

# Annual Anti Money Laundering Report Highlights Independent Audit Concerns

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## 1. Introduction

The Solicitors Regulation Authority (SRA) has published the Anti Money Laundering annual report 2021-22 which reviews the work it carried out as an AML supervisor over the last 12 months.

Over the last year, the regulator has frequently stressed the importance for firms to take their obligations seriously and has vowed to increase their inspection audits and desk-based review supervision.

In the forward to the report, SRA Chair, Anna Bradley said  
“..we significantly increased the resource we dedicate to preventing and detecting money laundering in the last year.

*“These additional resources have allowed us to step up our supervision in this area to directly engage with more firms through 163 inspections and 109 desk-based reviews. This increased engagement allowed us greater insight into how firms we supervise are working to prevent money laundering and meant we could bring more firms into compliance. From the inspections and reviews, we brought 140 from partial into full compliance, and we also made 20 suspicious activity reports to the NCA reporting on £149m of potentially criminal funds, and achieved 51 enforcement outcomes.”*

Within the report, the regulator highlighted areas where firms continue to struggle which included ‘Independent Audits’

In this blog we are looking at those concerns in more detail.

## 2. Regulation 21 Independent Audit

It is a regulatory requirement for most firms to carry out an ‘Independent Audit of AML Policies, Controls and Procedures’ and is essential to comply with Regulation 21 of the Anti-Money Laundering Regulations. Failure to undertake this audit results in failure to comply with the Regulations and it remains your responsibility to the SRA to ensure this is done effectively. The SRA has previously highlighted independent audits as an area where firms struggle and have issued [further guidance](#) on this.

### 3. What were the key findings regarding independent audits?

Of the 143 firms inspected during the reporting period, 74 firms (51%) had not undertaken an independent audit. Of these, the SRA deemed that 34 firms (45%) should have had one. The regulator stresses, that even if firms have relatively few fee earners, they may still be required to follow these obligations, especially if it deems work is in higher risk areas such as cross-border transactions and high-value property purchases. Additionally, it emphasises that firms are responsible for ensuring that audits are compliant. Furthermore, it highlights that being part of an external accreditation scheme does not necessarily mean that they have met their requirements within these obligations.

The regulator says:

*“We continued to see firms relying on external accreditation schemes which do not assess AML adequacy at all. On more than one occasion we were handed a copy of an audit which, when examined, did not address AML compliance. This is another area where firms must improve. To reiterate our previous guidance - most firms need to carry out an independent audit. If firms consider they do not need to carry out an audit they will need to justify this to us.”*

### 4. How do you ensure an Independent Audit?

The problem for many firms is how to satisfy the ‘independence’ requirement of Regulation 21 (1) (c) of the MLR 2017. You are allowed to carry out an audit internally, but it should not be carried out by the MLRO or the MLCO, or anyone else responsible for maintaining the AML function within the firm. Typically, in-house employees with sufficient expertise, who would be capable of undertaking an audit of this type are those who have day-to-day responsibility for designing, implementing and monitoring the application of the firm’s anti-money laundering policies and procedures. Therefore, it could be difficult to comply with the ‘independent’ requirement under Regulation 21 or the MLR 2017.

We recognise this issue and so designed a service to provide firms with a truly independent audit and report which meets regulatory requirements and is specifically designed to comply with the requirement of the MLR 2017. It is recommended that a law firm performs such a review every 2 years although large firms may consider that annually is more appropriate.

## 5. Independent AML Audit Service

The Strategic Partner works with firms of all sizes, from the smaller high street or niche firms through to the large multi-office and multinational firms.

Our service provides firms with a completely independent audit and ensures the review is completed and reported on in accordance with the regulatory requirements.

Our Independent AML Audit includes:-

1. Discovery meeting to scope out and agree to the approach and focus of the review.
2. Policies have been written to document how the firm complies with the MLRO 2017.
3. A review and analysis of the firm's High Risk and Suspicious Activity Register
4. Interviews with staff to consider the practical application of a firm's AML PCPs and to establish understanding and knowledge.
5. Optional file reviews to consider the application of a firm's AML PCP requirements at case/matter level
6. A formal report detailing the information obtained in the review, the current approach adopted by the firm and identifying any gaps with a series of recommendations and solutions
7. Presentation of the findings to the partners
8. A Directors/Partners Report to evidence the requirement of Regulation 21 of the MLR 2017:
  - a. PCP Analysis
  - b. Application
  - c. Analysis of trends
  - d. Recommendations

The regulation 21 independent audit extension will further include a review of the approach adopted by the firm for compliance with AML regulations.

## 6. Our Expertise

Our goal is to work with the firm to help them build a robust risk management profile that is independently assessed and receives recognition and credibility from the firm's Professional Indemnity Insurer.

To further bolster a firm's approach to overall risk control, regulation and compliance, The Strategic Partner has developed two services that can be utilised as part of a fully outsourced solution. Full details of each service can be viewed by clicking the links below, but a summary of each service is as follows:-

- [Risk, Regulation and Risk Compliance Services including AML](#) – Our Risk, Regulation and Compliance Service has been designed to provide law firms of all sizes with a compliant environment, using bespoke, documented and implemented procedures that evidences how a firm tackles and manages risk, compliance and regulation. Our experience and focus provide law firms with the required and necessary support and expertise.
- [Risk Compliance & AML Guidance and Administration Service](#) – Our Risk, Compliance & AML Guidance and Administration Service provides law firms with a cost-effective solution to outsource the management of the firm's registers and to provide day-to-day compliance guidance to the staff. It provides law firms and their staff with direct access to a dedicated Compliance Manager, who will provide case-level guidance and accept receipt of notifications, through which they will also manage and update the various compliance registers.

## 7. Get in Touch

For more information about our Auditing services, you can call us on [0203 911 9710](tel:02039119710) or you can email us at [info@thestrategicpartner.co.uk](mailto:info@thestrategicpartner.co.uk).



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