

TCSF thematic review 2022

Introduction

Sole practitioners and firms providing accountancy services by way of business must be registered with a supervisory authority pursuant to the [Money Laundering, Terrorist Financing and Transfer of Funds \(Information on the Payer\) Regulations 2017](#).

AAT is the anti-money laundering (AML) supervisor for 5,856 sole practitioners and firms.

We exercise our supervisory function by conducting practice assurance reviews and providing support to help sole practitioners and firms understand the controls and monitoring they must have in place to comply with the current money laundering regulations in force. We also undertake thematic reviews to assess emerging risks within the accountancy sector.

The [National risk assessment of money laundering and terrorist financing 2020](#) (NRA 2020) concluded that Trust and Company Service Provider (TCSP) services continue to be one of the highest risk services offered by accountancy service providers for money laundering.

A TCSP is any sole practitioner or firm whose business is to:

- form companies or other legal persons
- act, or arrange for another person to act, as a director or secretary of a company
- act, or arrange for another person to act, as a partner (or in a similar position) for other legal persons
- provide a registered office, business address, correspondence address or administrative address for a company, partnership, or other legal person or arrangement
- act, or arrange for another person to act, as a trustee of an express trust or similar legal arrangement
- act, or arrange for another person to act, as a nominee shareholder for another person, unless the other person is a company listed on a regulated market which is subject to acceptable disclosure requirements.

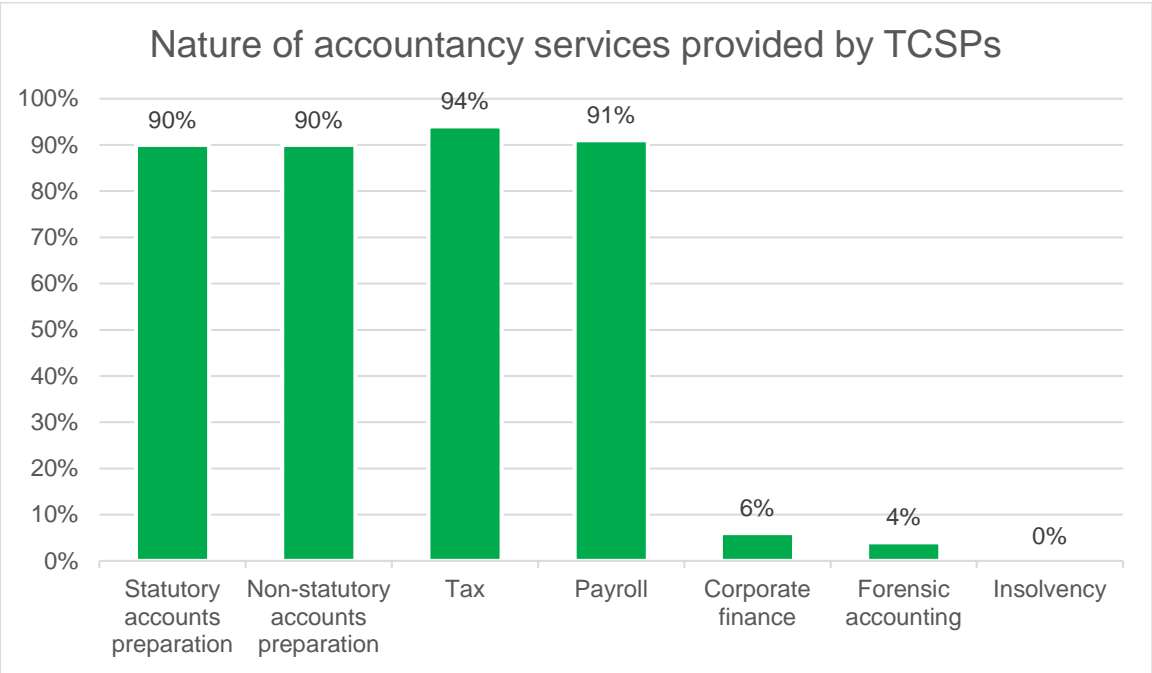
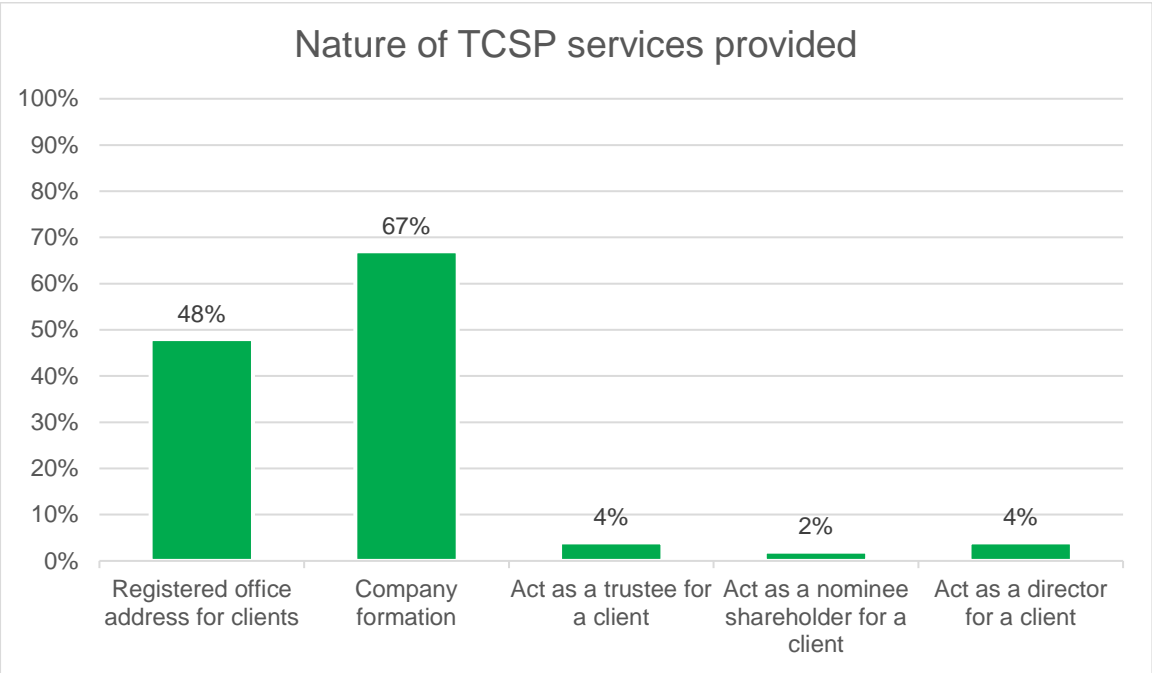
In June 2022, AAT carried out a thematic review to explore the reality of the risks associated with TCSPs and to determine how well these risks are understood and mitigated by our supervised sole practitioners and firms.

We surveyed a sample of the 1,725 sole practitioners and firms providing TCSP services that we supervise (29% of our total supervised population) on the services they provided and the policies and procedures in place to identify and address any firm-wide or client-based risks. 64% of the sample, 165 sole practitioners and firms, engaged with the survey. This report sets out some of the key findings from our thematic review.

In summary, we found that whilst TCSP services may pose a high risk of money laundering, with that risk increasing when provided with other accountancy services or combined with other risk factors, AAT's sole practitioners and firms understand the risks involved and have policies, procedures, and controls in place to identify, assess and address these risks. Because of this, our sole practitioners and firms do not consider the provision of TCSP services alone to be high-risk.

Where higher-risks involving the provision of TCSP services, such as forming companies for new clients with complex structures or in higher risk countries, are identified by our sole practitioners and firms, enhanced due diligence measures are applied to manage and mitigate the risk of money laundering.

Services provided



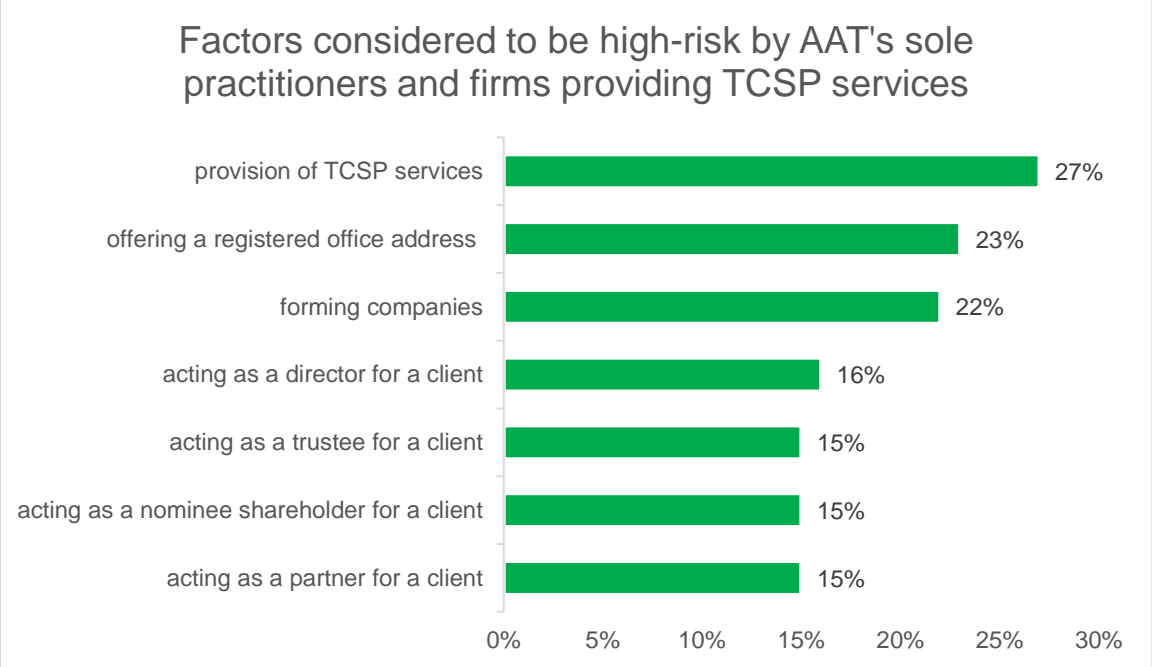
What did we find?

- The most common TCSP services provided are company formation (67%) and providing a registered office address (48%). The number of clients these services are provided to range from one to 499, with the majority of sole practitioners and firms providing these services to one to ten clients.
- 99% of those providing a registered office address hold a list of clients registered at their address.
- 55% of those forming companies use a company formation agent; the remaining 45% use another entity to complete the formation.
- 4% of our sole practitioners and firms act as a trustee for a client for between one and ten clients, all of which are in the UK.
- 100% of our sole practitioners and firms acting as a director for clients keep a log of all directorships held by staff/principals.
- We are continuing to identify, through our practice assurance monitoring activity, licensed members who are providing TCSP services to clients without our approval. The most common misconception is that providing a registered office address for clients is a low-risk administrative service which does not fall into the TCSP category. We have [published guidance](#) reminding our licensed members of the definition of TCSP services, as well as the requirement for sole practitioners and firms providing TCSP services to be supervised under the Money Laundering Regulations.

Resources for AAT licensed members

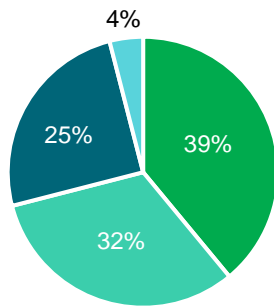
- [TCSPs and money laundering: how can accountants stay alert?](#)
- [Accountancy AML Supervisors Group \(AASG\) Alert: 'cuckooing' the misuse of registered offices](#)
- [NAC Intelligence Brief - Criminal abuse of UK shelf companies](#)

Risk assessment



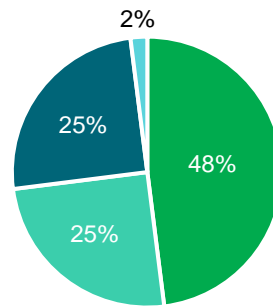
Consideration of services as being high-risk during initial client due diligence

Registered office



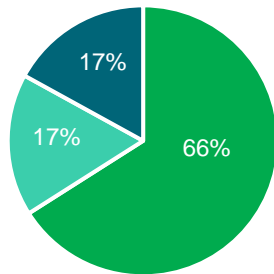
■ Always ■ Sometimes ■ Never ■ Did not specify

Company formation



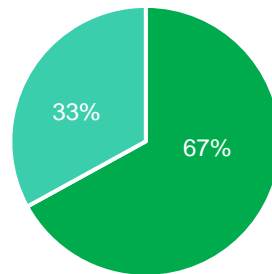
■ Always ■ Sometimes ■ Never ■ Did not specify

Trustee



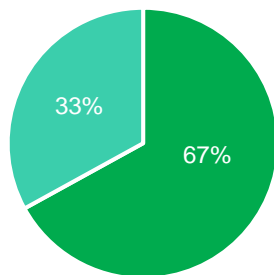
■ Always ■ Sometimes ■ Never

Nominee shareholder



■ Always ■ Never

Director

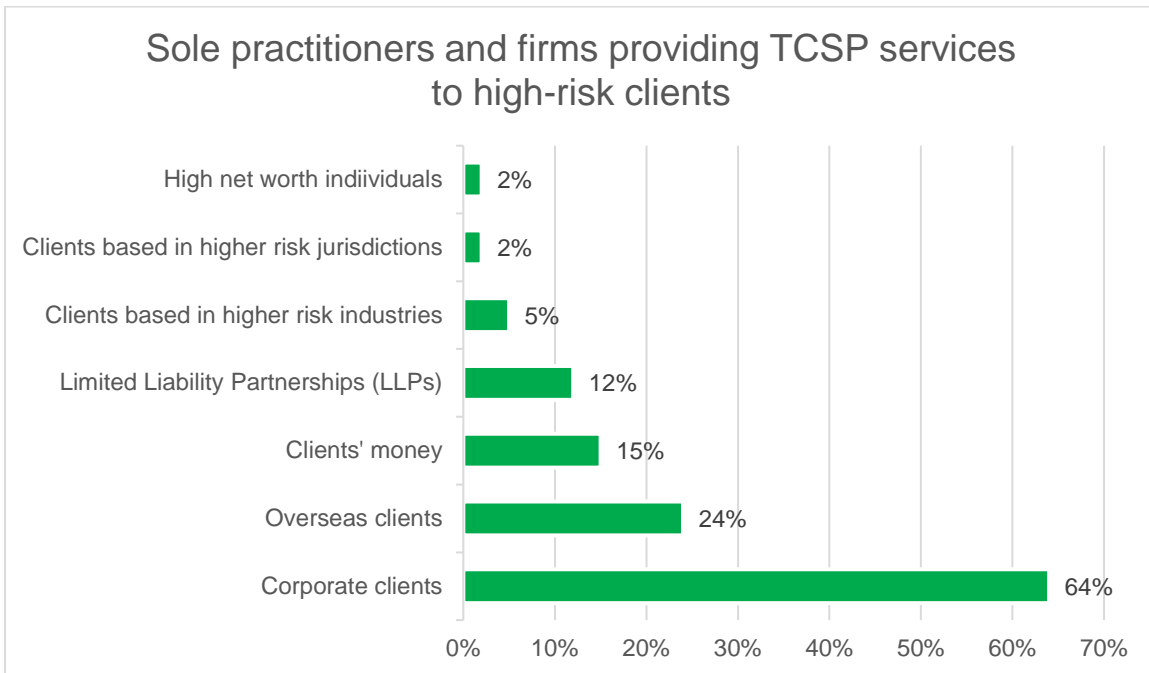


■ Always ■ Never

What else did we find?

- Only one firm acted as a partner for between one and ten other legal persons. This firm always considered this as a high-risk factor in their initial client risk assessment.

Know your client



What did we find?

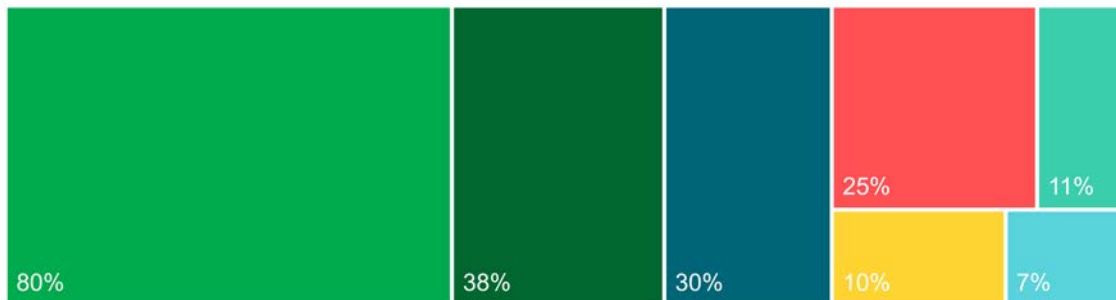
- Those providing services to clients based in a higher risk industry or jurisdiction were firms, not sole practitioners.
- One firm providing TCSP services does so to a maximum of four domestic Politically Exposed Persons (PEPs). This firm does not hold clients' money and has enhanced customer due diligence procedures in place.
- No sole practitioners or firms provide services to foreign PEPs or form Scottish Limited Liability Partnerships (SLPs).
- The majority (79%) of those providing services to overseas clients have one to four clients engaged for such services.

Methods used to verify individuals/beneficial owners met



- Always ask for photo ID and proof of address
- Ask for documents but varies dependant on risk
- Use an electronic verification system (for all clients)
- Use an electronic verification system (for some clients)
- Performs sanctions checking

Methods used to verify individuals/beneficial owners not met



- Always ask for photo ID and proof of address
- Ask for documents but varies dependant on risk
- Use an electronic verification system (for all clients)
- Use an electronic verification system (for some clients)
- Performs sanctions checking
- Always ask for certified copies of passport and utility bills
- Video calls combined with proof of identity (photo)

What did we find?

- Our sole practitioners and firms use a combination of methods when verifying individuals and beneficial owners and where clients are not met face-to-face, video calls combined with proof of identity are utilised to verify the individuals and beneficial owners.
- We need to continue reminding licensed members of our [published guidance](#) on sanctions checks when undertaking CDD.

Risk factors considered during CDD procedures

Risk factor	Yes	Sometimes	No
Location of entity	94%	4%	2%
Complexity (structure of client)	90%	5%	5%
Sources of wealth	71%	18%	11%
PEP status (domestic/foreign)	79%	6%	15%
Nature of services	93%	4%	3%
Nature of client's business	97%	2%	1%
Client's transparency	95%	3%	2%
Non-face-to-face client	90%	8%	2%
Handling client's money	45%	3%	52%

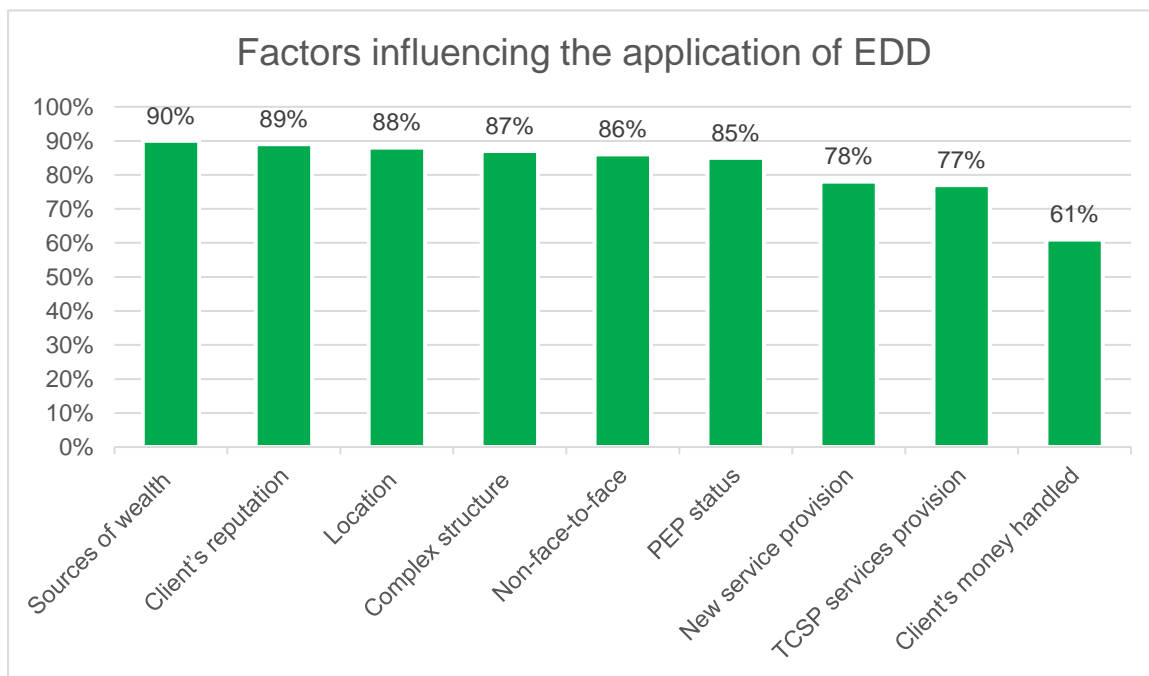
What did we find?

- The sole practitioners and firms providing higher-risk services all consider location, complexity, sources of wealth, PEP status, nature of services and client's business, and transparency when risk assessing a client.
- Those holding clients' money (15%) always consider the handling of clients' money, along with the nature of the clients' business and sources of wealth, when risk assessing a client.

Resources for AAT licensed members

- [Client onboarding checklist \(PDF\)](#)
- [Client monitoring review checklist \(PDF\)](#)
- [Thinking about customer due diligence article](#)
- [Dealing with politically exposed persons \(PEPs\) article](#)
- [NCA Risk alert – sanctions risk update](#)
- [Accountancy AML Policy Supervisors Group Risk Outlook](#)

Enhanced due diligence (EDD)



What did we find?

- 83% of our sole practitioners and firms undertake EDD when a higher risk is identified. The remaining responses indicate that some sole practitioners and firms do not engage high-risk clients or disengage their services when a high-risk of money laundering is identified.
- 82% of our sole practitioners and firms increase the level and/or frequency of monitoring of a client who is assessed as a higher risk and 52% sole practitioners and firms obtain additional documents when performing EDD.
- 19% of our sole practitioners and firms rely on external providers to complete EDD.

Resources for AAT licensed members

- [Explainer: The revamped Money Laundering Regulations](#)
- [Preparing for the Fifth Money Laundering Directive](#)
- [Customer due diligence during coronavirus \(Covid-19\)](#)

Suspicious Activity Report (SAR)/Defence Against Money Laundering (DAML)

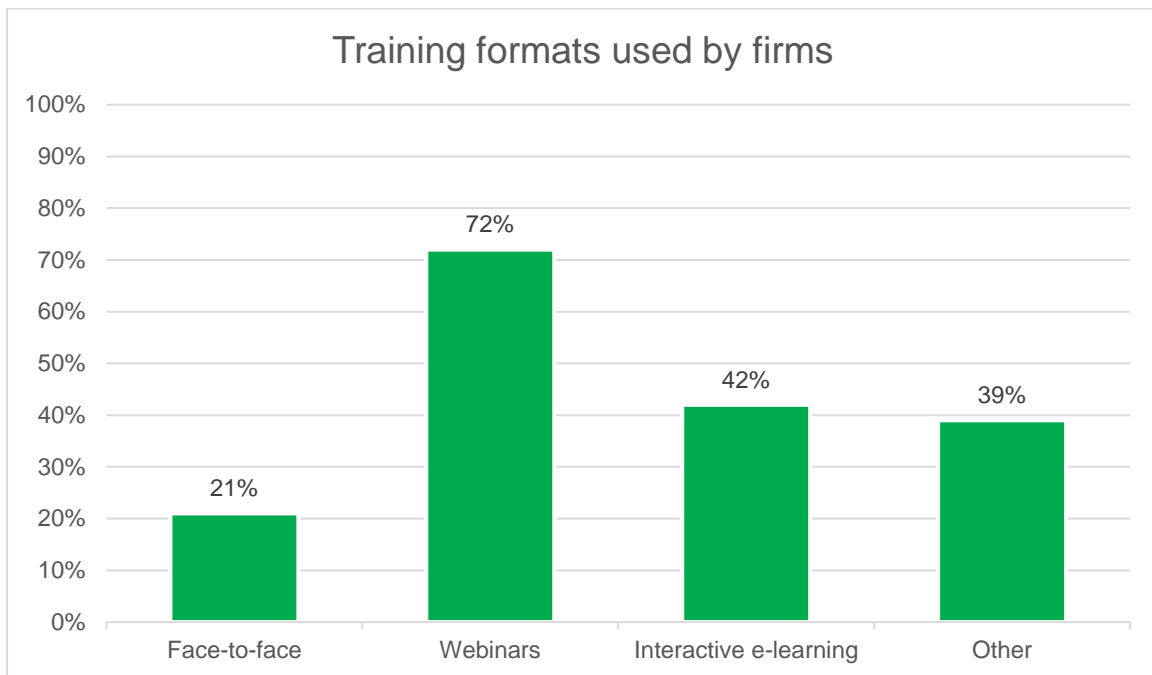
What did we find?

- 5% of our sole practitioners and firms submitted SARs to the NCA in 2021:
 - one sole practitioner and six firms (88%) submitted one to four SARs
 - one firm (12%) submitted 21 to 50 SARs
- 4% of our sole practitioner and firms submitted SARs to the NCA in 2020:
 - one sole practitioner and four firms (83%) submitted one to four SARs
 - one firm (17%) submitted 21 to 50 SARs
- One firm submitted between one and four DAMLs in 2021 and 2020.

Resources for AAT licensed members

- [When to submit a Suspicious Activity Report](#)
- [Coronavirus and Suspicious Activity Reporting](#)
- [Tips for making a good quality Suspicious Activity Report](#)
- [SARs – Maintaining internal records \(PDF\)](#)

Training



What did we find?

- 60% of our firms arrange for staff to have formal training on suspicion, red flags and the process for internally reporting suspicion
- 69% mandate training (informal or formal) for staff¹
- 60% keep formal records of AML training
- 50% highlight why TCSP services are viewed as higher risk for facilitating money laundering when training staff
- 49% include a test of understanding in their staff's training

Resources for AAT licensed members

- [Staff awareness and training to stay compliant](#)

¹ On review of the survey issued to members, we did not ask firms to specify whether or not they had staff before requesting details around staff training. Our practice assurance monitoring activity shows that approximately 90% of our sole practitioners and firms have adequate training in place for staff.

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