



Money Laundering Firm wide risk assessment

AMLbites

What does this presentation cover?

- Regulatory framework and purpose
- Firm wide risk assessment steps
- Risk factors to consider
- Examples
- Where to get guidance

Regulatory framework

- **The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 – MLR 2017**
- The Treasury and the Home Office must make arrangements for a risk assessment to be undertaken to identify, assess, understand and mitigate the risks of money laundering and terrorist financing affecting the United Kingdom (“the risk assessment”). – **The National Risk Assessment**
- Each supervisory authority must identify and assess the international and domestic risks of money laundering and terrorist financing to which those relevant persons for which it is the supervisory authority (“its own sector”) are subject.
- A relevant person must take appropriate steps to identify and assess the risks of money laundering and terrorist financing to which its business is subject.

UK National Risk Assessment

- Accountants are at a high risk of being used to facilitate money laundering.
- The risks exists because criminals may use accountants to help their illicit funds gain legitimacy and respectability by using the accountants professionally qualified status.

National Risk Assessment



Firm wide risk assessment steps



Identify the money laundering risks that your firm faces from your clients, the services you provide, the geographic areas you operate in, the firm's transactions and how your services are delivered.



Assess each identified risk by considering the likelihood of it occurring and the potential impact.



Implement appropriate policies, procedures and controls to mitigate the risks.

Risk factors to consider



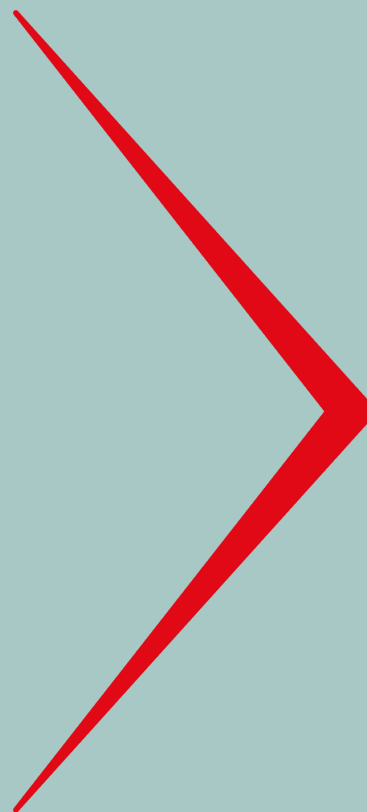
Products or services

Countries or geographic areas

Customers

Transactions

Delivery channels



High risk examples

National Risk Assessment 2020

Services

Trust and company services	Trust and company services are considered high risk when coupled with high risk services or other higher risk factors.
Risk is also enhanced if you are asked to form a company by a corporate service provider in another jurisdiction	Firms that offer registered office or nominee directorships are at risk as these can be used to conceal beneficial ownership or be used to facilitate the movement of money to offshore jurisdictions.
Mainstream accounting	There is a risk that accountants may legitimise false books, record or transactions.

Services

Payroll	The NRA considers payroll services a risk as this can provide criminals with legitimate looking record of money movement.
Provision of tax advice and acting as agent for HMRC	Under declaration of tax due to HMRC.
Company liquidation and associate services (IP).	Can be used to mask the audit trail of money laundered through a company.

Geography

Countries that do not have effective controls	MLR17 require firms to apply enhanced due diligence to clients that are established in high risk third countries. Firms should also consider those countries that have not implemented Financial Action Taskforce (FATF) recommendations, identified by credible sources such as FATF, the International Monetary Fund or World Bank. The FATF maintains the list of high risk jurisdictions.
Countries with significant levels of corruption	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.
Countries with organisations subject to sanctions	MLR17 require firms to put in place enhanced due diligence measures in dealing with countries subject to sanctions, embargos or similar measures.

Customers

Cash based businesses	Cash intensive businesses – nail bars, beauty parlours, newsagents, restaurants, takeaways, car washes as well as high value dealers and cash-based gambling.
Money service businesses (MSB)	The services offered by MSBs are attractive to criminals who want to transfer illicit cash.
Other sectors highlighted by the NRA	Arms dealers, property transactions with unclear source of funds, transport/logistics businesses, legal services, art market participants, financial services.
High net worth individuals	HMRC guidance defines high net worth individuals as individuals with net worth over £10,000,000

Transactions

Clients' money bank accounts

- 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.
- 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.

Delivery

Clients you haven't met	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. The coronavirus pandemic 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.
Combining services	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.
Combining factors	Risk will increase where multiple risks are present in one client or engagement e.g., overseas high net worth individuals may be higher risk if they are investing in UK property.

Assessment of risk

- To assess the money laundering risk, you must consider the likelihood of the risk occurring, and the impact if the risk did occur.
- Most risk management tools will identify a range of likelihood and impact that you can apply to your identified risks. You can determine your own ranges, or use risk management tools that are widely available over the internet.
- if your firm has no experience of clients operating in a particular country, you could conclude that the risk is normal or high risk even if other firms may conclude it to be low risk

Mitigations

Effective client due diligence (CDD)	Procedures that, while being proportionate to the level of risk you have identified, should aim to prevent your firm taking on clients that could be connected to criminal activity or laundering the proceeds of crime.
Regularly screen staff involved in higher risk areas	And involved in the internal AML and client take-on procedures. Ensure they are fit and proper and have no criminal history.
Staff working in high-risk business areas	Staff have more detailed and more frequent training.
Establish checks within your firm to assess and frequently review higher risk engagements.	Performed by personnel independent of the principal responsible for the engagement. For example these checks could involve the approval of the MLRO, the MLCP, the firm's management team, its board (or equivalent) or a combination of these.

How to prepare a FWRA

Firm profile.	
Principals	2
Staff	4
Turnover	£450,000 to 31/02/2021 (stayed very much the same for the last few years).
Clients	Mainly owner managed businesses/small companies/partnerships and sole traders. No PEPs. We meet all clients – none that we have never met.
HNW	None that exceed HMRC valuations but two that are close. Not high profile.
Geography	UK based. None overseas. Mostly South Yorkshire. A few further afield and London based.
Client money	One general account.
Services	General practice, some audit work. We do act as RO for clients but as part of an overall accountancy service offering. Similarly with company incorporations, often existing clients we know well.

Examples – ICAEW guidance

Risk factor	Summary of firm	Assessment of risk	Mitigating actions
Clients	<ul style="list-style-type: none">• Individuals (including two high net worth).• Small businesses and limited companies.• Mainly manufacturing and tradespeople operating within the UK.	<p>Risk is normal.</p> <p>We have reviewed the ICAEW risk guidance. None of the factors are present in the firms. We don't have any clients who are PEPs.</p>	<p>Perform standard CDD to verify client identity and business activities.</p> <p>Provide staff with training on where risk of ML arises and relevant case studies (last provided July 2017).</p> <p>I approve all new clients and would be aware of any PEPs.</p>

Examples - geographical

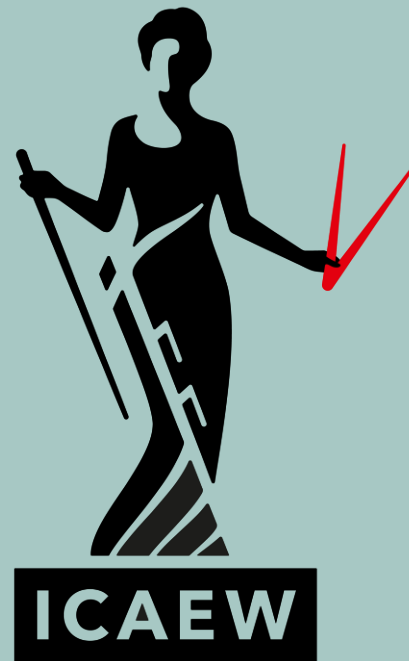
Firm summary	Risks	Mitigation
<p>All our clients are UK based.</p> <p>We have a few who are not local and are a result of referrals from existing clients.</p> <p>A few London based.</p> <p>No overseas clients or links to higher risk third countries. We would not take on such clients.</p>	<p>We see less of the remote clients so there are risks that we do not identify risks/changes in activity/trigger events and miss possible criminal activity.</p>	<p>We ensure that we perform CDD on all new clients and discuss with existing client who has made the referral, it's business model and owners.</p> <p>We ensure we visit the client occasionally to verify that the business activities are as described, and that the business appears credible.</p> <p>We monitor transactions/business for changes in activity.</p>

Examples – transactions

3	Transactions	Likelihood L/M/H	Impact L/M/H	Notes/mitigation
3.1	Handling of client money. We do handle client money so there is a risk of handling proceeds of crime.	M	H	<p>However, these are tax refunds only. The source of the funds is HMRC. We prepare the tax returns so we know the source of the figures. We are notified of the amounts in advance. We perform CDD on all clients and MLRO approval required for clients for who we handle client money. Partner approval required for all payments from this account and it is reviewed daily.</p>

Guidance

- ICAEW – Guidance and template
- AASG – Risk outlook
- National Risk Assessment



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