

# Anti-money laundering: what we learnt from law firm visits

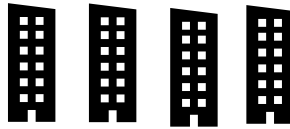
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# AML visits



**74** firms  
involved



**64%** required follow up  
engagement, **9 firms** referred  
for investigation



Published useful  
guidance



Further checks planned for the future

# Areas that required improvement

- Audit
- Screening
- Matter risk assessments
- Source of funds

# Audit: 21(1)(c)

## Ingredients of an audit:

- Independent
- Adequacy
- Effectiveness
- Recommendations
- Monitor

Size & nature: most firms will need an audit, but not all.



## What we **are** looking for

- Most have undertaken or planning an independent audit
- If internal audit, auditor is sufficiently removed from the compliance function so as to be independent
- Audit involves file reviews for compliance with AML policy and legislation
- Audit produces recommendations, which are then monitored



## What could be better

- No audit undertaken, or plan to undertake one where size and nature of the firm warrants an audit
- Audit of policies, controls and procedures but no test of their effectiveness
- Failing to keep written records of previous audits
- Failure to implement recommendations in a timely way

# Screening: 21(1)(b) & (2)

Ingredients of effective screening:

- All relevant employees
- Skills, knowledge and expertise
- Conduct and integrity
- Before and during employment

# Screening



## What we **are** looking for

- Firms are screening staff at appointment and on an ongoing basis
- Firms taking a risk based approach on DBS checks
- Relying on independent sources
- Adopting a holistic approach, using existing measures such as annual appraisals and checking referees



## What could be better

- Screening only at appointment
- Not maintaining records
- Reliance on fee earner declarations alone
- MLCO unfamiliar with screening processes
- Firms limiting screening to conveyancing staff

# Matter risk assessments: 28(12)-(13)

- Govern what level of CDD must be applied
- Must reflect the firm-wide risk assessment
- Must take into account:
  - Purpose of matter
  - Value of matter
  - Regularity and duration
- Form the basis of ongoing monitoring



# Matter risk assessments



## What we **are** looking for

- Matter risk assessments on each file
- Assessment conducted at the outset and reviewed at appropriate intervals
- Process is clear when a matter is high under the regulations and firm's own policy



## What could be better

- Not recording risk assessments
- Risk assessment does not account for mandatory EDD requirements
- Fee earners unable to access CDD and other information, making ongoing monitoring difficult if not impossible

# Source of funds: 28(11)

- LSAG 2021: ‘The funds that are being used to fund the specific transaction in hand’
- ‘Where necessary’
- Key component of assessing risk
- PoCA 2002 – protect yourself

# Source of funds



## What we **are** looking for

- Origin of funds being clearly evidenced
- Clear policies on when source of funds and wealth checks are required and what documentation should be obtained for individuals and companies



## What could be better

- Source of funds checks routinely not completed
- Evidence such as bank statements not being read
- Assumptions about a client's source of funds and wealth based on anecdotes and perceptions rather than evidence

**Questions?**

# Help is available



Risk Outlook, national and sectoral risk assessments



Warning notices



Thematic review findings



Legal sector [guidance](#)



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