



THE CHANGING FACE OF MONEY LAUNDERING

How Accountants Stay Ahead of
Financial Crime



THE STAGES OF MONEY LAUNDERING

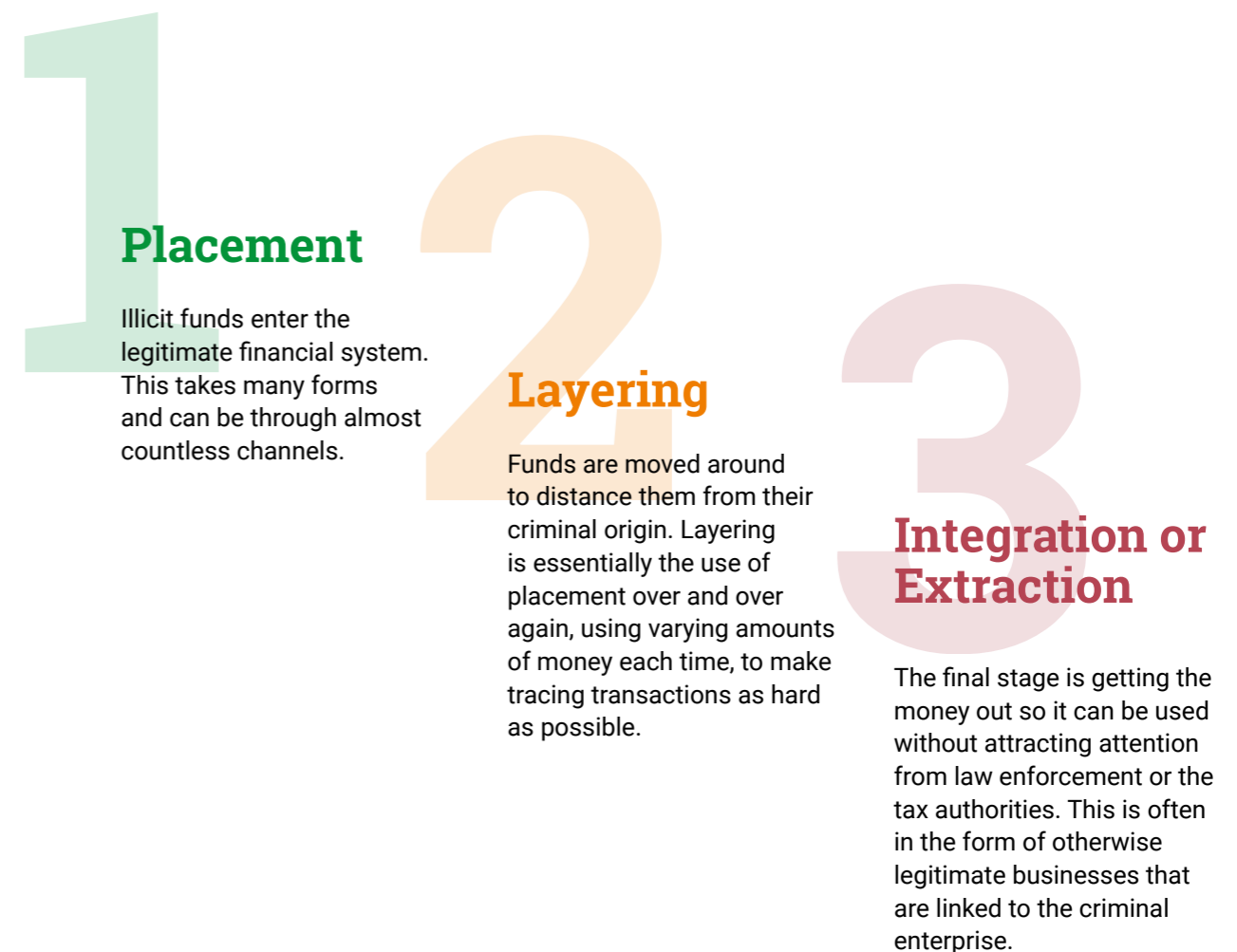
Money laundering is rarely revealed through one aspect. It is better understood as an alternative channel for capital flow, away from the eyes of regulation. It has three distinct stages:

Money laundering is big business, providing both incentive and funding for serious crime, involving violence, drugs, human trafficking, modern slavery, political instability and more. If money isn't accounted for in a company's books, the first question we should be asking ourselves is – "where is it going"? Recognising money laundering and knowing how to tackle it remain pressing concerns for our industry. Either unwittingly or knowingly, accountancy professionals can enable criminals to prosper. It is essential that accountants are trained properly, aware of present risks and dialled in to legislation in the jurisdictions they operate in.

Even with the best of intentions, if new clients aren't subjected to proper due diligence, or if a simple check is missed, this leaves a door wide open to criminals. Even existing clients can need a fresh approach if something changes in their circumstances or on paper. Being aware of issues such

as tax evasion, irregular payments or suspicious patterns can quite literally save lives and protect social structures – the ripples of financial crime extend ever outwards from their source.

The distance that crime's proceeds have from the crime itself makes money laundering a persistent problem. Confronted with the serious disruption and misery that money laundering can cause, it's difficult to see how it could be ignored. However, the stages of detachment from crime in the financial industry can reinforce the operating environment for money laundering. So-called "white-collar crime" can be used to sanitise the crime or even imply that it is victimless - the reality is much more visceral. Without ongoing vigilance, it can simply be out of sight, out of mind. As a crucial mechanism in the control of financial crime, most accountancy firms will have robust anti-money laundering controls in place to ensure that they remain part of the solution and not part of the problem.



POPULAR MONEY LAUNDERING METHODS

There are almost as many ways to hide illicit money as there are to make it. There are however some common and well-understood tactics that should trigger alarm bells to anyone in the financial industry.



Cash businesses

Having an income stream with no electronic signature is clearly very useful to criminals and has long been the preferred method for keeping money off the books. Adding cash gained from crime to legitimate takings can hide the money's origin well. This works best for businesses with little or no variable costs, such as car parks, strip clubs, tanning studios, car washes and casinos. The likelihood is that each transaction will be quite small on this scale. The prevalence of cash businesses is changing and with it, the nature of financial crime.

False invoicing

Putting through dummy invoices to match cash lodged, making it look like payment in settlement of the false invoice.

"Smurfing"

This involves breaking up larger transactions into smaller, less noticeable ones, then placing them across a number of "deposit experts" or "smurfs". This obscures the original large payment from the authorities.

Trusts, offshore and shell companies

Useful for hiding the identity of the real beneficial owners. The business will have no functional physical office and if it has a registered address, this will most likely be shared with other fraudulent companies. The benefit of these entities to criminals is that the ultimate owner and beneficiary remains hidden, with tax havens and weak regulatory environments used to their advantage. To compound matters, shell companies can be set up by a third party, which can indeed often be a lawyer or accountant. On top of this, a shell company or trust can have any number of subsidiaries underneath it.

Foreign bank accounts

Physically taking small amounts of cash abroad below the customs declaration threshold, lodging in foreign bank accounts, then sending back to the country of origin.

Purchase of high-value items

This can include investments in real estate, land, or valuable artworks to name just a few examples.

Aborted transactions

Funds are lodged with a third party to hold in their client account to settle a proposed transaction. After a short time, the transaction is aborted. Funds are repaid to the client from an apparently unimpeachable source. This of course involves the use of another profession in the chain, with an accountant being the perfect foil.

"Structuring"

This involves depositing cash in smaller amounts over a period of time, to avoid detection. A large number of deposits below the anti-money laundering reporting threshold should be flagged as suspicious activity.

Purchasing monetary instruments

Such as cheques or money orders, or by converting into other fiat currencies. This creates a veil of legitimacy for the money, providing a record of it entering the legitimate financial system.

Prepaid and masked cards

Loading the funds onto a card whose owner and user remains anonymous, which can then be used for purchases. These cards have gained popularity in recent years, as they enhance online privacy when making electronic payments. However, this anonymity can clearly be abused.

Digital currencies, cryptocurrencies and virtual assets

Blockchain transactions in digital currencies are designed to be entirely encrypted and anonymous. Cryptocurrency is a fast-changing environment and a challenging one to legislate for. There are numerous ways in which this system can be used to launder money.

- Anonymous peer-to-peer (P2P) transfers, as well as "non-compliant" transfers, which are not covered by regulation.
- Through an Over-the-Counter (OTC) broker who connects anonymous parties in return for commission.
- "Mixing" or blending digital assets from many different addresses, before releasing them at random intervals. This conceals the trail of the funds very effectively.

- Nested Services, where a money service business or a smaller financial institution use the accounts of larger financial institutions to process transactions on behalf of their own customers. The transaction is recorded as coming from the service, not the original address.
- Online Gambling, where cryptocurrency can be used in place of fiat currency. This is known as the "Wild West" of online gambling, with regulation very difficult to enact.

Fake employees

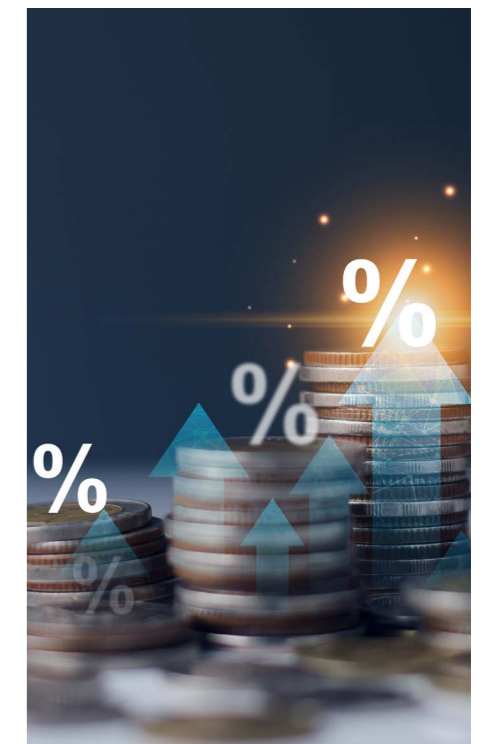
These may be in the form of a real individual paid for services not rendered (a "no-show job"), or in the form of phantom employees. Over time these payments build up, becoming harder and harder to discern. In this regard, criminals are often content to pay payroll and other taxes to make the "washing" more convincing and are often happy with a "shrinkage" in the wash.

Loans

To directors or shareholders, never intended to be repaid. This way the money is accounted for at one point but "disappears" in the accounts. Similarly, these loans are often obscured by arcane accounting or by the sheer amount of data.

Dividends

Paid to shareholders of companies controlled by criminals. The appearance of legitimacy using dummy and shell companies is a sophisticated way of funnelling money through seemingly legal structures.



Terrorism Financing

As well as funding organised crime, money laundering can also fund dangerous ideologies, bad actors and serious violence. Whether this be the funnelling of money abroad or into the terrorist's home country, there is clearly an interest in a would-be attacker hiding the trail of what they are planning. Illicit funds, freed from the constraints of legitimate finance, can be used to train terrorists and to purchase their tools, as well as to amplify a message and spread propaganda. The effects of this can be catastrophic and wide-ranging.

The damage terrorism continues to cause across the world cannot be overstated. In politically or religiously inspired forms, or in the name of sheer hatred and nihilism, terrorism affects lives globally, and financial regulators are understandably keen to tackle the problem. This extends to legal and legitimate money as well as that procured using illegal means.

Proliferation Financing

Proliferation financing refers to the provision of funds or services to those who may use the capital to obtain materials, components, data, technology and expertise to develop chemical, biological, radiological and nuclear weapons (CBRN). Many states operate sanctions and trade embargos in an attempt to stop weapons materials and their financing to flow to states or organisations they perceive as aggressive or dangerous. As with broader terrorism financing, this can be funded by both legitimate and illegitimate businesses, and industry anxiety about this is justified.

On 1 September 2022, amendments were made to the UK's Money Laundering and Terrorist Financing Regulations (MLR 2017). Their purpose was to further ensure that the UK continued to meet stringent international standards on AML and strengthen its capabilities to combat money laundering, terrorist financing and destabilising actors in the international system. UK firms must now assess their risk exposure to proliferation financing, as well as introducing the requirement to report 'material discrepancies' to Companies House on an ongoing basis.¹

Unfortunately, the world is still in a position where CBRN weapons are a serious danger, and where terrorists and their backers will exploit weaknesses and loopholes. The financial industry can be considered the first line of resistance against this global threat.



Human Trafficking

Human trafficking and slavery are, sadly, still a reality today. If anything, it is a growing problem, with an estimated 2.4 million people in forced labour or coercive situations. Every one of those individuals is not only a life ruined, but a ripple that affects an entire community.

Ruth Dearnley, CEO of Stop the Traffick, an organisation that aims to raise awareness and drive action on Human Trafficking, defines it succinctly -

“It must be emphasised that the essence of trafficking is the forced exploitation of individuals by those in the position to exert power over them. While moving people is an intrinsic part of trafficking, this may occur within as well as across borders, and it may take a variety of forms. If they have been tricked or deceived, a person may even willingly transport themselves into a situation of exploitation. But unlike those who pay to be smuggled into another country, victims of trafficking have no prospect of making a new life for themselves.”



Ruth Dearnley
CEO Stop the Traffick

There are historic and ongoing problems within certain industries, such as agri-business and mineral extraction, however profits from human trafficking, modern slavery, sex trafficking and child exploitation seep into all kinds of business. A truly global problem, with complex links to geopolitics and economics, it requires committed engagement to combat. As an example, Stop the Traffick themselves currently run an initiative entitled Active Communities against Trafficking (ACT) which seeks to engage with communities directly in raising the profile of human trafficking. They also engage specifically with young people, the most common victims, in a programme called Start Freedom.

Praxity Alliance member firms have been leaders in this area in recent years, recognising that accountants are potential links in the chain of trafficking. Whether across or within a country's borders, this should be part of a firm's due diligence when tracking the source of a client's income.

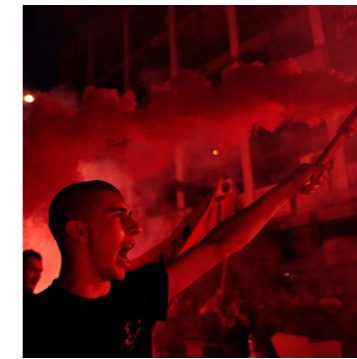
TRENDS IN MONEY LAUNDERING

The Financial Action Task Force (FATF) is a global body that leads action to tackle money laundering, terrorism and proliferation financing. In 2019, the group was given an open-ended mandate to protect the integrity of financial systems worldwide, recognised by over 200 countries. Their trends for the coming year identified three areas of worrisome growth, these are –



Money laundering and terrorist financing from migrant smuggling

The dangerous, damaging and destabilising effect of migrant smuggling, along with the steep risks to human life involved, have made this a newsworthy issue around the world, especially in Europe. People smugglers have their own methods, including investments in property, assets or an informal money transfer system called hawala, operated out of small businesses.³



Extreme-right wing terrorism financing

The FATF identifies this as a subtle and growing problem, in the form of informal “lone wolf” attacks and in organised national and transnational groups. Money can come from legitimate businesses who support a group’s ideology, or by illegal means such as robberies, fraud or black-market trade. Crowdfunding or ecommerce, for example, can allow these groups to fundraise with the full protection of the law.⁴



Money laundering from environmental crime

This can include illegal logging projects, illegal land-clearing and illicit agriculture, dumping prohibited waste, illegal mining operations or trading in prohibited wildlife products. This is sometimes seen as a “low risk, high reward” area, with operations often taking place in remote areas or during conflicts, where regulation is either ineffective or non-existent.⁵

Financial professionals will need to be aware of emerging trends and technologies to identify the environments in which money laundering thrives. This is plainly going to be an ongoing challenge, with the accountancy industry very often on the front lines of detection.

CROSS-BORDER WORK BETWEEN AGENCIES

Unlike in the past where money moved at a human pace, today the movement of capital can be instantaneous, and millions can change hands in a fraction of a second. This includes, of course, across borders and between jurisdictions. Money laundering tends to have a local, immediate level and a larger systemic one, however one thing remains true – the money has to go somewhere. Finding this trail can lead you to a criminal enterprise, and there is a lot of collaboration between agencies internationally.

The Egmont Group connects Financial Intelligence Units (FIUs) worldwide, allowing for information sharing between regulatory bodies in different regions. This cross-border approach is crucial, as the global movement of capital demands global regulation - *"The Egmont Group provides FIUs with a platform to securely exchange expertise and financial intelligence to combat money laundering, terrorist financing, and associated predicate crimes."*⁶

Interpol for their part have a unit dedicated to international financial crime, the Financial Crime and Anti-Corruption Centre (IFCACC). This agency demonstrates the scale of the problem, seeking to centralise the international response. The centre publishes three areas of action -

- **Fraud and payment crime**
IFCACC will support member countries in their transnational investigations and will share significant modus operandi with relevant stakeholders.
- **Anti-money laundering and asset recovery**
IFCACC will bring a multi-disciplinary response to target global illicit financial flows. We will focus on different types of money laundering schemes and the use of virtual assets as well as identification of criminal assets and forfeiture.
- **Anti-corruption**
Our efforts against corruption will span various crime types, including doping in sport, the corruption of public officials, and grand corruption (involving senior political figures). IFCACC will strengthen our member countries' ability to combat grand corruption both nationally and internationally.⁷

Emerging Technologies

Blockchain and cryptocurrency assets are expanding beyond the current capabilities of law enforcement. As with all emerging sectors, regulation only comes after flagrant misuse. For all the capabilities they offer in the areas of privacy and obfuscation, and with the difficulty in regulating these ambiguities, crypto and blockchain are powerful tools that can fall into the wrong hands. We are starting to see the first real wave of court cases and punishments for fraud utilising cryptocurrency investments, as authorities are more and more able to follow the digital paper trail of these criminals.

Indeed, the very lack of centralisation that is the key characteristic of digital currency makes it difficult to know what jurisdiction is responsible for prosecution. As in the case of offshore accounts and tax havens, a cross-jurisdictional approach is essential, as the instant and encrypted movement of crypto makes nation-bound ideas of law and order irrelevant.

While goods and assets can be bought and sold using blockchain technology, not everything can be. The underlying instability of cryptocurrencies often leads financial criminals to have real-world assets backing up their floating investments. As ever, it is a case of following the money and seeing where it leads.

Regulations and Punishments

Multinational banks have fallen foul of regulations in several jurisdictions for their inadequate action on money laundering. In 2012 for example, the U.S. Federal Reserve brought a decade-long enforcement action against London-headquartered

HSBC. The governmental body accused the bank of becoming a "preferred financial institution" for drug cartels in Mexico and Colombia, through "stunning failures of oversight". The bank agreed to pay a record fine of \$1.92 billion and undergo a business improvement order. The robust measures put in place by the bank to combat money laundering resulted in huge improvements to their training and processes, resulting in the order being lifted in August 2022.⁸

It is not only US policymakers that have teeth in this regard. For example, in 2022 the Financial Conduct Authority in the UK fined Spanish bank Santander's UK operation £107.7 million for repeated anti-money laundering failures between 2012 and 2017. These failures resulted in more than £298 million passing through the bank in suspicious transactions. The regulator has also levied fines against other UK operators, including HSBC (£63.9 million), Standard Chartered (£102.2 million), and Natwest (£264.8 million).⁹

Successful measures

There are success stories in the financial industry too, however. The Society for Worldwide Interbank Financial Telecommunication (better known as SWIFT) provides a global, centralised and secure way for verified bank payments to be processed. The logistics and technology required are challenging, with constant innovation and recalibration required to stay ahead of criminal activity. The organisation's Swift GPI platform features superfast payments, end-to-end tracking and transparent charges. By the end of 2019, 65% of cross-border payments were sent using the service, representing nearly \$77 trillion in annual value.¹⁰

A secure and verified payment service, with a theoretical user base of billions, is understandably difficult to wrangle. It is however a huge leap forward for the security and veracity of online banking, with the clear digital trail helping to keep money away from murky sources and nefarious recipients.

THE RESPONSIBILITY OF AN ACCOUNTANT

An accountant has a more intimate knowledge of financial systems than those in most professions. Seeing unusual patterns, sudden and unexplained changes in circumstances and unaccounted-for profits may be things that an accountant notices before anyone else does, making the industry an effective warning system. There is both a professional standards aspect to this and a moral one. Bearing in mind the appalling harm that money laundering can disguise, both the industry and government regulatory bodies do their utmost to combat it, with many legislative initiatives and education programmes.

The many layers that illicit funds can hide under, and the guile sometimes displayed when embedding them, can make money-laundering ever harder to spot. When legislation comes in to tackle crime, it is usually thought that criminals are already one step ahead of it, so it is everyone's responsibility to stay up-to-date and adept when working in this area. In the UK for example, any business in the financial sector is required to sign up to anti-money laundering legislation. Firms must register with their relevant industry regulator, which varies by role and speciality. A list of relevant authorities for the UK can be found at their website.¹¹

Larger business entities in the UK will soon be subject to a government initiative called The Economic Crime Levy (ECL). This is an annual charge that will affect firms who are supervised under the Money Laundering Regulations (MLR) and whose UK revenue exceeds £10.2 million per year. If your business generates the requisite amount of profit, an annual fee is levied to assist in the national and global fight against money laundering and fraud.¹²



The Landscape in Panama

Businesses in Panama have been subject to enhanced scrutiny since the 2016 data leak from law firm Mossack Fonseca, which demonstrated the extent of offshoring and tax evasion that had been operating in the jurisdiction. The much-publicised “Panama Papers” demonstrated how one rogue company can prop up corrupt businesses and regimes by helping them hide their profit, as well as how complex and multi-faceted the problem can be. It's important to be clear that while the name “Panama Papers” has been the public-facing description of the scandal, there is no suggestion of involvement by the Panamanian authorities or of any wrongdoing by other firms in Panama.

Praxity Alliance member firm Prime Solutions of Panama City has been at the forefront of subsequent measures ever since, with partner Giovanna Bernal leading the firm's ISO 37001 Anti-bribery management systems certification. The process is rigorous and ongoing, with a huge degree of paperwork and due diligence and every level of the firm under the microscope. The firm's staff receive ongoing training in anti-bribery and anti-money laundering, as well as in KYC and international tax rules. That the firm has attained such a certification under what are surely among the most stringent standards in the world is a remarkable achievement.



Giovanna Bernal
Founding Partner
Prime Solutions Tax & Legal

Know Your Customer

Many firms are expanding their Know-Your-Customer (KYC) process. This is a due diligence check that needs to be ongoing when undertaking client work. To comply with standards, firms must commit to a Customer Identification Plan as a basic ground rule. At minimum, they must pull four pieces of identifying information about a client, including name, date of birth, address, and national identification number. Most firms also take additional steps in their screening process to make sure that they are comprehensive enough. Many will make sure that clients do not appear on government sanction lists, politically exposed person (PEP) lists, or known terrorism lists - those who do appear usually require special measures, if not outright refusal of service. Firm leaders should also regularly examine the nature and beneficiaries of existing relationships to ensure all activity is consistent with historical customer information.

The goal is to obtain enough information to verify a customer's identity and assess their riskiness. Since financial crime happens quickly, firms frequently monitor this information for unusual spikes in activity or changes to sanction lists. Most clients pose little to no risk, but the few who do are subject to enhanced due diligence (EDD). If a client is believed to pose additional risks, firms should take extra steps to better understand their motivations. A high-risk person may include those with political exposure or relationships with designated persons. Even someone in a high-risk country can raise a red flag for compliance. Firms must demonstrate a deeper understanding of the high-risk clients identified by a standard customer due diligence program. Some of the information required to perform enhanced due diligence includes a source of wealth verification, detailed management reports and relevant third-party research.¹³

“All Too Familiar”

An obvious material change in a long-standing client's finances is something worth considering through the lens of financial crime. Of course, this may be perfectly legitimate, but assessing that is part of our role.

The Institute of Chartered Accountants in England and Wales (ICAEW) have produced a high-quality training film titled “All Too Familiar”. The piece portrays a situation that develops in dangerous ways owing to a lack of due diligence in accounting. This includes consequences for the client, the accountancy firm and society at large. It depicts how warning signs and whistleblowers are ignored owing to longstanding trust in a client, as well as where making exceptions for favoured clients can lead.

“If this film saves one person from being trafficked, prevents one corrupt official stealing money from their country's citizens or stops one international crime group being able to steal UK tax it will have served its purpose.”¹⁴



Simon York
Director of Fraud Investigation
Service, HMRC

The film is available to all Praxity Alliance member firms and their staff through our portal, free of charge, and we urge professionals within the Alliance to take advantage of this high-quality resource. It's a fantastic depiction of how money laundering works in the real world and helps to reinforce the case for ongoing training.

For more details on how member firms can make use of the film, please contact cpe@praxity.com.

AML ACROSS THE PRAXITY ALLIANCE

Praxity Alliance member firms are careful to leave no ambiguities, seeing the control of illegal and illicit money as a key part of their business mission. This extends from high professional standards to initiatives designed to address specific problems in their region.

In all likelihood, all Praxity member firms will have robust measures in place to be assured that neither they nor their clients are at risk. Below are some examples from around the world -

Prime Solutions, Panama

To help restore faith in the jurisdiction internationally following the actions of one rogue practice, Prime Solutions have been an industry leader in anti-bribery and in guiding compliance for their clients. The firm has become one of less than twenty certified "compliance companies" in the country, guiding all kinds of industries through compliant routes. The written AML assessment tool that the firm authored has become widely used in the jurisdiction, with all Prime Solutions' clients subjected to a risk-based approach when undertaking work. With multi-national or trans-national entities, the firm collaborates closely with fellow Praxity member JA Del Río to stay cover various jurisdictions in the Latin America, leveraging the reach of the Alliance.

Furthermore, the firm provides ongoing training to other entities and sectors, extending their methods beyond their immediate business remit. The firm's action demonstrates that they are fully committed to the law, becoming an authority in this technical area and improving the standing of the entire country in the eyes of the world. Their actions, along with the work of fellow specialists and government agencies, has seen the country's removal from the Financial Action Task Force's (FATF) financial crime "grey list" in October 2023.¹⁹

VBR, Brazil

In Brazil, Praxity member firm VBR feature fraud detection and prevention as an important tenet of their client offering, making it part of their suite of Consulting tools. The firm emphasises the human impact as well as the damage to business:

*"The risk of fraud is still taboo in most organisations, but it is an existing risk that managers need to be aware of. With specific fraud prevention and detection methodologies, VBR Brazil has been helping its clients effectively and discreetly, without neglecting the human aspect when dealing with an issue that requires special care for people within the company."*¹⁸

Mazars, UK

In the UK, Mazars have a team that oversees Financial Crime Risk Management and Compliance, helping their clients to tackle money laundering, fraud, bribery, corruption and other financial crime. Recognising the damage that money laundering and fraud do to reputations as well as bottom lines, the firm steer compliant routes through legislation and identify areas of business that are most at risk. Mazars' definition of fraud is reassuringly broad, which includes but is not limited to the following poles -

- Money laundering & terrorism financing
- Sanctions breaches
- Bribery & corruption
- Fraud
- Cybersecurity & data protection
- Tax evasion
- Insider dealing & market abuse

The team helps with designing and implementing or reviewing and recommending improvements to whistle-blowing programmes, which allow employees and third parties to speak up if something is amiss. The firm also runs an initiative - "Our Business. For Good" - which emphasises responsible business practices, both internally and to their clients:

*"Not only do we provide professional services, but we advocate to the wider community to act responsibly and protect themselves from financial crime and dishonesty. Our Business. For Good™ global initiative encourages business leaders to 'think and act long-term' in order to enhance business performance and pursue profit responsibly for the benefit of companies, their stakeholders and wider society."*¹⁷

LeitnerLeitner, Austria

In Austria, Praxity member firm LeitnerLeitner specialises in tax law and defending against criminal tax mistakes and evasion. They offer a range of Advisory services relating to tax law and risks under criminal financial law. They also help to minimise damage to business if an inadvertent mistake is made. This includes robust analysis of risks under financial criminal law, identification of suspected perpetrators, corporate responsibility, and the understanding of imminent sanctions and liabilities for their clients. The firm also provides their clients with support for their internal audits and investigations.¹⁶

Moore Rowland, Indonesia

In the Asia-Pacific region, Moore Rowland of Indonesia have taken robust steps in their auditing process, authoring measures to eradicate human rights abuses in their clients' supply chains, as well as in the firm's own.

In 2012, Moore Rowland Indonesia (then trading under the name of Mazars Indonesia) received the inaugural International Accounting Bulletin "Audit Innovation of the Year" award for its Human Rights Audit Practice. In the process of the audit, the firm uses indicators it developed, covering forced labour, child labour and young workers, along with factors such as the conditions of employment and work, non-discrimination, freedom of association and workplace health and safety. Community and environmental impact and supply chain management are also considered in the audit. In making the award, the IAB judges suggested that these indicators could set a benchmark for global best practice.¹⁵

The abuse of labour practices, modern slavery and child labour are common ways in which illicit money is procured and protected. This helps to demonstrate the reach of money laundering, as the further capital gets away from legal systems, the less it is exposed to restraint and scrutiny by the wider world. The indicators that Moore Rowland developed were based closely on the UN Guiding Principles on Business and Human Rights, as well as Indonesia's own action on human rights due diligence for business, the Indonesia National Action Plan on Business and Human Rights.

WHISTLEBLOWERS AND SUPPORT

Whistleblowing and reporting accounting irregularities to the proper authorities is essential. However, there is understandable anxiety about the dangers of doing so. While fraud is generally considered “white collar” crime, detached from its victims, it can help to fund the activities of truly dangerous criminal individuals. Making oneself a target doesn't seem advisable.

However, many jurisdictions have legal mechanisms surrounding anonymity and future employment prospects, designed to protect whistleblowers from harm. In the UK, workers, including Limited Liability Partners (LLPs) are protected under the Public Interest Disclosure Act (PIDA) of 1998, and the Enterprise and Regulatory Reform Act (ERRA) of 2013. This states that internal whistleblowing avenues should be exhausted before external whistleblowing and subsequent protections can begin. It also requires that the whistleblower has a credible belief that the disclosure is in the public interest.²⁰

The ICAEW makes this information readily available on their website, publishing The Legal Framework for the Protection of Whistleblowing -

“[...] we think that all prescribed persons should include advice to whistleblowers on their web sites. This could include how and what whistleblowers should communicate to the prescribed person, what action they will take as a result and what the whistleblower can expect by way of feedback (and why). Web based information should be backed by the availability of further guidance by telephone.”²¹

Also in the UK, the charity Protect provides a helpline for people with concerns about their organisation. The organisation aims to help enquirers to identify how to best raise the concern while minimising any risk to the whistleblower and maximising the chances for the misconduct to be properly addressed. They also offer templates for disputes, as well as wide-ranging advice to businesses about compliance.²²

The EU Whistleblowing Directive aims to offer more robust protection, extending the definition of “worker” to include shareholders, trainees, family members and self-employed persons. The directive also makes more stringent demands of employers and regulatory bodies. Introduced in 2021, all businesses operating in the EU are expected to have completed the process by December 2023. Notably, this framework is a bare minimum, with many states having their own laws in addition. Inspired in part by the UK PIDA framework, the EU directive goes much further.²³

The USA takes a slightly different approach to whistleblowing, where legal confidentiality safeguards exist alongside financial incentives for helping with prosecutions. Under the AML whistleblower program, a whistleblower can receive a reward of up to 30% of monetary sanctions over \$1,000,000 that the government imposes, based on the information the whistleblower provides. This is covered by the Abraham Lincoln-signed The False Claims Act of 1863, the IRS Whistleblower Program of 2006 and The Dodd-Frank Act of 2010.²⁴

To ensure you know how the whistleblowing process works and what rules are in place in your jurisdiction, we recommend checking with your professional body for guidance.



THE RELATIONSHIP BETWEEN CRIME AND RISK

Accountancy is considered by banks globally as a “high-risk” business, which means that the industry is exposed to a greater proportion of fraud, criminal activity and bad transactions than average.²⁵ Assessing each client for risk, and the risk to your firm when working with them, will already be a part of your professional vocabulary. Carefully assessing every client for identity, legitimacy and intention on an ongoing basis decreases this risk – money laundering can only succeed when money slips through the cracks. Clearly criminals can be extremely canny and have sophisticated ways of hiding illicit money, which are evolving with technology all the time. Because money-laundering is happening does not mean that a firm is not diligent. However, AML measures are industry-wide and showing a united front makes accidents much less likely. It also helps to catch out those who are aiding criminals knowingly.

In the UK, the ICAEW last published a risk outlook guide in April 2022, outlining the

dangers and areas of extra scrutiny that are material to accountancy professionals. This includes red flags such as clients seeking excessive secrecy or anonymity, clients involved in emerging business for which there are few effective regulatory frameworks, and clients changing financial advisers regularly without apparent reason, among others. It highlights both obviously suspicious factors as well as seemingly legitimate ones, demonstrating the need for careful and ongoing assessment.²⁶

The IMF puts the broader structural problems inherent in money laundering succinctly –

“No financial institution or country is immune. Money laundering scandals caused bank collapses and shocked countries. Ultimately, society pays the cost through an erosion of trust in the integrity of the financial system, often leading taxpayers to subsidize failing banks and limiting customer access to credit.”²⁷

Assisting this process, the MATCH (Member Alert to Control High-Risk Merchants) List is a comprehensive database created and managed by Mastercard. Acquiring banks and other professionals may reference the MATCH List to screen applicants and determine the risk they pose prior to providing a merchant account.²⁸

As well as complying with regulation, rooting out problems and finding weaknesses in AML measures informs clients and stakeholders how well your firm manages risk. This speaks to investors and the wider market about how robust the firm's governance is, as well as how well it knows its industry. This counts across jurisdictions, being especially important for multinational firms. Spotting telltale signs and allowing for safe and stringent whistleblowing leads to more successful outcomes across the board. One slip might be a drop in the ocean, but a crack in the AML process quickly becomes a deluge.

GETTING UP TO SPEED WITH FINANCIAL CRIME

Staying ahead of financial crime is a marathon, not a sprint. Small, regular diligence checks and careful audit work are likely to expose anything unusual happening. Most firms offer their own guidance on their AML practices, ensuring that their teams are up to date and have their radar tuned on risk areas.

Conferences and Certifications

The Anti-Money Laundering and Financial Crimes (AMLFC) Institute in the US offer globally recognised certifications in anti-money laundering, anti-human trafficking, fraud risk management, countering terrorism financing and other relevant areas. They also offer an annual conference on the subject of anti-money laundering and financial crime prevention.²⁹

The AMLFC is registered with the National Association of State Boards of Accountancy (NASBA) in the US, with their certifications and conferences contributing to CPE (Continuing Professional Education) credits.

In Europe, the Anti-Money Laundering Professionals (AMLPL) Forum is a cross-industry association of AML, anti-corruption and financial crime prevention professionals. They run an annual conference on financial crime and related issues, as well as seminars and forums, offering CPD (Continuing Professional Development) points for attendees and for users of their online resources. They aim to “represent the industry voice to policymakers, governments and law enforcement”, offering a wide programme of guidance about financial crime and how to combat it. Their next conference is planned for April 2024, by which point the landscape is likely to have shifted again.³⁰

The Association of Certified Anti-Money Laundering Specialists (ACAMS) is an international agency offering education and qualifications in relevant areas at three levels – Associate, Specialist and Advanced – and in areas including Know Your Customer, Global Sanctions and Risk Management. The body has members in over 175 countries, across the private and public sectors, in every industry that interacts with the global financial system. As well as certified courses and assessments, they also offer conferences and symposia aimed at keeping financial professionals abreast of changes in financial crime. This includes in emerging sectors and economies, at the first, second and third line of defence.³¹

Anti-Money Laundering is necessarily cross-industry; it takes so many forms that it’s almost impossible to pin down to any one area. However, accountancy has unique overview and insights that even legal structures do not have immediate access to, so the professional vigilance of our industry is clearly of vital importance. CPE/CPD credits give verification to accountancy professionals’ dedication to their ongoing education. On top of this, the ability to share knowledge and experience is of immeasurable value.

A Continuous Process

Continuing and ongoing learning is essential when tackling the evolving nature of financial crime and money laundering. As new technologies arise and develop and as new legislation is introduced, the problem will morph and take different forms, with the core concern being the same – to stop money being channelled into harmful criminal enterprise. Criminals are creative and agile, so financial professionals must be as well. Performing robust AML measures can stop criminals in their tracks, while advertising your robust measures in the marketplace ensures your firm is not a target.

As with many things outside core business concerns, clear and wide-ranging action on financial crime reflects well on how your firm is run. A focus on AML speaks volumes

about the professionalism and legitimacy of your organisation, ensuring that your firm’s reputation goes before it in the marketplace, and that financial criminals look elsewhere. Clearly, the problem is not going away any time soon, and will continue to shapeshift beneath the thumb of legislation. The cynical ingenuity of financial crime ensures that constant vigilance and creative thinking are the only effective tools to counter it. Having done as much, if not more than any other sector, and with unique insights into the processes involved, accountancy can continue to provide a robust defence of legitimate business, state viability and vulnerable people across the world.



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* International Accounting Bulletin World Survey 2022

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