

Anti-Money Laundering Supervision

Annual Report

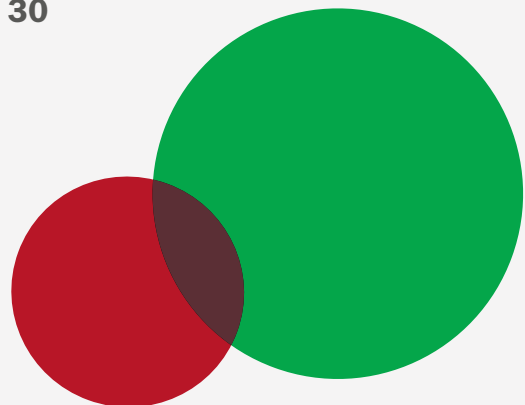
For the period 1 April 2021 to 5 April 2022





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Key terms

AML	Anti-money laundering
BOOM	Beneficial owner, officer, or manager (in relation to our firms)
CDD	Customer due diligence (when identifying clients)
CTF	Counter-terrorist financing
ICAS	Institute of Chartered Accountants of Scotland
KYC	'Know your client' processes
MLR Money Laundering Regulations	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

The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants. We represent over 23,000 Members working across the UK and internationally. Our Members work in private practice, business, and in the public and not for profit sectors.

ICAS' Royal Charter requires that we primarily act in the public interest. Our regulatory functions are therefore 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.

The ICAS Regulation Board is the body appointed by Council to be responsible for regulatory policy at ICAS and for maintaining professional standards amongst Members, Students, affiliates, and firms. The Regulation Board is also a strategic body, discussing developments in regulation and monitoring ICAS' relationships with its oversight regulators.

Its full powers are listed in Regulation 10 of the [General Regulations](#), and include:

- Granting, suspending, and withdrawing various regulatory licences and authorisations.
- Setting requirements for continuing professional development (CPD).
- Monitoring the competence and conduct of Members and firms (through inspection visits and other processes).
- Investigating complaints.
- Proposing Regulations for Council to make.

These powers are exercised in relation to various regulatory schemes, including anti-money laundering (AML), audit, insolvency, and practice.



Foreword from ICAS' Regulation Board

As Chair of the Regulation Board, I am pleased to present this annual report of ICAS' activities as an AML supervisor.

In our previous AML report, we acknowledged the difficulties faced by firms due to the Covid-19 pandemic. Maintaining regulatory compliance was always going to be exacting in that environment, when so much effort was focused on simply maintaining operations.

Whilst there is hope that the worst of the pandemic is now behind us, there are new challenges for ICAS' supervised population. Since the beginning of 2022, there has been a steady stream of new and important regulatory requirements following the awful developments in Ukraine.

As we move towards 2023, the cost-of-living crisis will place increasing pressure on firms and their clients. Amidst such economic pressures, the risk of money laundering and associated crimes cannot be underestimated. The importance of vigilance and robust AML processes in firms has never been more important. The same can be said for ICAS' work as an AML supervisor.

The Regulation Board remains firmly committed to overseeing ICAS supervisory activities to ensure robust AML compliance amongst ICAS Members and firms. We continue to oversee the implementation of the strategic AML measures approved in previous years, as well as supporting new initiatives to increase robustness and raise efficiency. AML is a key focus of every Board meeting, as recorded in the meeting notes which are published on the [ICAS website](#).

Philip Rycroft
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 aim of this report is to provide 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. It covers the period 1 April 2021 to 5 April 2022 (2021-22).

The report should be read alongside other information on AML which is published by ICAS.

Our Commitment

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



ICAS AML strategy

What we have achieved

In April 2021, the ICAS Regulation Board approved a new strategy for AML, with this being further developed later in the year in response to the findings of OPBAS' 2021 inspection report.

Much has been achieved over the period covered by this report, with some of the key initiatives set out as follows:

- AML monitoring of firms established as a standalone process.
- A new AML Declaration designed to enhance ICAS AML data collection.
- Bespoke AML training delivered to all ICAS employees with AML responsibilities.
- Amendments to ICAS' AML [Regulatory Actions Guidance](#) document, providing a more robust process for dealing with non-compliance.
- Active and regular engagement with OPBAS.

In addition, we responded to the Government's financial sanctions on Russian and Belarusian individuals and companies by undertaking a swift and detailed information-gathering exercise to understand the exposure/risks of our supervised population, engaging with our firms accordingly.

What we have planned

Our AML strategy continues to evolve, responding to developing risks, and in cooperation with OPBAS and other AML supervisors/forums. The Regulation Board expects to review and update its strategy in 2023. In doing so it will take account of ICAS' new overall strategy, which is currently being finalised.

We expect to focus on the following in 2022/23:

- Improving our data collection (having regard to efficiency, reliability, and user experience).
- Reviewing our monitoring practices.
- Expanding and improving our risk assessment processes by using the AML Declaration data.
- Further AML training for all ICAS employees involved in AML supervision.
- Enhanced AML support for supervised firms.
- A regulatory review of the MLRO role in our firms.
- A thematic review of TCSP exposure of our firms.



ICAS AML strategy

Emerging risks

In executing our AML supervision strategy, we are conscious that the AML landscape is constantly evolving, with new risks emerging which must be identified and addressed. The Regulation Board is briefed on developments at its meetings, with senior staff engaging with firms, OPBAS and other supervisors on a regular basis.

We expect the following to create enhanced AML risks across 2022/23:

- A challenging economy, putting increased pressure on firms and their clients.
- An increase in insolvent companies might see greater scope for purchase of assets by money launderers.
- The ongoing war in Ukraine, with the follow-on impact of Government sanctions.

A positive good

ICAS strongly believes that regulation represents a positive good for all stakeholders:

- For the public – including clients of Chartered Accountants and other users of accounts – because regulation creates trust and ensures protections that may not be found when engaging unregulated accountants.
- For ICAS Members and firms, regulation supports the strong reputation of the CA qualification, providing a commercial advantage, as well as professional pride.
- For ICAS, a strong regulatory function ensures respect, adding weight and credibility to its contributions and opinions on the key issues impacting the profession.

As such, the Regulation Board expects that ICAS will always seek to promote the benefits of regulation, and the positive outcomes it continues to generate for all parties.



ICAS at a glance



23,000+

Members



850+

supervised firms



78%

firms in Scotland



1,700+

PC-holders



1,700+

BOOMs



21%

firms in England



15-20

governance meetings
each year



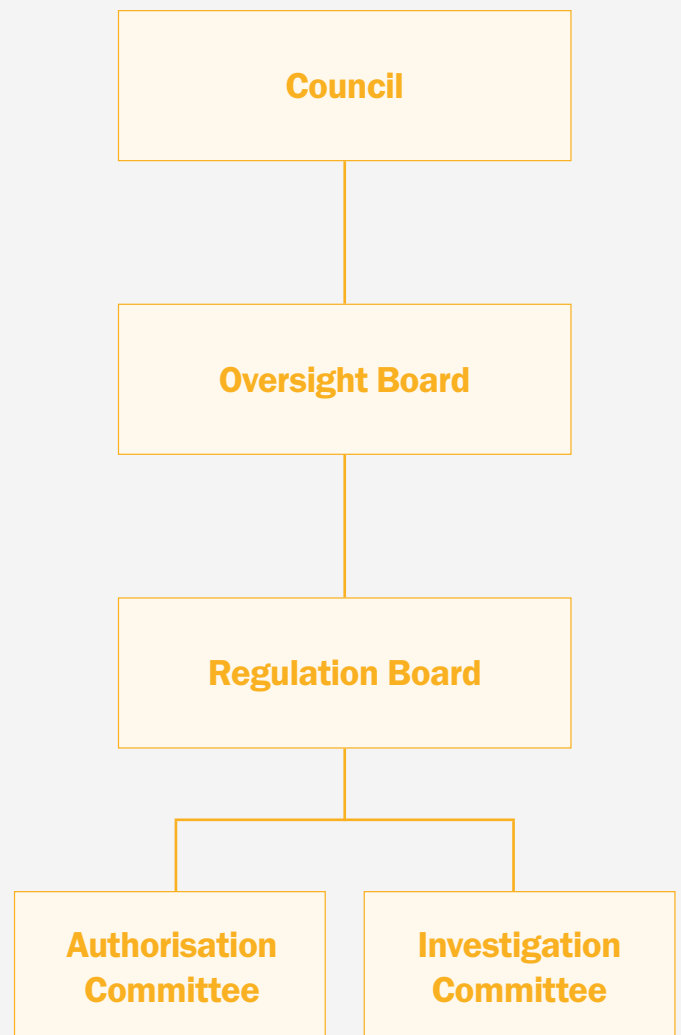
ICAS AML supervision – overview

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. The Board discusses AML on a regular basis, receiving reports and statistical information, and setting / overseeing ICAS' general AML strategy. It reports into Council and the Oversight Board, with the Chair of the Regulation Board 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.

All boards, committees, and panels comprise of a mixture of chartered accountants and lay Members (including legally qualified chairs for the tribunals).





ICAS AML supervision – overview

ICAS Anti-Money Laundering Regulations

ICAS published [AML Regulations](#) on 9 July 2019. These Regulations set out the framework that ICAS follows in order to supervise firms, in line with relevant legislation. Importantly, the Regulations set out the supervision application process and obligations of supervised firms.

Supervisory activities

ICAS is an Anti-Money Laundering (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 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.
- CPD (Continuing Professional Development) oversight.
- Taking enforcement action where there is a failure to meet compliance 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.

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).

Each firm that is supervised by ICAS for AML is assigned a risk rating, which impacts the level and frequency of ICAS' oversight of the firm. 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, 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

Before 2022, AML monitoring was conducted as part of our Practice Monitoring programme, through which the general compliance processes of our firms is reviewed alongside the quality of client work.

With a desire to increase focus on AML oversight and compliance, the Regulation Board directed that AML monitoring should be separated from Practice Monitoring in 2022.

The long-term future of the respective monitoring regimes is currently subject to internal review.

Who we monitor

We conduct AML monitoring reviews to all firms which are supervised by ICAS for AML. In addition to examining firm-wide compliance processes, we will look at the work of individual principals and employees. Whilst firms vary in size, the majority are sole practitioners or two-three partner firms.

How we monitor

Whilst the primary AML compliance checks are conducted as part of this monitoring process, we also conduct engagement file AML checks during Audit Monitoring and Insolvency Monitoring visits to ensure that these specialist engagements also cover the appropriate AML procedures.

The frequency of a firm's monitoring review is determined using the risk-assessment tool referred to above. Firms which are deemed to be higher risk from an AML perspective will be visited more frequently than firms which have a lower risk rating.

Types of reviews

There are two types of review: (i) onsite reviews, and (ii) desktop reviews. Before 2020, most monitoring reviews were undertaken onsite, although desktop reviews would be performed for smaller firms considered to be lower risk. The onset of the Covid-19 pandemic meant that all reviews were undertaken remotely, in accordance with Government guidelines. Using technology, and with the cooperation of our supervised firms, ICAS was able to ensure that visits were undertaken as scheduled throughout the pandemic.

- *Onsite reviews:* the review is undertaken with the reviewer attending the firm's office for at least part of the review process. It will include face-to-face opening and closing meetings with the firm's MLRO, with review work being undertaken by the reviewer onsite. It is expected that the MLRO – as well as other relevant employees – will be available on the day of the review to answer any questions which may arise.



AML monitoring procedures

- *Desktop reviews:* these are conducted remotely and do not require the reviewer to attend the firm's office in person. To enable this to happen, the firm is asked to provide the reviewer with various documents in advance of the review, to allow these to be considered remotely. Whilst opening and closing meetings with the MLRO will still be required, these will take place by telephone or using video-conferencing facilities.

Onsite versus desktop

Desktop reviews will primarily be used for smaller firms which ICAS has assessed as having a lower risk profile for AML. In some instances, they may be used as a practical measure to ensure that a review can take place within a reasonable timescale, or to cater for the personal circumstances of the MLRO.

Whilst ICAS will consider a request from a firm that a review be undertaken onsite or remotely, the decision is ultimately taken at ICAS' discretion.

Who conducts the review

The Regulatory Monitoring Team consists of qualified accountants employed by ICAS, who have the relevant knowledge, skills, and experience to undertake reviews, and who have received appropriate training from ICAS.

The number of reviewers required for a review will depend on the size of the firm. For firms which have one or two principals and are assessed by ICAS as being lower risk for AML, it is likely that only one reviewer will undertake the visit.

What is covered in AML monitoring

The underlying aim of the process is to establish the extent to which supervised firms are meeting their obligations under the Money Laundering Regulations (together with other Regulations and guidance as may be issued by ICAS).

While the scope of each visit will be determined by the reviewer, based on the firm's profile and risk factors, the following list will be covered in most AML Monitoring reviews:

- Appropriate AML governance within the firm (e.g. appointment of an MLRO, identification of BOOMs etc).
- Whole firm risk assessments.
- The firm's AML policies, controls, and procedures.
- Staff training.
- Internal and external reporting of SARs.
- The firm's client money account(s).



AML monitoring procedures

In addition, there will be a sample of client files reviewed, to ensure that they demonstrate adequate risk assessments, CDD and KYC measures etc. Whilst the sample size will be determined by the reviewer using a risk-based approach, it is likely that at least two files will be reviewed for each firm (with more files being reviewed for larger firms).

The review will also follow-up on any AML issues which were identified by ICAS as part of a previous monitoring review, to ensure that these have been satisfactorily addressed.

How does the review conclude

At the conclusion of the review work, the reviewer will arrange a meeting with the MLRO to discuss the preliminary findings (either in person at the firm's office, or remotely). The reviewer will then draft a report, setting out the findings in more detail. The firm has two weeks to provide comments on the report, which is then finalised.

It may be that certain follow-up action is discussed and agreed with the MLRO at that point in time, with the expectation being that such action will be taken as soon as is reasonably possible.

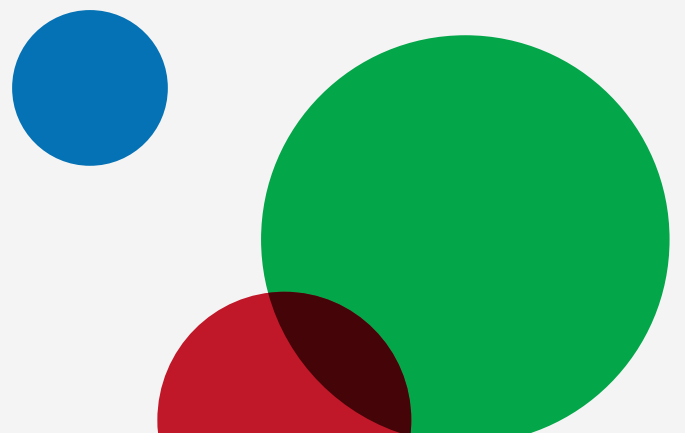
All reports are subject to internal review in ICAS, to ensure that the correct review methodology has been followed, and that the reviewer's conclusions are fair and balanced.

What happens where non-compliance is identified

Reviews which identify non-compliance are considered by the ICAS' Authorisation Committee, to decide whether any regulatory follow-up action is required. The Committee includes Chartered Accountants and lay Members and meets approximately once every two months.

ICAS' AML [Regulatory Actions Guidance](#): this sets out the follow-up actions available to the Committee, as well as the decision-making process.

Where the Committee informs the firm that follow-up action is required, it stipulates timescales for completion. Any failure to meet these timescales is likely to lead to further regulatory action, including financial penalties, and publicity notices.





AML monitoring: 2021/22 outcomes

2021/22 continued to be a difficult period for practitioners. The pressures and challenges resulting from the Covid-19 pandemic, and its wider impact on the profession, added to an already challenging regulatory environment resulting from the ongoing implementation of Money Laundering Regulations, GDPR, UK GAAP and Making Tax Digital.

Despite these challenges, there are signs of continuing improvement in AML compliance across the firms reviewed by ICAS. 2021/22 saw a more positive trend with 81% of firms being considered compliant, which is the highest level in recent years. All but one of the other firms reviewed was considered 'generally compliant'.

However, as set out below, there are still areas for improvement, which will continue to be overseen and acted upon by ICAS and its governance bodies. We remain determined to ensure that all firms focus on achieving full compliance with the requirements.

2021/22 also presented challenges to ICAS' Monitoring Team, with ongoing restrictions on our ability to undertake onsite monitoring reviews. Thankfully, the easing of restrictions in 2022 has allowed our reviewers to engage more frequently with firms on a face-to-face basis. We are grateful to our Members and firms for their cooperation during this difficult time.

Numbers of firms monitored and outcomes

Monitoring review outcomes	21/22	20/21	2019	2018	2017
Compliant	56	70	53	92	114
Generally compliant	12	15	36	65	58
Non-compliant	1	5	0	4	10
	69	90	89	161	182

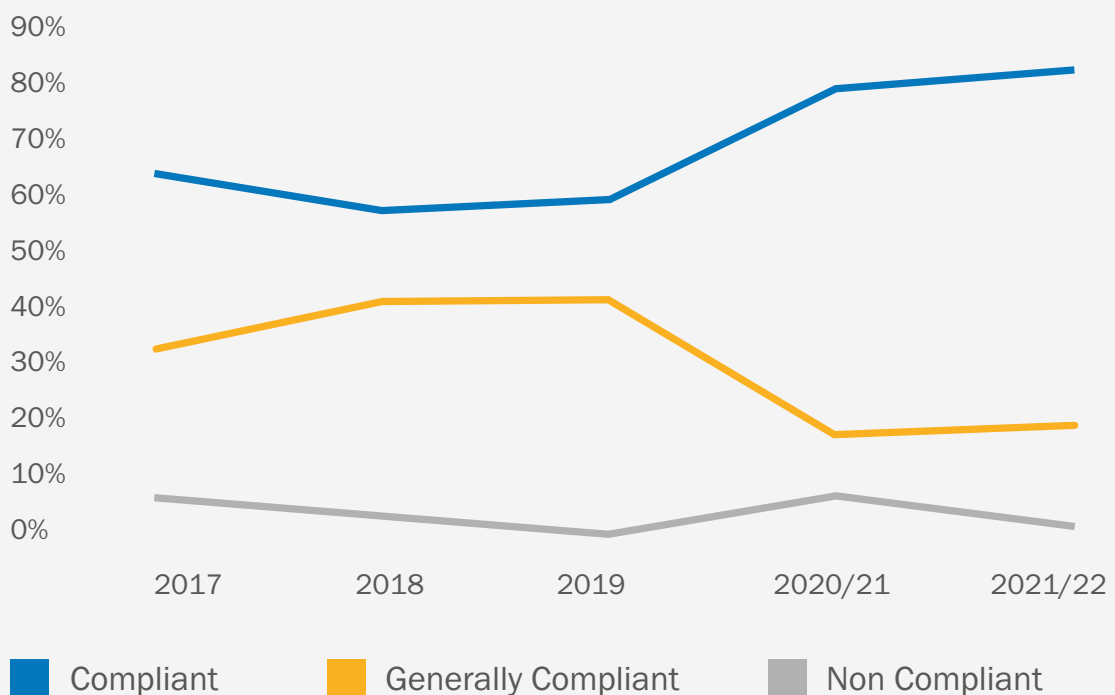
Percentage outcomes from firms monitored

Monitoring review outcomes	21/22	20/21	2019	2018	2017
Compliant	81%	78%	60%	57%	63%
Generally Compliant	18%	16%	40%	41%	32%
Non-Compliant	1%	6%	0%	2%	5%



AML monitoring: 2021/22 outcomes

Trends in AML monitoring outcomes



The charts set out a continuing trend of improved compliance from 2018 onwards. However, it is important to recognise that year-on-year comparisons are difficult as the reviews performed each year are to different firms and the trends noted may not necessarily reflect progress across all firms supervised by ICAS. Nonetheless, it is pleasing to note more firms being considered compliant as time goes on and as there is an expectation that the Money

Laundering Regulations become more firmly embedded in our firms' standard systems and processes.

Only one firm was assessed as a non-compliant in 2021/22, reflecting the 1% figure shown in the table. This was a reduction from five firms in 2020/21 (6%).



AML monitoring: 2021/22 outcomes

Reviews

The chart below illustrates the mix of firms reviewed and the types of review undertaken in each period ('remote' denotes those in the 15 months to period to 31 March ("2020/21") and 2021/22 that would have been onsite had it not been for the pandemic restrictions).

Number of reviews					
Type of Review	Telephone	Desktop	Onsite	Remote	
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

Size of firms reviewed				
Size of Practice	Sole Practitioners	2-3 partners	4+ partners	
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



AML monitoring: 2021/22 outcomes

During the year to 5 April 2022, 69 firms were visited. The numbers were lower due to various factors, including the impact of Covid-19 and the longer period required to complete remote visits during the Government lockdown. The visit schedule for 2022/23 is currently being set and will hopefully see an increase in the number of visits.

Case study – non-compliance with the Money Laundering Regulations

The firm acted for around 500 clients, typically owner-managed businesses, individuals, and charities in the local area. The sole remaining principal was under substantial pressure. Following the retirement of another principal, a proposed succession plan had fallen through. The increased workload – exacerbated by the Covid-19 pandemic and wider resourcing challenges – made it harder to ensure the firm was compliant with the AML requirements. Weaknesses identified by ICAS included:

- The firm had used out-of-date template AML policies, covering the 2007 Regulations instead of the 2017 Regulations.
- Lack of formal documentation of client and money laundering risk assessments.
- While staff were made aware of their AML obligations, no formal training had been undertaken.

The ICAS Authorisation Committee responded to the issues identified by requiring a follow-up check, in order to ensure that all findings had been satisfactorily cleared. As some of the weaknesses identified were repeat issues from the previous ICAS visit, the cost of the follow-up check had to be paid by the firm. The follow-up work was completed to a satisfactory standard.



Follow-up checks and regulatory action

Updated [Regulatory Actions Guidance](#) was published by ICAS on 1 April 2022. The guidance reflects that, in the first instance, ICAS will try to work with firms to achieve improved compliance. In practice, this means that AML non-compliance, which has been identified on a monitoring visit, may be addressed through ‘follow-up actions’ (unless the circumstances are sufficiently serious to warrant stricter action). This is where the supervised entity or individual is advised 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 have been completed in full within the timescales set, further regulatory action may not be required. This happens in most cases.

However, a failure to complete the action within timescales will result in further regulatory action being considered, including financial penalties, suspension of supervision, and a referral to ICAS’ Investigation Committee.

In 2021/22 18% of firms that were subject to an AML review were subject to follow-up checks (compared to 23% in 2020/21 and 40% in 2019).

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



Most common AML findings

In 2021/22, the most common AML findings identified were as follows:

29%

of firms

Approval of Beneficial Owners, Officers, and Managers (BOOMs) by ICAS

14%

of firms

Lack of evidence of adequate AML staff training

13%

of firms

Clients not formally notified of data handling requirements under GDPR

12%

of firms

Customer due diligence procedures did not include an appropriate assessment of risk

12%

of firms

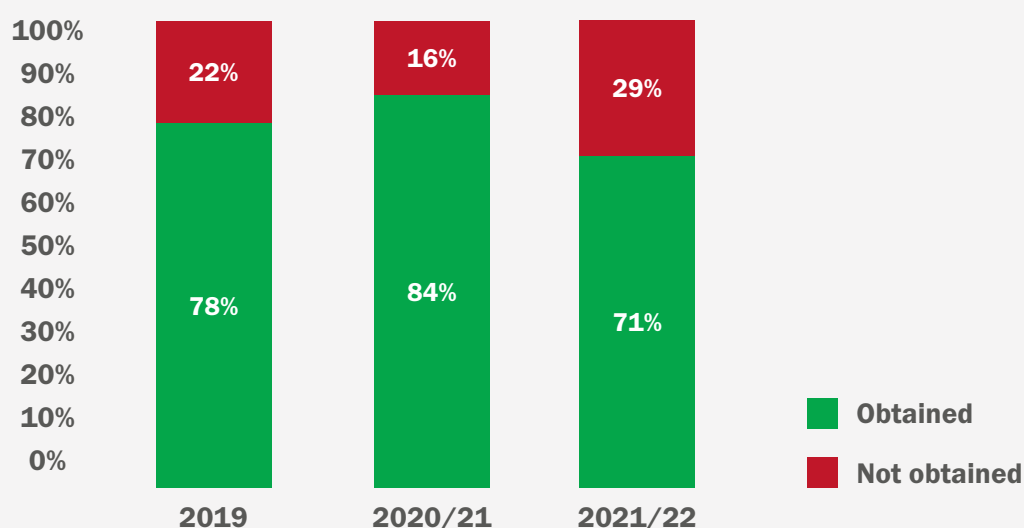
Lack of an AML compliance review function suitable for the size and nature of the firm



Most common AML findings

AML approvals and disclosure checks

The 2017 Regulations require that Business Owners, Officers and Managers (BOOMs) are approved by ICAS. This includes the requirement to obtain a basic criminal disclosure check for each BOOM.



Whilst most firms appear to understand the approval requirements, in 2021/22, 29% of firms reviewed had not obtained the relevant basic disclosure for every BOOM. Disappointingly, this reflected a poorer performance than the prior periods.

BOOM checks continue to be undertaken as part of ICAS' monitoring work. We will continue to remind firms of the following:

- ICAS must be informed of the correct legal entity name (and any trading names used) along with any other entities associated with the firm conducting accountancy or Trust and Company Service Provider (TCSP) services.
- All BOOMs in each entity must be approved by ICAS using the AML approval process.
- A basic disclosure check must be obtained for each BOOM (i.e., Disclosure Scotland in Scotland, DBS in England) in order to confirm that the BOOM has no relevant offences.

Further information can be found on the [ICAS website](#)



Most common AML findings

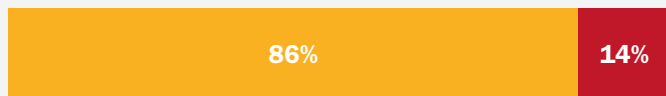
AML training

Staff and principal training adequate?

2020/21



2021/22



Yes No

The regulations require that AML specific training is undertaken by all relevant employees. In 2021/22 14% of firms were not adequately meeting this requirement (compared with 10% in 2020/21). In all but two cases, the firm's MLRO had undertaken sufficient training.

Firms are reminded that all principals, professional staff, and staff who may encounter suspicious transactions must receive adequate training on Money Laundering Regulations, and this training must be maintained on a regular basis. Records should be maintained of all AML training activity undertaken recording detail of the content delivered, the date the training took place, details of attendees, and evidence that staff have understood the messages being relayed to them.

GDPR / Data Protection

Data Protection

Firm confirmed it destroys all AML documentation five years after the business relationship/transaction has ended



Firm notifies clients re data handling in engagement letter etc.



Personal data obtained by firms in order to comply with the Money Laundering Regulations 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 engagement letters.



Most common AML findings

Customer Due Diligence

Customer Due Diligence (CDD) 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. In previous years, weaknesses in CDD records have been a source of frequent recommendations for improvement. While CDD weaknesses remain a common visit finding, there has been continual improvement in compliance in this area over time.

2021/22	Yes	No
Adequate evidence of	88%	12%
ONGOING MONITORING		
Appropriate KYC recorded	96%	4%
KNOW YOUR CLIENT		
CDD includes risk assessment	88%	12%
RISK		
Overall ID documentation appropriate	99%	1%
ID VALIDATION AND VERIFICATION		



Most common AML findings

2020/21	Yes	No	N/A
Adequate evidence of	79%	18%	3%
ONGOING MONITORING			
Appropriate KYC recorded	80%	13%	7%
KNOW YOUR CLIENT			
All risk factors considered	79%	9%	12%
CDD includes risk assessment	74%	13%	12%
RISK			
EDD carried out when necessary	41%	1%	58%
Overall ID documentation appropriate	80%	13%	7%
CDD appropriate for new clients	82%	1%	17%
ID VALIDATION AND VERIFICATION			

Verification of client identity/existence

In 99% of the firms reviewed during 2021/22 adequate procedures were in place to validate the identity of clients. This reflected a significant improvement on the findings last year where adequate procedures were noted in only 80% of visits/reviews.

Risk assessment

12% of firms reviewed this year were not recording client specific money laundering risk assessments sufficiently (compared with 13% in 2020/21). These client specific risk assessments are an integral element of the CDD process. During a monitoring visit, it can sometimes be clear from discussions with the principal that money laundering risks are being considered but such considerations need to be recorded to readily demonstrate compliance with the requirement.



Most common AML findings

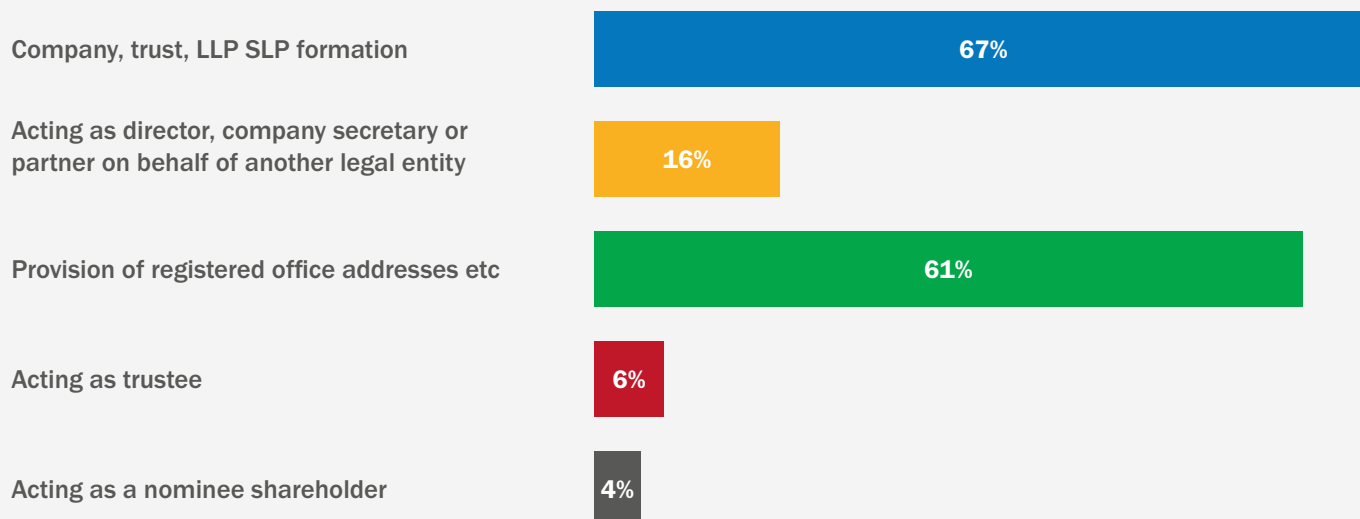
Knowledge of client

96% of firms visited in 2021/22 were found to have documented sufficient knowledge of client information on the client file(s). This was again an improvement of the previous year figure of 80%. Whilst it is pleasing the vast majority of firms visited were recording KYC well, we continue to strive for all firms to be compliant. Firms should also remain aware that CDD documentation should be kept updated once in place. 12% of the firms reviewed did not have appropriate monitoring arrangements in place (compared with 18% in 2020/21).

Templates to assist in recording the relevant information can be found in the AML section of the General Practice Manual on ICAS website.

Trust and Company Service Providers

In 2021/22, 67% of the firms reviewed were Trust and Company Service Providers (TCSPs), and across the population of ICAS firms, most firms are registered as TCSPs. 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.

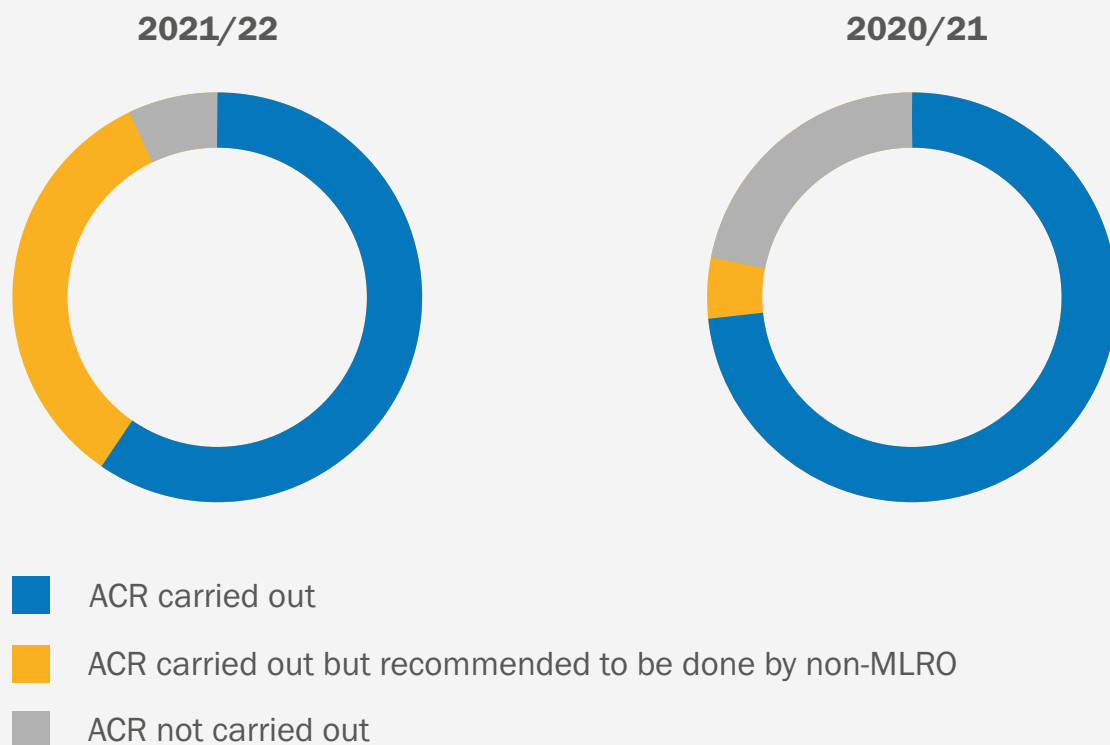




Most common AML findings

Anti-Money Laundering Compliance Review

Under the 2017 Regulations, firms need to establish an independent method to ensure, at least annually, that the requirements of the regulations being complied with by conducting an AML Compliance Review (ACR).



In 12% of cases reviewed in 2021/22 no Anti-Money Laundering Compliance Review had been undertaken, which was an improvement on the 2020/21 position of 20%. Of the 61 firms (88% of firms that had documented a compliance review process, the monitoring team recommended that 21 firms (30% of the total number of firms reviewed) made amendments to the process to ensure that the compliance review was conducted by a person independent of the compliance function (e.g. the MLRO). Clearly for sole practitioners this is not possible, but in firms with more than one principal someone other than the MLRO should carry out the review to meet the “independent” requirement in the regulations.



Regulatory actions and discipline

Non-compliance with the AML requirements is reported first to ICAS' Authorisation Committee, which is responsible for considering the appropriate follow up action. ICAS' [AML Regulatory Actions Guidance](#) sets out the approach ICAS takes in relation to non-compliance.

ICAS AML Regulatory Actions Guidance

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), and
- 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 individuals and entities 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.

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.



Regulatory actions and discipline

Authorisation Committee – 2021/22 outcomes

As noted above, there were a small number of visits to firms which identified repeat non-compliance issues that required follow-up action and checks by ICAS. In some instances, the firms required to meet the costs of the follow-up check, which ranged from £500 to £1,500.

Investigation Committee – 2021/22 outcomes

The Investigation Committee continues to be alert to instances of non-compliance with the Regulations and the CCAB 'Anti-Money Laundering and Counter-Terrorist Financing Guidance for the Accountancy Sector' (CCAB Guidance), when considering the complaints before it.

Two disciplinary cases were determined by the Investigation Committee in the period to 5 April 2022 where a breach of the relevant CCAB Guidance relating to Customer Due Diligence was a feature of the disciplinary finding. The Members each accepted a consent order for severe reprimand, together with combined financial penalties of £20,000 and payments towards the costs of the investigations.

Case Study – non-compliance with the CCAB Guidance

The Member was a licenced Insolvency Practitioner. As part of a wider complaint into the Member's handling of a number of personal bankruptcies, ICAS reviewed the Member's customer due diligence records for the debtors.

A review of the Member's case files indicated that the appointments were of a higher risk profile, yet the Member failed to adopt an adequate risk-based approach when determining the degree of customer due diligence to apply.

Serious errors were also noted in the Member's own AML risk assessment and customer due diligence checklists, for example, regarding the dates that verification of identity was received for certain debtors.

The Investigation Committee concluded that the Member's failings amounted to a breach of Section 5.1 of the CCAB Guidance, which outlines the required components of good customer due diligence, including the requirement to adopt a risk-based approach.



Whistleblowing

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

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

In addition, ICAS has recently 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

While ICAS' regulatory and supervisory functions must always be discharged with an appropriate degree of independence, there are other teams in ICAS which provide assistance to Members and firms to improve their AML compliance.

Practice Support

ICAS' Practice Support Team – which sits separately from the Regulatory Teams – can assist Members with:

- 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.

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

The Practice Support team works closely with ICAS' Members in Practice Advisory Board.

ICAS General Practice Manual

The [General Practice Manual](#) (GPM) is available free of charge to all firms which are supervised for AML by ICAS. It contains a suite of helpsheets and other resources to help Members and firms comply with their AML obligations, including:

- Sample AML policy.
- Helpsheet and template for Suspicious Activity Reporting.
- Tipping off helpsheet.
- Client due diligence helpsheet.
- Sample AML policy.
- Template and guidance for firm-wide risk assessments.

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

MLRO Alert Hub

ICAS, through its association with the Accountancy Anti-Money Laundering Supervisors Group (AASG) shares regular alerts to MLROs through this Hub. Each MLRO of a firm supervised by ICAS is invited to join the Hub which is updated separately from the ICAS website due to the specific nature of information shared.



Support

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 has developed several publications, podcasts and period webinars to provide advice and guidance to firms subject to AML supervision, which can be accessed via their [website](#). Of particular note is [guidance](#) on submitting better quality Suspicious Activity Reports.

The NCA publish SARs In Action magazine regularly which provides insight in relation to the benefits of Suspicious Activity Reporting and the impact they have on serious and organised crime.

The UK Financial Intelligence Unit (UKFIU) have also created a number of podcasts which are available on the main podcast providers such as Apple, Google Play etc. Search for UKFIU.

CCAB Guidance for the Accountancy Sector

The latest [AML Guidance for the Accountancy sector](#) approved by HM Treasury was published by the CCAB in May 2022. This is an extremely helpful document for Members and firms in explaining their obligations under the Money Laundering Regulations.



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