Anti-Money Laundering (AML) for accountants

Protecting your firm against dirty money

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There is a realistic possibility that the scale of money laundering impacting the UK annually is hundreds of billions of pounds.

Money laundering seriously threatens the stability and integrity of financial systems as it enables criminal organisations to profit from their illegal activities and undermines the effectiveness of law enforcement efforts.

As such, Anti-Money Laundering (AML) is a crucial aspect of UK financial regulation, with authorities pinpointing the prevention of money laundering and terrorist financing as primary focal points.

Consequently, it's no surprise numerous firms within the accountancy and professional services domain have seen an increased level of regulatory examination regarding their AML procedures.

If Anti-Money Laundering (AML) compliance isn't front of mind in your practice, it should be; however, with accountants so busy, it's understandably challenging to stay on top of the regulation and everything it entails.

Fear not! We've created an all-in-one guide on AML, so if you have questions, read on.

What is money laundering?

Money laundering is the process of making illegally gained proceeds (such as funds obtained through criminal activities) appear legal or "clean."

The aim is to conceal the true origin of the funds, allowing individuals or entities involved in illegal activities to enjoy the profits without attracting attention from law enforcement or financial authorities.

The process typically involves three main stages:

Placement: the initial stage where the illicit funds are introduced into the financial system, which could involve breaking down large sums of money into smaller, less suspicious amounts or physically smuggling cash across borders.

Layering: here, the goal is to obscure the source of the funds. Layering may involve complex financial transactions, such as wire transfers, buying/selling securities or using shell companies to create a web of transactions that makes it difficult to trace the money back to its illegal source.

Integration: at this final stage, the "cleaned" funds are reintroduced into the economy, appearing as if they come from a legitimate source. Integration can involve investing in legal businesses, purchasing assets or engaging in other financial activities that make the illicit funds seem like legally earned income.

What is Anti-Money Laundering?

To set the records straight, Anti-Money Laundering (AML) refers to a set of regulations, policies and procedures designed to prevent and detect the illegal practice of money laundering.

AML's goal is to ensure financial institutions and other entities are not unwittingly involved in facilitating money laundering activities.

These measures are crucial for maintaining the integrity of the financial system and preventing the use of financial institutions for illicit purposes.

Who does Anti-Money Laundering apply to?

Certain entities and individuals in the UK are required to complete registration with a supervisory authority to comply with Anti-Money Laundering regulations.

The regulations apply to:

- Businesses engaged in financial and credit services
- Independent legal professionals
- Accountants, tax advisers, auditors, and insolvency practitioners
- Trust and company service providers
- Estate agency businesses
- Letting agency businesses (with individual monthly rents equal to or exceeding €10,000)
- Casinos
- High-value dealers (managing cash transactions of €10,000 or more for goods)
- Art market participants (involved in buying, selling, or storing art valued at €10,000 or more)

Learn more about registering for AML here.

AML legislation timeline

1993: the Money Laundering Regulations 1993 (SI 1993/1933) took effect on 1 April 1994, having been laid before parliament on 29 July 1993.

2000: the Terrorism Act 2000, which later saw amendments through the Anti-terrorism, Crime and Security Act 2001 and the Terrorism Act 2006, received royal assent on 20 July 2000.

2001: the Anti-terrorism, Crime and Security Act 2001 received royal assent on 14 December 2001, while the Money Laundering Regulations 2001 (SI 2001/3641) were laid before parliament on 9 November 2001.

2002: the Proceeds of Crime Act 2002 received royal assent on 24 July 2002.

2003: the Money Laundering Regulations 2003 (SI 2003/3075), the Proceeds of Crime Act 2002 (Business in the Regulated Sector and Supervisory Authorities) Order 2003 (SI 2003/3074), and the Terrorism Act 2000 (Business in the Regulated Sector and Supervisory Authorities) Order 2003 (SI 2003/3076) were published on 2nd January 2004, marking the completion of the 2nd EC Money Laundering Directive's implementation in the UK. The regulations came into full effect on 1st March 2004.

2004: the Serious Organised Crime and Police Act 2005 established the Serious Organised Crime Agency (SOCA).

2006: the Terrorism Act 2006 received royal assent on 30 March 2006.

2007: the Terrorism Act 2000 and Proceeds of Crime Act 2002 (Amendment) Regulations 2007 (SI 2007 No. 3398) came into effect on 26 December 2007, completing the implementation of the third money laundering directive. The Money Laundering Regulations 2007 (SI 2007 No. 2157) were published on 25 July 2007, replacing the Money Laundering Regulations 2003 and taking effect from 15 December 2007.

2013: the Crime and Courts Act 2013 established the National Crime Agency (NCA) on 25 April 2013, replacing the Serious Organised Crime Agency (SOCA).

2015: the Serious Crime Act 2015 received Royal Assent on 3 March 2015, modifying the Proceeds of Crime Act 2002, including protection for firms making authorised money laundering disclosures.

2017: the Criminal Finance Act 2017 received royal assent on 27 April 2017 and came into force in January 2018. The Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 (SI 2017 No. 692) were laid before Parliament on 22 June 2017 and took effect on 26 June 2017.

2020: the Money Laundering and Terrorist Financing (Amendment) (EU Exit) Regulations 2020 (SI 2020 No.991) were laid before Parliament on 15 September 2020, with Parts 1 to 3, Regulation 5, Regulation 7(2)(a) and Part 4 coming into force on varying dates.

2021: the Amendments to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 consultation was published on 22 July 2021 to allow time-sensitive updates to meet international standards set by the Financial Action Task Force.

What does Anti-Money Laundering mean for accountants?

As mentioned earlier, enormous pressure is placed on accountants to support Anti-Money Laundering, with key components of necessary AML efforts including:

Customer Due Diligence (CDD): accountants are required to identify and verify the identity of their customers, obtaining information about their identity, business relationships and the nature of their transactions. Enhanced due diligence may be applied to higher-risk customers, such as politically exposed persons (PEPs) or customers from high-risk jurisdictions.

Know Your Customer (KYC): KYC procedures are part of CDD and involve gathering information about customers to assess their risk profile. This helps accountants understand the nature of the customer's business and the expected transactions, enabling them to detect any unusual or suspicious activities.

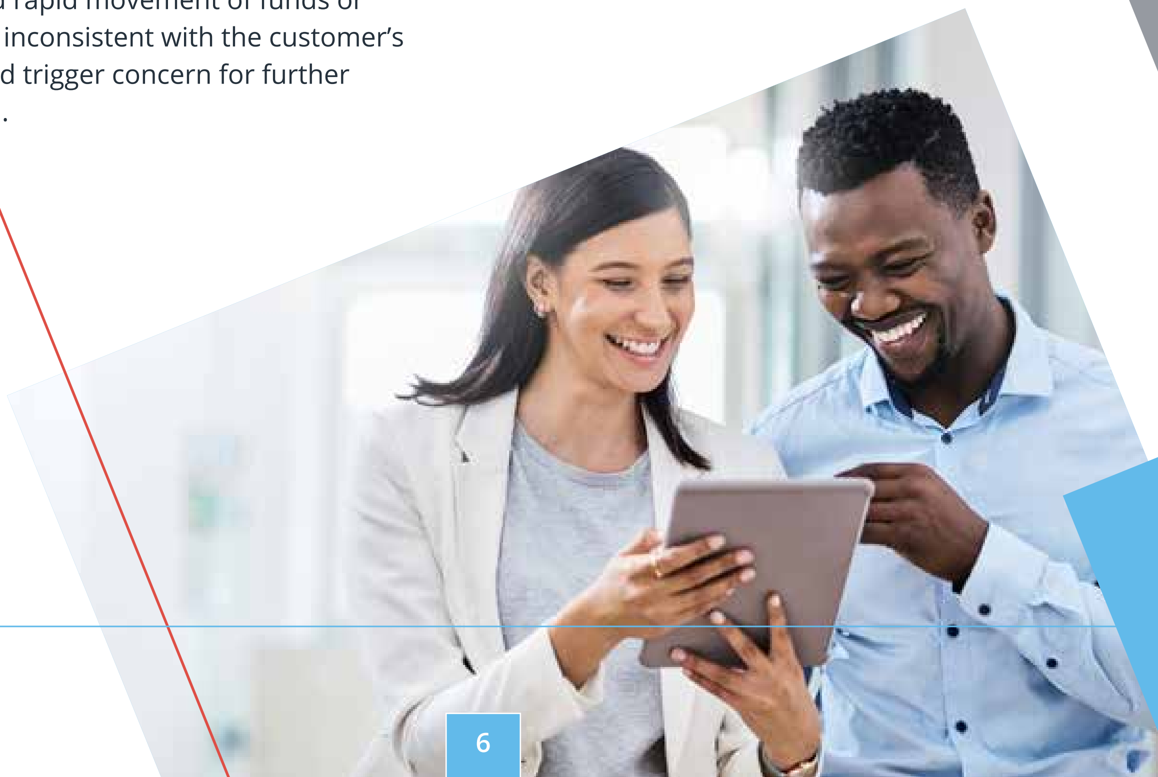
Transaction Monitoring: financial institutions must monitor transactions for unusual patterns or behaviours. Unexplained large transactions, frequent and rapid movement of funds or transactions inconsistent with the customer's profile should trigger concern for further investigation.

Suspicious Activity Reporting (SAR): if you identify a transaction or series of transactions that may be indicative of money laundering or other illicit activities, you're obligated to file an SAR with the relevant authorities. SARs provide valuable information to investigate and take appropriate action.

Record Keeping: AML regulations require accountants to maintain detailed records of customer transactions and due diligence efforts – this documentation is essential for audits and investigations.

Training and Internal Controls: accountants are responsible for training their staff to recognise and address AML issues. Internal controls and policies should be in place to ensure compliance with AML regulations.

International Cooperation: money laundering often involves cross-border transactions. Therefore, international cooperation and information sharing between financial institutions, regulatory bodies and law enforcement agencies are crucial for effective AML efforts.



Anti-Money Laundering penalties: the cost of doing nothing

While everything required to ensure AML compliance seems daunting, doing nothing isn't an option.

Failing to comply can result in a hefty fine.

In 2022, HMRC issued £3.2 million in money laundering fines, with accountancy service providers footing almost £600,000 of those penalties.

A swathe of UK accountants have already been fined this year for insufficient AML compliance, and while the average fine is £3,000, we've seen some penalties reaching upwards of £15,000.

> ***"For an accountant in practice, if you are subjected to disciplinary proceedings from your professional body, it's not a particularly quick process - it hangs around for months. It's very stressful and very demanding. Then the actual financial penalty that they give you is the least painful part of it - there are very often costs too. So, you might say somebody might be fined a couple of thousand pounds but have £8,000 costs on top,"*** says Forensic Accountant David Winch.

Fines aren't the only risk; earlier in the year, ACCA expelled a member for lying about their AML policy, and in December, they excluded another accountant for failing to keep up with AML procedures.

The pressure is very much on.

Identifying client warning signs

Recognising and addressing Anti-Money Laundering (AML) risks can be challenging amid a busy schedule.

Here are **six client red flags** that you can use as a checklist or jot down for quick reference on your desk.

Secretive Clients: avoid clients unwilling to provide personal verification. Lack of identity disclosure may indicate hidden agendas. Prioritise getting to know clients and understanding their business to enhance confidence before onboarding.

Unusual Transactions: keep an eye out for unexplained or inconsistent transactions. If you observe irregularities in client outgoings or incomings, investigate further. Be cautious if you notice significant amounts of cash or private funding.

Transactions with Unexplained Urgency: while last-minute financial transactions are common, be wary if a client is unwilling or unable to explain their urgency. A lack of transparency could signal potential issues.

Geographical Concerns: pay attention to transactions originating from abroad. If, for instance, a client owns a local business and transactions are coming in from across the world, it should raise suspicion.

Politically Exposed Person (PEP): individuals in high-ranking positions and their families are at a higher risk of corruption and money laundering. While not all high-ranking individuals pose a risk, consider conducting enhanced checks before onboarding them.

Unknown Beneficial Owner: ensure clarity on the beneficial owner. If a client requests a complex ownership structure, it might be an attempt to conceal criminal activity. Exercise caution and consider conducting thorough checks before proceeding.

Five best practice tips for Anti-Money Laundering

As well as recognising the warning signs in your clients, here are five tips for improving your internal processes:

1) Integrating risk assessments into your day-to-day

Ensure ongoing risk assessment is integral to your firm's practices. A thorough accountant conducts anti-money laundering ID checks, credit screens and risk assessments for new clients. It's crucial to recognise that the risk of money laundering persists beyond onboarding.

Rather than viewing risk assessment as a mere checklist item, consider it an ongoing process. In addition to formal, annual assessments, remain alert to red flags throughout the year, both in client interactions and tax returns.

2) Look out for no-net liability tax returns

Pay attention to tax returns with 'no net liability.' If a client's tax return indicates no tax liability, it raises a red flag for both you and HMRC. Question how the client sustains their lifestyle on no net liability and document the response. While legitimate reasons may exist, it's essential to ask and record answers in your files.

Implement a two-pronged approach - formal and informal - to gather information. Regularly review basic client information and capture additional details that arise in casual conversations for a comprehensive risk assessment.

3) Keep in mind the amount of information HMRC has on your clients

Acknowledge the extent of HMRC's intelligence on your client. Recognise the sophistication of HMRC's profiling systems in understanding your client's connections to third parties. Balancing a welcoming approach with risk assessment is crucial when onboarding new clients.

Establishing a good working relationship, both in customer service and compliance, is essential for accountants.

4) Are there the necessary client IT skills?

Evaluate the client's IT skills without making it a deal-breaker. Assess the client's comfort with technology and their willingness to engage with it.

Firms need to develop the skills to assist clients who may be reluctant to use technology due to fear. Provide a support mechanism to guide them through the process and build confidence.

5) What's the motive?

Always question the motive behind hiring your services. Beyond the initial reasons for hiring an accountant, consider the client's broader needs. Due diligence at the start of the relationship is crucial to understanding the client's situation thoroughly.

Integrate probing questions into your onboarding process and initial risk assessment to ensure a comprehensive understanding of the client's background and motivations.

Anti-Money Laundering frequently asked questions (FAQs)

Q: How do you handle ID checks for charity clients?

Not-for-profit organisations often maintain informal records, making them susceptible to theft and fraud, which falls under the umbrella of money laundering risks.

Given the high-risk nature of charities, scrutiny is necessary.

When dealing with charity clients, it's crucial to focus on obtaining information from trustees who handle money.

Q: What documents should be on file for personal tax clients, apart from ID check documents?

For personal tax clients, it's vital to maintain firm-wide reviews, policies and procedures.

Ensuring you have personal IDs and comprehensive risk assessments, coupled with a sensible conclusion regarding risk, is generally sufficient.

Furthermore, engaging in conversations with clients, known as "know your client" for AML purposes, not only fulfils regulatory requirements but also enhances client service and business profitability.

Q: Is it necessary to renew identification documents used for verification, such as passports?

If there are no changes, a passport renewal isn't mandatory.

However, it's crucial to be vigilant for alterations in names or addresses.

Top tip: using confirmation statements offers an excellent opportunity to confirm client details, providing a reason to check and update information regularly.

Q: Do bookkeeping services without filing require risk assessments and ID for all client contacts?

In short, yes.

The same laws and regulations apply across the board, regardless of the specific service offered, and as such, conducting risk assessments and holding ID for all client contacts is a necessary practice.

Q: For a one-off, is a full AML check required?

The necessity of a full AML check depends on the nature of the services provided.

If the service involves accountancy services, tax advice or any other regulated activities, then a full AML check is likely required.

Q: How often should client ID checks be updated?

Considering the client due diligence process usually occurs annually, it's advisable to review client ID checks at this time.

Most practitioners incorporate this review into the accounts or tax process.

During the review, the key question is whether the client's information remains the same.

The role of software: IRIS Elements AML

The Office for Professional Body Anti-Money Laundering (OPBAS) has called for regulators to "step up their efforts" and be "more ambitious".

With the increase in pressure, unsurprisingly, a recent accountancy poll found that AML compliance is taking up more of accountants' time than ever before, and while 71% said AML compliance is doable they stated it's a huge struggle.

To make AML compliance achievable in the manic world of an accountant, considerations are needed around the resources and time required, all of which technology plays a huge role in supporting.

Software, such as IRIS Elements AML, supports accountants with their Anti-Money Laundering requirements, streamlining the onerous compliance tasks and helping identify risks within your client base.

The software diminishes the reliance on paper audit trails and guarantees your entire team is well-equipped.

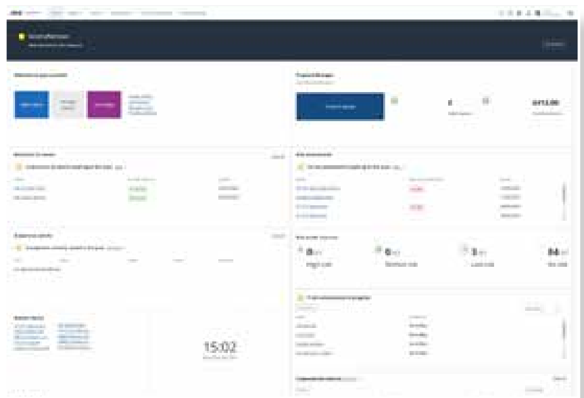
In turn, this reduces the substantial operational costs associated with compliance and risk prevention.

Key IRIS Elements Anti-Money Laundering features include:

AML Dashboard

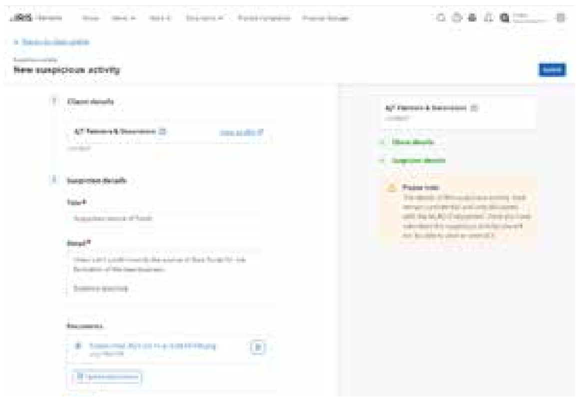
Tailor your homepage to display the information that matters most to you. Receive alerts and reminders to efficiently manage your day using our adaptable dashboard widgets, including:

- Suspicious Activity Reports
- Risk assessments
- ID checks
- Risk profiles
- Firm Wide Risk Assessment questionnaires



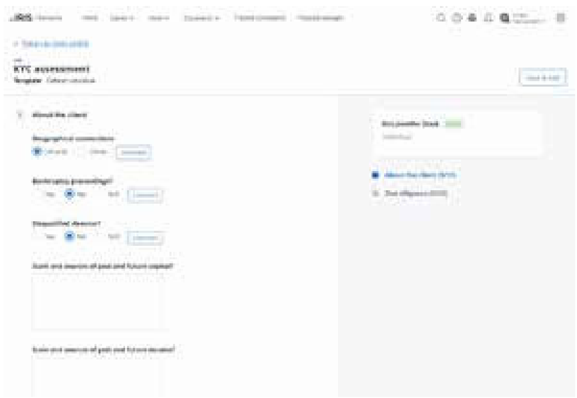
Suspicious Activity Reports (SARs)

IRIS Elements AML simplifies the process of reporting suspicious activity to your Money Laundering Reporting Officer (MLRO). It captures all necessary details and supporting evidence to create a thorough Suspicious Activity Report (SAR).



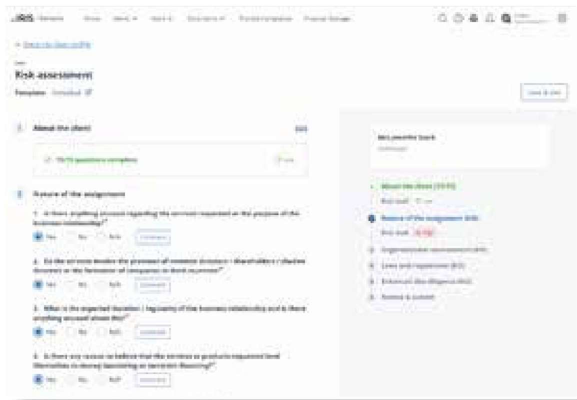
Know Your Client (KYC) Checklist

Utilise default KYC questions covering all client types or create custom checklists. Easily view completed KYC assessments from the dashboard or within the client record.



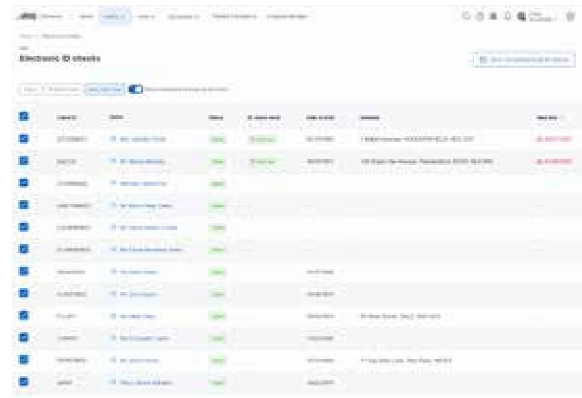
Risk Assessment

Conduct an annual firm-wide risk assessment to identify key risk indicators for your business. IRIS Elements AML enables you to create and customise templates that align with your business and client engagement practices.



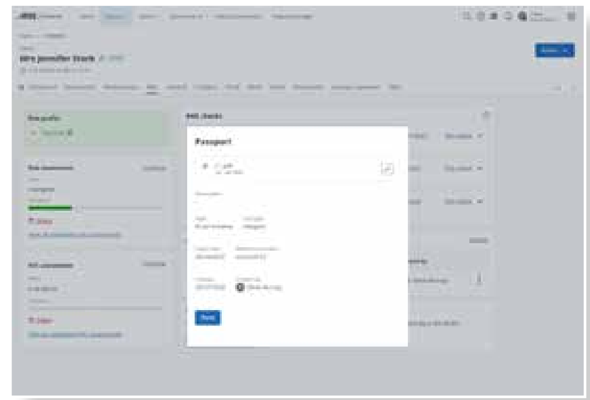
Bulk ID Checks

Effortlessly run individual ID checks with a click or conduct multiple checks in the background while you work. Set filters based on ID check expiration, entity type (prospect, client, contact) and the risk rating of the previous check. Monitor ID check costs before submission for effective budgeting.



Secure Storage of Identity Documents

Upload and organise client ID documents for quick access. All uploaded documents undergo virus and malware scans and are encrypted for enhanced security.



Notifications

Receive timely notifications for key events of interest. For instance, if a Suspicious Activity Report requires review, the MLRO is promptly notified to take necessary action.

The importance of having AML processes embedded in client onboarding and firm-wide compliance processes:

Use software such as IRIS Elements to make sure AML compliance is never just an afterthought.

> ***"Repetition of the same thought or action develops into a habit which, repeated frequently enough, becomes an automatic reflex."*** - Norman Vincent Peale

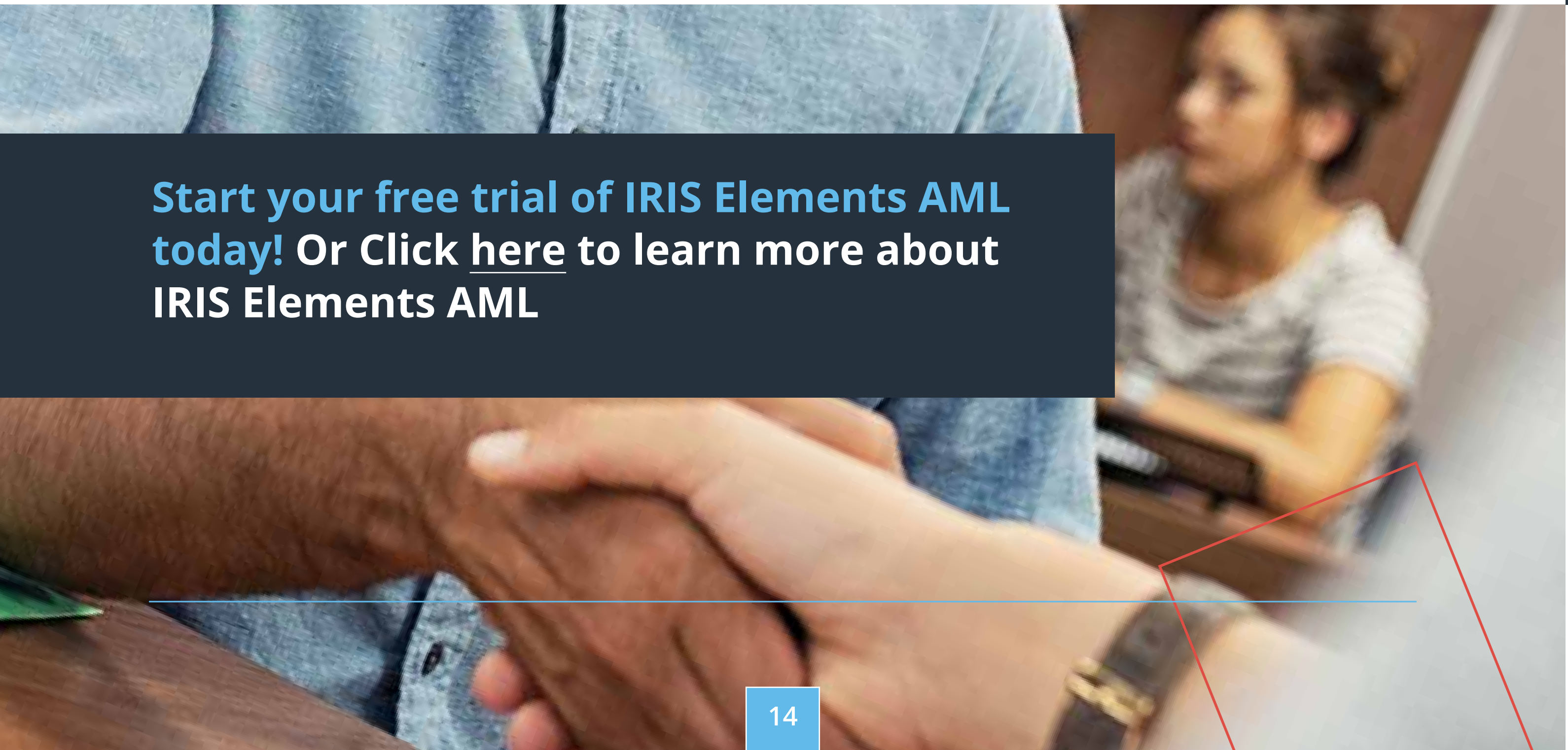
That's what every firm should be striving for – making AML procedures and requirements a habit, rather than a nuisance.

Through IRIS Elements, AML automation is embedded into your processes, reducing the amount of non-chargeable time spent on onboarding clients and increasing your profitability.

With IRIS Elements, it will be less "unnecessary evil" and more of your normal day-to-day, ensuring peace of mind for the partners and persons responsible for AML within the firm.

> ***"I use IRIS Elements which has been fantastic - AML is a nightmare for accountants and IRIS Elements Anti Money Laundering (AML) is a vital tool when it comes to helping us comply with all the latest AML regulations, onboarding of new clients and improving productivity. It allows us to onboard new clients with confidence and looks the part too!"*** - Tax Director, Fiona Heyes, CCM Carter Collins & Myer

> ***"We use the templates within AML to help get clients sorted quickly and everything is stored neatly for the purpose of audits, all within the IRIS Elements platform. It's become a part of our onboarding process for new clients now, using the checklist within the system to ensure nothing is forgotten."*** - Adam Owens FCCA, Founder of Power Accountants



Start your free trial of IRIS Elements AML today! Or Click here to learn more about IRIS Elements AML

Can you risk the cost of doing nothing?

Hopefully, this guide has showcased that when it comes to AML compliance, doing nothing isn't an option.

While the regulation may be complex and ever-changing, as accountants, it's your duty to uphold this vital piece of regulation.

While initially daunting, with the right tools, you can streamline all aspects of compliance and ongoing monitoring.

By automating part of the process, the software helps remove the stress of compliance and enables you to identify non-compliance across your client base.

Please note this guide is correct at the time of writing but given the evolving nature of AML regulations, information can change rapidly. For the latest on all things AML, please visit: www.gov.co.uk