



Institute of
accountants &
bookkeepers

IAB Anti-Money Laundering Supervision Report 2023

Reporting period: 6th April 2022 – 5th April 2023

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Foreword



Janet Jack

CEO Institute of Accountants
and Bookkeepers

As technology and automation continue to reshape our world there is the demand and opportunity for finance professionals to diversify their offering. The IAB embrace a more interconnected global economy and as a responsible and supportive organisation, we work to help our members to thrive in this new environment, however, we are quick to point out that this should not be at the expense of compliance.

Financial regulations are becoming increasingly stringent, requiring finance professionals to stay updated with evolving compliance requirements. At the IAB, we believe that by gaining a detailed understanding of our supervised population and their operations, we can provide more engaging content that makes the time spent on their Anti-Money Laundering (AML) responsibilities more meaningful without hindering their business development.

Our approach is supported by insightful knowledge and endorsed through our esteemed IAB Ambassadors, who help contextualise compliance in the day-to-day reality of running a practice, making the subject of AML less daunting for our members. The positive results of this approach are evident in the trends observed in the assessment outcomes of the past three years, with a continuous reduction in the number of practices issued with mandatory action plans and fines.

However, as technology advances and connectivity increases, the need for regulatory compliance and risk management becomes greater. This is driven by the rise of financial or white-collar crimes, which can have significant impacts on businesses, investors, employees, and the overall economy. To address this threat, we will continue to evolve our education-based approach, whilst also collaborating with our fellow Professional Body Supervisors to share valuable experiences and innovations.

We are proud of the progress made to date and look forward to supporting our members as they navigate the complexities of the evolving finance industry. Together, we will build a more secure, compliant, and prosperous future.

The IAB as a Professional Body Supervisor

The IAB is a Professional Body Supervisor (PBS) listed in the Money Laundering Regulations (MLRs). This enables the organisation to provide the required supervision for the accountancy sector practice of any professional IAB Member or Fellow. In doing so, the IAB is responsible for overseeing the practice's compliance with the MLRs.

Regulation 11(c) of the 2017 Regulations defines an external accountant as someone who provides accountancy services to other persons by way of business. There is no definition given for the term accountancy services. However, HMT approved industry guidance from CCAB states: 'it includes any service which involves the recording, review, analysis, calculation or reporting of financial information and which is provided under arrangements other than a contract of employment.'

Regulation 11(d) of the 2017 Regulations defines tax adviser to include both direct and indirect provision of material aid, assistance, or advice on someone's tax affairs. This includes any specific tax advice given to clients, including completing and submitting tax returns, advice on whether something is liable to tax, or advice on the amount of tax due.

The IAB offers professional membership to individuals who have completed IAB and other recognised bookkeeping and accountancy qualifications, with three grades of membership to reflect qualification and experience. As part of our gatekeeping role for the profession, all UK IAB members are required to provide a fresh criminal record check (DBS or equivalent) every 12 months. Member grades eligible for applying for supervision of an associate practice are:



Member MIAB

Practical experience is not required to register as a Member, however, certain qualifications are required as a minimum to apply for membership.



Fellow FIAB

In addition to an appropriate level of qualification, applicants need to have five years of practical accounting or bookkeeping experience, including at least 12 months experience of working with a commercial accounting software package.

Together with ensuring that the wider professional standard requirements of professional membership are upheld, promoting member development and providing support resources, the IAB as a PBS is obligated to:

- ✓ Risk assess its population and base supervisory activity on these findings;
- ✓ Effectively monitor its supervised population, ensuring that practices:
 - Conduct appropriate risk assessments as required under the MLRs; and
 - Have in place and implement adequate policies, controls and procedures designed to minimise the risk of exposure to Money Laundering and Terrorist Financing (MLTF);
- ✓ Make its supervised population aware of developing risks of MLTF that the population might be subject to;
- ✓ Ensure that contraventions of the MLRs are met with proportionate and dissuasive disciplinary measures;
- ✓ Approve Beneficial Owner, Officer or Manager appointments within supervised practices; and
- ✓ Facilitate information sharing between law enforcement and other PBSs enabling them to execute their functions.

Representing IAB practices

The MLRs apply to a wide range of professional sectors and undergo frequent amendments, some of which have more relevance to the accountancy sector than others. There is a wide range of practice profiles even within the accountancy sector, from the 'big 4' to the 'kitchen table' practitioner. By having a detailed understanding of our supervised population and the way that they operate, we ensure that the additional guidance and support we offer to IAB associated practices is directly relevant to our specific supervised population.

For those supervised by specialist Professional Bodies, this representation is key to ensure their voice is heard amongst the giants of industry. The central effort of strengthening the UK's MLR regime benefits from the input of PBS's, who can provide the real world insights and help to shape MLR developments.

Promoting consistency and effectiveness in supervision

As one of the accountancy sector PBSs, we sit on numerous AML working groups, looking to develop the organisations' approach to supervision with industry good practice and risk developments. This collaborative approach between the PBS's means that we all benefit from each other's innovation and expertise, whilst having the autonomy to ensure the most effective supervisory model for the risks attached to our own population is in place.

Developing intelligence sharing

During 2022, the IAB chaired the accountancy Intelligence Sharing Expert Working Group (ISEWG), with a goal of developing intelligence sharing within the sector. As a sector, we are working hard to develop the methods of effectively sharing intelligence between both other PBS's and law enforcement. Whilst the IAB has strong powers to ensure that its members adhere to the organisation's high standards, we can only take action when we are aware of an issue.

The accountancy sector is increasing its collaboration to reduce the risk of individuals seeking to exploit the trusted title of accountant or bookkeeper, with increased information sharing between PBS's. Regulatory changes that occurred in September 2022 permitted an increased flow of intelligence from law enforcement and we continue our efforts to maximise the potential of this.

The IAB has a dedicated Single Point of Contact (SPOC) for relevant intelligence sharing, including a secure Criminal Justice Secure Messaging account (CJSM) for law enforcement contact.

Encouraging wider engagement

Accountancy and Bookkeeping are respected professions. Those that evade compliant practice or practice without any supervision can cause significant reputational damage to the sector, as well as positioning themselves as a target for being exploited for money laundering.

As required by the Regulations, the IAB provides a path for reporting suspected breaches of the MLRs, including anonymous reporting. The MLRs are designed to reduce the risk of professional practices being exploited by or facilitating criminals laundering the proceeds of

their crimes. Failing to apply the requirements of the Regulations increases the opportunity of serious criminal activity being rewarded by enabling their proceeds of crime to enter the legitimate mainstream economy. Failure to identify the red flags of money laundering risks criminal activity that impacts society at large going unreported, often where there is a legal obligation from the professional involved to do so.

Reports of suspected breaches can be submitted across multiple channels, online via the IAB website, by post, and phone.

The reporting channel is open to all, and reports can be submitted in relation to non IAB member practices. Throughout this reporting period the IAB received no reports of actual or potential breaches of the MLRs through this channel.

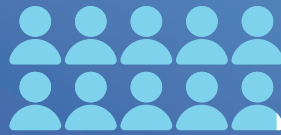
Supervised population overview and key risk factors

719
Practices

82% offer one or more form of tax service

21% offer TCSP as part of an overall service offering as an ASP

 **80%**
have 1 employee



99.8%
have less than 10 employees



59%
have less than 50 clients



45%
have less than 10 clients



57%
have a turnover of under £30,000



34%
have a turnover of under £15,000

Key risk factors relevant to the IAB supervised population

The National risk assessment of money laundering and terrorist financing 2020 (NRA) risk rates the Accountancy sector as **HIGH** risk for Money Laundering, and **LOW** risk for Terrorist Financing.

The NRA states that accountancy and bookkeeping 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 NRA concludes that accountancy and bookkeeping 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.

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

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

Bookkeepers and accountants are in prime position to be able to identify these risk indicators through their often-granular work with clients.

Failure to identify ML risk indicators may result in products passed onwards to other Accountancy Sector Providers (ASP's) or HMRC receiving 'face value acceptance', and a lower level of scrutiny because they have been produced by a regulated professional with a requirement to conduct adequate checks.

Assisting supervised practices understanding, identifying and mitigating the risks

As highlighted in the NRA, a lack of understanding of risk within the sector is one of the key risks. We believe this goes beyond a basic lack of risk recognition.

Risk 1: The bigger picture

A failure to understand the purpose and relevance of the process. The MLRs apply to a range of sectors and sizes of businesses, from big banks operating globally to kitchen table bookkeepers with a couple of local clients. For many, being told that you are a regulated professional that must apply a 100+ page guidance document, including writing your own policy manuals, moves the focus from understanding and supporting what the process goal is, to desperately trying to get through the process. Within this, practices often lose sight of what they are trying to achieve.

The IAB promotes the bigger picture view of AML. With education at the forefront of what we do we provide a range of real world examples of the damage that ML causes, which supports the importance of compliant practice.



Case Study

A practice applying for AML supervision submitted standard template documentation that clearly did not reflect the profile of the practice. Cut and paste policy and procedures documents are a red flag that a practice is taking an inappropriate tick box approach to AML, and poor process is likely to follow in practice. Early engagement from the IAB through a policy and procedure review meant that the practice took time to consider their processes and design and document an appropriate strategy to address their MLR obligations.

Risk 2: You can't see what you don't understand

Failing to understand, and therefore see relevant risks. To appropriately manage risk, practices must first be able to understand the risks that they might be exposed to. With this awareness, practices can recognise those that are present or likely within their own practice. They can then consider them with an open mind and professional scepticism. Not taking time to invest in this stage means that practices are blinkered to the possibility of risk exposure, or unable to recognise the red flags before them.

Whilst it has its own place, MLR guidance written for the whole sector sometimes does not feel relatable to the practices that we supervise. Equally, reams of generic risk warnings can overwhelm a practice, who will switch off and miss warnings that are relevant.

The IAB has sought to engage its own supervised population by providing resources and guidance that are relevant to the kinds of practice that they run. By explaining the meaning behind risk phrases, outlining how these may be seen in everyday work, and explaining why processes are required by the regulations, practices should recognise that risks are real and aren't just something that happens to other bigger practices.



Case Study

Practices often face a change in risk exposure as the activities that their practice and their clients undertake change. These can be easier to recognise and react to as they are visible in the day-to-day workings of the practice.

However, external factors can cause a change of exposure, and without guidance it can be easy for practices to miss this. 2022 saw a number of external factors change for practices, with amendments to the MLRs – including an amendment to Companies House discrepancy reporting and the introduction of Proliferation Financing – as well as an increased focus on sanctions obligations following the Russian invasion of Ukraine.

The IAB offers practice specific guidance to draw these internal risks to their attention, as well as ensuring that practices are aware of wider developments that will impact their practices.

Risk 3: Dealing with risks through relevant process

Seeing AML as an afterthought or to be completed as a one-off exercise to then be forgotten about. Taking a tick list approach, often reflected in generic template documents, reflects a practice that has not stopped to think why the task is being completed or if it is relevant to the situation. This in turn renders it virtually meaningless.

We promote practices building AML into the day to day, retaining it at the forefront of their mind, and understanding what tasks seek to achieve. We have worked hard to develop a variety of resources, including our IAB Education series, which allow practices to further develop their understanding of specific areas of the MLRs where needed, as well as providing a broad overview of obligations.

We encourage an open, straight forward line of communication with members on AML as well as having practical implementation as a key topic of discussion through the wider support network that we provide. Our IAB Ambassador groups, social media groups, and coffee mornings are platforms for sharing practical experience and supports the wider IAB community in considering relevant, proportionate, and effective processes that they might also adopt.



Case Study

A practice identified an increased client risk of sanctions related activity following the Russian invasion of Ukraine. Through their understanding of their clients beneficial ownership, they were able to identify an increased risk of sanctions exposure through one beneficial owners links to Russia. An Enhanced CDD review was conducted, with appropriate increased monitoring put in place to monitor and manage the risk.

Practice engagement expectations

Having developed a range of resources, we expect that practices use these to good effect. Our supervisory oversight programme has included over 630 inspections in the past 3 years (April – April), allowing us to see how our supervised practices have engaged with the process. As shown by our supervisory outcome chapter, we have seen a steady increase in compliance by IAB practices over this period. **Between 2022-23, 22% of practices inspected received no mandatory action plans, up from 13% the year before and just 3% the year before that.** This improvement shows that compliant practice is well within grasp for those who are proactive. We understand that some practices will need to address minor non-compliance issues, and we work with these practices through a monitored action plan to ensure they address their issues.

Where practices have failed to engage with the process of compliance effectively, they risk enabling ML through a lack of understanding or implementation of appropriate process. In these cases, we will issue practices with fines, and can refer them to the IAB Adjudication Panel with a recommendation to remove supervision and/or issue fines of up to £50,000.



Case Study

Following initial inspection, a member refused to engage with the action plan to address compliance failings. The case was sent to the IAB Adjudication Panel who made an order for the member to cease public practice with immediate effect, be ineligible for supervision through the IAB and issued a fine in excess of £1,500

IAB AML Assessment methods

As is required by the Regulations, The IAB risk assesses all supervised practices and considers where they should be placed into the ongoing cycle to assess compliance. Not every practice will receive a direct supervisory review each year, and not all practices will be the subject of every assessment method. The most appropriate method to assess a practice's compliance with the regulation will be chosen, considering the risk factors that we consider appropriate to the practice.

Annual application return

The annual application for supervision is an opportunity for supervised practices to provide us with an accurate up-to-date picture of their practice. Through this we gain an overall understanding of both our whole supervised population and where each individual practice sits within this. We can apply any update to our risk assessment as sector developments occur throughout the year, and as our supervised population changes. This understanding enables us to direct our resources to the most appropriate areas, not only through inspection, but also through development of appropriate support resources and advising practices of relevant risks that they may be subject to.

On-site/Virtual Inspection

The IAB has partnered with Compliance and Privacy Solutions Ltd (CaPS) to implement its onsite and virtual inspection tool. The inspection model, which has been successfully operational for 4 years, gives the IAB the ability to assess an increased number of supervised practices compliance with the Regulations without geographical restriction and gain a more detailed understanding of their approach to compliance. The content of virtual inspections remains the same as onsite inspections. The onsite/virtual inspection is designed to assess a practice's technical compliance and implementation against eight key areas of the MLRs. It is drawn from the accountancy sector guidance offered by CCAB.

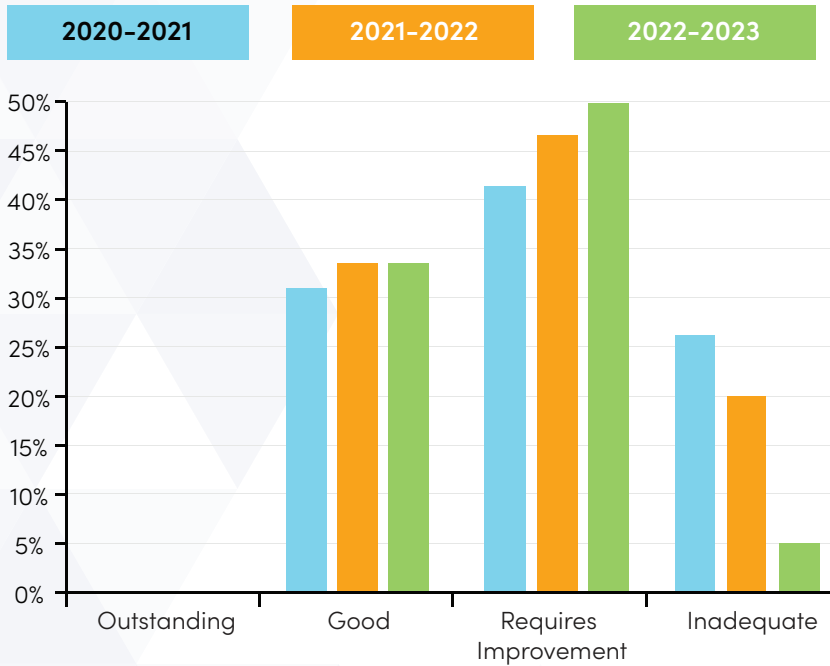
Inspection findings are reviewed by the IAB and relayed to the member in an inspection report. Gradings of Outstanding, Good, Requires Improvement or Inadequate are applied to each of the eight categories, with an overall grade reflecting the practices assessed compliance. Action plans are put in place to ensure practices address any areas of non-compliance that has been found. Completion of these is then monitored throughout the action plan. Where significant non-compliance is found or insufficient improvement throughout an action plan, fixed fines can be applied to the practice, or in cases of extreme non-compliance, the case may be referred to the Adjudication Panel for consideration. In line with the IAB byelaws, the Panel has the power to issue fines of up to £50,000, terminate supervision and membership.

Policy and Procedure review

These reviews are designed to specifically assess the practices Policy and Procedure documents. The same outcomes of assessment are available as above, with action plans designed to address areas where improvement is required. The Policy and Procedure review is designed to ensure that an appropriately practice specific set of documents are in place. Where the practice has taken time to consider and document appropriate policy and

procedure to meet its MLR obligations, rather than for example relying on unedited templates, the practice is more likely to implement these and be compliant with the regulations. By focusing on this area initially, we can ensure that additional practices – particularly those that are newly set up – will have responded to the obligations of the MLRs appropriately in theory. Subsequent inspections where implementation is tested would expect to find a higher level of compliant practice where policy and procedure have been properly considered.

Assessment outcomes and themes 2020–2023



Virtual inspections

Inspections completed



Practices issued with a mandatory action plan



Practices issued with fines



Total fine value



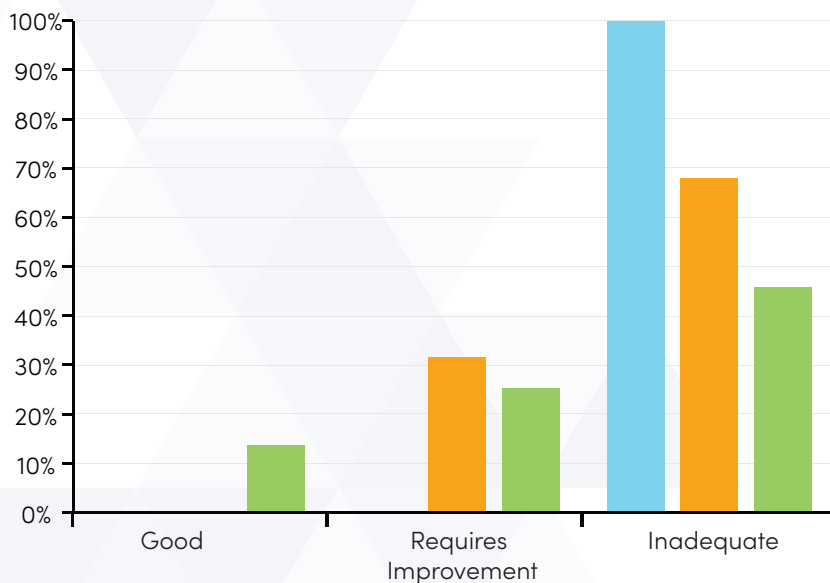
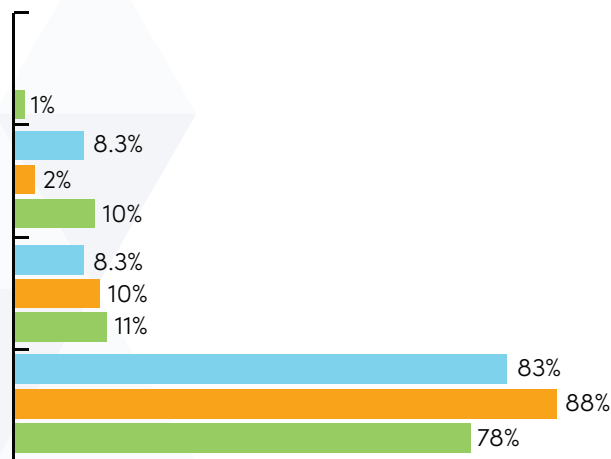
Action Plan reviews

Referred to Adjudication Panel

Incomplete at first review, assessed as requiring further active monitoring to ensure completion

Incomplete at first review, assessed as requiring further active monitoring to ensure completion

Fully completed at first review



Policy and Procedure reviews

Completed reviews



Practices issued with a mandatory action plan



Practices issued with fines



Assessment themes

Mindset and proactive engagement in the process show strongly across inspections. Practices will not be compliant by chance, and a practice that comes out inadequate in one area will often be graded similarly across the other 7. Conversely, where we increasingly find practices who have thought through their AML process and made conscious decisions around the processes that fit their practices, they are much more likely to perform well across the board. The requirements of the MLRs are interlinked, all designed to achieve the end goal of reducing the risk of the practice being used or abused for ML. Positive acceptance of the practices approach feeds into the day-to-day adoption of good practice, which feeds a consistent approach to compliance.

Across the 8 categories assessed through the virtual inspection, the key areas requiring improvement were:

Systems and Controls

Including documented policy and procedure, requiring an action plan due to either 'inadequate' or 'requires improvement' rating:

78% of inspections

Themes include:

- *Overreliance on templates, unread or unedited to suit the practice*
- *Documents not updated to reflect changes to either the regulations or the way the practice operates*
- *A lack of documented procedure to explain how a policy is implemented in practice*

Consistent implementation of an appropriate CDD process

Requiring an action plan due to either 'inadequate' or 'requires improvement' rating:

80% of inspections

Themes include:

- *CDD checks not addressing relevant risks identified with the client engagement*
- *Inconsistent application of CDD, with some client files missing elements of the CDD process*
- *The provenance of documents not being recorded – copies of documents without date stamps or declarations explaining how they came to be in the CDD file*

Consistent implementation of an appropriate risk management process

Requiring an action plan due to either 'inadequate' or 'requires improvement' rating:

71% of inspections

Themes include:

- *Not completing or updating the firm risk assessment to correctly reflect the risks within the practice*
- *Inappropriate or inaccurate client risk assessments missing risks present*
- *Inappropriate risk mitigation strategies to address risks identified*

Consistent implementation of an appropriate monitoring process

requiring an action plan due to either 'inadequate' or 'requires improvement' rating:

41% of inspections

Themes include:

- *No or limited evidence of internal review or consideration of the effectiveness of policy and procedures*
- *A lack of awareness of changes to the regulations that impact the practice*

Supervisory resources and support

In addition to signposting relevant industry guidance, the IAB has continued to develop specific support material that is relevant to its supervised population. The findings and themes of supervisory activity are used to direct resources where support is needed most. As the IAB becomes aware of developing industry risk factors, we make all supervised practices aware through direct email to the practice MLRO.

Each practice receives an annual personalised practice risk summary, highlighting the specific risks that the practice is likely to be subject to, based on the information provided in their latest annual return.

Supervised practices can make direct contact with the IAB compliance team where they are unable to find the answers to technical queries using the below resources.

Supervised practices can gain access to IAB specific guidance through the member area of the IAB website, where resources include:



Guidance documents surrounding AML compliance and starting a practice that is AML compliant



IAB Education AML training modules, based around the 8 key areas of the MLRs



Risk awareness resource library, updated on release of new briefings



AML FAQ's

AML Specific support stats:



14 Social media posts



4 Coffee morning discussion items



5 E-newsletter updates



15 x Ambassador groups*

**Our Ambassador groups serve as a central hub for facilitating peer group support and gathering valuable insights on our members' needs. These groups are designed to foster a sense of community within our organisation, creating an environment where individuals can connect, share experiences.*

Through regular interactions and discussions, ambassadors act as liaisons between the members and our leadership, ensuring that their voices are heard and their concerns addressed. This direct line of communication allows us to accurately gauge where our members require direction, enabling us to develop targeted initiatives and resources to meet their specific needs.

External Resources of note:

CCAB – The Anti-Money Laundering and Counter-Terrorist Financing Guidance for the Accountancy Sector, pending HM Treasury approval. This guidance interprets the requirements of the MLRs for accountancy practices, offering clear guidance and examples of application. As official sector guidance for all operating in the accountancy sector, this should be a practices primary resource for compliance with the regulations.

The National risk assessment of money laundering and terrorist financing 2020 (NRA) – The overall risk assessment of MLTF risks across all sectors within the UK. The accountancy sector is specifically addressed in Chapter 9.

2021 HM Treasury National risk assessment of proliferation financing

National Crime Agency – For Suspicious Activity Reports (SAR). Official guidance on how and when to report a SAR, including best practice for submitting a good quality SAR and up to date glossary codes. The online SAR reporting portal can be accessed through this site.

HMRC – Report a suspected unsupervised practice by completing their online form.

A look ahead to 2023-2024

2023-24 will see the next step in the IAB's proactive supervisory approach. Learning from the 600+ inspections conducted to date, the IAB has developed an inhouse AML risk management system to support its supervised population. Rolling out across the second half of 2023, the system – IAB Complete – will highlight the granular risks within clients, services, and their overall practice, enabling practices to focus their efforts where risks are present. Overall compliance requirements such as document reviews, training and updates to regulations will be flagged, making it easier for practices to remain compliant and aware of their obligations.

Alongside this, our AML compliance inspection process enters its next phase, with practices who have already been inspected becoming eligible for re-assessment in line with their supervisory cycle. Initial inspections will be retained for new practices to the IAB and those not yet inspected. Additionally, we will be following up with practices previously assessed. This will provide an opportunity to ensure that good practice remains in place, and developments within their own practice and with the regulations have been addressed.

To further develop our understanding of the risk that our supervised practices are subject to, and to assist us in feeding into wider industry work, we will be conducting several thematic reviews, looking at specific areas that impact our supervised population. These will be supported by the enhanced supervisory powers that came in September 2022, with the IAB now able to assess the quality of a practice's SAR reports, ensuring that they have been completed in a way to maximise their use.

As ever, additional support material is being developed in response to the findings of all forms of assessment and supervision oversight.

The IAB will continue to work with other accountancy PBS's and law enforcement agencies to develop an understanding of relevant risk factors that impact the sector and provide a consistent level of supervision across the sector.



Registered Office

110 Bishopsgate London
EC2N 4AY United Kingdom

Tel: +44 (0)2081 878888

www.iab.org.uk

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