Member Guidance – Preparing and Applying for AML Supervision 2024

Introduction

This is a guide for IAB members. Whether at the stage of setting up an accountancy or bookkeeping practice or as a reminder if already in practice, it is intended to provide an overview of what is required under the Money Laundering Regulations (MLRs) or by IAB in relation to Anti-Money Laundering (AML).

This is just a guide so not every detail is here; to fully understand the regulations and their effect you will need to research more widely. You should read the detailed industry specific HM Treasury approved guidance document provided by the Consultative Committee of Accountancy Bodies (CCAB)

The basics

'The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017' - known as the 'MLRs' – are legal requirements affecting accounting professionals (and others). Since coming into force, they have undergone a number of amendments.

Broadly speaking the MLRs apply to people operating their own practice rather than those who are under a 'contract of employment'.

Such businesses must be registered for AML Supervision by a 'Professional Body Supervisor'(PBS) or, where no PBS affiliation exists, HMRC.

The IAB is a PBS with responsibilities to oversee compliance with the MLRs by its supervised members. But not all IAB members are in practice and so not all are supervised for AML.

If you do run an accounting or bookkeeping practice, you are responsible for it and you can be prosecuted for non-compliance with the MLRs. So, its important first to understand what is involved and then to establish business systems, checks and methods that will ensure you are operating within the regulations. This guide will help you.

As a PBS the IAB will register your business and provide a digital 'Practising Certificate'. If you hold third party AML supervision, you must provide the IAB with evidence of this supervision being in place and remaining valid.

As an AML Supervisor the IAB will conduct 'risk-based' inspections of its supervised members. Depending on the inspection tool used, this may assess compliance and effectiveness of the policy, procedures, and implementation in practice. These inspections provide feedback to members including action-plan if improvements are needed but can also lead to fines, levied by IAB, for non-compliance.

The MLR applies to those providing these services:

- Auditor - Regulation 11(a)
- Insolvency practitioner - Regulation 11(b)
- **External accountant - Regulation 11(c)**
- **Tax adviser - Regulation 11(d)**
- Trust or company service provider - Regulation 12(2)

Regulation 11(c) of the 2017 Regulations defines an 'external accountant' as someone who provides accountancy services to other persons by way of business.

"Accountancy Services" 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.

Most bookkeepers running a practice will therefore fall under this definition.

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/or submitting tax returns, advice on whether something is liable to tax, or advice on the amount of tax due.

If the Regulations apply to you, your practice, or your intended practice, your practice must be registered for AML supervision under the regulations.

IAB is a Supervisory Body but there are others including HMRC.

AML Supervision involves a separate registration of the practice concerned so it is the practice entity under supervision by IAB and this is not automatically included with IAB membership. It is a criminal offence, committed by the owner's or managers of the business to carry on an MLR relevant business activity without being appropriately registered with a Supervisory Body.

A 'Practising Certificate' or equivalent issued by one of the approved Supervisory Bodies is proof that a business has complied with the requirement to register.

HMRC provide further explanation of those businesses that are obligated to register here.

The application process

Preparation

Once your application details and payment have been received you should proceed with the work to ensure your readiness for AML compliance. IAB will extend the application process for a period of up to **four weeks** for you to complete AML training, preparation of your 'firm-wide risk assessment', and a fully populated IAB Complete profile, including documented procedures and necessary other arrangements.

This training and preparation is important before submitting your full application via IAB Complete for a Practising Certificate.

Use this guide and do your research so you are clear what you are held responsible for under the MLR.

You should identify the arrangements you will need in place. It is also important that you understand how you will demonstrate that you are consistently meeting your MLR responsibilities by using documented procedures and keeping necessary records.

Before approving your application and issuing your certificate, the IAB will ask you to provide evidence that you have documented preparations which show your business meets IAB professional standards and is compliant with the MLR.

Some of these things like Public Liability Insurance cover, are quite straightforward. But others will need to be considered. For example, what procedures will you use for the aspect of 'due diligence' which obligates you to check and recording proof of each clients' identity?

Other sections of this guide will help you in that process and there is plenty of other advice available but only you can decide how your business will operate. How it does so will need to be designed to fit your needs and responsibilities under MLR when dealing with your clients.

IAB also apply various criteria before approving AML Supervision, for example we will consider whether your business fits IAB in terms of its size, structure or services provided. It is important that these areas are also evidenced in your application. Where the IAB feels that a practice is unsuitable for supervision by the IAB, an application may be rejected.

Exemptions

The MLR requires all persons offering certain types of financial services as a business are registered for AML supervision with a professional body supervisor, but you cannot be registered with more than one supervisor.

IAB recognise that members operate different business structures including for example, self-employed practitioners, limited companies, or partnerships.

Where an IAB member is part of a business which is already registered with another professional body for its AML Supervision; that member is required to notify details by applying for an IAB exemption.

Provided that the necessary and authorised supervision by another PBS is evidenced; in these circumstances IAB will record the exemption and confirm this by email.

Your application – an overview

IAB will review an application for AML Supervision from an eligible IAB member who:

- Has control of the business concerned and
- Will undertake responsibility for its compliance with the MLRs.

Having control of the business concerned means:

- a sole practitioner
- or a partner in a partnership, member of an LLP
- or a company director
- or held out as a principal (if employed in public practice and there are no other professional bookkeepers or accountants in positions of seniority or supervision over the individual within the organisation).

The IAB must also authorise all other Beneficial Owners, Officers or Managers (known as a BOOMs) within a practice.

Regulation 26 of the MLRs makes it a criminal offence to hold such a position without authorisation.

A 'BOOM' is defined as

- shareholders with over 25% shareholding
- A sole practitioner, a partner in a partnership, member of an LLP
- A company director or secretary
- An individual responsible for compliance by the business with the regulations or making SARs.

All individuals or entities meeting the BOOM definition must be declared to the IAB. If the BOOM structure of the practice changes at any point during the period of supervision, the IAB member must notify the IAB prior to or at the point of the change coming into effect.

The IAB can only authorise an individual 'BOOM' once provided with evidence (via a relevant criminal record check) confirming they have no convictions listed in schedule 3 of the MLR.

AML Supervision is available to current IAB *Members* and *Fellows* (IAB *Associate* members are not eligible for AML Supervision but may apply to upgrade membership).

The digital Certificate will be issued in the name of the business entity rather than the name of the member applying but the applicant and any other BOOMs must provide evidence of a recent DBS check (dated within 3 months of the application)

IAB will ask for:

- Initial Registration Details and the Supervision fee
- Criminal record check evidence for all BOOMs
- Proof of Professional Indemnity Insurance.

Within 4 Weeks of Registration; Evidence of:

- Compliance with MLR:
- Firm Risk Assessment
- AML Policy & Procedures
- Letters of Engagement/Disengagement
- Data Security & Business Continuity arrangements
- A fully populated and submitted IAB Complete profile

Confirmation of:

- Acknowledgement of IAB Professional Standards
- ICO registration
- AML Training Achievement for all relevant employees

Registration for your application

Following your initial enquiry, the Membership team will send you a short initial registration and payment form to start the application process for AML Supervision.

Use this form to notify IAB if you are already operating a practice, or if you intend to start a new practice that is not yet operational.
You will receive an email confirming completion together with access to IAB AML resources and the IAB Complete platform.

Populate IAB Complete

Once your registration and payment has been received by the Membership Team, you will be provided with access to the IAB Complete platform. You must fully populate this and submit the profile to the IAB. This process will enable you to demonstrate the methods that you have chosen to apply MLR compliant processes, as well as providing an overview of potential risks that may be present within your practice and client base.

IAB Complete should be used as a live system and replaces the need for a lengthy annual return. As material changes occur within your practice, you should update IAB Complete to reflect this. This can range from adding or removing clients, amending services offered, through to updating the CDD review dates.

Submitting your up-to-date profile each time a material change occurs will ensure that the IAB understanding of your practice is as accurate as possible.

Criminal record check

Integrity is a key issue across the financial services sector and IAB now requires evidence of a recent criminal record check for professional membership on an annual basis.

A one off relevant criminal record check is required for all BOOMs of the practice.

These checks confirm that there are no convictions for a 'relevant offence' under the MLR which would prohibit registration for AML Supervision.

All check information provided to IAB is treated carefully and confidentially.

If your criminal record check is more than 3 months old, you will need to get it updated. The criminal record check should be issued by an authority that is relevant for the location that the individual has lived for the past 5 years. For more information please contact the Membership Team.

For UK based individuals, criminal record checks can be accessed using intermediary providers, usually at additional cost. IAB recommends that members use one of the three UK devolved Government DBS websites to obtain a 'Basic' certificate:

England & Wales
Norther Ireland
Scotland

A charge is made for the service and you may be required to enter various details and undergo identity checks to complete the DBS process.

Results are provided on screen and also via a printed certificate received by post. Please note IAB cannot accept hard copy documents or scanned copies. Instead please use the 'share results with employer' option provided by DBS.

Selecting this option results in your receiving an email containing a special link for access to the results of your DBS check.

The email will also show the last six digits of your new DBS certificate number.

You will also receive a 'share code' by text message which can only be used once and expires after 21 days (example share code: Cf sQ5p na) If necessary you can request that DBS send a further share code.

You should forward the email from DBS containing the employer link, together with the six certificate digits and the (unused) 'share code' to membership@iab.org.uk

IAB will use this information only to confirm your DBS result and no copies of your DBS certificate will be retained by IAB.

Professional Indemnity Insurance

Professional Indemnity Insurance (PII) covers accountancy and bookkeeping practitioners in the event of client claims.

PII protects the practice against compensation that may be sought by a client if the practice has made mistakes or is found to have been negligent in any aspect of their work relating to that client.

IAB requires that you have PII cover as a requirement of your Practice Certificate, even if you are providing only limited bookkeeping services.

The IAB do not need to see the entire policy – just the certificate confirming the dates of cover.

Professional Indemnity Insurance is available from various providers but membership of the IAB provides access to a preferential scheme (Contact IAB for details).

IAB Education AML training

IAB has created online training and resources that will help develop understanding of the MLRs. These have been designed to be relevant to the IAB supervised population.

Following receipt of initial registration details and payment you will receive access to the members area of the IAB website, which contains AML resources. You will also receive an email which will containing details of IAB Education AML CPD modules, followed by an email containing your logon details.

You can access IAB Education modules 1 and 8 free of charge through the IAB CPD shop. Module 1 covers the basic requirements of the regulations, and provides an introductory level of knowledge that should be appropriate for most staff members within a practice. Module 8 explains the obligations of the MLRO, or individual in charge of the practice being compliant with the regulations.

Modules 2-7 cover each area of the regulations in greater detail, allowing members to increase their knowledge in specific areas that they assess necessary. These can be purchased individually or as a whole package through the IAB online shop.

A single person practice is required to complete the two training packages (Module 1 and 8). In circumstances where the business employs staff, the member must complete Module 1 and 8, and each additional relevant staff member will need to demonstrate they have completed Module 1.

The IAB Education training is assessed using an online test and successful participants are provided with a certificate of completion. IAB will need to see copies of completion certificate(s).

Using the IAB AML members area you will also be able to access templates and examples of documents you will find useful. But remember these are intended to be examples, none of these documents will exactly reflect what you may need for your business. You will need to draft and prepare your own versions.

Evidence of MLR compliance

As your supervisor for AML under the regulations IAB are required to ensure you and your practice is MLR compliant. Responsibility for compliance within your practice, and the approach that you choose to achieve this, remains with the IAB member.

This means that IAB will need to see documented evidence that you have got the basic requirements as you go through the process of setting up your business.

Further detail will be developed as your business gets up to speed but IAB will need to see the following for the initial application:

Firm-wide Risk Assessment

A 'firm-wide' risk assessment (FRA) documents your own consideration of your whole business. It should describe the risk environment in which you will operate.

It is based on the services you offer, who your clients are and the services they offer, where they are based and how they do business.

These issues need to be broken down and examined against the factors mentioned in the CCAB Guidance. You need to demonstrate that you have undertaken this process by documenting your conclusions. This is known as a 'Firm-wide Risk Assessment' (FRA).

Appendix D of the CCAB document gives details on these different areas of risk:

- Clients: *Business structures and personal circumstances*
- Geography: *Implications around where clients are based*
- Products & Services: *What is being traded*
- Channels: *The nature of the business operation*
- Transactions: *The methods and circumstances of exchange*

HMRC Guidance offers supplementary risk assessments guidance here

Populating and maintaining the accuracy of IAB Complete, will allow you to generate a Firm Risk Assessment based on the profile you have recorded. You can use this to work through your business risk issues.

In addition to the 'firm risk assessment (which is about your business) you will need to develop and document similar assessments for each client you take on.

Your FRA must now include an assessment of the exposure to Proliferation Financing, as well as Money Laundering and Terrorist Financing.

Mitigation

The MLRs require that you also consider and apply mitigation to reduce risks that you identify.

Mitigation methods will vary, and you may choose to adopt different approaches depending on your client or their business. You are not expected to change a clients approach to running their business, but you should ensure you have taken steps to address a risk that you have identified.

To take a simple example; perhaps a client is a market trader dealing cash with customers. Cash-in-hand trading represents a money laundering risk as it is easy to introduce criminally derived cash as legitimate transactions.

You in this case, you may look to address this risk by increasing your monitoring of the client. Checking that declared sales are supported by other aspects of trading, such as stock, staffing and operating expenses. Through this additional monitoring, you would expect to identify situations where the business declares sales that would be impossible to generate because they either had insufficient stock to sell, don't reflect the value of products being sold, or would did not have the infrastructure to achieve.

Your understanding of the client, their business, trading history and industry standards would all assist. In this example, if you had no experience of market trader clients, you would struggle to reference what 'normal' trading would look like when taking them on as a new client. This would make identifying unusual activity harder. In turn this would increase the risk and the level of work you would need complete for mitigation. Where you have a sound understanding of the client and industry, monitoring checks would be far quicker.
The FRA should cover your whole client base and should document the risks that may be involved.

It may need to reflect individual clients, specific or generic business types that you engage with.

It should show the level you have assessed for that risk (high, medium, or low) explain how that conclusion was arrived at and describe any mitigation you have decided is necessary.

It follows that a higher risk level would require more, or more effective mitigation methods.

AML policy and procedures

The MLRs require that you have documented AML policy and procedures that explain how you will operate your practice in line with the regulations.

A Policy is: ***'A course or principle of action adopted by an organisation'***

Procedures are: ***'An established or official way of doing something'***

Every business needs to have these things worked out and documented. Working through the process to decide and design these will ensure you can:

- Understand the MLRs and their own personal responsibilities
- Be satisfied that their way of working is compliant
- Construct explanatory policy and effective procedures
- Prepare documents to demonstrate how the own business operates and is managed in compliance with MLR.

It is important to recognise there are benefits in using a thorough approach. It is possible to simply 'cut & paste' sample documents from elsewhere, but these won't reflect your own business or the risk assessment you have carried out.

IAB have produced a separate short guide to developing your 'AML Policy & Procedures' which will be sent to you along with your application form.

New client profile

Your 'Client Due Diligence' (CDD) is a fundamental feature of the MLR and IAB need to confirm how you will ensure compliance.

This is one of the 'procedures' you will need to work out and document along with the AML Policy.

IAB will need to see an example of the profiling (or other process) used for the information you will routinely seek record and update from new clients in relation to their identity and other information relevant under the MLR.

Developing your approach to CDD is covered in the IAB Education AML training package.

Letters of engagement/disengagement

The IAB will need to see an example of the letter you will use to frame your business relationship with clients; setting out the terms and conditions that will apply.

Examples are available but you should aim to draft your own document which precisely fits your business and sets out the services offered as well as the commitments required of your clients.

The letter of engagement should include:

- Services you will supply to the client
- Expectations of how and when the client should provide the necessary information in order for you to complete the services stated
- Fees, how to pay them and when billing will occur
- Explanation of your obligations under the MLR to carry out due diligence
- Reference to your continuity of practice arrangements
- A statement of acceptance for the client to sign the copy you will retain.

The letter of engagement should be designed to avoid any misunderstandings between both parties and set out the framework for the provision of an efficient service. The contents should be carefully considered as it creates a contract between you and your client.

You should also provide a copy of the corresponding 'letter of disengagement' that you will use in circumstances where the client does not meet the terms or conditions you have set and it is necessary to terminate the business relationship.

A letter of disengagement should be issued when you cease to work with a client. The purpose of the letter is to avoid any future misunderstanding between the client and yourself. It allows you to set out which services will terminate and from what date. It also stipulates how any of the clients' documentation held within your practice will be passed over to the client or next bookkeeper.

Data management and business continuity

ICO registration

Accountants and bookkeepers will have access to personal data relating to their clients and consequently are legally responsible for ensuring that information is kept and managed properly.

It is a legal requirement that you register with the ICO if you are or intend storing information about your clients on a computer (including 'cloud' services).

The IAB require that you provide evidence of registration with the ICO. At registration **y**ou will be given a registration number in a similar form to *Z123456*. You should provide this number to the IAB when applying for or renewing your certificate.

The ICO website also provides guidance and various other resources.

Business continuity planning

Business continuity plans are made in advance of an event occurring to ensure you can continue your critical business activities. This planning needs to involve more than an intention, it requires practical arrangements made beforehand, for example subscription to a 'cloud' data storage service or contracted agreements for alternative office space.

An 'event' might affect the People, Locations, Services and Systems, Data or Records that your business depends on.
The effects may involve:

- Absence of key people
- Access to premises
- Access to or loss of electronic data
- Access to or destruction of records
- Access to office systems

Advance planning is vital to ensure, should the worst happen, that you have tried and tested arrangements already in place.

Specialist companies can offer business continuity planning and formal disaster recovery services, but this may be expensive, particularly for sole practitioners.

Whether digital or hard copy, practice records should be kept secure and protected from loss. At a minimum the IAB expects that members will undertake necessary planning themselves and be able to demonstrate there are practical arrangements in place to ensure client information and records are kept securely, data is backed up regularly and stored securely.

Some records are bound by legal requirements; under AML regulations certain records must be kept for five years and other legislation may require a longer retention period. You will need to establish robust systems to ensure you are able to comply with these requirements.

Continuity of practice

In addition to adequate provision for business continuity in relation to the systems for records used by the practice; forward planning is important in the event the responsible member is incapacitated.

There should be nominated a suitable person who has full details of how to access clients' information. If required, this nominated person will be able to pass the information to your clients so that they may take their accounts elsewhere. Alternatively, written 'continuity of practice agreement' might be drawn up with another bookkeeper or accountant to provide clients access to their records.

Of course, your clients should also be made aware of arrangements, so they know who to contact if necessary and it may be appropriate to include this information in the letter of engagement.

Continuous Professional Development

The IAB recognise the importance of updating knowledge through training, experience and information exchange with accounting and bookkeeping colleagues and other professionals.

A completed annual CPD record must be provided to the IAB at renewal of you Professional Membership. You can use the IAB Education AML CPD towards your wider CPD, as well as other relevant AML learning that you complete.

IAB professional standards

The IAB requires that members operate and adhere to the principles and practices set out as our professional standards statement. As part of your application, we ask that you acknowledge your commitment to these standards.

Clients

Once your practice is established, we require you to maintain your IAB Complete profile with details of your clients as they engage, disengage and change services or risk profiles. This is a lawful and legitimate requirement and part of our risk assessment processes within our role under the MLRs as a professional body supervisor. To ensure that any updates are sent to the IAB, you must press the 'submit to IAB' button within your profile once a change has been made.

Other information that needs to be provided

As part of the monitoring process other information may be requested at various points. The information from the member is essential to provide IAB an overview of your practice and ensure that the relevant entity is correctly approved.
We must be informed within 14 days if any of these changes occur:

- Change in beneficial owner
- Change the practice business structure
- Change of business registered address
- Change of business or trading name
- You carry on, or plan to provide, any TCSP services

Trust and Company Service Providers (TCSP)

The UK National risk assessment and law enforcement agencies indicate that criminals seeking to hide wealth or enable money laundering are likely to use the formation of companies and partnerships or the establishment of UK and overseas corporate structures in order to do so.

Consequently, Trust and Company Services (TCSP) pose a relatively high risk and are assessed to be greater when provided in conjunction with other financial, legal or accountancy services.

Clearly the risks associated with TCSP must be taken into account for both your firm and client risk assessments and will need appropriate documented mitigation procedures in place which will be examined by IAB.

Under the MLR there is a requirement for the details of all UK businesses that act as Trust and Company Service Providers (TCSPs) to be held on a register.

The private register for TCSPs supervised by professional bodies, including IAB is hosted by HMRC. Members offering these services must inform IAB if they are or intend to offer TCSP services.

For further information contact: compliance@iab.org.uk.

TSCP is defined in the MLR as:

- company formation

- acting or arranging for someone to act as a director or secretary of a company, a partner of a partnership or in a similar capacity in relation to other legal persons
- providing a registered office, business address, correspondence or administrative address or other related services
- acting or arranging for someone to act as a trustee of an express trust or nominee shareholder for someone not listed on a regulated market.
- HMRCs TCSP guidance provides further information

Reporting Suspicious Activity

A key responsibility under the MLR is the reporting of suspicious activity. The NCA is the agency to whom suspicions of money laundering are reported. The IAB do not need you to register with the NCA at the point of applying for a practising certificate or providing evidence of compliance. Nevertheless, it is useful to register with the NCA beforehand in case a report is necessary in future, and we urge members to do so as best practice.

The approach that the practice will take to Suspicious Activity Reports (SAR) is one of the issues you need to have documented:

- All practices with more than one employee must have documented which senior authorised person is responsible for the submission of SAR reports to the NCA. And,
- All practices must have a written policy about SAR reporting and documented practical procedures for how such reports will be made and processed by the practice.

You should report SARs to the NCA directly through the new NCA SAR portal. Please note that this portal replaces the previous online reporting method 'SAR Online', which ceased to operate in March 2024. All users previously registered with SAR Online will need to re-register with the NCA SAR portal.

NCA guidance on SAR reporting, including SAR quality guidance and up to date glossary codes can be found within the NCA SAR reporting website