

THE FIVE  
STAGES OF

# AML COMPLIANCE

# WELCOME!

## KEEP READING TO:

Learn the basics of Anti-Money Laundering (AML) regulations

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Discover the 5 stages of AML compliance

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Hear stories from the frontline

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Check out some additional resources on AML compliance

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### **LEGAL DISCLAIMER**

This is not legal advice and is based on our own experience and research. If you have questions on the best course of action in your situation, consult your lawyer and/or an AML expert who can advise you specifically.

CHAPTER 01

# WHAT IS MONEY LAUNDERING?

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**MONEY LAUNDERING IS THE PROCESS BY WHICH CRIMINAL PROPERTY IS DISGUISED OR CONVERTED.**

The aim is that it appears to be from a legitimate source and allows criminals to maintain control of the proceeds.

**WHAT IS ANTI-MONEY LAUNDERING?**

Anti-Money Laundering (AML) refers to a set of laws and regulations intended to prevent criminals from disguising illegally obtained funds as legitimate income.

**WHY DOES THIS MATTER?**

Accountants and financial professionals are part of a regulated sector for AML, as they can be easily exposed to money laundering. This is because they are seen as gatekeepers of the UK financial system and can help legitimise a fraudulent transaction.

# WHAT IS MONEY LAUNDERING?

## WHY COMPLY?

The National Crime Agency Report of 2017 states that only 1% of SARS were submitted by accountants. Money laundering costs the UK £100 billion every year, and the government is starting to come down heavily on those failing to comply with AML regulations. Scrutiny is now moving away from financial institutions and towards regulated professionals such as accountants, lawyers and their supervisory bodies.

## WHAT IS REQUIRED?

Firms in this regulated sector are required to put controls in place to prevent them from being used for money laundering.

## WHAT ARE THE RISKS?

The risks of not being compliant include sanctions and fines for both the firm and the individual. It could even result in a prison sentence.

CHAPTER 02

# THE 5 STAGES OF COMPLIANCE

## **STAGE 1**

IDENTIFY: DO YOU NEED TO BE COMPLIANT WITH AML REGULATIONS?

## **STAGE 2**

COLLECT: WHAT SHOULD BE COLLECTED AS PART OF CUSTOMER DUE DILIGENCE?

## **STAGE 3**

MONITOR: ACCOUNT ACTIVITY SHOULD BE MONITORED FOR NEW & EXISTING CLIENTS

## **STAGE 4**

STORAGE: DOCUMENTS MUST BE STORED SECURELY

## **STAGE 5**

REPORT: SUSPICIOUS ACTIVITY SHOULD BE REPORTED TO HMRC

# STAGE I: IDENTIFY

## HMRC REGISTRATION

Your firm should be registered with HMRC, however if you are a member of a supervisory body (such as ICB, ICAEW, ICPA) you may already be covered. Check with the applicable body if you are not sure.

## DO YOU NEED TO BE COMPLIANT WITH AML REGULATIONS?

AML Regulations apply to accountants and financial professionals, either as a firm or a sole practitioner, who provide the following services:

- Professional bookkeeping services
- Accountancy services such as preparation and signing
- Giving tax advice
- Help with completing and submitting tax returns or duty claims
- Advice on the amount of tax or duty that is due
- Carrying out audit work

So now you know that AML regulations apply to you, what should you be looking to do as part of your AML compliance?

- Risk management practices
- Customer due diligence
- Reliance and record keeping
- Monitoring and management of compliance



## STAGE 2: COLLECT

### STORE SECURELY

All documents should be collected securely to avoid data leaks or cybersecurity risks. Documents can easily be uploaded directly onto a secure client portal such as SmartVault, ensuring two-factor authentication is implemented so that only authorised users (e.g. the client or designated member of staff) can access files.

### WHAT SHOULD BE COLLECTED AS PART OF CUSTOMER DUE DILIGENCE?

Due diligence should form part of a firm's risk assessment. The types of documents accepted (passport, driving licence, etc) and a standardised form for staff to use should be documented, to ensure all team members are following correct procedures. It's important to:

- Identify your client
- Verify your client's identity
- Gather information on the purpose and intended nature of your business relationship
- Apply enhanced due diligence where appropriate

# STAGE 3: MONITOR

## ONGOING REVIEW

The part where most people fall down is continued monitoring. Yes, you have verified your client and their business, but it's important to be vigilant throughout your working relationship, not just at the start.

## ACCOUNT ACTIVITY SHOULD BE MONITORED FOR BOTH NEW AND EXISTING CLIENTS

If any of the following red flags occur whilst dealing with your client, it's important to recognise them and take appropriate action.

### CLIENT IDENTIFICATION

Do identification documents look fraudulent, have you them checked against electoral data? Does it look like they may be investing on behalf of someone else?

### TRANSACTIONS

Are transactions unusual because of their size, frequency or the manner of their execution, in relation to the client's known business type?

### ASSETS

Does it appear that a client's assets are inconsistent with their known legitimate income?

### GEOGRAPHIC AREA

Are assets, such as property, located in a high-risk country, or is the client or transaction native to or resident in a high-risk country?

# STAGE 3: MONITOR

## STRUCTURES

Are there complex or illogical business structures that make it unclear who is conducting a transaction or purchase?

## FUNDS

Are a client's funds made up of a disproportionate amount of unexplained third-party funding or large cash payments, in relation to their socioeconomic profile?

## BEHAVIOUR

Do they avoid personal contact? Have they started behaving out-of-character?

# STAGE 4: STORAGE

## SMART STORAGE

According to AML regulations, documents should be 'stored separately and securely as a safeguard against inadvertent disclosure'. By putting the documents into a secure document storage solution such as SmartVault, you can ensure they are safe and kept away from other client files.

## DOCUMENTS MUST BE STORED SECURELY

Benefits of secure cloud document storage include:

- Giving clients the option to securely upload their identification documents to a custom-branded portal, eliminating the need to send via (unsecured) emails.
- If someone hacks into your computer or email, or breaks into your office, you know these documents are safe and will not fall into the wrong hands.
- Access rights can be set for these sensitive files, restricting who can view them and ensuring they are not inadvertently seen by other members of staff, which is in itself a breach of AML regulations.
- If your computer breaks or your documents are damaged due to unforeseen circumstances, you know that these important files have been backed-up automatically and securely in the cloud.
- If you suspect a client of being involved with money laundering, you can access the documents from anywhere in the world (with an internet connection) and pass the information on to HMRC.

# STAGE 5: REPORT

## AVOID AN OFFENCE

Professionals should beware of 'tipping off': an offence is committed when a person discloses information that may result in an individual covering up their suspicious activity.

## SUSPICIOUS ACTIVITY SHOULD BE REPORTED TO HMRC

Suspicious Activity Reports (SARs) help prevent and detect crime, including spotting new trends and patterns. If there is enough to constitute a suspicion of money laundering, a SAR must be submitted to the National Crime Agency (NCA). The online system through [the NCA website](#) provides instant acknowledgement and a reference number.

To avoid inadvertent tipping off, you should store any information around the SAR in a secure document storage solution. This means:

- Access rights can be set around this information so that no one apart from those necessary can gain access.
- You can be sure it will not be sent accidentally to the wrong person – as anyone trying to access will need a password to view.
- Documentation for staff regarding what to say to a customer and what to do to avoid alerting the customer during the SAR process, can be stored here for easy access and as a secure reference point.

CHAPTER 03

# STORIES FROM THE FRONT LINE

# AML IN PRACTICE

## ACCOUNTANTS ARE UNDER INCREASED SCRUTINY

In 2019, UK companies were fined £300 million for AML regulation breaches – the largest fine was £102 million, handed to Standard Chartered Bank.

As the government start to broaden their gaze from financial institutions to other businesses such as accountants and estate agents, we have seen an increase in the number of prosecutions, with figures almost doubling between 2018 and 2019.

The increased focus on this area highlights the severity with which it is viewed, not surprising given the negative economic repercussions it can have.

# AML IN PRACTICE

## A BREACH OF REGULATION

Last year Runcorn-based accounting firm, Accstax, was fined after HMRC pulled them up on four breaches around document storage, risk assessment and record-keeping:

- **[Regulation breach 40 (1)]**  
Keep documents of due diligence requirements for at least 5 years
- **[Regulation breach 18 (1)]**  
Take appropriate steps to identify and assess the risks of money laundering and terrorist financing to which its business is subject
- **[Regulation breach 18 (4)]**  
Keep an up-to-date record in writing of all the steps it has taken
- **[Regulation breach 19 (1)]**  
Establish and maintain policies, controls and procedures to mitigate and manage effectively the risks of money laundering such as review and update policies and maintain a record in writing



# AML IN PRACTICE

## FINES AND PENALTIES

In 2018, Bradford-based Delta Tax Agents Ltd was hit with a £5,991.85 penalty after HMRC found breaches with carrying out risk assessments, having the correct policies, controls and procedures in place, and conducting due diligence.

During 2018, a fine of £215,000 went to Countrywide Estate Agents for MLR failures including issues conducting due diligence, timing of verification and improper record keeping.

As the clampdown continues, we expect to see another rise in prosecutions throughout 2020 and beyond.

CHAPTER 04

# ADDITIONAL RESOURCES

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## SOFTWARE SOLUTIONS

To find out more about how SmartVault can help you with AML compliance, [book a free consultation today](#)

Our partners, TaxCalc, provide [AML software](#) as part of their practise management suite

## FURTHER READING

Check out [Anti-Money Laundering Guidance for the Accountancy Sector](#)

Download the [IFA AML Compliance Checklist](#)

Visit the government's [Flag It Up campaign page](#)



SmartVault