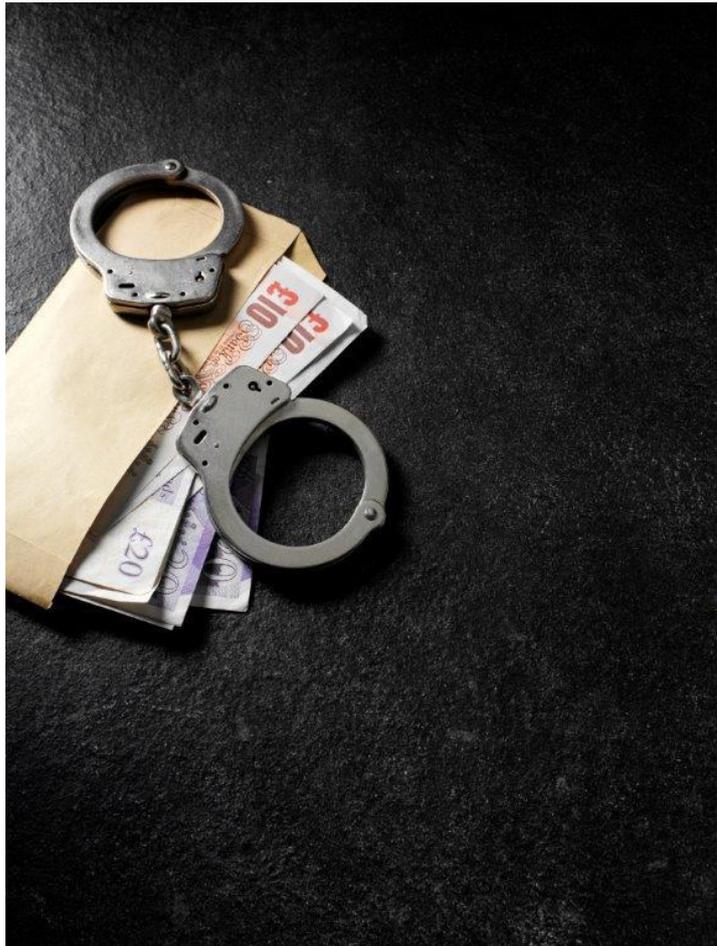




## Fighting economic crime



## A manifesto

**OCTOBER 2016**

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**FOREWORD** by Anthony Harbinson, Chairman, CCAB Anti-Money Laundering Task Force, and Director of Safer Communities, Northern Ireland Department of Justice

Trust in the integrity of the financial system is part of the bedrock of our economy and prosperity. By greatly lowering confidence and raising costs for businesses and consumers alike economic crime undermines that trust – fatally so if we allow it to. And then there is the terrible but often-unreported harm done to the health, relationships, professional standing, family life and financial prospects of the victims and by-standers caught up in these crimes.

For economic criminals to succeed they must be able to conceal the origins of their ill-gotten gains. We at the UK and Ireland’s Consultative Committee of Accountancy Bodies (CCAB) continue to work with government to make the UK’s anti-money laundering (AML) system the best that it can be, but there is always more to be done. Previous CCAB research – *Coming out in the wash* – showed that even the UK’s world-leading system is nowhere near as effective and efficient as it could be and should be.

Resourcing remains a key AML issue here in the UK. We recognise the importance of avoiding unnecessary cost, but we believe that when it comes to AML more can certainly be done to sharpen the eyes, ears and professional judgment of the accountancy profession and, indeed, the private and public sectors.

CCAB believes that professionally qualified accountants have a key role to play in combatting economic crime, but they cannot do this work alone. Making sure that the gates to our legitimate economy are as strongly guarded as possible is a job for everyone, inside and outside of our profession. Accompanying this manifesto is a booklet of case studies containing ten examples of economic crimes – from cybercrime to terrorist financing – each with an accompanying commentary to highlight the many ways in which even professional accountants can easily find themselves unwittingly involved in criminality. These scenarios are a vivid reminder to all finance professionals that the role of gatekeeper to the legitimate financial system is a very important one and that client-related suspicious activity should always be reported to the relevant authorities.

Nonetheless, a good deal of the extra effort and resourcing that is now needed – especially in creating and strengthening what we might call the national AML infrastructure – can only come from government, which itself needs specialist advice and support to ensure that this infrastructure is built on solid ground. Here, in the first *CCAB Manifesto for Fighting Economic Crime*, we highlight four key public policy areas in which it is our belief that focused improvements would have a significant impact on the effectiveness and capabilities of AML in the UK.

At the time of writing, the impact of ‘Brexit’ on AML legislation and policy remains uncertain. In July 2016 the European Commission said, ‘the recent terrorist attacks and the Panama Papers revelations highlighted the need for the EU to take further measures and step-up its fight against money laundering and terrorism financing’ (*European Commission Fact Sheet, 5 July 2016 – Q&A on the Anti-Money Laundering Directive*). It remains imperative that the UK continues to be involved in on-going European discussions about the Anti-Money Laundering Directive, and CCAB will be maintaining a close watching brief over this important issue as well.

These are uncertain times and it is surely right to urge the government to take the lead in carrying these recommendations forward. We look forward to working with them as they do.

# INTRODUCTION

## Government needs to lead by example

We welcome the government's recently published Action Plan for tackling money laundering and terrorist finance, with its wide-ranging points for consultation.

In promoting standards for tackling economic crime that are consistent and consistently high across all sectors, the government must lead by example by adopting the best supervisory practices and not allowing public money to become tainted.

We support strong, well-resourced and effective oversight by government – in part because we are keen to see consistent supervisory standards in all sectors, public and private – and we are committed to helping make sure this happens. But, in obtaining or disguising illicit funds, criminals will exploit any weakness in the system wherever they find it. And we note that there are numerous aspects of the public finances in which the UK government falls short of best practice in supervising and monitoring its own activities. For example:

- Tax evasion is an economic crime in its own right and money laundering is its inevitable by-product. In a hyper-connected world of globalised financial flows no-one should doubt the size of the geo-political challenge posed by tax evasion. But at the practical level HMRC is expected to monitor one of the largest and most diverse populations of businesses with anti-money laundering (AML) responsibilities whilst being under-resourced and, in some areas, lacking even the basic powers to assess propriety.
- The authorities also know that welfare benefits and student loans have become sources of terrorist financing in the UK. This is a weakness that points clearly to inadequate 'applicant due diligence' in these systems and cries out for much better identification and tracking of criminal financing risks.

In the CCAB's view there are three key things holding back the fight on economic crime and money-laundering. In each instance government has the capabilities to lead the joint effort needed to rectify those weaknesses.

- Identifying and preventing money laundering and economic crime is, in our view, too important to be as tightly budget-constrained as it is.
- Because resources will always be scarce we need to be better at targeting, empowering and sharing what we have.
- As the digital marketplace expands we need to be much better at sharing and using the so-called 'big data' now being generated.

With these principles in mind, this manifesto makes four proposals which we will look at in more detail in the following pages:

1. A central information resource able to provide evidence of identity would help **safeguard the economy and eliminate unnecessary cost.**
2. An intelligence portal to share information on suspicious individuals or entities between regulators and law enforcement authorities, supported by better mechanisms for sharing skills and experience, would together help **cement a true private-public crime-fighting partnership.**
3. A system for prioritising suspicious activity reports, to sort the wheat from the chaff at an early stage of processing, would help **target law enforcement resources.**

4. By giving statutory recognition to ‘accounting services’ we could ensure that all accountants are appropriately qualified and regulated, promoting trust in the ‘gatekeepers’ of the economy by raising their skills and standards, and **making sure that all ‘gates’ are guarded with equal vigilance.**

## **1. Help safeguard the economy and eliminate unnecessary cost ...**

Each time an individual or business wishes to open a bank account they need to provide evidence of their identity. The same requirement exists when using the services of any other regulated service provider – including lawyers, accountants and estate agents – and for exactly the same reasons and purposes. The result is endless duplications of effort and processes, the costs of which will ultimately be borne by the client and the consumer.

Similarly, in government purchasing there are no consistent requirements or processes for individual departments to identify who owns and/or controls the companies that bid for often lucrative public contracts.

Identity checking is an onerous but necessary requirement of many economic relationships and transactions throughout the economy. A project to streamline it would sit very comfortably within the UK government’s £10bn deregulation agenda. But what would such a project look like?

### **... by establishing a central information resource for providing evidence of identity**

One approach would be to harness and expand the public registers of company ownership and beneficial interest held at Companies House. No checks are currently carried out on the identity of those wishing to set up a company in the UK. A reformed and well-resourced Companies House regime could be the perfect mechanism for filling that due diligence gap and, in so doing, creating a single, centralised online information resource which banks, accountants, lawyers and other businesses could also consult to confirm identity. Such an approach would help protect the economy and save billions in unnecessary regulatory duplications, as well as provide a possible model for a secure consumer version. We are encouraged to see the government proposing the introduction of conviction checks for public contract bidders and we urge that this forms part of a wider exercise to improve due diligence.

## **2. Cement a true private-public crime-fighting partnership ...**

Regulated businesses are better able to carry out economic crime risk assessments when law enforcement authorities share their intelligence. But the information available to the professionals performing these checks is in many cases too limited or too generic. They struggle to gain access to the more useful, detailed information and intelligence which might not be in the public domain. Since it is difficult to fight crime blindfold this intelligence gap can lead businesses to take a ‘de-risking’ approach. This is in no-one’s best interest, least of all the economy at large.

### **... by creating an intelligence portal to share information between regulators and enforcement authorities**

To address this failing it is vital that we achieve much wider sharing of more detailed information, as the government has itself highlighted with proposals for mechanisms to allow information to be shared between regulated entities. Further investment in mechanisms for sharing between regulators and law enforcement would also be valuable. Where all the elements for a criminal charge may not be present regulators with access to the full intelligence picture can still launch their own action. These things would also represent a valuable first step towards creating a true, private-public crime-fighting partnership in which innovations in big data analysis could be harnessed to identify and follow-up suspicious conduct that has previously been undetectable in an ocean of information.

### **3. Sort the wheat from the chaff in order to target scarce law enforcement resources ...**

Professionals are required by law to make a suspicious activity report (SAR) every time they become aware that a person might be in possession of the proceeds of crime. It doesn't matter if the amounts are small or the information uncertain. There is no screening for what may, or may not, be the most important reports. The same obligation applies whether it is the theft of £5 from petty cash or a suggestion of serious organised crime. Given the sheer volume of individual reports (381,882 in 2015), and the effort that must by definition be wasted by a government function already subject to significant resource constraints processing essentially trivial crime reports, the detection of crimes at the serious end of the spectrum must inevitably be hindered.

#### **... by implementing a system to prioritise the most serious suspicious activity reports**

A tiered system of formats and priority levels (based on the intelligence value of each report) could be introduced to the SARs regime to create an effective and efficient risk-based approach to deciding which economic crimes are tackled as a matter of urgency.

### **4. Promote trust in the gatekeepers and ensure that all gates are guarded equally ...**

Accountants and other providers of professional services are regarded as the gatekeepers of the legitimate economy. Consumers need to be able to trust them and the professions must demonstrate that the trust is well-placed. And yet, as things stand, anyone can call themselves an accountant; there is no need for formal training or to achieve an appropriate qualification; and there is no requirement that they subject themselves to a formal structure of regulation, development and ethics, supervised by a professional body.

#### **... by giving statutory recognition to 'accounting services' to ensure that all accountants are properly qualified and regulated**

With no restriction on the use of the terms 'accountant' or 'accountancy services', the supervision of unregulated accountants with no professional qualifications depends on them registering with HMRC (something they are obliged to do but may not). Professionally qualified accountants, on the other hand, are monitored and subject to disciplinary procedures by virtue of their membership of a professional body. Clearly it is in the interests of consumer protection and economic crime fighting

for accountancy to be given statutory recognition so that we can all be confident that every gatekeeper is adequately supervised and that all the gates of the wider economy can be guarded equally well.

## Conclusion

### What should the profession be doing?

This manifesto is aimed at government but CCAB recognises that our profession – through its professional bodies and their members – also has a vital role to play in fighting economic crime. This is a fight in which we can all play our part and CCAB is committed to ensuring that every professional accountant is able to make an effective contribution, not least through our common commitment to reporting to the authorities all money laundering activity, whether identified or simply suspected.

The case studies that accompany this report – which include cybercrime, money laundering and investment fraud – reveal the many and varied ways in which professional accountants can come into close professional contact with criminal individuals and groups and even become unwittingly involved in their crimes. The reader is asked to use the notes and commentary provided for each case study to reflect on the situations these professional accountants have found themselves in. A glossary of economic crime terminology is also included.

What these case studies show most vividly is how wide and varied economic crime can be. To help tackle it effectively it is vital that the profession engages proactively with the appropriate authorities. In 2014/15 a total of 381,882 suspicious activity reports (SARs) were submitted to the authorities (National Crime Agency, 2015), 7.8% more than the 354,186 in 2014. Perhaps unsurprisingly the banking sector was the largest single reporter of suspicious activity, followed by the building societies. Accountants and tax advisers in fact submitted slightly fewer SARs than in previous years. Individual accountants, their firms and their supervisors certainly take their AML responsibilities very seriously, but there is always room for improvement.

We want to help make the UK's AML defences as effective as possible and we firmly believe that the changes outlined in this manifesto will help bring that about. Given the outcome of the Brexit referendum, we in the UK now also need to make sure that our government does not isolate itself from EU policy-making and the process by which the Anti Money Laundering Directive is developed, improved and updated.

By enabling a more integrated partnership between the various aspects of the regulated sector and its many stakeholders we can together create a more effective and more cost-effective AML system for the UK. And by making sure that accountancy services are properly regulated and supervised right across the profession we can be confident that the gatekeepers of the legitimate economy are always up to the job.

*Source: National Crime Agency, Suspicious Activity Reports (SARs) Annual Report 2015*

*<http://www.nationalcrimeagency.gov.uk/publications/677-sars-annual-report-2015/file>*

## About CCAB

The combined membership of the five CCAB bodies – ICAEW, ACCA, CIPFA, ICAS and Chartered Accountants Ireland – amounts to 260,000 professional accountants in the UK and the Republic of Ireland (380,000 worldwide).

CCAB provides a forum for these bodies to work together in the public interest on matters affecting the profession and the wider economy.

CCAB's credibility stems from its insight into all areas of finance and accounting: from finance directors and audit partners to management accountants, professional advisers, public sector finance leaders and entrepreneurs. CCAB's members are active as key decision makers and business leaders throughout the financial value chain, in all sectors, both within the UK and around the world.

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Further copies of this report can be downloaded at

<http://www.ccab.org.uk/documents/Economiccrimemanifesto2016>

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