

Supervisor name: Association of Accounting Technicians (AAT)

Report name: HMT Annual Return Questionnaire

Date Appointed: December 2007

Reporting period: 6 April 2017 to 5 April 2018

Attachments:

- Appendix 1 – Articles of the Association**
- Appendix 2 – AAT’s Conflict of Interest policy**
- Appendix 3 – AAT AML Personnel**
- Appendix 4 – AAT’s Disciplinary Regulations**
- Appendix 5 – Supervisory intervention case study**
- Appendix 6 – AAT’s Whistleblowing policy**
- Appendix 7 – Active intelligence sharing case study**
- Appendix 8 – Licensed member onboarding checklist**
- Appendix 9 – Licensed member annual review checklist**
- Appendix 10 – Money Laundering Regulations update**
- Appendix 11 – MLR2017 presentation to staff**
- Appendix 12 – AAT Disciplinary Order**
- Appendix 13 – Practice Assurance Case Handling**
- Appendix 14 – Professional Standards Handbook**

It is assumed that all documents are confidential

Table 1: Governance (Regulations 46 & 49)

The following information is required for the **relevant period**. However, please specify with dates if there have been any changes or change expected at the time you submit your response.

All supervisors:

1.1 Summarise all rules and regulations in addition to the MLRs which provide you with authority over your supervised population.

AAT's authority over its supervised population stems from its articles of association, which underpin the contractual relationship with members attached at **Appendix 1**.

AAT's charitable objects, which are the basis on which the organisation functions include: *"the prevention of crime and promoting the sound administration of the law for the public benefit by promoting and enforcing standards of professional conduct amongst those engaged in accountancy and monitoring and supervising their compliance with money laundering legislation"*.

In addition, AAT's AML function is integrated into AAT's wider regulatory and monitoring activity, reflecting AAT's perception that compliance with the MLR should be considered a material part of the role of a professional accountant, and not additional to other responsibilities, which are enshrined within their technical competence requirements. The following regulations and codes apply:

- [Code of Professional Ethics](#)
- [Professional conduct in relation to taxation](#)
- [Licensing Regulations](#)
- [Licensing policy](#)
- [Practice Assurance Standards](#)
- [Disciplinary Regulations](#)
- [AAT Regulations](#)
- [Clients' Money policy](#)
- [Client Care policy](#)

All AAT bye-laws and policies and how AAT licenses its members are available to view on AAT's website [here](#).

1.2 What procedures do you have in place to manage conflicts of interest?

AAT's *Conflict of Interest* policy sets out AAT's approach to identifying and managing conflicts of interest, so that it may fulfil this commitment. This is attached at **Appendix 2**.

1.3 What resources do you dedicate to AML/CTF supervision (both FTE and expenditure)? If your AML/CTF supervisory function is integrated into your wider supervisory activity, please highlight this and estimate the portion spent on AML/CTF.

For this reporting period, AAT spent an estimated £228,283.20 in exercising its AML supervisory duties. This figure includes internal staff costs responsible for the overall administration of AAT's supervisory activity, which includes verification of applications, compliance checks between supervisors and overseeing the monitoring and enforcement for monitoring reviews. The Professional Standards team are also trained to deliver on the AML

helpline. This amount excludes the money spent on undertaking disciplinary investigations where costs are included into the broader exercise of AAT's casework.

AAT subcontracts the administration and delivery of monitoring activity to ICAEW. Both these reviews are contracted out to ICAEW and currently cost AAT the following amounts:

- Desk based reviews: £1,130 +VAT
- Onsite reviews: £680 +VAT

1.4 Is the level of resourcing appropriate with regards to the risks within your supervised sector? Give reasons for any intention to increase, decrease or maintain the same level of resourcing.

While it is AAT's position that current levels of resourcing are appropriate, we do intend to increase them in the following ways:

Recruitment for the position of Regulatory Policy Manager, which was vacant for much of the reporting period.

In addition, to ensure that the new obligations under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 are fulfilled by AAT as an AML supervisor, additional resource may be allocated to undertake specific compliance activity in relation to AAT's risk profiling and methodology in addition to the activity already undertaken. It is expected that the findings of OPBAS's visits will underpin any such considerations.

1.5 What roles and responsibilities have you allocated to manage your AML/CTF supervision?

AAT's personnel is outlined at **Appendix 3**. An additional outline of AAT staff responsible for operations is below:

Professional Standards Team

Head of Professional Standards Professional Standards Policy Manager Professional Standards Manager 5 x Professional Standards Officer	<ul style="list-style-type: none"> • Oversight of monitoring activity • Fit and proper investigations • Disciplinary investigations • AML helpline • Website resources • AML strategy work • Consultations • Engagement with other supervisors • Referrals to HMT
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Customer Operations

<p>Customer Operations Manager 4 x Licence Specialists</p>	<ul style="list-style-type: none"> • Assessment of applications • Checking names against intelligence system • Verifying DBS certificates received with applications • Engaging with supervisors where member has advised they are registered with another supervisory authority
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1.6 How has your senior management actively engaged with your approach to AML/CTF supervision?

The Professional Standards Team is directly responsible to the Executive Director for Strategy and Professional Standards. All AML activity is included in standard reporting mechanisms to AAT’s Executive Team, Professional Regulations and Standards Compliance Board and Management Board. This is in addition to the governance arrangements highlighted below.

1.7 What governance arrangements are in place to ensure appropriate oversight of AML/CTF supervision?

AAT’s Council has ultimate responsibility for strategic policy for all matters in respect of governance. For the specific purpose of overseeing the evaluation of AAT’s compliance with its responsibilities as an Anti-Money Laundering Supervisory Body, it is the responsibility of the Professional Regulation and Standards Compliance Board who then report directly to Council. Operational matters are delegated to AAT staff, but these are actioned in accordance with the Scheme of Delegation.

AAT’s Investigations Committee is able to determine an appropriate disciplinary sanction in accordance with the Disciplinary Regulations, attached at **Appendix 4**, prior to a case being considered by the Disciplinary Tribunal.

Where decisions need to be made on a member’s continuing membership and/or licence, independent lay and non-lay representatives can be called upon to adjudicate in the context of the Disciplinary Regulations to sit on a Tribunal. All independent committees’ appointments are ratified by Council, but Council has no influence over the exercise of the powers available within the Tribunal in the course of considering cases.

Table 2: Prohibitions and Approvals: Regulations 26 & 58

All supervisors subject to either Regulation 26(2) or Regulation (58):

2.1 How do you determine applications falling within Regulation 26(6) or Regulation 58?

All members are obliged to disclose on their application, reinstatement, or on their annual return, if they have an unspent conviction, statutory offence, a disciplinary sanction by another

body, if they are insolvent or if they have had a money laundering supervision application refused or cancelled.

Members must also provide AAT with a valid disclosure certificate alongside their application and are also vetted against the Financial Conduct Authority (FCA) Shared Intelligence System (SIS) to validate declarations and identify any high-risk applicants who have been identified by other members of SIS.

AAT will conduct an assessment on their [fit and proper status for membership](#) in accordance to the relevant policies in force:

- [AAT's Conviction policy](#)
- [AAT's Insolvency policy](#)
- [AAT's Civil Sanctions policy](#)
- [AAT's Disciplinary Sanctions policy](#)

In terms of criminal convictions, the policy starting point is that AAT will not approve an application for membership from an applicant with an unspent criminal conviction in which any of the following factors exist:

- a) serious organised crime, including drug offences, human trafficking and immigration offences, and/or offences under the Terrorism Act 2000
- b) financial crime, including money laundering offences (or an indication thereof in the context of another conviction), fraud and theft
- c) dishonesty
- d) abuse of position.

If a member holding a licence is convicted of a criminal offence, and that criminal conviction meets the criteria set out above, their licence will normally be terminated with immediate effect. Upon termination of their licence, a member must not provide self-employed accountancy services. The same process is in place for applicants or licensed members who are or have become insolvent.

2.2 How do you effectively monitor compliance with Regulation 26 or Regulation 58?

Depending on the type of disclosure, it will be investigated and concluded by the Professional Standards team using delegated powers or referred to a Membership Assessor to adjudicate. There is a right of appeal to an independent Appeals Committee.

Table 3: Risk Based Approach: Regulations 17 & 46

*This section requires information on your risk-based approach during the **relevant period**. You may, however, also include details of any forward planning for further steps as at the date of your response.*

All supervisors:

3.1 Outline how you take a risk-based approach to AML/CTF supervision. Where possible, please share the risk assessment you use.

AAT uses intelligence provided on the annual return to evaluate the firm's risk profile. This takes into consideration a blended approach of the firm's profile, and its self- assessment of its AML controls and procedures, in addition to ad hoc intelligence received either from other supervisors, law enforcement, or triggered by complaints.

Intelligence also includes direct intervention from AAT's monitoring officer. This is often appropriate where there is ambiguity in the information provided or a member infers non-compliance. It may be that AAT will take the opportunity to provide support to a firm. Where concern is heightened, then this could potentially be referred for a practice assurance review, or alternatively referred for a disciplinary investigation.

AAT targets its compliance monitoring activity towards the firms it considers to be highest risk using the following steps in taking a risk-based approach to supervisory activity:

1. AATs Approach

a) Threat assessment

This is an evaluation of the threats facing Licensed members in respect of Anti Money Laundering compliance. This assessment is based on a number of factors, including National Risk Assessment, Supervisor led intelligence gleaned from the Anti Money Laundering Supervisors forum and feedback from firms.

b) Firm profile analysis

AAT requires firms to provide information annually. This information includes broad firm demographics, and specific questions on AML compliance. This information is evaluated in the context of the identified threats using the risk methodology which AAT has developed to assess the firm's risk exposure.

c) Risk based supervisory response

The firm profile analysis translates into four potential outcomes:

- No further action
- AML specific desk-based monitoring
- Practice Assurance review
- Disciplinary investigation

2. Risk assessment methodology

AAT assesses risk using likelihood vs impact

a) **Likelihood.** To ensure that supervisory intervention and resource is targeted towards firms vulnerable to more significant risks by virtue of their profile, weighting has been increased towards the impact over likelihood. Likelihood is how probable it is a firm could be exploited by criminals.

- a firm offers high-risk services (Tier 1 of Licensing policy)
- a firm holds clients' money
- no controls or procedures in place
- a firm has clients who it has engaged with on a non-face to face basis

- a firm deals with politically exposed persons (PEPs)

If no likelihood triggers are evident within a firm's profile, then the likelihood will be considered to be rare. If a single trigger is apparent, then the percentage will be evaluated on the basis of the number of clients the firm has identified as relevant to that particular indicator.

Any firm indicating, through the annual return, any gaps in its AML policies and procedures will automatically be considered as highly probable in terms of the likelihood of exploitation by criminals.

- b) **Impact.** Impact refers to the extent of harm which could materialise as a result of the characteristics of the firm. This information is gleaned from a combination of information provided by the firm, and also information gleaned from third parties. In assessing the impact that a firm's profile might expose it to risks of Anti Money Laundering, AAT has identified a number of factors which influence the extent of impact. These are:

i. Firm

There are a number of factors to consider when evaluating impact for the overall firm. This includes if the firm structure is complex, driven by tax benefits or clearly designed to obfuscate ownership. As well as assessing the firm's financials with that of reliance on clients, i.e.: are they dependant on one high net worth client or a few clients. AAT recognises that firms must expend resources on their AML compliance, but also that an increase in staff numbers and offices increases the vulnerabilities in a firm and therefore the potential for the firm to be used for money laundering.

ii. Clients

There are a number of client factors which would automatically elicit a higher impact score in assessing a firm's risk of exploitation for money laundering. At the highest end of the scale are international politically exposed persons who seek to extract proceeds of corruption from their countries. At the lowest end of the scale are legitimate clients operating in low risk areas, using the firm's services for legitimate means. Assessing the specific risks of clients is the responsibility of the firm, but in understanding the profile of a firm's client base, AAT can evaluate the appropriate level of supervisory intervention necessary to ensure compliance.

iii. Services Offered

AAT has evaluated the services offered by its members and categorised them into four different tiers, with Tier 4 services indicating those considered to present the lowest risk of exploitation to money laundering, through to Tier 1, which details the services presenting the highest opportunity for exploitation by a money launderer. Members are also asked (where applicable) about their compliance with AAT's Clients' Money policy, firms who do not have money held in an appropriate bank account (on trust) will present a higher risk of harm.

iv. Geographical reach

Firms with face to face contact in their local geographic area are in a position to gain more meaningful information about the clients with whom they are interacting. The further away a client is from the firm, the more opportunity there is for the client to disguise a criminal agenda, and the more challenging it will be to conduct adequate ongoing monitoring. The risk is exacerbated further by international dealings.

v. Intelligence

AAT will consider intelligence gathered on firms in order to determine the level of risk associated with a firm. The more relevant the source of information and the proximity to a money laundering or terrorist financing issue, the higher the potential impact that may materialise.

3.2 Under Regulation 17 supervisors are required to identify and assess the international and domestic risks of ML/TF to those for relevant persons for which it is the supervisor (“its own sector”) are subject. Provide the details of all risk assessments carried out to meet Regulation 17 and outline your methodology.

In addition to the individual risk assessments carried out as highlighted in the previous responses, AAT uses a number of sources for general ‘sector’ risk analysis. These would include pan-supervisor information sharing (AMLSF / AAG), engagement with international bodies (IESBA, FATF), and engagement with UK regulatory bodies (NCA, FCA, HMRC, OPBAS). This wide range of interactions is designed to ensure an ongoing awareness of trends, developing risks (both domestic and international), evidence gathering and publication, and various other forms of intelligence gathering.

3.3 What were the key findings in the sector risk assessments you have carried out to meet Regulation 17 in order to inform a risk-based approach to AML supervision?

Information from AAT’s supervised cohort shows that the vast majority are dealing with low risk, UK based, small business clients. Wider sector risk assessments, including the NRA, suggest that high-end money laundering poses the highest risk, particularly large-scale organised crime, and corruption by senior PEPs in overseas jurisdictions.

3.4 What risk profiles and/or clusters have you developed for relevant persons in your sectors and what is your process to review your assessment?

The AAG is in the process of developing an agreed risk assessment methodology for the accountancy sector which include options for effective clustering.

3.5 What steps have you taken to assist those you supervise to adopt a risk-based approach?

Details of AAT’s guidance in this area is outlined in paragraph 6.2.

Table 4: Supervision (Regulation 46 & 49)

*This section requires information on your use of supervision tools during the **relevant period**. You may, however, also include any forward planning for further steps as at the date of your response.*

All supervisors:

4.1 Provide an overview of your supervised sectors including an indication of what proportion of your supervised sector you believe undertakes operations outside of the UK, and any typical profiles of those with operations outside of the UK.

AAT does not supervise those based outside of the UK. In terms of those persons undertaking work outside of the UK (but while UK based) AAT does not currently collect that data, but is in the process of building it into future annual data collections processes. Also see response to Q3.3 in terms of the general risk profile.

4.2 Outline your process for assessing relevant persons' competence and fitness and propriety, including membership criteria where applicable.

AAT requires all members to maintain the high standards expected of the profession and not act in a way that poses a risk to the public and to ensure that professional accountancy services are not exploited by those involved in serious organised crime to launder their criminal proceeds.

Licensed members are required to complete an application form and are subject to a fit and proper test, where a declaration is made regarding convictions, disciplinary sanctions, insolvencies and civil sanctions. Applicants are also required to pass an AML and Ethics diagnostic test in order to be approved.

All prospective licensed members are required to provide an original Disclosure and Barring Service (DBS), Disclosure Scotland or AccessNI certificate before their licence or supervision application is approved by AAT.

Licensed members are required to renew their licence on an annual basis (paragraph 7e) of the Licensing policy) which is used to gather fit and proper information, firm profile and AML compliance intelligence. Non- renewal will result in the revoking of a licence.

4.3 Where applicable, what is your process for revoking membership/licences of a supervised person?

If an applicant or member fails to disclose information on registration or annual declaration, AAT will investigate it in accordance with the Disciplinary Regulations. AAT reserves the right to cancel membership based on false information but may also consider it in the public interest to take disciplinary action, so it becomes a public record.

If a member holding a licence becomes subject to a fit and proper matter, such as a criminal offence or bankruptcy, their licence will normally be terminated with immediate effect or AAT may impose such specific condition on a member's licence in accordance with AAT's Licensing Regulations as it sees fit, if the decision is taken not to terminate the licence.

This procedure is the same for any licensed members where issues of professional incompetence or serious non-compliance issues have been identified during monitoring activity. On termination of their licence, a member must not provide self-employed accountancy services.

4.4 Detail your supervision strategy and available tools, including the frequency of your supervisory activity (e.g. visits, desk-based reviews) to different risk categories of supervised persons.

ICAEW's Quality Assurance Department completes practice monitoring reviews on AAT's behalf. AAT currently selects 5% of supervised members / firms for them to review on an annual basis. A team of 10 reviewers carry out AAT reviews and two managers oversee the programme of reviews and other members of the QAD management team support them.

The reviewer will inspect the firm's practice management records, client files, business accounts and anti money laundering procedures and controls against AAT's Practice Assurance standards and relevant legislation to ensure:

- the firm has implemented effective AML processes and procedures, in accordance with the Money Laundering Regulations;
- the firm is conducting client due diligence on a risk-sensitive basis
- the firm has recognised clients and situations where enhanced due diligence is required
- the firm is monitoring its compliance with the MLR
- the firm identifies 'trigger events' to update its due diligence on existing clients
- there is sufficient information on file to demonstrate that the identity of the client has been verified and suitable evidence retained
- a money laundering reporting officer (MLRO) has been appointed
- internal procedures are in place for making suspicious activity reports to the MLRO
- external reporting procedures are in place
- all relevant employees have received appropriate training relating to money laundering.

The risk parameters used for selection during this reporting period included:

- Not carrying out customer due diligence on clients.
- No identification or verification of clients.
- Licensed bookkeepers
- No risk assessment procedures.
- Inaccurate partner / share information disclosed on renewal.
- Risk of potential poor practice identified on closure of a complaint received.
- TCSP
- 10% random selection

Onsite reviews are generally prompted if the turnover is over £25,000, otherwise the review would be via telephone in the form of a desk-based review. AAT does have discretion if any factors present a risk and therefore requires a site visit, or a sanction imposed by a disciplinary committee requires it.

4.5 Please state whether you have powers to carry out the following actions and provide case studies to illustrate their use (statistics on the use of these are also required in Table 10):

AAT have the powers to exercise the following controls.

- a) On-site visits
- b) Desk-based reviews
- c) Questionnaires
- d) Information requests

A case study on intervention is attached at **Appendix 5**.

4.6 What powers do you have to address failure to comply with any matters in 4.5 above?

Any licensed member who fails to submit to any actions outlined in paragraph 4.5 and subsequently obstructs AAT or AAT's representative from completing our monitoring activity will result in the member having their practicing licence and supervision withdrawn, and disciplinary

action then being taken. If the member completely disengages with the process and/or AAT, it is likely they will be expelled, and the relevant authorities notified.

4.7 How do you measure/review improvements in the sector where there have been previous issues with non-compliance?

Any supervised members who have been required to submit further information to demonstrate that they have remedied the identified areas of non-compliance by way of an action plan to bring the firm into compliance before disciplinary action is considered necessary will continue to be monitored from information gathered from the annual return or are given an action to complete an annual compliance review.

In cases where non-compliance areas are identified, AAT will require the member to undertake a further practice assurance review to determine whether they have addressed all the issues identified in the original review.

Failure to address any significant non-compliance identified will result in disciplinary action being taken by AAT and the potential for members to have their practicing licence withdrawn and ultimately, expulsion.

4.8 How do you prioritise your supervision resources?

Our general data collection processes are our key resource for ensuring we have suitable information and intelligence. These are regularly reviewed and updated as required.

Our expert staff are vital in assessing the data collected, making the relevant risk assessments, and implementing relevant procedures to ensure compliance. They will be supported by the development of AAG's risk assessment methodology which continues to be a priority.

Our various communications methods ensure a regular flow of up to date information, CPD and training.

4.9 How do you assess the adequacy of risk assessments carried out by your relevant persons?

The annual declaration provides intelligence where AAT's licensed member population are not carrying out adequate risk assessments. This intelligence was subsequently included within AAT's practice assurance monitoring activity as a selection risk parameter.

For this reporting period AAT's ICAEW reviewers reported that 65 (30%) of licensed members had inadequate risk assessment procedures in place, and were subsequently tasked to remedy this breach by way of an action plan to demonstrate compliance.

4.10 What measures do you take to encourage your sector to report breaches of the provisions of the Regulations to you?

AAT's supervised population are required to report the following to AAT as part of their annual declaration questionnaire:

- Number of SARs submit to the NCA
- How many client engagements have been declined following risk assessment or any suspicions

Additionally, AAT provides written guidance, articles, webinars, presentations etc incorporating information on SARs and encouraging reporting.

4.11 What is your Whistleblowing procedure and when was this last reviewed?

AAT's Whistleblowing procedure is outlined in **Appendix 6**. This policy took effect from July 2016. It was recently reviewed in September 2018. AAT is a subscriber to Protect (formerly Public Concern at Work) and has a bespoke member support provider (Croner) which provides Whistleblowing support.

4.12 What actions do you take to supervise your sector for financial sanctions compliance?

Information for AAT's supervised persons regarding financial compliance forms part of AAT's general AML support activities including (as set out above) written guidance, articles, webinars, presentations etc. However, the nature of the low risk work within AAT's supervised body means that the likelihood of engagement with sanctioned persons, organisations or states is low.

4.13 What powers do you have to take action if you find deficiencies in sanctions systems and controls?

Please see previous responses regarding disciplinary processes and sanctions.

4.14 Have you taken any enforcement action in relation to financial sanctions compliance? If so, please provide details.

This issue has not arisen.

Table 5: Information Sharing between Supervisors and Public Authorities for AML/CTF purposes (Regulation 50)

All supervisors:

5.1 How do you cooperate with other supervisory authorities, the Treasury and law enforcement, including the sharing of information?

AAT cooperates with other supervisory bodies, the Treasury and law enforcement through the following means:

- Accountancy Affinity Group and Anti Money Laundering Supervisors Forum meetings
- Regular scheduled meetings with HMRC
- SIS
- Annual disciplinary conference
- OPBAS audit
- Intelligence collected from practice monitoring visits
- Information shared with other supervisors
- NCA communications

- Queries received on the AML helpline
- Attendance at AML branch events
- Attendance at industry standard CPD events

5.2 Outline your policy and procedure for intelligence sharing with other supervisors and law enforcement agencies including details of any secure systems used.

AAT records any sanctions or adverse findings on FCA's Shared Intelligence Service (SIS) system. Any request for intelligence by a member of FCA's **Shared Intelligence Service** must provide an intelligence request stating;

- Date of request
- Name, organisation and contact details of person making the request
- Full name of subject
- Date of birth of subject
- Address of subject
- Employment / directorship dates
- Any relevant date
- Reason for the enquiry / what is trying to be achieved

AAT also shares intelligence with other supervisory authorities or professional bodies and the appropriate MLR gateway must be provided in any information exchange.

AAT has assisted with providing intelligence to the NCA or other law enforcement agencies, be it in the form of an SAR or upon request from the NCA. In addition, AAT, as mentioned above is a member of the AAG and works closely with the NCA via this forum to provide feedback and facilitate effective communication.

5.3 What guidance or outreach do you provide to those you supervise on submitting SARs, including measures to ensure information is provided to the NCA as soon as practicable, and how do you supervise against these obligations?

AAT review the policies and procedures in relation to SARs – what are the firm's policies and procedures, who must report, who do they report it to, how is the matter recorded and who is allowed to know. The reviewer will discuss the quality of the information they receive, how they decide whether to report externally or not, how they document their conclusion and where do they store their records. While AAT collect information on the number of SARs submitted, AAT does not collect or review the content.

Reporting guidance and necessary links to the NCA website is available on AAT's website and Professional standards handled 19 queries relating to SARs in this reporting period, whether it be a specific query or general guidance on process.

5.4 What are your arrangements for nomination of a Single Point of Contact (SPOC) to comply with Regulation 49(2)?

The Head of Professional Standards, who is also AAT's Nominated Officer, is the nominated SPOC. The Professional Standards Manager and main team contact details have also been made available.

5.5 If possible, please provide case studies to illustrate active intelligence sharing engagement?

Please see **Appendix 7** for information.

5.6 How do you engage effectively with law enforcement agencies and supervisors outside the UK?

AAT does not licence or supervise any members outside of the UK, so no engagement has been necessary within this reporting period.

Table 6: Information and Guidance for Supervised Sector (Regulation 17 & 47)

All supervisors:

6.1 What key messages on AML/CTF compliance have you communicated to your relevant persons?

AAT strongly advocates the key message that licensed members in practice must have in place certain controls and monitoring systems to prevent their business from being used for money laundering. It is essential they are applying customer due diligence measures and controls to ensure compliance with the current Money Laundering Regulations in force. In contribution to this, AAT has developed an on-boarding checklist (**Appendix 8**) and an annual review checklist (**Appendix 9**).

Other key messages during the reporting period have focused on the introduction of the *The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017* and the key changes, such as:

- High value dealers and cash transactions
- The enhanced fit and proper test
- Firm-wide risk assessment
- Changes to policies, internal controls and procedures required
- Potentially Exposed Persons (PEPs)
- Register of beneficial ownership
- Application of customer due diligence

In light of the new criminality checks required, AAT have focused many communications on the requirement to complete a basic disclosure check and how measures also apply to all beneficial owners, officers and managers (BOOMs). The requirements around this along with common failings and breaches of the MLR have been underlined on AAT's website [here](#).

6.2 How do you provide information to your supervised sector on ML/TF risk in accordance with Regulation 47(2)(c)?

AAT provides guidance to members on how to adopt a risk-based approach to assess the risks of money laundering and identify any clients that might pose a risk.

AAT's website has a designated page for *Risk of money laundering and terrorist financing*. It outlines client profiles, geographical areas, high risk services areas, transactions and delivery

channels to be aware of. It also sets out the UK national risk assessment and guidance information collated by AAG.

The level of engagement with risk assessment requirements can be gleaned from the responses provided by members in the annual declaration. AAT targets these supervised members via practice assurance reviews for engagement purposes.

All members supervised by AAT have access to the 'Anti-Money Laundering' toolkit on the website which provides guidance on the risk assessment process, as well as templates which can be used to carry out and record risk assessments. This has been updated to accommodate the changes to the regulations and risk is discussed in some detail. As discussed above in paragraph 6.1, the checklists developed above have a specific area on risk assessment and prompt on risk factors they should be considering when determining a level of risk for each client. For example:

Does the client want to use the firm's client account as a bank account?
Is it a cash based business?
Is there a lack of independent audit evidence?
Is there a lack of evidence of trade?
Does the client trade outside the European Economic Area (EEA)?
Does the client trade in the European Economic Area (EEA)?
Is there a complex group structure?
Has there been a change in business activity?
Is there intra-group trading?
Has there been dramatic increases in turnover?
Does the client have high turnovers/volume from small business locations?
Were there any transactions in the year without an immediate or obvious purpose?
Does the client require a client account denominated in a foreign currency?
Does the client have a history of persistent and unlikely 'errors' in tax returns?
Does the client require Enhanced Due Diligence (EDD)?
Risk score:

The intelligence received from both the annual declaration and practice assurance monitoring activity does evidence that completing client risk assessments (and documenting it) along with the new requirement to conduct a wider firm risk assessment is an important area for development and where to place resource.

Some firms also subscribe to AML software packages to assist them in undertaking and documenting their risk assessments, although it is not solely relied upon. The software is then used on a regular basis to help firms identify any changes in risk and the reasons for this.

6.3 Please confirm whether or not you provide any of the following to your supervised population to promote AML/CTF compliance and, if so, please provide summary details of how this is provided:

a) AAT publishes the majority of its guidance within the professional zone of its website, this material is accessible to our supervised population but also to our entire professional membership. Useful links include:

- Office for Professional Body Anti-Money Laundering (OPBAS)
- National Crime Agency

- Guidance on politically exposed persons
- Reporting suspicions and how to do so.
- Company Secretarial Services and the TCSP register
- The Consultative Committee of Accountancy Bodies (CCAB) guidance
- UK national risk assessment 2017
- Defence Against Money Laundering guidance
- AAT AML toolkit
- Criminality checks and BOOMs

AAT is in the process of launching a new *Knowledge Hub* to its members. All e-learning, essential information, useful articles and podcasts will be available using this tool, and this will include resources to promote AML compliance.

- b) AAT carried out the following AML events during the report period:

East Anglia branch	Anti Money Laundering Regulation update
Tyne & Wear branch	Anti Money Laundering Regulation update
North West branch	Anti Money Laundering Regulation update
North Yorkshire branch	Anti Money Laundering Regulation update
Gloucestershire branch	Anti Money Laundering Regulation update
Leicestershire branch	Bribery Act and Money Laundering
Essex branch	Anti Money Laundering, Bribery Act and fraud
Suffolk branch	Anti Money Laundering Regulation update

A copy of the presentation used at the branch meetings can be found in **Appendix 10**.

A further six events have been facilitated since the end of the reporting period and anti-money laundering was a topic at AAT's Annual Conference in June 2018 where AAT's Head of Professional Standards, alongside an expert speaker in the subject matter, presented an update to the licensed members in attendance. A further three events AML related events are scheduled to take place in early 2019.

- c) Updates are provided through AAT Comment, a platform for AAT to share news and opinion on the world of business and finance. Example articles published are below:

<https://www.aatcomment.org.uk/aat-responds-to-new-government-regulations-around-money-laundering/>

<https://www.aatcomment.org.uk/how-to-comply-with-anti-money-laundering-regulations-your-responsibilities/>

<https://www.aatcomment.org.uk/criminals-need-professionals-to-clean-their-dirty-money/>

<https://www.aatcomment.org.uk/are-accountants-enabling-money-laundering/>

<https://www.aatcomment.org.uk/ready-get-set-boom-further-changes-to-the-anti-money-laundering-regulations/>

<https://www.aatcomment.org.uk/7-things-you-need-to-know-to-comply-with-mlr17/>

<https://www.aatcomment.org.uk/basic-dbs-checks-do-you-know-what-you-need-to-know/>

d) AAT has a dedicated AML helpline accessible to members by both telephone and email. The Professional Standards team responded to 41 enquiries during the reporting period.

6.4 How do you assess your supervised sector's understanding of ML/TF risk? How have you engaged effectively with your sector to improve its understanding of this risk? How do you measure any improvements?

Practice assurance reviews are the key tool for identifying AAT's supervised cohort's understanding of ML/TF risk and year on year comparisons of outcomes in relation to those areas of review allows for improvement measurement. While there is no formal mechanism for sharing this information across supervisors and the wider sector, regular meetings and informal discussions allow general information sharing in relation to trends within those bodies. How AAT engages directly with our own supervised body in relation to improving understanding of risk is laid in out the various earlier responses. Undoubtedly, the creation of OPBAS will allow for more structured sharing of information in this regard.

Table 7: Staff Competence and Training (Regulation 46 & 49)

All supervisors:

7.1 What training do you provide to your staff to ensure their competence in handling AML/CTF supervision?

All relevant staff receive regular training applicable to their learning needs and more recently to incorporate the changes to the regulations.

An internal training session was presented to the Professional Standards team on 14 July 2017 covering aspects of the MLR2017 and 4th Directive that came into force. The presentation is in **Appendix 11**.

The Professional Standards team have recently completed a Preventing Money Laundering e - learning course to address any knowledge gaps and for continued development learning.

Additionally, the *AML helpline* is a fixed agenda item for the team's monthly meeting thus allowing an open discussion on queries received and appropriate advice given.

7.2 What relevant information do you provide to your employees and officers on the domestic and international ML/ TF risks which affect your sector?

The resources produced for AAT's supervised cohort are also shared with relevant employees and officers, including updates on their own responsibilities within the regulations. In addition, employee-wide presentations including general risks and trends are provided.

7.3 Do any of your staff hold any AML/CTF qualifications?

Two members of the Professional Standards Team have achieved the ICA Certificate in Anti Money Laundering qualification and a further two members of staff obtained the ICA Financial Crime Prevention qualification.

Enquiries are currently being undertaken to identify an appropriate AML qualification for all relevant persons to complete.

All Professional Standards and Finance employees have completed a bespoke AML compliance training module.

Table 8: Enforcement (Regulation 49)

All supervisors:

8.1 What common themes emerge where you find your relevant persons have demonstrated non-compliance with their AML/CTF obligations – e.g. common services or sizes of firm, or misunderstandings or gaps in their risk assessments?

AAT's practice assurance reviews identify that there are still shortfalls in respect of AML compliance. Commons issues include;

- No written procedures
- No risk assessment
- No whole firm risk assessment
- Lack of training
- No annual review of firm's compliance with regulations

On review of the QAD reports and subsequent findings by ICAEW, there does appear to be a misconception concerning the actual recording of information, particularly around risk assessment. While AAT's licensed members are attempting to meet their obligations, they are not documenting it or reviewing it regularly enough.

Given AAT's targeted approach, there are no common themes in terms of location or services, but the six licensed members referred for disciplinary action during this period were all relatively larger limited firms by AAT's standards with between 50 – 750 clients.

8.2 To what extent do you generally find that supervised firms understand the ML/TF risks they face, and have reflected these accurately in their risk assessment documents?

AAT targets its compliance monitoring activity towards the firms it considers to be highest risk. On this basis, compliance is found to be varied. When a practice assurance review takes place the firms who have been rated an A or B (compliant) are predominately the members who understand where their money laundering risks are and put effective policies, measures and controls in place. Firms that are rated C or D are commonly found not have documented their risk assessments or have sufficiently effective measures regarding their risk assessments to keep them up to date.

8.3 Which of the following powers do you have to address non-compliance in relation to AML/CTF supervision and in what circumstances would these be exercised?

There are a variety of powers and/or formal sanctions available to AAT to address non-compliance. They include:

- a) Warning
- b) Action plan
- c) Suspension
- d) Expulsion
- e) Reprimand
- f) Financial penalty (*set at £5,000)
- g) Undertaking/condition
- h) Licence termination
- i) Removal of fellow membership

A list of formal sanctions AAT can impose are outlined in the [Indicative Sanctions Guidance](#).

The circumstances in when the powers can be used in accordance with AAT's existing regulatory framework are summarised in the tables below:

Remedial Action Taken	Powers available
Disciplinary action is taken on the grounds of significant non-compliance amounting to misconduct	Expulsion
	Reprimand and/or warning
	Suspension
	Financial penalty *set at £5,000
	Condition placed on licence: a) removal of a licence area b) mandating CPD requirements c) restrictions on holding client monies d) requirement for third party compliance review e) submit to a practice monitoring review
	Warning
	Seek advice over future conduct
	Removal of <i>fellow member</i> status
Remedial Action Taken	Powers available
Fit and proper assessment required due to adverse finding or breach of AAT policy	Licence termination
	Licence restriction
	Condition placed on licence:
Remedial Action Taken	Powers available
Breach of practice assurance standards or failure to comply with a review	Action Plan issued to address areas of non-compliance
	Licence restriction *
	Licence termination *

**Any termination of a licence will typically be referred for disciplinary action.*

8.4 To what extent would an exercise of your powers listed in 8.4 above be publicised?

[AAT's Publication policy](#) affords the opportunity to publish any outcomes reached by the Membership Assessor, Investigations Team or Disciplinary Tribunal. All formal disciplinary outcomes are published on AAT's website [here](#) along with any termination or suspension of a [licence](#).

8.5 If possible, please provide case studies to illustrate whether the use of the powers you have listed in 8.4 above were used effectively (statistics on use are required in Table 10).

An example of a disciplinary investigation into allegations relating to breaches of the Money Laundering Regulations can be found in **Appendix 12**.

8.6 Please outline if you experience barriers in using your powers effectively to support your AML supervisory strategy.

AAT's disciplinary process and fit and proper checks are designed to be compliant with the Human Rights Act and therefore there is a right of appeal for any declined applicant or where AAT revoke a licence. The requirement for independence of an appeal committee is fundamental to the suitability process. However, there were no appeals received during the reporting period relating to licensing or supervision.

Information sharing, via the supervisors gateway is limited due to confidentiality and legal privilege. The creation of a central register will provide easy access to intelligence to assist with dealing with cases in a timely and proportionate manner.

Table 9: Record Keeping and Quality Assurance (Regulation 46 & 17)

All supervisors:

9.1 How do you maintain records of significant decisions relating to your AML/CTF supervision?

All decisions and case details are recorded on AAT's CRM system, including:

- Practice Assurance activity
- Review findings and outcome
- Sanctions
- Financial penalties
- Disciplinary outcomes
- Fit and proper decisions
- Supervisor overlap enquiries with other supervisors / default supervisor
- Advice given via the AML helpline

All other case information and reports are maintained within a restricted area accessible to the Professional Standards team only.

9.2 What is your process for ensuring you maintain adequate records of your supervisory actions?

In accordance with GDPR, AAT has a retention policy to ensure it is only collecting and retaining the data and information it is legally obliged to. Given AAT's work is in the public interest and processing is based on legal obligation for its supervised cohort, the retention period for sanctions and monitoring outcomes has been set to 70 years after lapse to draw on indications of risk levels and inform any future activity. Any reports or supporting document will be retained for a period of seven years.

9.3 What steps do you take for the purposes of quality assurance testing your supervisory work and decision-making?

AAT takes steps to ensure a consistent and proportionate approach is taken across all our work by applying the principals in the *Practice Assurance Case Handling* at **Appendix 13** and *Professional Standards Handbook* at **Appendix 14**.

9.4 Do you have an internal audit function and how is it used to carry out periodic reviews of your AML/CTF supervision?

AAT's internal audit function reviews AAT's supervisory function and makes recommendations for action where necessary. The findings of the last audit were reported in 2015. AAT has recently been subject to an external review by OPBAS.

Table 10: Data and Statistics required (incl. data which supervisors are required to collect under Schedule 4 of the MLRs)

	<u>Data required (Numbers of)</u>	<u>Relevant period</u> (6 April 2017 to 5 April 2018)	<u>2016/2017</u> (1 Jan 2016 to 31 December 2016)
Supervised persons	Supervised firms *	1,852	1,388
	Sole practitioners	1,995	1,757
Applications for membership			
<i>PBS only</i>	Applications for membership received [applications referred to Professional Standards]	594	537
<i>PBS only</i>	Applications for membership accepted	481	438
<i>PBS only</i>	Applications for membership rejected	25	99
<i>PBS only</i>	Applications for membership pending	0	0
Regulation 12 <i>Trust or company service providers ("TCSP")</i>			
<i>PBS only</i>	Firms who act as TCSP	1,200	1,077
<i>PBS only</i>	Sole practitioners acting as TCSP	651	667
Regulation 26 <i>(PBS and HMRC only)</i>	Total beneficial owners, officers, or managers within a firm (" BOOMS ") as referred to in Regulation 26	2,672*	n/a

	Relevant firms as defined by Regulation 26	1,951	n/a
	Relevant sole practitioners as defined by Regulation 26	1,421	n/a
	<i>*AAT is currently undertaking a process improvement plan for its registration, renewal and reinstatement approach. The scope of the project includes refining the extent and effectiveness of the questions the supervised population are asked on application and on their annual return in accordance with MLR2017.</i>		
<i>Applications for approval under Regulation 26</i>	Applications received	721	549
	Approved	672	473
	Refused	14	65
	Applications pending	22	11
<i>PBS only</i>	Approvals invalidated by disciplinary measures	5	6
<i>Risk-based approach</i>	Supervised sector risk assessments carried out	n/a	n/a
	Clusters identified	0	0
	Risk profiles		
<i>Money Laundering or Terrorist Financing Risk</i>			
<i>High Risk</i>	Firms	1,295	154
	Sole practitioners	26	
	TCSP	1,184	n/a
<i>Medium Risk</i>	Firms	498	945
	Sole practitioners	8	
	TCSP	0	n/a
<i>Low Risk</i>	Firms	59	2,046
	Sole practitioners	1,961	
	TCSP	578	
<i>Supervision</i>			
<i>Questionnaires</i>	Questionnaires issued	4,129	3,198
	Response rate of questionnaire issued	96%	98%
		<i>*If a member fails to complete a declaration their licence and supervision is revoked.</i>	

	Monitoring prompted as a result of a questionnaire	5%	6%
<i>Desk based reviews</i>	Desk based reviews conducted	98	132
<i>Desk based review results</i>	Compliant rating	68	8
	Generally compliant rating	25	74
	Not compliant rating	5	50
	Informal action following Desk Based Review	30	124
	Formal action following Desk Based Review	3	10
	Referral to another agency following DBR e.g. law enforcement	1	0
<i>Onsite visits</i>	Visits	79	89
<i>Onsite visit results</i>	Compliant rating	51	5
	Generally compliant rating	21	50
	Not compliant	7	34
	Informal action following visit	28	84
	Formal action following visit	3	12
	Referral to another agency following visit e.g. law enforcement	2	22
<i>Disciplinary measures for contraventions of the Regulations</i>			
<i>PBS only</i>	Membership cancelled	4	1
<i>PBS only</i>	Suspension of membership	0	0
<i>PBS only</i>	Number of fin es on relevant persons and total sum	53 fines imposed £47,112.96	23 fines imposed £30,047.09
<i>PBS only</i>	Any other disciplinary actions taken	99	72