

For the period
6 April 2022 to 5 April 2023



Anti-Money Laundering Supervision Report

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Key terms

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

About ICAS

ICAS (The Institute of Chartered Accountant of Scotland) is the world's oldest professional body of accountants. We represent over 23,000 members working in the UK and around the world. Our members work in private practice and in a range of businesses, as well as in the public and not for profit sectors. They contribute significantly to society.

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

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

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

Foreword from ICAS' Regulation Board

The Regulation Board is pleased to present this report of ICAS' activities as an AML supervisor in the 12-month period from 6 April 2022 to 5 April 2023.

Over recent years, there have been several significant events and developments which have increased the scope for economic crime in the UK, requiring greater vigilance from ICAS' accountancy practices in relation to their AML/CTPF policies.

While the worst of the disruption caused by Covid-19 appears thankfully to be behind us, many ICAS firms are still dealing with its legacy, including clients struggling financially, bounce-back loans, and considering how best to accommodate more remote ways of doing business. We expect to see the impact of this in monitoring reports for many years to come.

Firms have also had to update and tighten their compliance processes to deal with the sanctions which followed the Russian invasion of Ukraine in March 2022. While few firms have direct dealings with Russian clients, there are supply chains to think of, with an ever-increasing need for effective client due diligence and verification.

As 2023 draws to a close, the biggest challenge appears to be the ongoing economic challenges faced by firms and clients alike. There can be little doubt that inflation and the cost-of-living crisis raise the risk of money laundering and associated crimes, which means that the importance of a robust approach to AML compliance has never been higher. Unfortunately, this comes at a time when recruiting and retaining staff is causing significant difficulties for many firms.

With these issues in mind, it is clear that ICAS' work as an AML supervisor is crucial; not just to protect the reputation of ICAS and its firms, but also to safeguard the public interest. The Regulation Board therefore remains firmly committed to improving the effectiveness of ICAS' supervision in this area, as well as raising the compliance levels of our firms.

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.

This report aims 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 6 April 2022 to 5 April 2023, and 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/CTPF 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.

What we have achieved

Over recent years, ICAS has implemented a number of important changes to AML supervision, to improve the effectiveness of our approach:

→ AML Monitoring is now a standalone process

→ Two new dedicated AML roles have been created and recruited

→ Proactive engagement with OPBAS

→ A dedicated section of our website helping firms to comply with Russian sanctions

→ Our revised AML Declaration enhances our data collection from supervised firms

→ A new risk tool implemented to more effectively assess the levels of risk in our supervised firms

→ Bespoke AML training provided to employees, with separate training for our MLRO



What we have planned

While we are pleased with the progress we have made, we have no intention to sit still. We have an evolving AML workplan, responding to developing risks, and working alongside OPBAS and the other professional body supervisors.

- An improved AML Monitoring process
 - A quarterly Regulation News email update, covering developments in AML requirements
 - AML training video for all Board and Committee members
 - Changes to our enforcement process, with an amended AML Regulatory Actions Guidance document
 - New risk-based visit cycles for supervised firms
 - Improvements in data capture, processing, and reporting
 - Reviewing AML training requirements and provision for supervised firms
 - Thematic reviews
- 

Some of this work will have been completed by the publication of this report, but falls outside the reporting period (6 April 2022 – 5 April 2023).

ICAS Regulation Strategy

Ethical leadership and regulating our members to the highest standards is at the heart of everything ICAS does.

With this in mind, we launched the new [ICAS Regulation Strategy](#) in September 2023 setting out our new vision for regulation – promoting trust in the accountancy profession through excellence in regulation. Our work as an AML/CTPF supervisor is a key part of this, as we seek to increase standards of compliance amongst our supervised firms.

The new strategy, which has been approved by the Regulation Board, sets out how we will foster increased confidence in accountants and accountancy by providing proactive and robust activity across our regulatory functions. Alongside this, ICAS will always seek to promote the benefits of regulation, and the positive outcomes it continues to generate for all parties.

HMT consultation

The Government published a [report](#) in July 2022 setting out the case for reform of AML supervision in the UK, and outlining a series of options which would be subject to future consultation.

The [consultation paper](#) was published at the end of June, with four options outlined: (i) OPBAS+, with OPBAS being given enhanced powers, (ii) consolidation of the professional body supervisors, with the possibility of a single supervisor for accountancy, (iii) a single body undertakes all AML supervision in the accountancy and legal sectors, or (iv) a single AML supervisor, also taking on the supervisory responsibilities of the FCA and the Gambling Commission.

ICAS responded to the consultation in September, arguing in favour of OPBAS+, and expressing strong concerns over the remaining options, which we believe would significantly disrupt the positive progress which has been made over recent years in improving AML effectiveness. ICAS' consultation response is available for review [here](#).

ICAS at a glance



78% firms in Scotland

21% firms in England

23,000+ members

850+ supervised firms

1,700+ PC-holders

1,600+ BOOMs

ICAS AML supervision - overview

Governance

The Regulation Board ('the Board') is the executive board established by Council for setting policy and procedures relating to the regulatory functions of ICAS, including AML supervision. AML is a key focus of every Board meeting, as recorded in the meeting notes which are published on the ICAS website ([here](#)). The Board receives reports and statistical information, allowing it to set and oversee ICAS' general AML strategy. It reports into Council and the Oversight Board, with the Chair of the Regulation Board 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 Anti-Money Laundering Regulations

ICAS first published [AML Regulations](#) in 2019. These Regulations (as amended) set out the framework that ICAS follows when supervising 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 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. We are a member of several AML groups, including the AML Accountancy Supervisors Group ('AASG'), and the Anti-Money Laundering Supervisors Forum ('AMLSF').

Risk-based approach

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

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

Introduction

We have made – and continue to make – substantial changes to our monitoring processes, to ensure that we continue to provide high-quality AML supervision, responding to OPBAS' growing expectations.

In July 2022, we removed AML monitoring work from our Practice Monitoring regime, introducing a standalone AML monitoring process. This ensured that AML monitoring is given a greater priority for ICAS and our firms.

Having achieved this, we decided that further changes were needed, transforming the process into an entirely risk-based regime. The new regime came into effect on 1 August 2023. While it is outside the timeframe of this report, the main changes are set out below (['New monitoring regime'](#)).

Who we monitor

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

How we monitor

The way we monitor has recently changed, as explained below (['New monitoring regime'](#)). However, during the period of this report, our monitoring visits included a review of the firm's compliance policies and procedures, as well as a review of engagement files to consider how effectively the firm had implemented customer due diligence in relation to individual clients.

Further sector-specific AML checks are conducted during Audit Monitoring and Insolvency Monitoring visits to ensure that these specialist engagements also cover the appropriate AML procedures.

The frequency of a firm's monitoring review in the period under review was determined using our risk-assessment tool.

Types of reviews

During the period of the report, there were two types of review in place:

- Onsite visits.
- Desktop reviews.

Onsite reviews: the review was undertaken with the reviewer attending the firm's office for at least part of the review process. It included face-to-face opening and closing meetings with the firm's MLRO, with review work being undertaken by the reviewer onsite.

Desktop reviews: these were conducted remotely and did not require the reviewer to attend the firm's office. To enable this to happen, the firm was 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 were required, these took place by telephone or by using video-conferencing facilities.

During 2022/23, we operated as we did pre-Covid, and resumed onsite visits, with the majority of the firms reviewed in the period being subject to an onsite review. Desktop reviews were primarily used for smaller firms which ICAS has assessed as having a lower risk profile for AML.

Who conducts the monitoring

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

What was covered by AML monitoring on the visits conducted in this period

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

While the scope of each visit was determined by the reviewer, based on the firm's profile and risk factors, the following areas were common to all 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).

In addition, a sample of client files were reviewed, to ensure that they demonstrated appropriate CDD i.e. assessing whether correct client identification, verification, KYC, and risk assessment measures were applied.

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

How does the review conclude

At the conclusion of the monitoring fieldwork, the reviewer arranges a closing meeting with the MLRO to discuss the preliminary findings (either in person at the firm's office, or remotely). The reviewer 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 an internal quality review in ICAS, to ensure that the correct review methodology has been followed, and that the reviewer's conclusions are fair and balanced.

The role of the Authorisation Committee

Some monitoring reports can be closed down by the Monitoring Team. This is where the visits have identified either no non-compliance, or where the non-compliance identified does not require formal follow-up action.

Where non-compliance is identified that may require further action, the report is considered by 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](#) sets out the follow-up actions available to the Committee, as well as the decision-making process. In the majority of cases during 2022/23, this involved follow-up checks. If there had been more serious findings then further sanctions would have been available, such as regulatory penalties, follow-up checks paid for by the firm, cessation of supervision, or withdrawal of a Practising Certificate.

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 regulatory penalties and publicity notices.

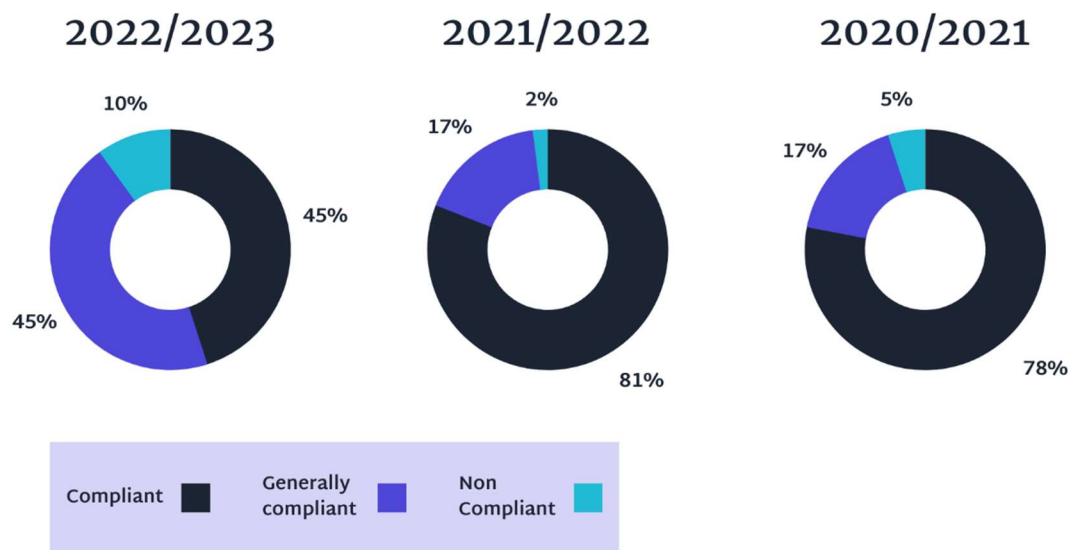
AML monitoring: 2022/23 outcomes

This section of the report sets out the main findings of our monitoring activity in 2022/23.

There are signs of continuing improvement in AML compliance across the firms we reviewed, as explained below ('Most common AML findings'). However, despite this, we have seen an increased number of firms being placed on follow-up action, for the following reasons:

- The same firms are not visited year-on-year, which means that comparisons between years are difficult. During 2022/23, a higher percentage of the highest and higher risk firms were reviewed as part of our transition to a more risk-based approach.
- We are taking a more robust approach to non-compliance, in line with OPBAS' expectations.
- The transition to our new monitoring approach has resulted in more in-depth risk reviews, teasing out new findings for firms to address, which is also in line with OPBAS' expectations.

Therefore, whilst the compliance outcomes look more serious for 2022/23, it is important to emphasise that we are still seeing a trend of improvement in the underlying work by firms, as explained in the next section, with the main changes attributed to developments in our monitoring regime.



Numbers of firms monitored and outcomes

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

Compliance percentages from the firms monitored

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

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



Reviews

The chart below illustrates the mix of firms reviewed and the types of review which were undertaken in each period (in 2020 – 2022, 'remote' visits were visits that would have been onsite visits had it not been for the pandemic restrictions).

Numbers of reviews

Type of review	Telephone	Desktop	Onsite	Remote	Total
2015	9	35	122		166
2016	24	61	135		220
2017	19	45	118		182
2018	2	30	129		161
2019	0	18	71		89
2020/21	0	58	9	23	90
2021/22	0	33	30	6	69
2022/23	0	31	56	0	87

Size of firms reviewed

Size of firm	Sole practitioners	2-3 partners	4+ partners	Total
2015	110	34	22	166
2016	156	48	16	220
2017	136	33	13	182
2018	116	42	3	161
2019	59	19	11	89
2020/21	70	12	8	90
2021/22	39	14	16	69
2022/23	48	24	15	87

During the period covered by this report, 87 firms were visited. The number was higher than in 2021/12, and on par with 2020/21. ICAS has experienced staffing shortages which have been resolved, resulting in increasing visits in the coming years.

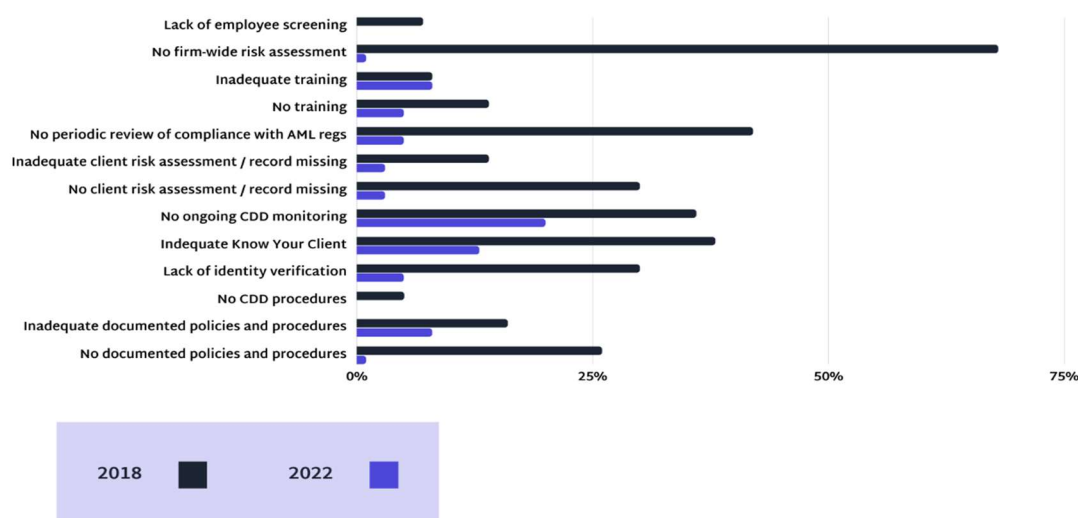
Common AML findings

Comparison to when MLRs came into force

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

We can clearly demonstrate this by comparing the compliance failings in 2022 compared to those in 2018, the first full year of the MLRs, which shows that ICAS' monitoring approach has been effective in driving improvements in our supervised population:

Comparing compliance failings between 2018 and 2022



Our most common findings

During the period of this report and the previous report – 2021 to 2023 altogether – the seven most common AML findings were as follows:

- Lack of an AML compliance review.
- CDD did not include an appropriate assessment of risk.
- Lack of evidence of adequate AML staff training.
- Lack of sufficient ongoing monitoring.
- Lack of approval of BOOMs.
- Clients not formally notified of data handling requirements.
- Firm wide risk assessment not consistent with ICAS review.

The following tables summarise the frequency of these findings in 2022/23, with a comparison of the two recent reporting periods. We then explain and analyse each of the findings in more detail.

The top five 2022/23	2022/23	2021/22
Whole firm risk assessment not consistent with ICAS review	48%	1%
Clients not formally notified of data handling requirements under GDPR	26%	13%
Lack of ICAS approval of BOOMs	25%	29%
Lack of sufficient ongoing monitoring of CDD	20%	12%
Lack of evidence of adequate AML staff training	5%	14%

In the top five in 2021/22 but not in 2022/23	2022/23	2021/22
Whole firm risk assessment not consistent with ICAS review	3%	12%
Clients not formally notified of data handling requirements under GDPR	5%	12%

Comparing 2022/23 to 2021/22



It is pleasing that improvements in 2022/23 were noted in relation to four out of seven areas (client risk assessments, AML compliance reviews, staff training, and BOOM approvals). Two areas where compliance levels decreased – CDD and firm wide risk assessment – can be partly explained by the change in our monitoring approach.

1. Whole firm (firm wide) risk assessments

Firm issues identified	% of firms with issues 2022/23	% of firms with issues 2021/22
Firm-wide risk assessment not documented	1%	17%
Firm wide risk assessment inconsistent with ICAS assessment	48%	1%

It is important to highlight that we have seen a significant improvement over recent years in firms conducting firm wide risk assessments, with all except one firm (a D report) having completed this exercise. Only three firms conducted risk assessments where key elements were missing.

However, in 48% of firms visited, the Monitoring Team identified relevant money laundering factors that had not been identified by the firm in its own assessment. This can be partly explained by our new monitoring approach, with reviewers now reconciling the risk assessments undertaken by ICAS and the firm, identifying any areas where ICAS disagrees with the firm's analysis (unless disclosure is sensitive).

In all these cases, the firms confirmed that they would update their risk assessment for the risks that ICAS was able to disclose to the firms.

We ask all firms to focus their attention on making sure that their whole firm risk assessment captures all known risks. It is also important that firms ensure that all known risks are included in the annual AML Declaration they submit to ICAS, as this is the basis for our risk assessment and informs our monitoring approach to each firm.

2. GDPR / Data Protection

Firm issues identified	% of firms with issues 2022/23	% of firms with issues 2021/22
Inappropriate data destruction policies	0%	1%
Firm had not notified clients re data handling in engagement letter etc.	26%	13%

Personal data obtained by firms in order to comply with the MLRs must only be processed for the purposes of preventing money laundering or terrorist financing. It was pleasing to note that all firms reviewed in the period had appropriate data destruction policies.

GDPR requires firms to provide clients with information in respect of how their personal data will be processed by the firm (including the legal basis for processing and how long the data will be held by the firm). In most cases, firms make the required disclosures to clients through the standard terms in their engagement letters. 26% of firms omitted to disclose the correct information to their client, which was a reduction in compliance over the previous year.

While this is a more minor AML compliance failing, given it does not impact the money laundering controls over engagements, it is still important that it is addressed.

3. AML BOOM approvals

Firm issues identified	% of firms with issues 2022/23	% of firms with issues 2021/22
Lack of approval of BOOMs by ICAS	25%	29%

The MLRs require that BOOMs (the firm's beneficial owners, officers, and managers) are approved by ICAS. This includes the requirement to obtain a basic criminal disclosure check for each BOOM, with failure to do so constituting a criminal offence.

Whilst most firms appear to understand the approval requirements, 25% of firms reviewed during the period had issues in relation to this area, which is disappointing (although it is a slight improvement over 2021/22, where 29% of firms had issues).

In most cases, the lack of a BOOM approval was mainly due to:

- Firms not realising that certain persons are considered to be BOOMs e.g. company secretaries, spouses who hold director or principal status in the firm but are otherwise inactive,
- Firms failing to notify ICAS of changes in their BOOMs.

Firms are reminded that the annual AML Declaration also requires firms to confirm that all the BOOMs in the firm are approved. Providing false information in ICAS returns is considered a serious breach of our Regulations and can result in regulatory and/or disciplinary action.

With BOOM checks continuing to be undertaken as part of ICAS' monitoring work, we also 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 or 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, or equivalent in other UK jurisdictions) in order to confirm that a BOOM has no relevant offences.
- Further information is available on the [ICAS website](#).

This is an area of non-compliance where the Authorisation Committee is likely to adopt a more robust stance in the future, with an increasing likelihood of regulatory penalties (see 'New AML Monitoring Regime' below).

4. Customer Due Diligence

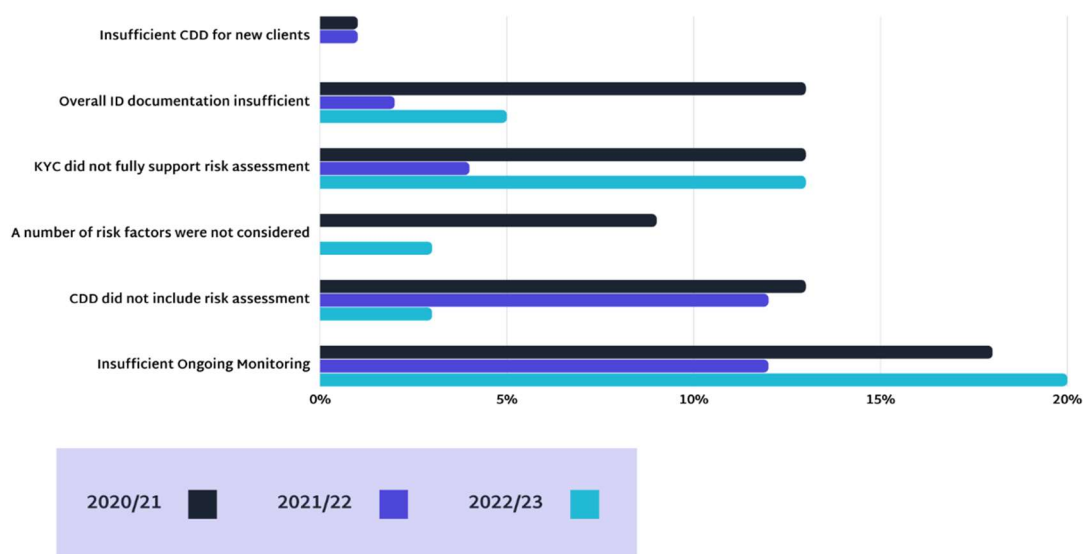
CDD is at the core of AML compliance. It covers the approach firms take to identifying and verifying the existence of the client, maintaining records of their knowledge of the client, and assessing the specific money laundering risk factors they associate with the client and mitigating those risks. This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

In transitioning to our new monitoring regime, we are now reviewing CDD in more detail, with a particular focus on how higher risk situations are being handled by the firm.

As illustrated in the comparison between 2018 and 2022/23, we have seen significant improvements in CDD over the last few years, with all firms reviewed having undertaken CDD. General compliance rates are therefore good.

However, there are still areas for improvement. Ongoing monitoring of clients requires more attention. Also, we still see certain areas of the firm's client base being omitted in error (e.g. only new clients being covered, with a lack of focus on existing clients) or particular risks in clients not being identified or addressed appropriately (the latter being more of a concern).

CDD most common issues / trends



Verification of client identity / existence

Adequate procedures were in place to validate the identity of clients in 95% of the firms reviewed during 2022/23.

While firms are generally complying with the main requirements, we are still identifying non-compliance in relation to specific issues, such as:

- Certain areas of the firm's client base being omitted (e.g. more commonly, only new clients being covered, with a lack of focus on existing clients, or newly acquired client portfolios which have not yet been through CDD checks in the new firm).
- The use of electronic platforms to conduct identity verification.

Our monitoring work in respect of electronic platforms has been increasing recently, with new issues being raised with firms who are solely relying on such platforms for identity verification. This accounts for some of the increase in the number of findings over previous year.

It is important to emphasise that using an appropriate electronic platform provides a far richer source of CDD evidence than conducting checks manually. As such, ICAS recommends that firms consider their use. However, the CCAB Guidance requires firms which are only using electronic platforms to verify client identification to ask various questions as to whether the information provided by an electronic platform is reliable, comprehensive, accurate, secure, and capable of providing an appropriate level of assurance of a person's identity.

Firms must therefore consider whether a platform used meets certain criteria:

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

Where relying solely on electronic checks, firms are therefore advised to obtain confirmation that the search provides the necessary evidence, or ensure additional checks are carried out and recorded.

Case study 1: Client onboarding and identity verification – what good looks like

A sole practitioner who used to be an MLRO in a larger practice.

Following the first client contact – normally a telephone call or email – the practitioner insists on meeting the prospective client, either in person, or by video call. The meeting allows the practitioner to gather the necessary details to consider whether their firm should act for the client (facilitating the assessment of risk from an AML/CTPF perspective).

Once the client engagement is accepted, the firm completes an onboarding spreadsheet, fully documenting the process, which is saved in the client folder. The firm uses an external software package which assists with various aspects of KYC procedures.

A detailed welcome email is sent to each individual identified through the KYC procedures, explaining the requirement for an identification check and requesting signatures on an engagement letter. Checks are made to ensure that everything has been completed as required.

Risk assessment

It is positive to note that compliance is improving, with that 97% of firms recording risk assessments for their clients. Inevitably, as we have been focusing our monitoring more on the money laundering risks faced by each firm, we have been more robustly questioning whether the firm's risk assessment has considered all risk factors.

Knowledge of client

We have been stronger in our approach to KYC as our monitoring is less concerned now with the basic compliance requirements and far more focused on the KYC conducted for the risk factors presented. The KYC issues identified are now more in relation to risk considerations, e.g. how the firm has satisfied itself regarding income levels for cash-based businesses, the source of wealth for high-net-worth clients etc.

Case study 2: KYC and risk assessment approach – what good looks like

A firm with four principals which requires all their clients to use a mainstream accounting platform.

The firm was able to remotely access the platform to prepare accounts and tax computations. A number of clients were remote and so to address this threat the firm used data analytics to sense-check the data being provided.

For one client – a restaurant – the firm analysed the turnover data provided and worked out that this would require 40 meals per evening, and five bottles of wine. The firm was concerned that alcohol sales were being analysed as meals as they attracted a lower rate of VAT during Covid pandemic, reducing the firm's VAT liability. The firm was able to challenge the client that this turnover split was unlikely. The client corrected the turnover split and was put on notice that if any future VAT returns looked suspicious, the firm would disengage.

Ongoing monitoring

It is disappointing that one in five firms did not conduct sufficient ongoing monitoring. The level of non-compliance is higher than in previous years but this is through the lens of our transition to a more risk-based monitoring approach.

There are still a small number of firms who have sufficient CDD procedures for new clients but have not exercised appropriate ongoing reviews for existing clients. For many firms this was not a blanket lack of ongoing monitoring, but restricted to certain service lines or certain client types or certain partners. When such issues are identified, we conduct follow-up checks to ensure that the issue is resolved.

Case study 3: Ongoing monitoring and dynamic risk assessment – what good looks like

Sole practitioner with 10 staff with approximately 600 clients.

The practitioner developed a matrix to identify and assess the risks presented by the firm's clients and their services. This allowed the firm to more easily highlight the higher risk clients and assess the safeguards which needed to be put in place. The risk grading for each client was subject to continuous review, with poor response levels or suspicious activity increasing the risk grade. The responses to these risks included enhanced due diligence on the work, or in some cases, a plan on how to disengage. The matrix was used to ensure that constant ongoing monitoring was conducted for the firm's client base on a real-time basis.

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

Trust or Company Service Providers

Most of the firms supervised by ICAS are registered as TCSPs, which means they can provide certain services to clients, including the creation of companies, and providing a registered office. In 2022/23, 76% of the firms reviewed were TCSPs, compared with 67% in 2021/22. Given that we focused on higher-risk firms in 2022/23, the increased percentage is not surprising.

Unfortunately, some firms are omitting TCSP services from their annual AML Declaration, which is a significant failing given that this information is used to update the public TCSP register. Such omissions will be seriously dealt with by ICAS.

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

TCSP service	% of firms visited
Company, trust, LLP SLP formation	76%
Acting as director, company secretary or partner on behalf of another legal entity	10%
Provision of registered office addresses etc.	79%
Acting as trustee	15%
Acting as a nominee shareholder	2%

Under our new risk-based monitoring regime, TCSP services identified on a visit will always be reviewed in detail to ensure that the appropriate CDD is applied (particularly any higher risk examples).

5. AML training

% of firms visited with issues:	% of firms with issues 2022/23
Has the MLRO received sufficiently detailed training?	5%
If training has been undertaken, is this up to date?	1%
Do new staff members receive training as soon as possible after joining the firm?	3%
Has the firm documented its assessment as to whether current training and state of awareness of employees is sufficient?	9%

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

In the period in question, most firms have performed well in terms of staff training. Given the importance of the MLRO role in firms, we have followed-up where improvements have been identified.

Focus on SARs

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

With failing to report a suspicion being a criminal offence, carrying a maximum penalty of 5 years in jail, an unlimited fine, or both, it is crucial that ICAS makes firms aware of their reporting requirements, and that we incorporate SARs into our supervisory processes.

Monitoring

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

- Are records maintained of any matters reported by staff to the MLRO and action taken?
- Are reports made by staff to the MLRO held separately by the MLRO and not on the client file?
- Is there evidence that the MLRO has considered reports made by staff within a reasonable timescale following the report being made?
- Are procedures in place covering external reports to the National Crime Agency ("NCA")?
- Has the firm sought consent to continue to act when a report has been made (are DAML procedures followed)?
- Where reports have been made were appropriate glossary codes quoted as part of the report?
- Is the MLRO aware of the glossary codes associated with reporting?
- Are reports to NCA held separately by the MLRO and not on the client file?
- Are procedures in place for suitable secure storage of internal reports and SARs for at least 5 years after receipt by the MLRO?

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

We identified the following SARs in the 87 firms we reviewed during 2022/23:

Made by the firm in the last 12 months	105
Made by the firm in the last 12-24 months	78

Advice on SARs

The Investigations department operates a confidential helpline which deals with queries about whether a member or firm has a reporting obligation. While any decision to submit a SAR will always fall to the MLRO, the team are able to provide guidance and signpost resources that may be of help to a member in reaching an informed view, for example the CCAB Guidance.

Guidance on SARs

ICAS publishes articles on SARs on the AML section of the [ICAS website](#). We operate a portal for the MLROs of our supervised firms, which shares intelligence we have received and are able to pass on. Further information is set out below ('Support').

Follow-up, regulatory actions, and discipline

ICAS AML Regulatory Actions Guidance

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

- To provide guidance on the nature of the regulatory action which may be appropriate for AML non-compliance (Section 3), 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 firms to better understand the likely consequences for AML non-compliance.

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

Follow-up action

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 identified on a monitoring visit may be addressed through 'follow-up actions' (unless the circumstances are sufficiently serious to warrant more robust action). A member of the Monitoring Team will advise the firm of:

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

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

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

The increase in follow-up action follows a more robust policy towards non-compliance, as part of the transition to more risk-based monitoring (as noted above, the underlying levels of AML compliance are generally improving across firms).

Firms facing follow-up actions 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.

Authorisation Committee

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

During the period of this report, there were several firms where the Committee issued formal directions for follow-up action which were then subject to further review. In one instance (case study 1 below), the Committee removed an individual's practising certificate after they failed to cooperate with ICAS' Monitoring Team.

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.

Investigation Committee

During the period of this report, one disciplinary case was determined by the Investigation Committee where a member failed to ensure that breaches of the requirements of the MLRs were addressed within a prompt timescale, in breach of ICAS' Public Practice Regulations. The member accepted a consent order for reprimand, together with a financial penalty of £4,000 and a payment towards the costs of the investigation.

Case study 1: Firm not co-operating with a Monitoring Visit

A sole practice firm with poor compliance history and high-risk assessment repeatedly failed to communicate with the ICAS Monitoring Team regarding an impending monitoring visit, despite a significant number of attempts to contact the firm.

Working closely with the Regulatory Authorisations team to identify other failings by the firm, the matter was referred to the Authorisation Committee which subsequently removed the Practising Certificate of the member meaning that the member could no longer continue to practice, as defined by ICAS' Regulations. The member was also referred to the Investigation Committee and subsequently removed from membership in April 2023.

Case study 2: Large and highest risk firm makes significant and sustained improvements to compliance following monitoring visits and follow-up checks

During the period of the return, a monitoring visit was conducted to a large accountancy firm classified as a 'highest' risk, primarily due to the wide range of services and its diverse client base. A previous visit to the firm had identified poor compliance and widespread AML issues due to the ineffectiveness of the MLRO.

At that time, under close supervision by ICAS, the firm appointed a new MLRO and allocated more staff time and resources to AML compliance, embarking on a programme of improvement. After a number of follow-up check, ICAS was satisfied that the concerns had been addressed.

Case study 3: Small firm making significant changes as a result of monitoring visit and follow-up checks

We have many examples of firms who had poor visits following the introduction of the MLRs, and were given strict follow-up requirements to improve.

This small sole practice firm was last visited in May 2017 at which point the following issues were identified:

- No AML policy.
- No AML compliance review.
- No client risk assessments.
- No ongoing monitoring.
- Refresher training needed for staff.

At that time, the Monitoring Team undertook follow-up checks to make sure that the required improvements had been made.

We visited the firm again in May 2022 and were pleased to see that it had maintained good standards of compliance, again demonstrating the effectiveness of follow-up action.

New monitoring regime

New risk-based monitoring regime applied from 1 August 2023

ICAS introduced a new AML monitoring regime on 1 August 2023. Previously all firms would have received a monitoring visit once in a monitoring cycle which was focused primarily on AML compliance, with the work conducted on each visit being broadly similar. However, the new regime changes:

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

From 1 August 2023 onwards, the nature, timing, extent, and frequency of monitoring visits to each firm is determined by our money laundering risk assessment of that firm. Our aim is to focus our monitoring resources on higher-risk areas. We allocate our supervised firms into the following risk categories, based primarily on responses provided in the firm's annual AML declaration, but also other information:

- Lowest
- Low
- Medium
- High
- Highest

These risk categories reflect various factors, including: the nature and circumstances of the firm, its client base, the type of engagement services provided and how they are delivered, and other associated money laundering risk factors. The risk categorisation also takes account of internal (ICAS) factors such as the outcomes of monitoring visits, any complaints made against the firm or its employees, as well as external factors, such as intelligence from law enforcement, or media coverage.

The way we conduct our risk assessment is consistent with guidelines agreed amongst the various accountancy body supervisors.

The level of risk will determine the frequency and nature of ICAS monitoring visits.

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

As well as checking AML compliance, as before, the visit focuses more on the money laundering risks being faced by the firm, including:

- Discussions with the firm to understand the money laundering risks facing the firm.
- Assessing the effectiveness of the firm's whole firm risk assessment in identifying risks.
- Considering how these risks have been disclosed to ICAS in the annual AML declaration.
- Our fieldwork and engagement file reviews (where conducted), including our review of CDD, are more focused on the AML risks identified by both the firm and ICAS.
- Assessing in detail the firm's internal reports and the subsequent SARs issued, in the context of these risks, and the firm's money laundering reporting policies and procedures.

Actions taken after visits and the role of the Authorisation Committee

As part of its supervision, OPBAS expects all professional bodies to take a two-pronged approach to AML non-compliance:

- Ensuring that non-compliance failings are improved (e.g. scheduled follow-up checks to firms which have compliance failings).
- Penalising firms for non-compliance in order to prevent recurrence.

We believe that our previous approach was effective, with a demonstrable improvement in the levels of AML compliance across our firms. As such, our follow-up checks will continue. However, firms will now be required to evidence improvement quicker than before, usually within one month of the visit.

OPBAS expects each regulator to take a robust approach to regulatory penalties. The Authorisation Committee is currently testing a new approach to AML regulatory actions – including regulatory penalties – which might see more penalties applied in the future. Full details will be provided to firms in due course.

One particular aspect of the new enforcement regime will be a more robust response to firms which are found to have omitted information from their annual AML Declaration, or otherwise have misrepresented the AML/CTPF risks they face.

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 SAR will always fall to the MLRO, these conversations can be very helpful.

In addition, ICAS has established an independent [whistleblowing helpline](#) with Protect, a UK charity which works with individuals and businesses to try to encourage safe whistleblowing. The service offers free advice regarding whistleblowing and speaking up. The ICAS Protect Helpline is 0800 055 7215 and we would encourage all members – whether in practice, business, or otherwise – to make use of it, where appropriate.

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

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

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

Support

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 SARs.
- Tipping off helpsheet.
- Client due diligence helpsheet.
- Template and guidance for firm-wide risk assessments.

To highlight the risks associated with providing TCSP services, and to assist firms in undertaking this work, in January 2023 we published a helpsheet on Trust or company service providers and AML supervision.

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 sensitive nature of information shared.

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 SARs.

The NCA publish SARs In Action magazine regularly which provides insight in relation to the benefits of SARs 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 June 2023. This is an extremely helpful document for members and firms in explaining their obligations under the Money Laundering Regulations.



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