

The Rt. Hon. Mel Stride MP  
Chair, Treasury Select Committee  
House of Commons  
London  
SW1A 0AA

T +44(0)191 493 0277  
F +44(0)191 493 0278

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E [aia@aiaworldwide.com](mailto:aia@aiaworldwide.com)

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Staithes 3, The Watermark,  
Metro Riverside, Newcastle upon Tyne  
NE11 9SN, United Kingdom

20 November 2020

Dear Mr Stride,

### **Economic Crime Inquiry 2020**

The Association of International Accountants (AIA) welcomes this opportunity to present evidence to the Treasury Select Committee's 2020 inquiry into anti money laundering controls and systems in the United Kingdom.

As a professional body supervisor recognised under Schedule 1 of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (as amended 2019) AIA recognises its key role in preventing economic crime and contributing to a robust approach to AML safeguards.

Working with other accountancy sector supervisory bodies through the Accountancy AML Supervisors' Group (AASG) and more widely with government, regulators and other sectors through the AML Supervisors Forum (AMLSF) enables a real public-private partnership which delivers a focussed response to the threat of money laundering and terrorist financing.

Of course, as a membership organisation of professionals we recognise that the regulations are also in place to protect our members and safeguard against their being exploited by criminal elements to facilitate illicit activity. Therefore, we work to provide guidance and support, so they recognise the red flags of money laundering and fulfil their obligations by reporting suspicious activity.

Whilst there is still progress to be made to fulfil the government's Economic Crime Plan 2019 – 2022, as a supervisory body AIA has made significant contributions to progress to date, including strengthening its internal controls, educating members and enforcing compliance.

I have included as part of the AIA's submission an overview of the work we undertake as a supervisory body which enables us to implement the money laundering regulations and ensure our members remain vigilant to the threat.

Yours faithfully,



**Philip Turnbull**  
Chief Executive

Enc – Association of International Accountants evidence submission to Economic Crime Inquiry 2020

# Evidence Submission: Treasury Select Committee Economic Crime Inquiry 2020

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## 1. Executive Summary

- 1.1 AIA works constructively with regulators, law enforcement agencies and other professional bodies to undertake its functions as a supervisor under MLR 2017.
- 1.2 Whilst there are effective mechanisms for combatting economic crime, such as the Intelligence Sharing Expert Working Group (ISEWG) there is more that could be done. As the Economic Crime Plan progresses there is a case for consolidating and reviewing the current number of overlapping working groups and committees to refocus on the reforms.
- 1.3 Accountants can be assessed to be either complicit or wilfully blind to money laundering risks, or at risk of being exploited by criminals due to negligence or being an unwitting accomplice to money laundering. It is arguable that accountants are more likely to be unwittingly involved in money laundering than undertake illicit activity and professional bodies have an important role in providing support and guidance for members which is not available to non-registered individuals.
- 1.4 The public interest argument could be strengthened by consolidating and protecting the term 'accountant'. Introducing this reform will help to strengthen the UK's fight against economic crime and prevent unqualified and unsupervised individuals evade effective oversight.
- 1.5 Maintaining up-to-date knowledge and disseminating emerging AML risks is a key activity to help members recognise, respond to and report suspicious activity.
- 1.6 Following the recent HM Treasury consultation there should be a more structured and transparent plan around allocating money collected for the Economic Crime Levy.

## 2. About AIA

The Association of International Accountants (AIA) was founded in the UK in 1928 as a professional accountancy body and promotes the concept of 'international accounting' to create a global network of accountants.

AIA is recognised by the UK government as a recognised qualifying body for statutory auditors under the Companies Act 2006, across the European Union under the mutual recognition of professional qualifications directive and as a prescribed body under the Companies (Auditing and Accounting) Act 2014 in the Republic of Ireland. AIA also has supervisory status for its members in the UK under the Money Laundering Regulations 2017. AIA is a Commonwealth Accredited Organisation.

AIA believes in creating a global accountancy profession and supports the International Federation of Accountants (IFAC) in their vision of a global accountancy profession recognised as a valued leader in the development of strong and sustainable organisations, financial markets and economies. AIA has adopted IFAC's Code of Ethics for professional accountants and also incorporates IFAC's International Education Standards (IES) into its qualifications and policies.

AIA has members working throughout the accountancy profession. Many of our members are at the top

of the accountancy industry, from senior management to director level. Conversely, significant numbers of our members work in small and medium sized businesses (SMEs) and we strive to champion the importance of SMEs and their needs.

### 3. Response to current UK economic crime strategy

- 3.1 In general AIA is supportive of the government's Economic Plan 2019-2022 and recognises that there are significant reforms required to ensure that the economy is protected insofar as possible from the devastating impacts of money laundering and economic crime, notwithstanding the progress that has already been made through a progressive public-private partnership on disparate action points of the plan.
- 3.2 AIA welcomes the 2020 Spending Review announcement whereby the Chancellor has agreed to provide a further £63m of additional funding in 2020/21 in support of tackling economic crime, including SARs reform, the continued expansion of the National Economic Crime Centre, and reform of the current Action Fraud system. In addition to this, more than £20m has been secured in 2020/21 for Companies House reform, boosting its capacity for tackling economic crime.
- 3.3 AIA advocated in its response to the Corporate Transparency and Register Reform consultation in 2019 that the majority of the changes proposed within the consultation were necessary to ensure that the UK further improves its reputation for corporate transparency and retains its global status as a trusted, transparent place to do business and so welcomes work undertaken to implement the 5<sup>th</sup> Money Laundering Directive and improve beneficial ownership transparency.
- 3.4 In the recently concluded government consultation on the Economic Crime Levy, AIA broadly supported the measures set out within the consultation to fund the prevention and detection of economic crime. However, it would be useful to note that AML activity is most effective as a public-private partnership and in particular with regard to 'awareness raising campaigns' the channel through which this is most effective for the regulated sector is directly through supervisory bodies. The government should consider allocating funding to strengthen AML supervision within the regulated sector and provide access to services which supervisory bodies are currently obliged to fund (such as the Shared Intelligence Service) or other supervisory activity. In addition, should the levy rely on a supervisor collection model it should be recognised that this will result in increased costs and administration for supervisors and so consideration should be given to covering the need for increased or redirected resources.
- 3.5 A review of the levy should indicate the impact that focussed action has had on the prevention and detection of economic crime. Whilst the annual reporting timeline is a useful tool, AIA agrees that the levy should be reviewed after a period of five years. This would give an opportunity to review economic crime trends and ascertain whether the measures taken using the accumulated levy have made a demonstrable difference and provide reassurance to the regulated sector that the levy collection remains to be in the public interest.
- 3.6 A positive example to provide robust oversight of the accountancy sector would be to protect the term 'accountant'. It is currently difficult for prospective clients (members of the public) to distinguish which individuals calling themselves accountants are supervised and properly regulated professionals with appropriate qualifications. In the United Kingdom at this present time anyone can operate as an accountant and advertise their services in such a way. However, this gives a false sense of protection for the client, does not serve the public interest in a meaningful way. It provides a key risk for bad actors to exploit vulnerable members of the public.

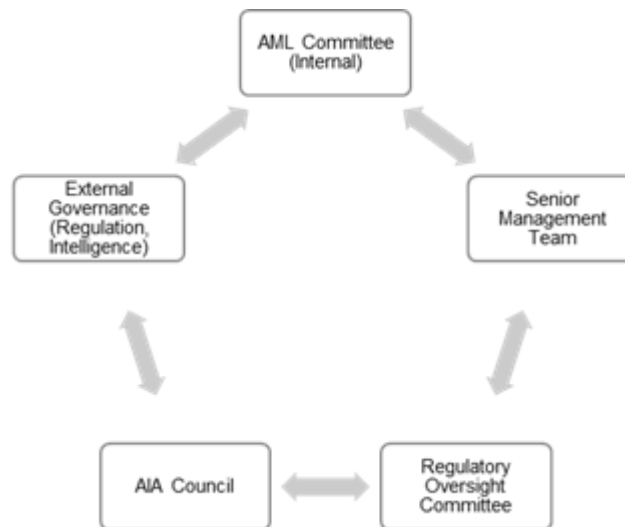
- 3.7 Stringent requirements for accountants who are members of professional bodies gives assurance to clients and members of the public that they are qualified, trained, and competent – backed up by an independent complaints process when things go wrong.

## AIA activity preventing money laundering and terrorist financing

The following section provides a brief overview of how AIA operates to fulfil its obligations as a professional body supervisor. It should be stressed that this is an inexhaustive overview and by its nature as a public document there are sensitive aspects which have not been disclosed.

### 4. Governance

- 4.1 AIA recognises the importance of maintaining a separation between advocating on behalf of, and educating, members whilst undertaking effective supervision, monitoring and enforcement in line with the MLR.
- 4.2 Maintaining a structured approach to supervision with good management information and independent scrutiny provides additional reassurance that these two distinct, yet vital, functions are fulfilled appropriately.
- 4.3 AIA's Disciplinary Process is maintained in an independent structure, separate from the corporate governance framework and does not report to the AIA Council. Disciplinary Committees are populated with lay-members to add independence and public hearings of disciplinary cases alongside a structured sanctions framework enables transparent decision-making.
- 4.4 The Regulatory Oversight Committee (ROC) is a committee of the Council and is constituted to ensure that AIA meets its obligations under the MLR. The Committee assesses AIA's compliance with the regulations and scrutinises the supervision process and outcomes. The Committee is comprised of AIA members and lay members and is chaired by a member of the Council with a distinct Terms of Reference. The Committee holds the AIA secretariat to account and ensures appropriate checks and balances to regulatory decision-making, allowing for an objective assessment of AIA's supervisory work. The Committee includes a range of subject experts, including ex-law enforcement and financial investigators, regulatory specialists, individuals who have undertaken research work for FATF and the Department for International Development and corporate/consumer bankers, who are independent from the AIA's operations and provide an additional level of scrutiny and oversight.
- 4.5 AML updates are reported to the Senior Management Team by the Director of Operations and a cross-departmental committee meets to discuss emerging risks, compliance issues and any relevant areas relating to AIA's MLR regulation.
- 4.6 The following feedback loops are deployed:



## 5. Risk-based approach

- 5.1 To establish the risk of AIA members being used for money laundering, or work to actively uncover money laundering activity, AIA undertakes a risk-based approach to supervising its member population.
- 5.2 Accountants provide a range of services and activities that vastly differ, e.g. in their methods of delivery and in the depth and duration of the relationships formed with clients, and the size of any operation. Professional accountants in public practice may provide a wide range of services, to a diverse range of clients. The most useful risk criteria are country or geographic risk, client risk, and service/transaction risk along with how services are delivered to the client (delivery channels).
- 5.3 Some of the functions performed by accountants that are the most susceptible to any potential money launderer include: TCSP work, property, performing financial transactions and gaining introduction to financial institutions.
- 5.4 The UK National Risk Assessment 2017 (NRA) states that accountancy services remain attractive to criminals due to the ability to use them to gain legitimacy, create corporate structures or transfer value and concludes that there is a high risk of money laundering for accountancy services.
- 5.5 The UK's NRA update for 2020 has not been published at the time of this evidence submission.
- 5.6 Accountants can be assessed to be either complicit or wilfully blind to money laundering risks, or at risk of being exploited by criminals due to negligence or being an unwitting accomplice to money laundering.
- 5.7 AIA adopts a risk-based approach to AML/CTF activity and ensures that measures taken to reduce ML/TF are proportionate to the risks involved; the RBA is commensurate with the nature, size and complexity of AIA's supervised population.
- 5.8 The typical AIA supervised firm is a small or medium sized practice, often a sole trader, or with a small number of staff, who provides services to domestic clients.

- 5.9 AIA's risk-based approach has been developed considering guidance from the National Risk Register 2017, the Financial Action Task Force Guidance for a Risk Based Approach for the Accounting Profession and updates from UK and EU authorities.
- 5.10 Member ML risk is calculated using a variety of data sources to arrive at both an inherent and aggravated or mitigated risk for each member which then adjusts the monitoring and supervision of that member in turn.
- 5.11 AIA recognises that whilst a member may have a low inherent risk of money laundering this does not mean that there is no risk.
- 5.12 AIA works to educate members on implementing a risk-based approach and provides guidance on high risk categories of business, due diligence requirements and how firms can work to prevent ML and TF, although the risk can never be eliminated.

## 6. Supervision

- 6.1 AIA acts as a gatekeeper to the profession and maintains strict entry requirements, verifying members' fit and proper claims using a variety of intelligence checking (e.g. Shared Intelligence Service), correspondence with other professional body supervisors and open-source investigation.
- 6.2 AIA levers a variety of supervisory tools to assess its supervised population's compliance with best practice and the appropriate regulatory requirements using a risk-based approach:
  - Desktop Monitoring Reviews
  - Onsite Monitoring Visits
  - AML Compliance Visits
  - Thematic Reviews
  - Ad-hoc information requests
  - Periodic information requests
  - Random sample monitoring
- 6.3 Following a review or visit the member is presented with an outcome alongside recommendations or actions to take to ensure compliance.
- 6.4 Failure to undertake improvements within a specified timescale may lead to disciplinary proceedings and referral to the Practice Compliance Committee for enforcing compliance.

## 7. Information sharing

- 7.1 AIA's nominated MLRO is the Single Point of Contact (SPOC) for the professional body.
- 7.2 AIA maintains dialogue with other professional body supervisors through participation in the Accountancy AML Supervisors' Group (AASG) and through supervisor-to-supervisor information sharing where appropriate.

- 7.3 More generally AIA maintains dialogue with other regulators and government through the AML Supervisors Forum (AMLSF).
- 7.4 AIA also works in collaboration with other bodies and organisations through the Accountancy Intelligence Sharing Expert Working Group (ISEWG), which promotes and facilitates a strong working relationship between Accountancy PBSs and law enforcement agencies through the Joint Money Laundering Task Force (JMLIT), improving trust, knowledge of how each organisation operates and establishing a greater common understanding of ML/TF threats in the accountancy sector.
- 7.5 In addition, AIA shares information securely through:
- The submission of Suspicious Activity Reports (SARs)
  - The use of a CJSM encrypted email address and other secure communication mechanisms
  - Responding to Section 7 law enforcement requests
  - Utilising the Shared Intelligence Service to undertake fit and proper status checks on members and provide data to other supervisors on AIA members where appropriate
- 7.6 AIA notes the importance of AML disclosures and providing anonymity for whistleblowers and addresses complaints and whistleblowing related to anti-money laundering in line with its AIA Complaints and Whistleblowing Policies. Guidance is provided on individuals reporting accountancy service providers or trust and company service providers who are suspected of not being regulated under the MLR2017 or appear to be ignoring the regulations.

## 8. Member guidance

- 8.1 AIA's website (accessible to members via secure login) provides updated guidance on:
- how AIA works with sector regulators on behalf of members,
  - sector guidance, checklists, templates and information relating to how members should meet the requirements,
  - emerging threats and trends provided by NCA and ISEWG JMLIT alerts, and
  - access to articles and publications.
- 8.2 AIA recommends all practising members view and regularly review AML Guidance for the Accountancy Sector, which has been compiled in conjunction with other professional body supervisors and approved for use by HM Treasury.
- 8.3 Additional guidance is provided for Members in Practice within the Secure Documents Library.
- 8.4 Advice and information are offered in AIA's InPractice publication and in articles in *International Accountant* magazine. AIA also offers confidential support to its members via an AML email and telephone hotline.
- 8.5 All current AIA Practising Certificate holders are provided with an annual access code to access free AML compliance software free of charge in order to assist the firm to meet its regulatory requirements.

## 9. Staff competence and training

- 9.1 AIA acts to equip staff to take decisions on whether a member's policies, controls and procedures are appropriate in view of any risks identified.
- 9.2 AIA provides training to relevant employees and ensures ad hoc and structured training for contractors, wider staff and AIA's governance structure.
- 9.3 AIA employs appropriately trained and competent professionals in key roles surrounding the regulation of its members for AML activity.
- 9.4 Both AIA's MLRO and Deputy MLRO are qualified members of the International Compliance Association. The Council member chairing the ROC is also ICA qualified.
- 9.5 Ongoing training is provided, on a regular basis, for AIA staff and members of the corporate governance framework on AML activity including spotting and reporting suspicious activity, whistleblowing and granting membership to prospective members in practice.
- 9.6 To ensure best practice and a standardised approach to supervision AIA maintains a regular training programme for Quality Assurance Advisers and AML Reviewers.

## 10. Enforcement

- 10.1 AIA works to remove the benefits of non-compliance and deter future non-compliance.
- 10.2 Members who fail to act on recommendations or requirements following a monitoring action are referred to AIA's Practice Compliance Committee (PCC).
- 10.3 Should a member fail to undertake action in line with the order of the PCC, for example to pay a monetary penalty or submit evidence of compliance within a certain date then the matter is referred to AIA's Disciplinary Committee which has a range of sanctions available including the revocation of an individual's Practising Certificate, the imposition of a monetary penalty or exclusion from membership.
- 10.4 Sanctions are set out within a public Sanctions Handbook document which provides guidance to members of the disciplinary framework committees on starting points for penalties and the serious nature of non-compliance with the money laundering regulations.
- 10.5 Should the outcome of the disciplinary process result in a Member in Practice being sanctioned, AIA will inform all relevant internal departments and publish details of the disciplinary result on AIA's website and in AIA's magazine, *International Accountant*.
- 10.6 AIA ensures all non-compliance information is shared as appropriate via intelligence channels with fellow professional bodies, statutory regulators and law enforcement where required.



## Further Information

If you require any further information, please contact:

AIA Policy & Public Affairs Department  
The Association of International Accountants  
Staithes 3 The Watermark  
Metro Riverside  
Newcastle upon Tyne  
NE11 9SN  
United Kingdom

T: +44 (0)191 493 0269

E: [consultations@aiaworldwide.com](mailto:consultations@aiaworldwide.com)