk assessment. Similarly, firms often classify their cash-based business clients as low or standard risk, but have conducted appropriate analytical review enhanced due diligence.

Key learning points – risk assessments

Firms are reminded to identify and comment on all potential AML risks factors for a client, and are reminded that the main categories of risks are as follows: client risks, geographic risks, product or service risks, transaction risks, and delivery channel risks.

The ICAS AML Declaration asks questions about potential higher AML risk situations and should serve as a prompt for firms in completing their individual client risk assessments.

Case study – deficiencies found with a risk assessment

A monitoring visit to a sizable firm with a number of offices, and each office having a different risk profile. One partner holds the role of MLRO and MLCP.

Our review identified the following issues:

- Risks included within the firm-wide risk assessment were not included within the AML Declaration submitted to ICAS.
- One of the sample files selected highlighted potentially significant risks that the firm had not clearly identified or addressed. This included a client from a small town which was trading in goods sent via an intermediary to a high-risk country with very little know your client information, no appropriate risk assessment, no consideration of the intermediary or of its involvement, no consideration of the nature of goods sold, no consideration of the reasons for the transactions and whether they were bona fide or not.
- The firm had not given sufficient consideration to risk factors and there were inconsistencies within the verification obtained.

The issues raised were considered serious and resulted in a follow-up check to ensure the issues had been addressed. The follow up check was carried out shortly after the first visit. The check confirmed that:

- The AML risk was now included as a standard agenda point for partner meetings and a register has been set up to review and monitor high-risk clients.
- The potential risks identified for client have been considered and mitigated.
- Training was carried out to ensure that risks are now consistently considered.
- Standard documentation was updated to ensure consistency of recording.
- The firm provided examples of risk assessments, and the enhanced due diligence carried out based on the assessment.

Conclusion – this firm's risk assessment process was poor, with the firm not identifying the risks for a client considered to be high-risk by ICAS. The monitoring visit and the subsequent follow-up check drove changes in the firm's risk assessment, with the firm now having improved risk assessment processes, addressing the higher risk factors for the client in question.

5. Extent of due diligence

% represents the % of firms visited	2023/24	2022/23	2021/22
Customer due diligence (CDD) / EDD	21%	N/A	N/A

This is a new finding this year and is raised because of our changed approach to AML monitoring and our overall assessment of the sufficiency of the firm's CDD. In 21% of the firms there was at least one client where either:

- The risk factors had not been identified and addressed in the risk assessment, but it seemed on the face of it like that client should be high-risk requiring enhanced due diligence.
- Enhanced due diligence was not conducted in sufficient detail.

We have previously identified situations where firms applied simplified due diligence when the client's situation was not low risk. However, this was not a concern identified in the period of this report.

Case study – what good looks like for Simplified Due Diligence (SDD)

A monitoring review of a sole practitioner with 2 clients.

- The practitioner demonstrated a clear understanding of a risk-based approach.
- On one client engagement they had appropriately applied SDD.
- The client is a local authority, the practitioner gathered KYC information and evidence of their link to the Government so that they could apply SDD.
- The firm was able to apply a risk-based approach to the verification requirements, readily confirming that they have verified the 'Section 151 Officer', a role in where the individual is in charge of the local authorities finances as part of the Local Government Act of 1972.
- The practitioner identified other key roles within the entity and rationalised their approach to verification, justifying their approach.

Conclusion – this was an example of SDD being appropriately applied.

Case study – what good looks like for CDD and EDD

A monitoring review to a sole practitioner with approximately 200 clients.

- The practitioner has made significant improvements in their CDD procedures following defects highlighted in previous monitoring visits. They had migrated all of their clients on to an electronic practice management system allowing for the records to be managed centrally, effectively, and with easy access.
- By maintaining CDD documentation electronically, the practitioner was able to implement a system of ongoing monitoring, update clients KYC documentation where required, and had a consistent approach to both new and long-term clients, with at least annual risk assessments.
- There was an overseas connections risk section in the identity and verification section of the new file management system.
- On one client file with an overseas connection, additional documentation has been gathered including extracts from the Company Register for that jurisdiction.
- The risk assessment included an understanding of the client's geographic areas of operation, nature of business, customers, suppliers, nature of services provided and delivery channel.
- In the risk assessment, risk indicators were acknowledged and mitigating actions were recorded, including the requirement to gather additional documents annually as part of the practitioners risk-based approach for EDD.

Conclusion – while this example covered the full scope of CDD, it also shows that the firm now has an appropriate approach to EDD.

6. Ongoing monitoring

%s- represent the % of firms visited	2023/24	2022/23	2021/22
Lack of sufficient ongoing monitoring of CDD	14%	20%	12%

Firms are required to conduct periodic reviews of their CDD to ensure that the information on the client and services being provided are being kept up to date. We are pleased to see improved compliance in this area, which has been flagged in the Top Five for the past couple of years under the old monitoring regime. It's too early to tell if this is a trend.

It is clear in the majority of cases that an ongoing review has been conducted but the working papers have not been updated to evidence the review. Firms are therefore reminded to conduct structured periodic checks, and to document and date their working papers as evidence of the review.

The ICAS reviewer will usually conduct internet searches on clients selected for review such, including Companies House and general Google searches. We found during the year that a small number of firms have not kept changes to ownership / directorship up to date.

Case study – what good CDD and ongoing monitoring looks like
A monitoring review of a firm with two principals and approximately 500 clients.

The firm uses a consistent approach in meeting their clients when establishing a relationship. During this meeting, the firm verifies identity documents and gathers sufficient KYC information from the client. The information gathered is then used in the firm's risk assessment, which includes documenting any mitigating actions for risks identified and any EDD required.

The firm uses a paper-based filing system which is maintained and each document is readily accessible. A system of ongoing monitoring is in place and is clearly updated at least annually, where there have been any noted changes in client circumstances this is also recorded on the file. In one client case – a Scottish Limited Partnership – the firm has clearly demonstrated that ongoing monitoring has been applied, including updating the risk assessment when the partnership agreement changed in advance of the client's annual review.

The nature and purpose of the SLP was clearly understood and documented in the risk assessment and KYC documentation as that of a family farm. The firm has completed documented site visits across the duration of the relationship to ensure that the nature and purpose of the SLP has remained the same, whilst also detailing their risk-based approach to verifying the general partners and identifying the limited partners.

Conclusion – this shows that the firm took an effective approach to ongoing monitoring, with the particular example of a higher risk client.

7. Trust or Company Service Providers (TSCPs)

Most of the firms supervised by ICAS are registered as TCSPs, which means they can provide certain services to clients, including the creation of companies, and providing a registered office.

We have noted that the firms we reviewed are conducting the following services:

TCSP service	% of firms visited during visits in 2023/4	% of firms visited in 2022/23
Conducting any TCSP service	88%	76%
Company, trust, LLP SLP formation	37%	76%
Acting as director, company secretary or partner on behalf of another legal entity	15%	10%

Provision of registered office addresses etc.	78%	79%
Acting as trustee	2%	15%
Acting as a nominee shareholder	5%	2%
% represents the % of firms visited		

The key conclusions here are that: (a) most firms conduct TCSP services, and (b) most firms appear only to provide a registered office, which is generally a lower risk service.

However, care needs to be taken in reading too much into the smaller number of firms conducting company, trust, LLP, SLP formations for clients. While it is difficult to say whether this is an ongoing trend, some practitioners have advised us on visits that they have not recently provided such services for the following reasons:

- The current economic situation, with fewer new businesses being set up in local areas.
- An increase in the number of clients doing their own company formation, which is readily available at Companies House online.

Unfortunately, some firms are omitting TCSP services from their annual ICAS AML Declaration. This is a significant failing given that this information is used to update the public TCSP register, and could lead to formal regulatory action being taken by ICAS.

While most firms only deliver TCSP services to existing accountancy and/or tax compliance clients, it is important that appropriate CDD records are retained for TCSP-only clients too.

Under our new risk-based monitoring regime, TCSP services identified on a visit will usually be reviewed in detail to ensure that the appropriate CDD is applied (particularly in any higher risk examples). It is pleasing to note that in the vast majority of firms, CDD is being applied on TCSP services in the same way as accountancy services to clients.

Firms are reminded that the completion and filing of confirmation statements is deemed to be acting a 'director'. This means that it is a TCSP service, as the firm is providing representations that the Companies House information held in relation to that legal entity is correct. However, if the firm is only acting as a post-box in filing the confirmation statement, this is unlikely to be a TCSP service.

AML monitoring – other findings

Following the detailed information above on CDD, this section of the report covers the other findings identified on visits.

1. BOOM approvals

The 2017 Regulations require that all Business Owners, Officers & Managers (BOOMs) of firms must be approved by the supervisory body, with a requirement to obtain a basic criminal disclosure check for each BOOM.

% represents the % of firms visited	2023/24	2022/23	2021/22
Lack of ICAS approval of BOOMs	10%	25%	29%

While the incidence of issues noted are low, this is one of the most serious issues raised on monitoring visits. It is a criminal offence for an AML supervised firm to have a Business Owner, Officers & Manager (BOOM) who has not been approved by the supervisory body. ICAS has published further guidance which can be accessed here.

With sufficient information provided to firms, the Authorisation Committee is likely to respond more robustly to future failures, with the likely of regulatory or disciplinary action being taken. There is no reason why firms should not be complying with this requirement.

Firms are reminded that the annual ICAS AML Declaration requires them to confirm that all the BOOMs in the firm have been approved. Therefore, if a firm has submitted a declaration with an incomplete or incorrect list of BOOMs, this may constitute a false declaration, which might lead to additional action being taken by ICAS.

With BOOM checks continuing to be undertaken as part of ICAS' monitoring work, firms should also take note of the following:

- ICAS must be informed of the firm's correct legal entity name – as well as any trading names which are used – along with any other entities associated with the firm conducting accountancy or TCSP services.
- All BOOMs in each entity must be approved by ICAS as soon as the BOOM is appointed by the firm, using the AML approval process.
- A basic disclosure check must be obtained for each BOOM (i.e. Disclosure Scotland in Scotland, or equivalent in other UK jurisdictions) in order to confirm that a BOOM has no relevant offences.
- Further information is available on the ICAS website.

2. Less significant findings

AML policies and procedures

%s represents the % of firms visited	2023/24	2022/23	2021/22
Inadequate documented policies & procedures	21%	8%	13%

Firms must have and maintain appropriate AML policies and procedures. Previously, the main issues raised were in relation to firms not having these. Thankfully, this is now a less frequent concern, with the findings under the new monitoring regime being more minor.

We are seeing firms who have not properly updated their AML policies and procedures for recent legislative changes, e.g. the requirement to report discrepancies in the Companies House register for Persons of Significant Control.

Another more common finding is weaknesses in Enhanced Due Diligence processes, with policies and procedures needing to be updated to confirm when and how the firm will apply EDD (see further information on EDD above).

Data handling

% represents the % of firms visited	2023/24	2022/23	2021/22
Data handling issues	60%	26%	13%

Whilst this is a common finding on the majority of recent visits, it generally follows the main AML compliance failings and has therefore not been included as a Top Five finding in this report. These issues are generally not considered to be significant findings on monitoring visits.

Notwithstanding, firms should be pursuing best practice, and are reminded of the main requirements as follows:

- Personal data obtained by firms in order to comply with the MLRs must only be processed for the purposes of preventing money laundering or terrorist financing.
- GDPR requires firms to provide clients with information in respect of how their personal data will be processed by the firm (including the legal basis for processing and how long the data will be held by the firm). In most cases, firms make the required disclosures to clients through the standard terms in their engagement letters.
- Each firm should have a destruction policy in place to destroy AML documentation five years after the business relationship / transaction has ended.

Firm-wide (whole-firm) risk assessments

% represents the % of firms visited	2023/24	2022/23	2021/22
Firm-wide risk assessment inconsistent with ICAS review	18%	48%	1%

It is important to highlight that we have seen significant improvements in firms conducting firm-wide risk assessments. There are now very few firms with no risk assessment, which is pleasing to see.

The most commonly identified issues (18% of visits) is that the monitoring team has identified risks that were not been identified by the firm in its own assessment. The relevant missing risk factors are highlighted earlier in this report.

AML training

% represents the % of firms visited	% of firms with issues 2023/4
No recent AML training conducted	8%
Inadequate record of training	5%
Training inadequate/ineffective given issues raised on visit	3%
Subcontractors omitted from training	2%

Another positive sign of improvement is that most firms we visited had appropriate AML training for staff, which they had suitably recorded. It was, however, disappointing to find that there was a small minority of firms still not devoting sufficient time and attention to AML training. A failure to provide sufficient AML training increases the risk of a firm failing to meet its legal responsibilities (e.g. in relation to SARs).

Firms are reminded that all principals, professional staff, and other staff who may encounter suspicious transactions must receive adequate training on the MLRs, with training maintained on a regular basis, and appropriately recorded (e.g. when the training took place, its content, details of attendees, and evidence that staff have understood the key messages).

Case-study – what good looks like for training and compliance reviews

A monitoring visit was carried out to a well-established five-partner firm, with turnover of more than £2 million. The visit resulted in no AML findings being raised, with the firm found to have good AML policies and procedures in place. Whilst larger firms generally have good policies and procedures in place, it is unusual for no errors / omissions to be noted during the file reviews conducted at the visit.

- It was noted that the firm has a thorough staff induction and training programme which ensures that all team members are fully aware of the requirements and their obligations under the AML Regulations. The MLRO undertook additional training every year to ensure that they were fully up-to-date in respect of changes to their obligations.
- The firm took a committed approach to the conduct of their AML compliance review function, with a tailored compliance programme, and sufficient time allocated to this work on an annual basis to ensure it is thoroughly carried out.
- A client file sample was selected based on the higher risk factors identified during the completion of the firm's Firm-Wide Risk Assessment. In addition, a random sample of client files assessed as being of normal risk from an AML perspective was selected for review.
- The file reviews were not conducted by the MLRO but by a senior member of the management team and their findings were reviewed and analysed by the partners.
- This fed into the completion of the AML compliance review which prepared independently of the MLRO and again reviewed by the partners.
- The findings of the compliance review fed into the update of their AML policies and procedures and were included as part of the staff training programme.

Conclusion – this robust approach to training and compliance reviews contributed to the firm having an AML monitoring visit with no findings.

Focus on SARs

Suspicious Activity Reports (SARs) are a crucial source of intelligence in the ongoing fight against criminal behaviour in the UK. Reports provide information that may be unknown to law enforcement and can sometimes be the missing piece of a complicated puzzle, leading to a successful criminal prosecution.

With failing to report a suspicion being a criminal offence which carries a maximum penalty of five years in jail, an unlimited fine, or both, it is crucial that ICAS makes firms aware of their reporting requirements, and that we incorporate SARs into our supervisory processes.

Monitoring

The firm's SAR reporting policies and procedures are a significant focus of AML monitoring visits. The firm's MLRO will be interviewed, alongside a review of the reporting policies and procedures, with consideration given to the following:

- Are records maintained of any matters reported by staff to the MLRO and action taken?
- Are reports made by staff to the MLRO held separately by the MLRO and not on the client file?
- Is there evidence that the MLRO has considered reports made by staff within a reasonable timescale following the report being made?
- Are procedures in place covering external reports to the National Crime Agency (NCA)?
- Has the firm considered the need for a DAML request?
- Where reports have been made were appropriate glossary codes quoted as part of the report?
- Are reports to NCA held separately by the MLRO and not on the client file?
- Are procedures in place for suitable secure storage of internal reports and SARs for at least five years after receipt by the MLRO?

Where there are internal reports made within the firm, the reviewer will consider a sample of the reports made in the review period. Where reporting levels are low, all reports will be reviewed. The review will cover, for example, the timeliness of reporting, the nature of the reports, and the decision on submitting a SAR (and the justifications).

Of the 96 firms reviewed during 2023/4, 17 firms reported 53 SARs. All of these SARs were reviewed, with the main shortcoming being the lack of glossary codes applied. This should not be an issue going forward given that this is now embedded in the online SAR reporting process.

We started to retain statistics about SARs during the year. We recorded details of 40 of the 53 SARs reviewed, analysed as follows:

Analysis of 40 SARs by Glossary Code

XXTEUKXX - UK based tax evasion	XXF4XX - personal tax evasion	XXF3XX - corporate tax evasion	XXF5XX - vat fraud
34	21	16	21
XXF9XX fraud against private sector	**Government priority scheme XXCVDXX- COVID**	**XXF1XX Benefit fraud**	**XXPropXX**
4	3	1	1

The statistics show that tax evasion and VAT fraud are the most common SARs made which is to be expected given that accounts and tax compliance services are the most common services provided by our supervised firms.

Analysis of SARs reported by firms during visit

No. of partners	No. of firms with SAR	No. of firms visited	% of firms visited	Number of SARs
Sole practitioner	4	54	7%	12
2-3 partners	7	29	24%	22
4+ partners	6	13	46%	19
Total	17	96	18%	53

Sole practitioners had the lowest incidence of SARs. It is difficult to draw any definitive conclusions on this, but the lack of SARs could mean: (a) sole practitioners are not properly reporting suspicions, which would clearly be a significant issue, or (b) an indication of care being taken over the risk profile of clients, i.e. not taking on riskier clients.

It is impossible for the monitoring team to conclude on this as our visit is a sample check only. We will, however, focus on this as part of future AML training.

One of the common areas of discussion with firms is where they have been approached to take on a new client but ultimately decide not to act, due to concerns identified during initial discussions and other due diligence activities. Firms are reminded that they still have a reporting obligation if they come across information in relation to suspicious activities but decide not to act.

Similarly, if a firm comes across information during the course of providing a service that causes them to disengage, the firm must still consider their SAR reporting obligations. Deciding to stop acting for a client is not in itself a sufficient response.

Ignorance of the requirements is also not an adequate defence, yet there are still MLROs visited who seem unsure of their reporting obligations. We would therefore strongly advise all firms to ensure adequate MLRO training is in place.

Advice on SARs

ICAS' Investigations Team operates a confidential helpline which deals with queries about whether a member or firm has a reporting obligation. While any decision to submit a SAR will always fall to the firm's MLRO, the team are able to provide guidance and signpost resources that may help in reaching an informed view (e.g. the CCAB Guidance).

Guidance on SARs

ICAS publishes articles on SARs on the AML section of the ICAS website. We operate a portal for the MLROs of our supervised firms, which shares intelligence we have received and are able to pass on.

Further information provided in the section on Support below.

Case study – what good looks like for training and SARs

A monitoring review to a firm with two principals and nearly 1,000 clients.

- The firm has developed comprehensive AML policies, procedures and training practices.
- Staff complete annual AML training that includes an assessment, with the principals completing advanced AML courses through an external digital provider.
- The principals regularly share AML newsletters and updates with each other and their staff, allowing for continued development and awareness of developing threats.
- The culture of the firm included clear, confidential and appropriate lines of escalation to the MLRO and reporting procedures, with the SARs submitted within five working days following escalation.

- The SARs submitted by the firm related to bounce back loans and tax evasion, two areas that were highlighted in the material shared with staff.
- The SARs were easy to understand, contained clear information relating to the firm's suspicion of the predicate offences and included glossary codes.
- The SARs are stored separately to the clients file and only the principals have access to the reports to reduce the risk of staff inadvertently committing a tipping off offence.

Conclusion – the firm's training. policies and procedures, and culture positively influenced the SAR reporting mechanisms in the firm.

Case study – delay in making a SAR

During a monitoring visit, the reviewer conducted a review of a sample of internal suspicious activity reporting and identified that in one case a SAR had not been made.

The firm had identified that a client had failed to declare information in a tax return. The firm discussed the issue with the client and encouraged them to self-declare. However, there were then delays and by the time of the monitoring visit the issue was neither rectified nor reported. The monitoring team was required to consider the issue and consider its own SAR reporting obligations.

Conclusions – delays in reporting can open a firm up to risk.

Thematic reviews

While Regulatory Monitoring may be our most important and detailed means of checking our supervised firms' compliance with their AML obligations, we are increasingly exploring other supervisory tools which can improve the effectiveness of our approach.

One such tool is a thematic review, which allows our team to undertake a detailed review of a particular area of AML compliance, using varied methodologies, based on appropriate sample sizes.

Such reviews can allow us to get a better understanding of an issue or concern, without the need to rely on monitoring visit data.

During the period of this report, we commenced thematic reviews in relation to two important areas of compliance:

- The extent to which supervised firms have been registering their BOOMs with ICAS.
- The level of involvement of our supervised firms with the Register of Overseas Entities (ROE), which came into force on 1 August 2022, and was created by the Economic Crime (Transparency and Enforcement) Act 2022.

The findings for these reviews are being finalised, with appropriate follow-up action to be taken by ICAS, and communications to our supervised firms and other stakeholders.

Follow-up, regulatory actions, and discipline

ICAS's Rules and Regulations provide us with a range of tools which we can use as an appropriate response to AML non-compliance which we have identified. This section of the report details the main tools and actions which we use.

ICAS AML Regulatory Actions Guidance

ICAS' approach to dealing with AML non-compliance which is identified on monitoring visits is set out in the Regulatory Actions Guidance, with the most recent version published on 1 April 2022.
The guidance has two distinct purposes:

- To provide guidance on the nature of the regulatory action which may be appropriate for AML non-compliance (Section 3).
- To set out the process which will be followed by ICAS when determining regulatory issues in relation to AML compliance (Section 4).

Using the guidance promotes effective and consistent determination of AML regulatory issues. In addition, the approach in the guidance allows firms to better understand the likely consequences for AML non-compliance.

It is important to understand that discretion will be applied when considering whether regulatory action is appropriate. Where outcomes are set out in this guidance, these are indicative and not prescriptive. Decision-makers will exercise their reasonable discretion in all cases, supported by the guidance.

RAG review

With low numbers of regulatory penalties applied by ICAS, the Regulation Board agreed in May 2023 that a working group should be appointed to review ICAS' approach to non-compliance, as presently detailed in the Regulatory Actions Guidance.

The working group undertook an initial review of the approach, with benchmarking information, and consideration of various options for change. Later in 2023, the working group agreed that a proposed new approach to penalties should be 'road tested' against AML monitoring visits, to provide practical evidence of how it would operate in practice.

This road testing was completed shortly after the date of this report, with the expectation being that a revised RAG will be approved by the Committee before the end of 2024, with the new approach to regulatory penalties publicised thereafter.

Follow-up action

The guidance reflects that, in the first instance, and where appropriate, ICAS will try to work with firms to achieve improved compliance. In practice, this means that AML non-compliance identified on a monitoring visit may be addressed through 'follow-up actions' (unless the circumstances are sufficiently serious to warrant more robust action).

A member of the monitoring team will advise the firm of:

- The areas of AML non-compliance which have been identified.
- What action is required to address the non-compliance.
- The timescale within which such action should be taken.

Firms will be asked to confirm in writing their agreement to complete the follow-up action within the set timescale. Where the firm is able to demonstrate to ICAS that the follow-up action has been completed in full within the timescales set, further regulatory action may not be required.
While this happens in most cases, a failure to complete the action within timescales is likely to result in further regulatory actions being considered, including regulatory penalties, suspension of supervision, and/or a referral to ICAS' Investigation Committee.

Year	% of firms requiring some form of follow-up action
2023/24	39%
2022/23	55%
2021/22	18%
2020/21	23%
2019	40%

Firms facing follow-up actions may request assistance from ICAS' Practice Support team to help them complete the required actions. This support is free of charge unless significant assistance is required.

Of the 48 firms visited in 2022/3 which required follow up action:

- 39 were deemed generally compliant, with nine being non-compliant.
- 39 firms cleared their follow-up checks.
- Two firms involved the same practitioner whose PC was removed by the Authorisation Committee and whose AML supervision was ceased.
- Six firms either ceased practice or moved their supervision elsewhere.
- One firm is still undergoing follow-up checks due to mitigating circumstances.

Case study – our new regime and follow-up process driving improvements

A visit to a well-established sole practitioner, with turnover under £300k.

- The firm had a mixed visit history and a high AML risk score (for a number of reasons, but which included the visit history and the fact the firm had been disciplined and fined on previous occasions, with a history of poor engagement with ICAS).
- In 2018, the firm received a visit and AML deficiencies were identified – no procedures had been established, with inadequate recording of CDD (including evidence of ongoing risk assessments, documentation of KYC, and verification of identities).
- The follow-up check was protracted but eventually the firm had rectified all issues by June 2020.
- As the firm was assessed as high risk, the practitioner was visited again two years later in 2022, with this visit demonstrating that the improvements had been sustained (although the high-risk assessment was retained).
- A further visit took place in 2024 (on the basis that high-risk firms are visited every two years):
  - The review of CDD documentation confirmed that sufficient relevant information was held on file demonstrating that the identities of individuals, directors and beneficial owners had been verified, the existence of companies confirmed, and sufficient knowledge of client recorded.
  - AML specific risk assessment considerations were well documented.
  - The MLRO displayed a positive approach to the visit process and responded promptly to all communications. It was clear from discussions, review of AML documentation and file reviews that they are committed to fully complying with the AML requirements.

Conclusion – the combination of our risk-based monitoring approach (visiting high risk firms every two years) and our follow-up visit process has resulted in the positive improvement in this firm's AML compliance.

Case-study – our new risk-based regime driving improvement

A visit to a well-established general practice sole practitioner with a very high turnover.

- The firm has had a poor visit history, and a high AML risk score, based on its high-risk client base and the provision of directorship services.
- A 2022 visit identified a number of failings, with concerns over the extent of the firm's CDD in relation to various client risks (foreign PEPS, nominee director services, overseas connections). Also, a number of clients' money bank account breaches were identified.
- The follow-up check was delayed in 2023 due to significant personal circumstances, with a full onsite visit scheduled for 2024 (as opposed to simply the follow-up check).
- The 2024 visit noted that, following the previous visit, the firm had acquired AML software to improve the documentation of CDD. This included key client information, services provided, sector risks, relationship factors, high risk factors, proliferation financing, regulated clients, virtual assets, geographic location factors and circumstances when EDD is required.
- The new processes were rolled out successfully and file reviews highlighted that, with one exception, detailed relevant information was held on file demonstrating that the identities of individuals, directors and beneficial owners had been verified, the existence of companies confirmed, and sufficient knowledge of client recorded. AML specific risk assessment considerations were also well documented.

Conclusion – the repeated high risk monitoring visits has kept the firm on its toes and despite the difficult personal circumstances the practitioner has faced, there has been significant investment in improving AML compliance, leading to strong improvements.

Case-study – follow-up checks driving improvement

A visit to a well-established general practice with two principals, and turnover under £300k.

- The firm has a mixed visit history. A 2023 visit raised concerns over the breadth of CDD/KYC failures, with a follow-up check required to confirm that the firm had taken appropriate remediation action.
- The follow-up work was conducted during the first half of 2024 and concluded satisfactorily. The AML reviewer worked closely with the firm to assist them with the implementation of their new procedures and a summary of the outcome is noted below:
    - The firm completed an effective Whole Firm Risk Assessment and compliance review.
    - A review of the updated policy document noted that the areas highlighted by the ICAS Monitoring Team had now been correctly updated.
    - Client risk assessments were recorded for all clients and a system of ongoing monitoring established.
    - Client existence and verification of identities were recorded for all clients including beneficial owners.
    - EDD was noted to be correctly applied when required – the firm had undertaken sufficient EDD to mitigate the risk, and this was well-documented on files.
    - KYC information was recorded on file for each client reviewed. It was noted that the risk considerations were well documented and sufficient evidence obtained to provide sufficient mitigation.

Conclusion – the follow-up visit check played an important role in the improvement of the firm's AML procedures and compliance.

Example of internal intelligence requiring a monitoring visit

A visit to a sole practice conducting regulated services in one of the reserved areas of accountancy, with income of less than £200k.

- During a 2023 (non-AML related) regulatory monitoring visit it was identified that various case files did not include up-to-date AML documentation and there were concerns over what CDD was being conducted at the point of taking on client engagements.
- This matter was referred to the AML Monitoring Team, with an AML visit conducted shortly thereafter.
- Various deficiencies were noted during the visit, including the lack of updated policies and procedures, a lack of firm-wide risk assessment, no compliance review, insufficient training records, and a number of CDD deficiencies.
- The most significant concern was that the practitioner had produced new documents during the course of the review, which were consistent to what happened during the other regulated visit.
- Both visits led to a protracted and difficult closedown process with extensive communications with the practitioner and the third parties. The outcome was that the practitioner agreed to wind down his practice and transfer his clients to a different firm. This has since been achieved.

Conclusion – this provides an example of how ICAS worked with a practitioner to close down the practice.

We believe that our approach to follow-up action has been effective for some time, with a demonstrable improvement in the levels of AML compliance across our firms. However, to ensure that the process works as efficiently and effectively as possible, firms must now demonstrate improvement quicker than before, usually within one month of the visit.

Authorisation Committee

More serious non-compliance is referred to ICAS' Authorisation Committee. Referrals are also made where firms fail to appropriately deal with follow-up actions identified by the Monitoring Team. The guidance sets out the powers available to the Committee, as well as the process it will follow when making decisions. In more serious cases, the Committee has the power to apply regulatory penalties, and/or withdraw a firm's AML supervision.

During the period of this report, there were several instances where the Committee issued formal directions to firms for follow-up action which were then subject to further review.

Details of regulatory penalties issued by the Committee during the period are noted as follows:

- A member paid a regulatory penalty of £2,000 in May 2023 when they were found to have been practising without a practising certificate for five years, without appropriate AML supervision.
- In August 2023, the Committee determined that three ICAS firms were each liable to pay a regulatory penalty of £250 in respect of their failure to pay their AML licence fees on time, in breach of Regulation 4.2 of the AML Regulations. While the penalties were published on the ICAS website, the Committee decided not to identify the firms by name.

Referral of concerns

In some circumstances, the Authorisation Committee may decide that it would be appropriate for the AML concerns to be considered by a different body. For example:

- If the circumstances indicate that a supervised entity or individual may be liable to disciplinary action, a referral may be made to ICAS' Investigation Committee (e.g. where there are ethical issues).
- If ICAS becomes aware that there has been a breach of legislation, it may need to report matters to the relevant law-enforcement agencies and/or HMRC.

In addition to taking whatever action is deemed appropriate, ICAS may make a referral to another professional body AML supervisor, if any of the employees of a supervised entity are members of that body.

Example of a referral to the Investigation Committee

A previous visit to a well-established unincorporated sole practitioner (with turnover below £100k), had identified concerns that non-compliance previously identified by the Monitoring Team had not been appropriately remediated. Attempts to ensure that action had been taken through a follow-up check were delayed, with the Committee deciding in October 2023 to refer the member to the Investigation Committee to consider a liability to disciplinary action. ICAS accepted the surrender of the member's practising certificate while the investigation was ongoing to reduce the risks involved.

Conclusion – while ICAS will try to give members a chance to demonstrate improvement, this cannot be allowed to take longer than is required. Non-compliance with monitoring processes can be a regulatory and a disciplinary offence, requiring separate actions from ICAS.

Investigation Committee

The Investigation Committee is responsible for investigating concerns raised over the competence and conduct of members and firms, and assessing whether there is a liability for disciplinary action under ICAS' Rules and Regulations.

During the period of this report, only one case was referred to the Committee by the Authorisation Committee, which is the example explained immediately above. The outcome will be confirmed in next year's report (and earlier on the ICAS website, if required).

Whistleblowing

ICAS recognises the importance of establishing appropriate channels for members, firms, students and the public to raise concerns over money laundering concerns.

Our teams operate a confidential helpline (0131 347 0271) which deals with queries relating to possible money laundering reporting issues. While any decision to submit a SAR will always fall to the MLRO, these conversations can be very helpful.

In addition, ICAS has established an independent whistleblowing helpline with Protect, a UK charity which works with individuals and businesses to try to encourage safe whistleblowing. The service offers free advice regarding whistleblowing and speaking up.

The ICAS Protect Helpline is 0800 055 7215 and we would encourage all members – whether in practice, business, or otherwise – to make use of it, where appropriate.

Members should always bear in mind that ICAS' Regulations impose obligations on them to report certain matters to ICAS. These obligations cover conduct and competence more generally, rather than simply focusing on money laundering concerns. Reports allow ICAS to investigate possible liabilities to disciplinary action, as well as considering whether referrals to other agencies might be required. A helpsheet on the reporting obligations is available here.

As ICAS is not a law enforcement agency, any whistleblowing reports made to ICAS would not meet the legal obligation on an MLRO to report suspicions of money laundering activity to the National Crime Agency should the need arise.

Finally, regard should be had to ICAS' Power of One initiative. Launched in 2015, it calls on all members to place ethical leadership at the heart of their professional responsibilities, to shape the culture and values of their organisations, to help re-establish ethics at the core of business practices and to rebuild public trust in business.

Support and communications

Although it is essential that our regulatory and supervisory functions are carried out with an appropriate level of independence, ICAS also has a dedicated team that offers support to members and firms in improving their AML compliance.

Practice Support

The ICAS Practice Support Team operates independently from the Regulatory Teams and offers assistance to members in the following areas:

- General AML support and advice.
- Questions in relation to practical matters in relation to AML compliance.
- AML compliance training tailored to suit the needs of the firm.

The Practice Support team works closely with ICAS' Practice Board.

Further information on all the services available can be requested through practicesupport@icas.com

ICAS General Practice Manual

The General Practice Manual (GPM) is provided at no cost to all firms supervised by ICAS. It includes a collection of helpsheets, templates, and various resources designed to assist members and firms in meeting their AML obligations covering:

- AML policies and procedures.
- Suspicious Activity Reports.
- Trust or company service providers and AML supervision.
- Tipping off.
- Client due diligence and risk assessment.
- Firms wide compliance and risk assessments.

It can be accessed on the ICAS website here (requiring members to log-in to the website).

The Professional Conduct in Relation to Tax document (available here) also gives specific guidance in relation to reporting tax fraud.

All resources are regularly updated to reflect changes in legislation and guidance, as well as developments in best practice.

MLRO Alert Hub

Through its membership of the Accountancy Anti-Money Laundering Supervisors Group (AAGG), ICAS provides regular alerts on existing and emerging issues to MLROS (MLROs) via this Hub.

Each MLRO from a firm supervised by ICAS is invited to join the Hub, which is updated independently from the ICAS website to ensure the confidentiality of the information shared.

The ICAS Practice Team also holds regular briefings with the MLROs of the 15 largest firms that we supervise, and plan to roll these out to more firms in 2024/25.

Webinars and events

ICAS regularly features webinars and events to support members and firms with AML and related matters. Past webinar recordings can also be accessed.

National Crime Agency (NCA)

The NCA produces a variety of resources, including publications, podcasts, and periodic webinars, to offer advice and guidance to firms under Anti-Money Laundering (AML) supervision. These resources are accessible through their website.

Notably, there is specific guidance aimed at improving the quality of SARs. The NCA regularly publishes the 'SARs In Action' magazine, which provides insights into the advantages of SARs and their impact on serious and organized crime. Additionally, the UK Financial Intelligence Unit (UKFIU) has developed several podcasts that can be found on major podcast platforms such as Apple and Google Play. To find these, simply search for "UKFIU."

CCAB Guidance for the Accountancy Sector

The most recent Anti-Money Laundering, Counter-Terrorist and Counter-Proliferation Financing Guidance for the Accountancy Sector, approved by HM Treasury, was released by the CCAB in June 2023. This document serves as a valuable resource for members and firms, clarifying their responsibilities under the Money Laundering Regulations.

Regulation News

In September 2023, ICAS started publishing a quarterly email newsletter to provide its supervised members and firms with important information about changes in regulation. Many of the articles which have been highlighted in the newsletters have involved developments in AML.

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