

Risk outlook - circumstances where there might be high risk of money laundering or terrorist financing in the accountancy sector

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WHAT IS THE PURPOSE OF THIS DOCUMENT?

The impact of money laundering is devastating – it enables serious organised crime such as modern slavery, drugs trafficking, fraud, corruption and terrorism.

A comprehensive risk assessment is key to understanding the money laundering (ML) and terrorist financing (TF) risks that a business is exposed to. By knowing and understanding the risks to which the accountancy sector is exposed, HM Government, law enforcement, and the professional body supervisors, as well as the accountancy firms themselves, can work together to ensure that criminals find it difficult to exploit accountancy services.

In this document, we have set out the key risks, and red-flag indicators, the AASG consider are relevant to the accountancy sector. We will update it on a regular basis, reflecting the UK's National Risk Assessment and other emerging threats and trends.

WHO DOES IT APPLY TO?

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR17) require firms to take the appropriate steps to identify and assess the risk that they could be used for money laundering, including terrorist financing.

This guidance is for auditors, insolvency practitioners, external accountants and tax advisers, as well as firms providing trust or company services. Firms need to assess the services they provide and the types of clients they have, to understand how criminals could use them to conceal the proceeds of a crime or use their services to create an arrangement that could facilitate money laundering and/or terrorist financing.

The firm's written risk assessment will identify the areas of the business that are most at risk and this will enable the firm to focus resources on the areas of greatest risk. It is the responsibility of the firm's senior management to approve, document and implement the policies, controls and procedures that address and mitigate the risks. The firm must also provide training to staff on the risks and how the firm mitigates those risks (eg, through client due diligence procedures).

THE OVERALL RISK OF MONEY LAUNDERING AND TERRORIST FINANCING IN THE ACCOUNTANCY SECTOR

The [Economic Crime Plan](#) identifies economic crime as a significant threat to the security and the prosperity of the UK. Its impact is felt across our society. Fraud is now one of the most common crimes in the UK, with one in fifteen people falling victim a year. Money laundering enables criminals to profit from some of the most damaging crimes. Bribery and corruption undermine fair competition and are barriers to economic growth.¹ HM Government's [Economic Crime Plan: Statement of Progress](#) discusses wider developments since the Economic Crime Plan was published and covers the extent and nature of the economic crime threat particularly relating to online fraud, crypto and covid fraud.

The [National risk assessment of money laundering and terrorist financing 2020](#) (NRA) states that accountancy services remain attractive to criminals due to the ability to use them to help their funds gain legitimacy and respectability, as implied by the accountant's professionally qualified status.

The accountancy services considered most at risk of exploitation continue to be:

- company formation and termination,
- mainstream accounting; and
- payroll.

The NRA also highlights other risk areas, which we have incorporated into the risk sections below.

The NRA concludes that accountancy services are at highest risk of being exploited or abused by criminals when the accountant doesn't fully understand the money laundering risks and does not implement appropriate risk-based controls.

These risks can be well-managed through effective AML policies, procedures and training, in line with the [AML Guidance for the Accountancy Sector](#) (AMLGAS). Firms should tailor their AML policies and procedures to address the risks identified in their firm-wide risk assessment and that are present in a particular service line or client.

¹ [Economic Crime Plan 2019-22](#)

KEY RISKS RELEVANT TO THE ACCOUNTANCY SECTOR

The risk of money laundering and terrorist financing is constantly evolving. Firms should regularly review the risk outlook, and any other risks published by their supervisory authority (such as AASG risk alerts) to make sure they have identified all the areas relevant to their own business – particularly as risks may evolve because of changes to the firm’s client base, geography and services provided. The risks listed here are not exhaustive – you may identify other circumstances particular to your firm, where there might be a high risk of money laundering or terrorist financing.

This document is intended to help the firm understand its exposure to risk and ensure that it has designed and applied the right procedures to mitigate that exposure.

Clients

As part of the firm wide risk assessment, the firm should identify the type of clients that it serves. The firm must consider the risk posed by its clients by identifying whether they present any of the following risks and associated red-flag indicators. The presence of one or more red-flag indicators may suggest a high risk of money laundering or terrorist financing. Red flags are not exclusive to the risk areas identified below.

Firms should reinforce the importance of an ‘enquiring mind’ and employing professional scepticism – both in terms of the client due diligence performed and the scrutiny applied to the ongoing services provided.

| Risk | Red-flag indicators | Why |
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| Clients seeking anonymity or undue secrecy | <ul style="list-style-type: none"> • undue client secrecy (eg, reluctance to provide requested information) • unnecessarily complex ownership structures, including nominee shareholders or bearer shares • uncooperative clients • incorrect or misleading information on the register (Companies House) and/or reluctance to correct | <p>Clients may try to hide who they are, or produce unusual forms of identity verification, if they are involved in criminal activity or money laundering.</p> <p>Clients who are seeking anonymity on behalf of themselves, a third party or beneficial owner may be seeking to launder money.</p> <p>Complex structures are attractive to criminals as they may enable the integration of illicit funds into the legitimate economy.</p> |

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| <p>Clients with a history of criminal activity</p> | <ul style="list-style-type: none"> • clients with criminal convictions relating to the proceeds of crime • clients who are on the terrorist list • clients on the sanctions lists | <p>Clients with a history of criminal activity would most likely pose a very high risk of money laundering to your firm.</p> <p>If you find out that a person or organisation you're dealing with is subject to financial sanctions, you must immediately:</p> <ul style="list-style-type: none"> • stop dealing with them • freeze any assets you're holding for them <p>Then tell the Office of Financial Sanctions Implementation as soon as possible.</p> <p>The money laundering regulations require firms to put in place enhanced due diligence measures in dealing with countries subject to sanctions, embargos or similar measures.</p> <p>Clients may use accountancy firms to seek advice on restructuring their assets to avoid financial sanctions.</p> <p>UK sanctions lists</p> <p>The UK's sanctions list is published by the Foreign & Commonwealth Office. The list contains all individuals, entities and ships specified/designated under Sanctions and Anti-Money Laundering Act (SAML) 2018. The list includes all those designated under the types of sanctions including financial, immigration, trade and transport. Sanctions regularly change so firms should use the most up-to-date list available online.</p> <p>OFSI Consolidated of financial sanctions target</p> <p>The Office of Financial Sanctions Implementation which is part of HM Treasury issues a list of all those subject to financial sanctions imposed by the UK – known as the consolidated list. Find the financial sanctions search here.</p> <p>Make sure you check the names of the beneficial owners, and not just the name of the client.</p> |
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| <p>New clients outside of your normal client base</p> | <ul style="list-style-type: none"> • new clients carrying out one-off transactions • new clients based in locations significantly different from your normal client base • new clients in sectors significantly different from your normal client base | <p>You should fully understand why an unusual client has approached you rather than using a firm of accountants that is closer geographically or a firm that advertises themselves as a specialist in a particular field. A client may be higher risk if there is no logical rationale.</p> |
| <p>New clients – professional advisors</p> | <ul style="list-style-type: none"> • client has changed professional advisors a number of times in a short space of time without legitimate reasons • another professional advisor refused to provide the service to the client without legitimate reasons • the customer is prepared to pay substantially higher fees than usual without legitimate reasons • the client's previous professional advisor was not a comparably sized firm | <p>You should also be wary of why a client has changed professional advisors and seek to understand why this has happened. This may indicate a difference of opinion or a breakdown in the client-accountant relationship, which could be a red-flag indicator that the accountant had concerns about something that the client doesn't want to address.</p> <p>Clients concerned about the impact of sanctions or subject to sanctions may start to change their behaviours and consider changing their professional advisors. Larger professional advisors with sophisticated intelligence gathering systems may be concerned about existing clients and disengage.</p> |

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| <p>Politically exposed persons</p> | <p>Regulation 35 of the amended MLR17 defines a PEP as an individual who is entrusted with prominent public functions, other than as a middle-ranking or more junior official.</p> | <p>MLR17 specify that PEPs, as well as certain family members and known close associates, are high risk and must undergo enhanced client due diligence. Those who are entrusted with public functions often have power over public funds and the awarding of public contracts.</p> <p>The FCA has published guidance about the enhanced customer due diligence measures for PEPs.</p> <p>From January 2020, all EU jurisdictions are required to publish a list of positions that would make someone a PEP in their country. The list of UK functions is included in Regulation 35 (14) of the amended 2017 Regulations.</p> |
| <p>Cash based businesses</p> | <ul style="list-style-type: none"> • cash intensive businesses • money service businesses (MSB) | <p>Certain businesses and sectors present higher risk of money laundering and terrorist financing.</p> <p>Cash intensive businesses are of particular risk as it is much harder to track the source of cash and its movements. It is much easier to integrate the cash proceeds of crime into legitimate income or payments.</p> <p>Cash made from criminal activity is reinvested within the UK to fund further both criminality and legitimate business ventures. Current examples of cash intensive businesses include nail bars, beauty parlours, newsagents, restaurants, takeaways, car washes as well as high value dealers and cash-based gambling. Accountancy firms should also assess the risk of clients where cash may only form part of the business, or where specific types of transactions are performed via cash (eg, paying employees).</p> <p>You should consider whether any changes to the cash-nature of the business may result in higher risk – eg, during the COVID pandemic, businesses that were traditionally cash-based have generally moved to card payments. You should understand the reasons why a business is still transacting in cash if this is not the expected norm.</p> <p>The services offered by MSBs are attractive to criminals who want to transfer illicit cash. The NRA assesses MSBs as high risk. Criminals may use MSBs to transfer illicit cash to move money out of their hands into the financial system. The services provided by MSBs can also be attractive to</p> |

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| | | <p>those financing terrorism, who exploit the same vulnerabilities. HMRC has provided further guidance on risks within MSBs. Note that MSBs require supervision under the MLRs.</p> |
| <p>Other sectors highlighted by the NRA and other sources</p> | <ul style="list-style-type: none"> • arms dealers • property transactions with unclear source of funds • transport/logistics businesses • legal services • art market participants • financial services • luxury goods market | <p>Sectors such as the arms trade are linked with corruption, money laundering or terrorism.</p> <p>Large property transactions, where the source of funds is unclear, have also been linked to laundering the proceeds of crime. HMRC's guidance on Understanding risks and taking action for estate agency and letting agency businesses provides further red flag indicators. Firms should also ensure that where overseas entities own UK property, the beneficial owner is properly recorded on the overseas entities register and assess the risk that a client may try to transfer ownership to avoid registering their beneficial ownership. Read more about the Register of Overseas Entities here.</p> <p>There has been a rise in cases reported in the press where transport and logistics businesses have been involved in modern slavery and human trafficking cases. These businesses also have the potential to be involved in in smuggling (eg, alcohol, fuel, tobacco).</p> <p>The NRA rates legal services, art market participants and financial services as being at higher risk of money laundering. You should employ professional scepticism when performing services or analysing the books and records of clients in these sectors.</p> <p>Luxury goods markets are a way to transfer value or assets from sanctioned individuals.</p> |

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| <p>Clients with a changing business, or involved in emerging sectors</p> | <ul style="list-style-type: none"> • rapid rate of turnover (eg, trades for a short period of time, close down and then starts up as a new company) • client is taking on work which is outside its normal range of goods and services • clients that are involved in transactions that don't make commercial sense or involved in transactions where the source of funds is unusual or unknown • the client's lifestyle and/or transactions are inconsistent with known business and personal information • the client has multiple bank accounts or foreign accounts with no good reason • the client has raised funding through crowd funding • the client deals in, or with, crypto currency • the client's business has changed significantly during COVID eg, opening a new line of business such as selling products or services that may be linked to the pandemic | <p>You should fully understand your client's business and ensure that the client can explain any changes in its business, and that you can verify that those changes are legitimate. You should take care to apply professional scepticism in such circumstances – challenging the client to provide evidence to support the change. A client may be higher risk if there is no logical rationale.</p> |
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| <p>High-net-worth individuals</p> | <ul style="list-style-type: none"> • HMRC guidance defines high net worth individuals as individuals who have a net worth of £10m or more. | <p>Not all high-net-worth individuals will be high risk but risk will be elevated if they are a PEP or are high profile (eg, footballers or in entertainment).</p> <p>Overseas high net worth individuals may be higher risk if they are investing in UK property.</p> <p>High net worth individuals may look to use corporate structures or the services of professional advisors to structure their affairs to minimise their tax exposure. Risk will be greatest when the structures are complex and involve high secrecy jurisdictions.</p> <p>Family offices provide a range of services to ultra-high-net-worth individuals and their families and can coordinate the management of companies in charge of a portfolio of investments adding an extra layer of privacy to further distance the true owners.</p> |
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Countries or geographies

The firm should consider whether its clients are established in countries that are known to be used by money launderers or terrorist financiers, or whether another of the parties to the transaction is established in such a country. When determining geographic risk, factors to consider may include the perceived level of corruption, criminal activity, and the effectiveness of MLTF controls within the country.

| Risk | Why |
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| <p>Countries that do not have effective MLTF controls</p> | <p>MLR17 require firms to apply enhanced due diligence to clients that are established in high risk third countries – firms can find HM Treasury’s guidance on High Risk Third Countries here.</p> <p>The European Union also maintains a High Risk Third Country List (found here).</p> <p>Firms should also consider those countries that have not implemented FATF recommendations, identified by credible sources such as FATF, the International Monetary Fund or World Bank. The Financial Action Taskforce (FATF) maintains the list of high risk jurisdictions.</p> |
| <p>Countries with significant levels of corruption</p> | <p>MLR17 also identifies countries as high risk as those with significant levels of corruption or other criminal activity, such as terrorism. Transparency International produces the annual corruption index.</p> |

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| <p>Countries with organisations subject to sanctions</p> | <p>MLR17 require firms to put in place enhanced due diligence measures in dealing with countries subject to sanctions, embargos or similar measures.</p> <p>UK sanctions lists</p> <p>The UK's sanctions list is published by the Foreign & Commonwealth Office. The list contains all individuals, entities and ships specified/designated under Sanctions and Anti-Money Laundering Act (SAMLA) 2018. The list includes all those designated under the types of sanctions including financial, immigration, trade and transport.</p> <p>OFSI Consolidated of financial sanctions target</p> <p>The Office of Financial Sanctions Implementation which is part of HM Treasury issues a list of all those subject to financial sanctions imposed by the UK – known as the consolidated list. here</p> |
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Products or services

Criminals are attracted to the accountancy sector as a way of giving legitimacy to businesses that are a front for money laundering. Accountancy services may be used to create corporate structures or help to legitimise the movement of proceeds of funds.

The following products or services may be at high risk of being used for money laundering or terrorist financing.

| Risk | Why |
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| <p>Trust and company services</p> | <p>The NRA identifies company formation and associated trust and company services as being among the highest risk services provided by the accountancy sector. The NRA also assesses there to be a high risk that UK partnerships and companies will be abused for money laundering. They can be used to enable the laundering of millions of pounds, conceal the ownership of criminal assets and facilitate the movement of money to secrecy jurisdictions. The risk is highest when coupled with other high risk services or high risk factors, such as a client in a high risk country.</p> <p>There is also a high risk when a new client approaches a firm for a one-off company formation, with no ongoing services required.</p> <p>Accountancy sector firms that offer registered office or nominee directorships are also at risk of exploitation as those services can enable the concealment of beneficial ownership.</p> <p>Law enforcement have indicated that many investigations into money laundering lead to complex corporate structures.</p> |

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| | <p>By creating structures that disguise the ownership of assets, the accountant may be either wittingly or unwittingly involved in ‘integration’ of the illicit funds into the legitimate economy.</p> <p>HMRC has published guidance on Understanding risks and taking action for trust and company service providers.</p> |
| Legitimising books and records | <p>Criminals will falsify underlying books and records to hide criminal activity and engage a professional accountant to prepare the financial statements to legitimise them and benefit from the veneer of respectability provided by the professional adviser.</p> <p>There is also a risk associated with ‘incomplete records’ engagements where the accountancy firm, or bookkeeper, is asked to use bank statements to prepare the accounts and not the underlying books and records. This is another way in which the criminal can mask the true nature of the transactions.</p> <p>Accountants and bookkeepers should use their professional scepticism when reviewing books and records to ensure the pattern of transactions fits with what they know about the client’s business.</p> <p>Accountants may also be relied upon to produce or verify documents that relate to a client’s financial position for use in mortgage or visa applications. They should take care to ensure they have sufficient information and understanding of the client’s financial affairs before undertaking this task.</p> |
| Payroll services | <p>Payroll services may include the handling of clients’ funds and so the accountant may provide services that legitimise the proceeds of a crime eg, modern slavery, ghost employees or individuals recorded as an employee who aren’t performing tasks. The accountant may also legitimise the incorrect calculation of deductions (tax evasion) by processing payments – and so they need to be careful about the accuracy and fairness of the calculations.</p> <p>The NCA has published indicators of modern slavery and human trafficking in the accountancy sector. This provides red flag indicators to be aware of during payroll engagements.</p> <p>The risk is highest where staff have not received AML training tailored to payroll services, staff are not client-facing or there is poor quality information provided by the client.</p> <p>Payroll services, and ghost employees, may be employed by sanctioned individuals to extract value from the businesses they control.</p> |
| Insolvency services | <p>Criminals may mask the audit trail of money laundered through a company that has gone into liquidation. By providing insolvency services that mask the funds and distance them from their source, the accountant may be involved in ‘layering’ of the illicit funds into the legitimate economy.</p> |

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| Tax advice that leads to a reduction in tax liability. | There will be many circumstances where providing tax advice to reduce a tax liability is legal. However, there is a risk that an accountant or tax adviser may provide tax advice that assists the client in masking their true income, or structuring their income and wealth to gain an illegal tax advantage. |
| Tax investigations where there might be a criminal element | Clients may ask firms to get involved in assisting with a tax investigation. Firms should consider whether the investigation results from underlying tax evasion, or whether the source of funds relate to criminal proceeds. |
| Investment business | <p>Regulated investment business includes a limited number of areas where an accountant may provide services that could legitimise the proceeds of a crime.</p> <p>Some professional accountancy bodies can licence firms to conduct 'non-mainstream' investment business (DPB licence) eg, advise on private company shares. Such advice may result in the accountant being involved in the integration of the illicit funds into the legitimate economy.</p> |
| Probate and estate management | <p>The provision of probate services is not in itself a high risk activity for accountants but the agreement of the probate papers or letters of administration may legitimise the distribution of assets, which could be proceeds of crime.</p> <p>Accountants are often involved in the administration of estates, regardless of whether they have a probate accreditation from a professional body or not. Estate administration can involve the collection of any form of asset, cash, investments, properties and the distribution of those assets to the beneficiaries.</p> |
| Central and local government support schemes | <p>There are reports in the press, and information published by HMRC, that suggests that government support schemes are at risk of fraud. You should be alert for any red flags that suggests that your client is not entitled to claim any government support.</p> <p>If you are making applications on behalf of a client, the firm should ensure that they have sufficient information to confirm that the application is valid.</p> |

Transactions

Most accountancy services do not involve the facilitation of transactions. However, the following area may be at high risk of being used for money laundering or terrorist financing.

| Risk | Why |
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| Clients' money bank accounts | <p>There is a risk posed by accountants performing high value financial transactions for clients with no clear business rationale, allowing criminals to transfer funds through the client's money account.</p> <p>Accountants should not allow their client account to be used as a banking facility and should understand the rationale for why the client is using the firm's clients' money bank account before the transaction is initiated.</p> |

Delivery channels

The way in which the firm provides its services to its client will affect the risk to the firm.

| Risk | Why |
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| Clients that you haven't met | <p>If the firm hasn't met its client face-to-face, it has increased the risk that the client is not who they say they are. The client may wish to hide their identity, or favour anonymity, if they are involved in criminal activity.</p> <p>The coronavirus pandemic has meant that not meeting clients may be the norm. Firms should consider how this change impacts the risk within their take-on procedures and how they can mitigate those risks.</p> <p>Although rare, there may be occasions where a client has been referred (eg via fiduciaries, solicitors etc) and, additionally, from those operating in high-secrecy jurisdictions (eg Switzerland, Lichtenstein, Luxembourg etc). Some of these referrers can be uncooperative in providing identity or due diligence information sufficient for a UK firm to fulfil its responsibilities.</p> <p>The COVID pandemic has also led to an increase in the delivery of services via remote methods (cloud accounting platforms). Firms should consider whether this new delivery mechanism or the use of a new technology to the firm has resulted in higher risk to their practice (Regulation 33 6 (b)).</p> |
| Insider threat in relation to tax | <p>Insider risk refers to those members of staff within organisations who may be providing or who can provide a function that enables tax evasion. This may be complicit or non-complicit.</p> |

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| | <p>Complicit activity would involve instances where staff purposefully know and assist tax evasion, or obfuscate detection of client tax evasion; either by circumventing controls, taking inappropriate advantage of a lack of controls, or by deliberately failing to implement controls.</p> <p>Firms should assess their staff and consider whether they are appropriately trained in the firm's policies and procedures, which should be designed to provide controls to mitigate the risk of staff being complicit in tax evasion.</p> |
| Combining services | <p>Some services might not be inherently high risk, but when combined with other services or transactions become risky. For example, there might be legitimate reasons for setting up a company, but if that company is used to purchase property and disguise its beneficial owner, this increases the risk of money laundering.</p> <p>Services supporting complex trust or company structures involving high risk jurisdictions or tax havens, offering off-the-peg companies or shell companies, non-face to face business models, staff and customers based abroad with due diligence undertaken in high risk jurisdictions are regarded as heightening a firm's vulnerability to MLTF risks.</p> |
| Combining factors | <p>Risk will increase where multiple risks are present in one client or engagement eg, overseas high net worth individuals may be higher risk if they are investing in UK property.</p> |