

# Reducing risks

To protect accountancy practices and their clients, *Alan Hind* explains how the IFA ensures that members are fully compliant with the Money Laundering Regulations 2017.



## TEN SECOND SUMMARY

- 1 Under the Money Laundering Regulations, the IFA has an obligation to supervise member firms.
- 2 Firms must have written policies and procedures appropriate to their size and nature.
- 3 The AMLCC system includes training as required by the Money Laundering Regulations.

Every UK accountancy firm, no matter how large or small, must comply with the requirements of The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) which came into force on 26 June 2017. The IFA is an anti-money laundering (AML) supervisory body in MLR 2017, Sch 1 and accountants that meet the IFA member firm criteria in the IFA bye-laws will be supervised by us.

Although the IFA has a duty in the MLR 2017 to carry out regulatory assessments of our member firms, we try to be constructive in how we achieve this. Our aim is to combine regulation with education, thereby helping our firms to have a fully compliant set of policies and procedures to mitigate the risk of money laundering or terrorist financing.

As a supervisor we need to carry out a sample of monitoring assessments each year. These are a combination of risk-based and random selections. To help members with their AML compliance here are some common findings from our assessments.

### Assessment process engagement

One of our main concerns as a supervisor is that some firms do not engage with the assessment process. We send letters to firms selected for assessment and ask them to provide information but find that we spend considerable time and resources chasing for this.

At the other end of the process we ask firms to provide us with an action plan to address issues we have identified. Again, a disproportionate amount of time is spent chasing this information.

We have therefore introduced an administration charge for these firms to recover our additional costs. As a last resort, if firms do not provide information, they may be referred to our investigation and discipline team for failure to co-operate with the monitoring, supervisory and compliance process in accordance with IFA bye-law 13.1(e).

### Areas for improvement

As a reminder, the MLR 2017 replaced the previous legislation, the Money Laundering Regulations 2007, and introduced some new requirements for firms. Anne Davis covered the main changes in her article "Keeping watch" in the March/April 2018 edition of *Financial Accountant*. This article focuses on areas that firms appear to find most difficult when complying with the 2017 requirements and areas where firms have not realised there are changes.

### Policies and procedures

Firms must have written policies and procedures tailored to their circumstances. They need to be appropriate to the size and nature of the firm, approved by senior management, and communicated within the firm.

The policies and procedures must also include a firm-wide risk assessment, internal controls, customer due diligence, policies for simple and enhanced due diligence, communication, escalation and reporting, record keeping and data protection. The requirements in the MLR 2017 must also be included along with the HM Treasury approved *Anti-Money Laundering Guidance for the Accountancy Sector* issued by the CCAB.

Weaknesses identified include:

- having no documented AML policies and procedures;



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- including brief reference to some AML requirements in the firm's general office procedures;
- not updating procedures for the introduction of MLR 2017; and
- not tailoring procedures to fit the firm's structure and what it does for its clients.

Despite what we are told by some of our firms, the *Anti-Money Laundering Guidance for the Accountancy Sector* is not a set of policies and procedures but is produced by the accountancy bodies as a reference document.

IFA members have free access to an automated compliance system – the FA Simms Anti-Money Laundering Compliance Company (AMLCC) system. This has been reissued and is fully compliant with the requirements of the MLR 2017. It contains a set of procedures, training webinars and the facility to record risk assessments. Richard Simms' article "Don't take risks" in the May/June 2018 edition of *Financial Accountant* outlined the significant benefits of using the system and how it works.

### Risk assessments

A main change in the MLR 2017 is that each firm must complete a firm-wide risk assessment. This must be documented, kept up to date and reflect the firm's activities in relation to its clients, services, countries of operation and other factors.

The purpose of this assessment is to help firms identify areas for which they may be exposed to higher risks of money laundering and how these can be mitigated. However, few members we have assessed to date have carried out a firm-wide risk assessment, some confusing the requirement with individual client risk assessments. Up-to-date proprietary systems have a section devoted to the firm-wide risk assessment.

### Customer due diligence

Although there is no prescriptive timescale for updating customer due diligence, most commonly firms do this annually when they carry out recurring client work. However, it is essential that this is updated if there is any significant change in the client's circumstances. Most firms are aware of this requirement, but weaknesses in this process have been identified.

- Risk assessment done only at client take-on.
- Risk assessments being informal or not documented.
- Risk factors not being fully covered.
- Firms not documenting the mitigation where a risk factor exists.
- No conclusion on the overall client risk.

Using an up-to-date proprietary system for completion of a client risk assessment should avoid most of these weaknesses.

Most firms are diligent about obtaining verification of clients' identity, but some do not attest the photo ID (in other words, a statement such as "Original verified by ... on ... and confirmed a true likeness") and sign it.

### Reporting suspicious activity

Although the incidence of reportable issues is low, this is a very important area of compliance. Firms must take the correct approach to reporting suspicious activity to the National Crime Agency (NCA). Firms can register on-line with the NCA at [www.ukciu.gov.uk](http://www.ukciu.gov.uk).

Although we have not identified many issues in this area, it is important that firms recognise when and what to report. NCA guidance is available at [tinyurl.com/y9ohumnq](http://tinyurl.com/y9ohumnq).

### Data protection considerations

All accountancy firms should be registered with the Information Commissioner's Office and the MLR 2017 contains specific data protection requirements. We have found some member firms that have not recognised this requirement and some have not understood that a separate registration is needed for each legal entity.

Firms that have not already registered under the data protection legislation can do this at [www.ico.org.uk](http://www.ico.org.uk).

Further, statements must be provided to new clients to inform them about data protection principles and the firm's processing of personal data. These can be included in engagement letters.

Firms should already have implemented appropriate procedures to cover the requirements of GDPR which took effect from 25 May 2018.

### Screening relevant employees

Firms now need to consider screening of relevant employees before and during the course of their appointment. This must cover an assessment of their skills, knowledge and expertise and their conduct and integrity. An appraisal process should cover skills, knowledge and expertise. To cover conduct and integrity, firms could use a tailored version of the "fit and proper" questionnaire that members complete on an annual basis for submission to the IFA as part of the membership renewal process.

### Training and recording

The MLR 2017 mandate training for partners and relevant employees. We occasionally find that although the MLRO has done some training, it has not been extended to staff. We have also identified some firms that have not updated training for the MLR 2017. The AMLCC system has two training modules which conclude with a test of knowledge. The system lets you record this training which is also a requirement of the MLR 2017.

### Annual compliance monitoring

We want IFA members and firms to comply with the MLR 2017 requirements. We have produced a compliance checklist that will help with the compliance aspects of the regulations.

By taking on board these lessons learned from previous AML assessments IFA members will be best positioned to mitigate the risk of money laundering and financing terrorist activity.

### ➤ FURTHER INFORMATION

IFA bye-laws:  
[tinyurl.com/y8y82d5e](http://tinyurl.com/y8y82d5e)  
"Keeping watch", Anne Davis,  
*Financial Accountant*,  
March/April:  
[tinyurl.com/yaefcvo9](http://tinyurl.com/yaefcvo9)  
*Anti-Money Laundering  
Guidance for the Accountancy  
Sector*:  
[tinyurl.com/yafvzwub](http://tinyurl.com/yafvzwub)  
"Don't take risks", Richard Simms,  
*Financial Accountant*,  
May/June 2018:  
[tinyurl.com/y8463n7x](http://tinyurl.com/y8463n7x)  
IFA compliance checklist:  
[tinyurl.com/y9zh6g7a](http://tinyurl.com/y9zh6g7a)