

# Anti-Money Laundering Supervisory Report 2024

October 2024

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## 1. Foreword from Law Society of Scotland CEO, Diane McGiffen

The Law Society of Scotland is committed to upholding the rule of law. We therefore remain resolutely committed to modern, effective Anti-Money Laundering (AML) supervision. Our AML team continues to undertake a range of risk-based, proportionate measures to ensure our members meet the highest legal and ethical standards in this area of practice, and public trust in the profession is upheld. Money laundering is a crime that wrecks communities and societies and is a threat to each and every area where we live and work.

AML work continues to deepen and expand, and to balance the needs of inherently lower risk practices – this has included, for example, our thematic review of AML Policies, controls and procedures which concluded last year.

We also provide a breadth and depth of information and guidance available to the profession to support them in their AML and economic crime obligations. In the last year this has included a new ‘Spotlight on’ blog series which has comprised of publications on the importance of AML training, human trafficking, terrorist financing as well as holistic due diligence.

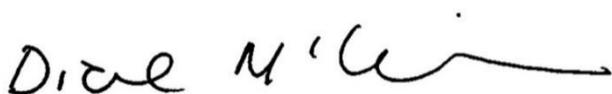
Looking forward at 2025 – we still await a decision being made by the UK government about AML supervisory reform and will work collaboratively with relevant stakeholders to act in accordance with this decision. In [our consultation response](#) we expressed support for further powers to be given to the Office of Professional Body AML Supervision (OPBAS), if those powers would lead to increased effectiveness, and we did not oppose reform consolidating anti-money laundering supervision on a devolved basis.

We will also look to enhance our proactive review work, continuing to realise the benefits of our data sharing agreements signed recently with Police Scotland and HMRC.

This report demonstrates the strength and depth of our AML work, along with a range of effective outcomes, including the robust use of disciplinary action where necessary.

Thank you for taking the time to read about the AML work the Law Society of Scotland undertakes in the public interest. I am proud of the work our dedicated AML team undertakes and hope this report is helpful in explaining this in more detail.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Diane M'Giffen', with a long horizontal flourish extending to the right.

**Diane McGiffen (CEO)**

## 2. [Context to this Report](#)

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs or “The Regulations”) set administrative requirements for the anti-money laundering regime within the regulated sector.

**MLR r.12** states that the regulations apply to 'independent legal professionals', that is:

*“a firm or sole practitioner who by way of business provides legal or notarial services to other persons, when participating in financial or real property transactions concerning—*

*(a) the buying and selling of real property or business entities;*

*(b) the managing of client money, securities or other assets;*

*(c) the opening or management of bank, savings or securities accounts;*

*(d) the organisation of contributions necessary for the creation, operation or management of companies; or*

*(e) the creation, operation or management of trusts, companies, foundations or similar structures”*

The Law Society of Scotland is the Professional Body AML Supervisor for Scottish solicitors - this status has been ratified by His Majesty's Treasury through Schedule 1 of the MLRs and is discharged through the use of the Solicitors (Scotland) Act 1980.

### **MLR r.46A sets out the basis and requirement for this report:**

Prescribing that self-regulatory organisations such as the Society must also publish an annual report containing information regarding:

- *measures taken by the self-regulatory organisation to encourage the reporting of actual or potential AML breaches;*
- *the number of reports of actual or potential breaches received by that self-regulatory organisation;*

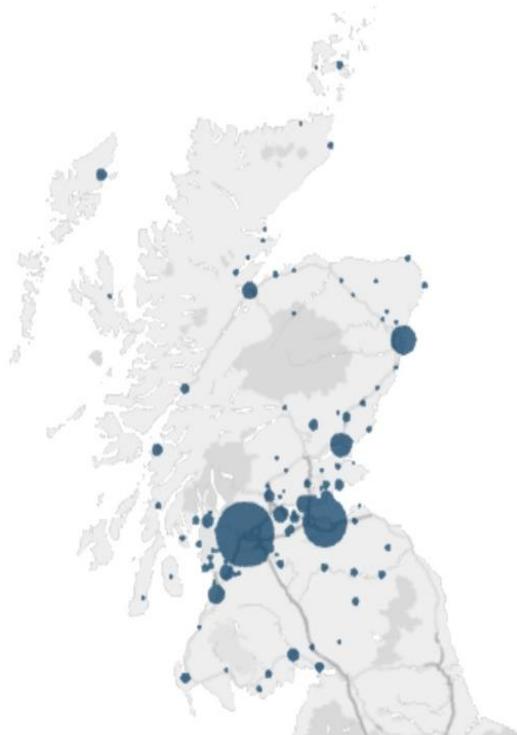
*the number and description of measures carried out by the self-regulatory organisation to monitor, and enforce, compliance by relevant persons with their obligations the MLRs, the Terrorism Act 2000 (TA) and the Proceeds of Crime Act 2002 (POCA).*

This report follows our last report published in October 2022. It highlights key changes and enhancements we have made to our supervisory approach, along with the work we have undertaken to fulfil our obligations under the regulations during the reporting period.

## Overview of our Supervised Population:

For the relevant period of April 2023 – April 2024) our supervised population comprised of **656** practices.

The majority these are sole practitioners or smaller partnerships operating across of Scotland – in urban, semi urban, and rural areas. Roughly **18%** of the population can be found in the Glasgow area with roughly **14%** in the Edinburgh area. Other areas of larger population include, Aberdeen, Dundee, Fife, Perth, Inverness & Ayr (*This is demonstrated in the below graphic*)



The majority of our population (**c.87%**) operate with between **1-12** partners and employees. Practices range from takings of minimal AML related fees to over **£83,000,000**.

**87%** of the population self-assess their inherent AML risk level as Low & Medium Risk, **13%** considering themselves to have a High Risk of inherent AML risk. This has been demonstrated in a graph on page 13 of this report.

These figures largely correspond with LSS' own internal assessment of AML inherent risk ratings of Practices – i.e., roughly the Practices that we deem to be Low, Medium, or High risk correspond with their own risk ratings.

The practices offer a range of legal services, usually centred around conveyancing, but also wills/executry, Power of Attorney, tax, trusts, and succession planning. Some practices (particularly larger and “niche” practices) also undertake work involving specialist trust and company service provision, work in the corporate law space or undertake work in agriculture or with large rural estates.

Our annual AML Certificate process requests information on practices' interactions with individual private clients and legal entities inside and outside the UK – primarily across conveyancing & TCSP activities.

This annual exercise shows that the supervised population has a considerable global reach, inclusive of high risk and secrecy jurisdictions such as Bahamas, Bermuda, British Virgin Islands, Isle of Man, Pakistan, and the United Arab Emirates, for example.

**94** practices completed work with a touchpoint with a High Risk Third Country for the relevant period, with **26** completing work with a nexus to what could be considered "secrecy" jurisdictions such as Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Cyprus, or Gibraltar for example. These range from client's residing in, corporates incorporated in or ownership structures extending to or through these jurisdictions.

### **Our Key Regulatory Requirements**

**MLR r.46** sets out the Society's primary duties and responsibilities in respect of AML supervision, including:

- *adopting a risk-based approach to the exercise of its supervisory functions;*
- *basing the frequency and intensity of its on-site and off-site supervision on the risk profile of our supervised population;*
- *keeping a record in writing of the actions it has taken in the course of its supervision, and of its reasons for deciding not to act in a particular case;*
- *taking effective measures to encourage its own sector to report breaches of the provisions of these Regulations to it.*

**MLR r.49** sets out further duties upon the Society:

*"Self-regulatory organisations must make arrangements to ensure that:*

- *their supervisory functions are exercised independently of any of their other functions which do not relate to disciplinary matters;*
- *sensitive information relating to the supervisory functions is appropriately handled within the organisation;*
- *they employ only persons with appropriate qualifications, integrity, and professional skills to carry out the supervisory functions;*
- *contravention of a relevant requirement by a relevant person they are responsible for supervising renders that person liable to effective, proportionate, and dissuasive disciplinary measures under their rules".*

*"Self-regulatory organisations must:*

- *provide adequate resources to carry out the supervisory functions;*

- *appoint a person to monitor and manage the organisation's compliance with its duties under these Regulations."*

The requirement for effective segregation of duties is reflected in the allocation of staff responsibilities and our committee structure.

Under the Solicitors (Scotland) Act 1980, all regulatory functions of the Society are delegated by the Law Society of Scotland Council to the Regulatory Committee. The Regulatory Committee is independent from the Council and is required by statute to have a non-solicitor convenor.

The Law Society of Scotland's Regulatory Committee and regulatory sub-committees are required by statute to consist of 50% solicitor and 50% non-solicitor members.

Responsibility for AML Supervision is further delegated by the Regulatory Committee to the AML Sub-Committee (AMLSC).

The aims and responsibilities of the AMLSC are:

- To fulfil all functions delegated to it by the Regulatory Committee
- To ensure Law Society of Scotland wide compliance with the requirements of the Money Laundering Regulations (including as reflected in the Office of Professional Body Anti-Money Laundering Supervision (OPBAS) Sourcebook and/or equivalent)
- To protect the profession and the public interest by dealing properly and promptly with significant cases of non-compliance with the Money Laundering Regulations
- To promote high levels of compliance with the Money Laundering Regulations
- To ensure that the Law Society of Scotland Anti-Money Laundering approach remains fit for purpose
- To aid strategic development of the Law Society of Scotland Anti-Money Laundering approach.

### **The Office for Professional Body Supervisors ('OPBAS')**

In January 2018, new regulations gave rise to the set-up of OPBAS, with the aim of improving the consistency of AML supervision across the 22 Professional Body Supervisors (PBS). OPBAS sets out guidance and its expectations of PBSs in performance of their duties under the MLRs, in the form of the 'OPBAS Sourcebook' – which the Society must also adhere to. We are also subject to ongoing review by OPBAS regarding our own AML supervisory work – we support and welcome this oversight and have developed a professional, positive and constructive working relationship with them.

During the relevant period, OPBAS initiated their latest inspection of our supervisory regime and the Society has subsequently engaged in constructive dialogue in regard to findings released in May 2024.



### 3. Our AML Supervisory Work

#### **AML Team – Resourcing Changes & Structure**

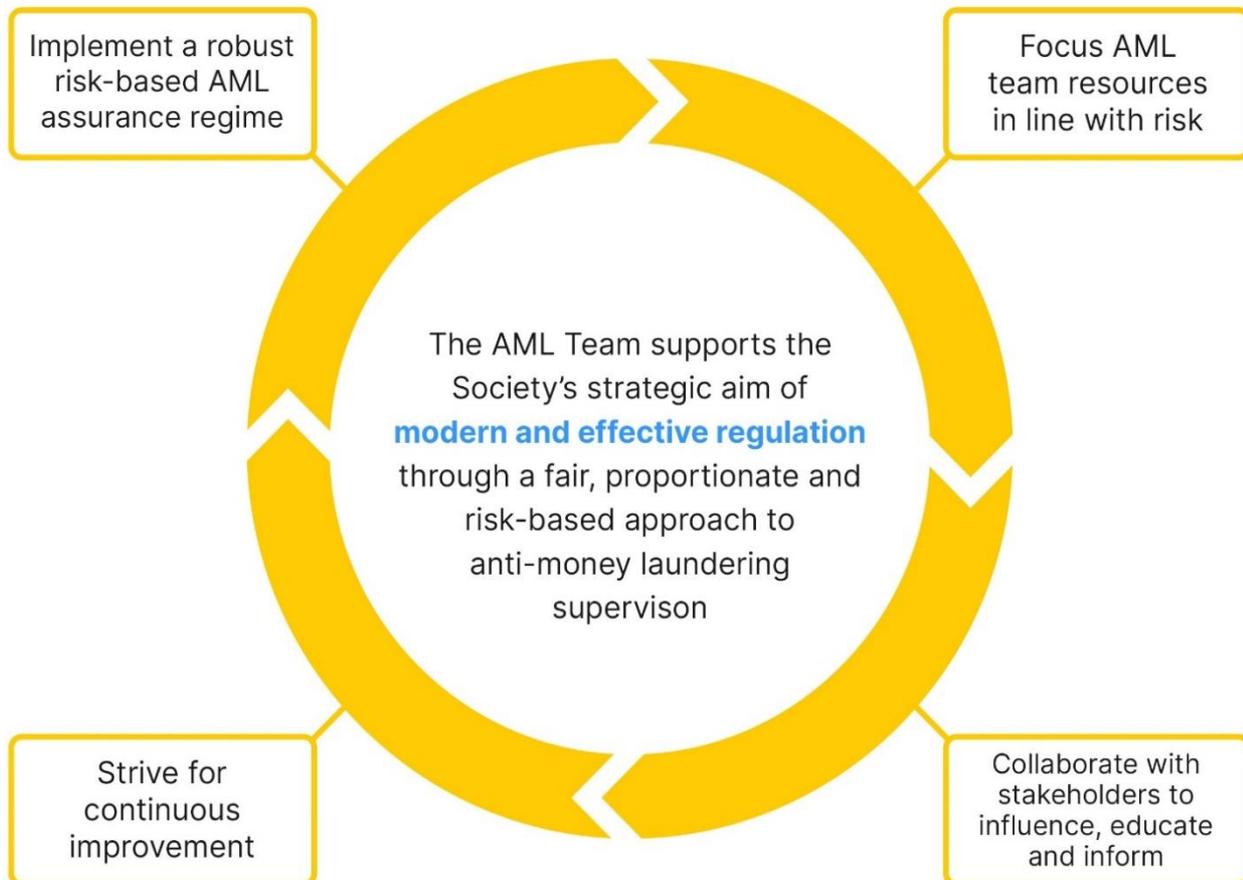
In the past year, the team has experienced a small turnover in staff, with one AML Manager leaving the organisation in late 2023. This departure resulted in a change in the team’s composition & responsibilities. The Society addressed this and minimised impact on our supervisory work by ensuring knowledge transfer and adequate training was in place. We successfully recruited a further AML Risk Manager in January 2024.

This kept our dedicated AML team at a headcount of five full time staff. This consists of the Head of AML and four AML managers, responsible for AML supervisory and assurance work across the profession.

The AML team is embedded within (and supported by) the Society’s wider Financial Compliance and Regulatory functions and prioritises assurance and other supervisory activity on a risk-based approach – in line with responsibilities under **r.46**.



## AML Team Mission Statement & Objectives



## The AML Certificate & our Risk-Based Approach to Supervisory Assurance

The Society's AML Certificate is a compulsory annual questionnaire issued to practices which conduct work in-scope of **r.12** of the Money Laundering Regulations (MLRs).

It consists of c.70 questions relating to inherent AML risk factors in line with the MLRs, the UK National Risk Assessment and our latest refreshed Sectoral AML Risk Assessment.

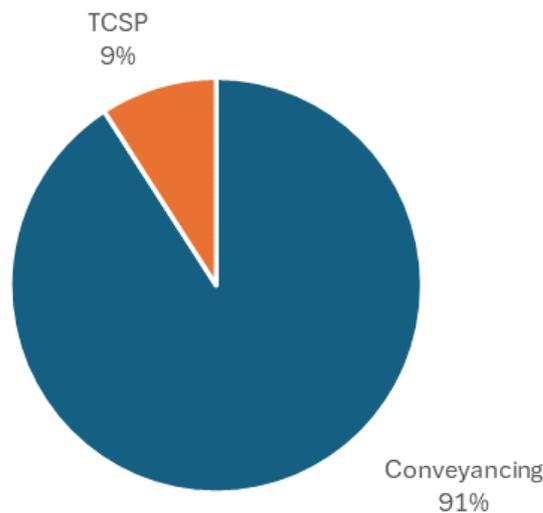
The certificate focuses on a practice's exposure to inherently higher risk clients and higher-risk areas of practice such as Conveyancing and Trust & Company Service Provision - along with capturing and identifying geographic and delivery channel risks.

Once collected, the data is analysed by the AML team, it is used to build a risk profile of our supervised population and allow us to understand specific AML risks, trends, or issues across the supervised population.

This profiling mechanism supports the Society in satisfying requirements of **r.46** - i.e., to adopt a risk-based approach by basing the frequency and intensity of our supervision according to the risk profile of our supervised population.

The analysis of AML certificate information gives us the ability to identify overall trends within our supervised population – An example of this is shown in the below chart which evidences from our analysis that conveyancing transactions (residential and commercial) accounted for **91%** of all AML regulated matters reported with TCSP work accounting for **9%**.

Regulated Matters Reported by Overall Service Type



Continual Improvement of the AML Certificate Process:

Following on from improvements cited in the Annual Report 2023, our AML Certificate profiling process has been further improved with the inclusion of new and additional risk identifiers aligned to our latest refreshed Sectoral Risk Assessment.

Alongside consideration of higher risk work types, these identifiers were coupled with other risk factors/red flags, helping to create a “multiplier effect” and ensure an even greater focus is put on those types of clients/areas of work viewed as the greatest inherent AML risk. Examples include:

- Identification of practices who have engaged with higher risk jurisdictions on any matter type. Using information such as the UK HM Treasury High Risk Third Countries List, The Basel Index and The EU AML High Risk Jurisdictions list.
- Identification of practices who have provided higher risk services such as conveyancing coupled with a nexus to a higher risk jurisdiction.
- Identification of practices who have engaged with Politically Exposed Persons (PEPs) where there is also a link to a higher risk jurisdiction.

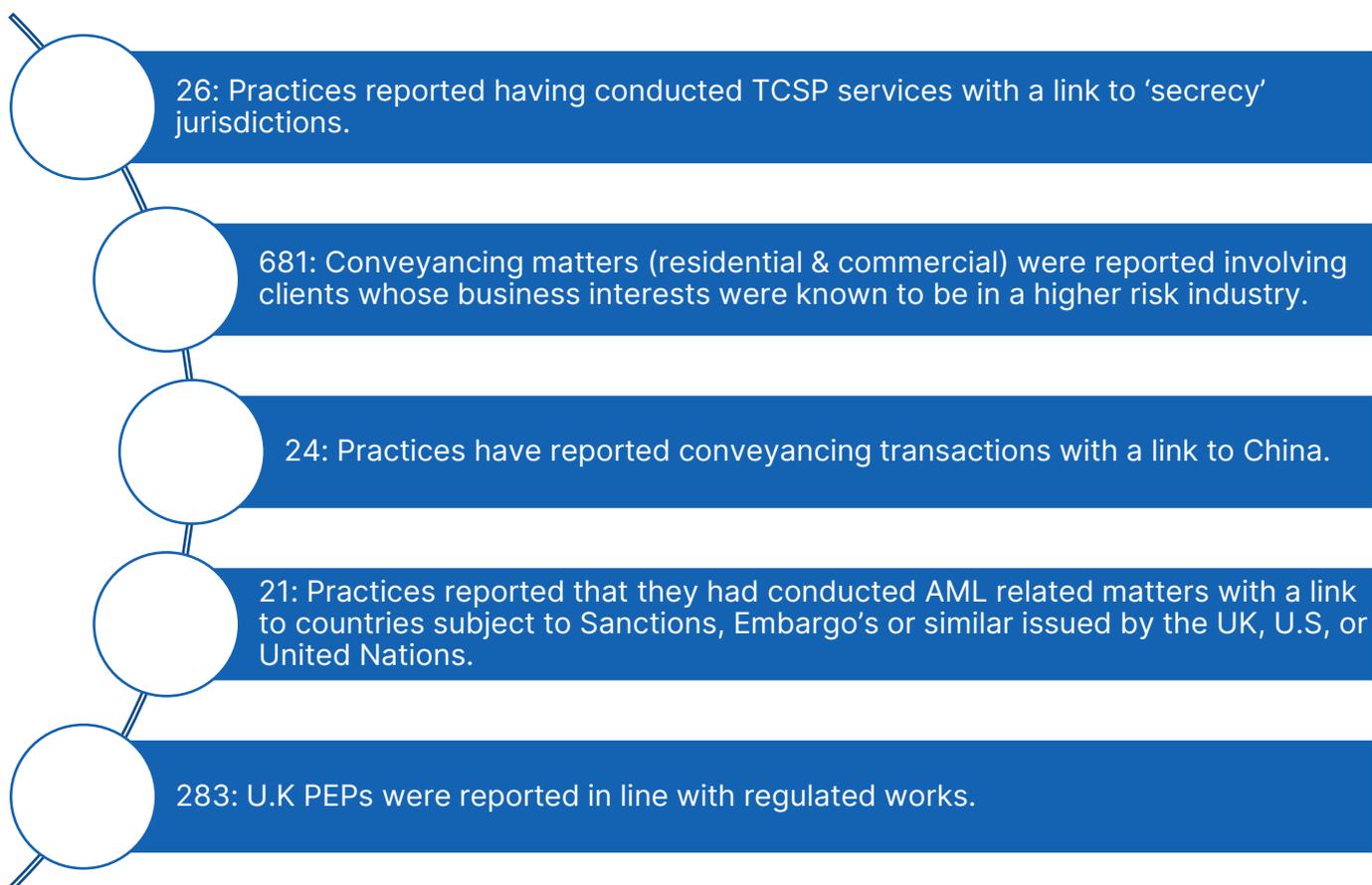
- Identification of practices who have provided Trust and Company Service Provisions to privacy jurisdictions.

The additional risk flags within the AML Certificate analysis also allows for the identification of more sophisticated and granular risk ratings (*7 bandings from Low-Low to High-High*) across the population which has allowed the AML team to apply a more targeted risk-based approach to our assurance - deploying different assurance methods and approaches such as attestations, thematics and desk-based engagements to different segments across the population.

The Society sets out our overarching approach to risk-based supervision and associated outcomes in our most recent [Risk Appetite Statement](#).

The AML team produce a yearly infographic outlining key statistics and figures from our AML Certificate returns. The AML Certificate 2023 Infographic can be located [here](#).

A number of key statistics from our latest AML Certificate include:



## **The Scottish Legal Profession – Inherent Risks & Risk Profile**

**656** AML Certificate returns were received for the AML Certificate 2023 (*relevant period - 1<sup>st</sup> January 2023 – 31<sup>st</sup> December 2023*).

**12** practices who failed to submit their certificate by submission deadlines have been reported to the AMLSC.

**8** of those initially non-responding practices subsequently provided paper copies of their AML Certificate data which has been recorded in the overall returns.

**2** MLRO's were subsequently referred by the AML team for complaint for breach of rule B9.5 of the Law Society of Scotland Practice Rules.

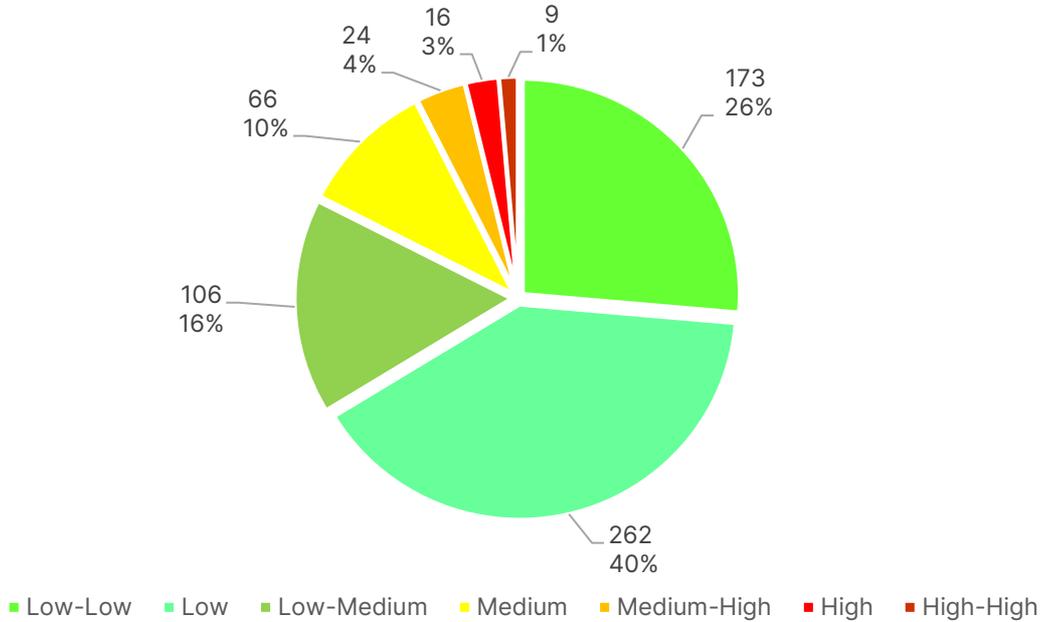
**2** MLRO's, whose practice failed to submit a certificate from the AML Certificate Period's 2022 and 2023 were invited by the AMLSC for a formal disciplinary interview under Section 40 of the Solicitors (Scotland) Act 1980.

Following the conclusion of the AMLSC interview it was determined that one of the practices was out of scope of the MLR's, and therefore no further action was required. The other practice is due to undertake an inspection by our financial compliance team.

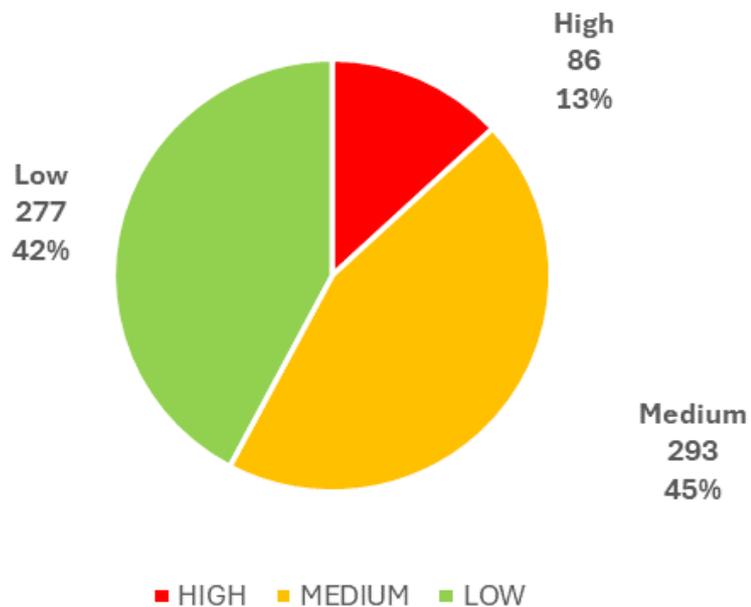
All practices deemed to have failed to meet the initial deadlines set by the AML team at LSS have been recorded and all non-responding practices are to be factored into future risk profiling exercises.

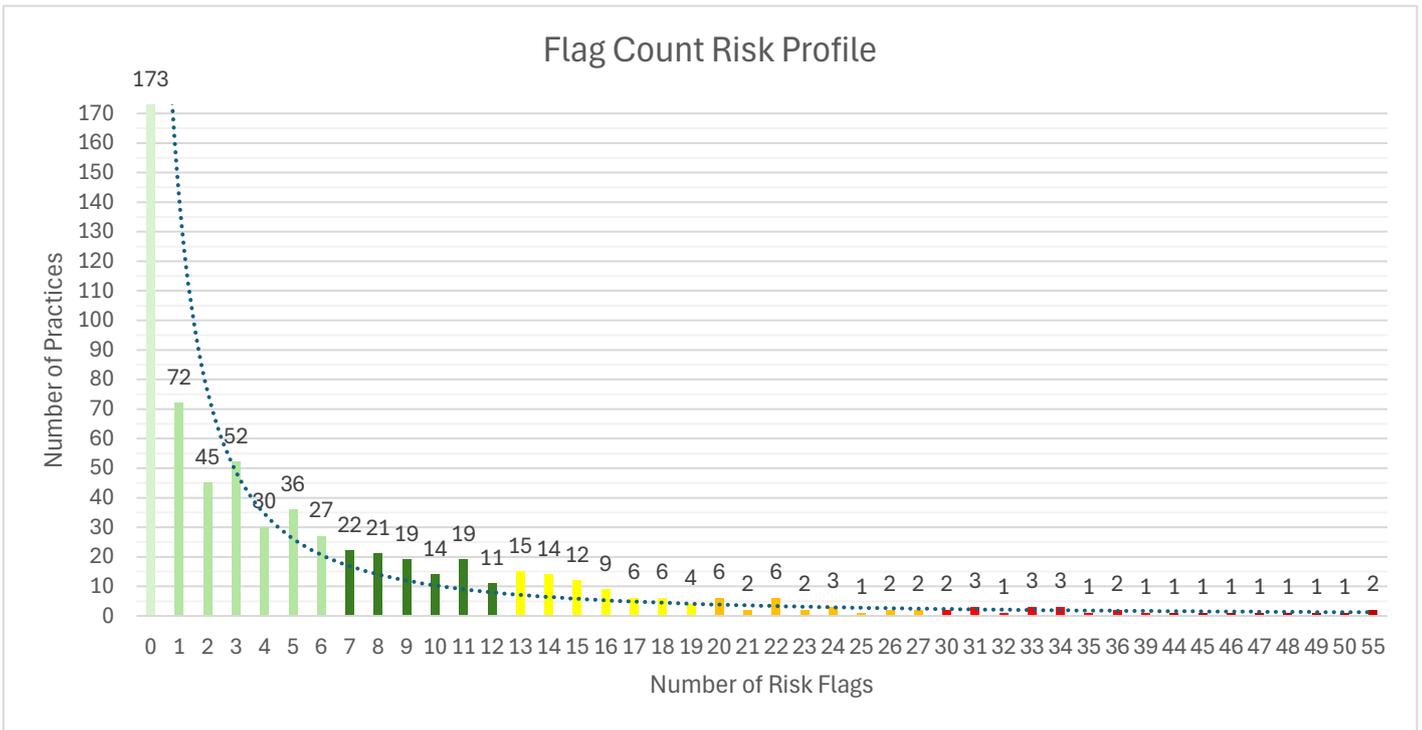
Through analysis of the returns, we have built a risk profile of the supervised population as per the below charts/graphs (These charts reflect the risk profile of the **656** practices which returned AML Certificates for 2023)

AML Certificate 2023 - LSS Risk Rating Profile (Volume & %)



AML Certificate 2023 - Self Assessing Risk Profile (Volume & Percentage)





**AML Assurance**

**Risk-Based Assurance Processes in Detail**

The risk-based nature of our general AML assurance work is designed to support our effectiveness – focusing our resources in areas of inherent higher risk - and also ensure that (while our assurance is extensive and in-depth) our impact on practices under inspection is minimised, and as efficient as possible.

In accordance with the provisions of **r.46**, the AML team base the frequency and intensity of assurance work according to the risk profiles developed in the AML Certificate process – as detailed in this report.

Initial findings of our assurance work/inspections can be widened or narrowed in scope of activity where required: i.e., where a practice is deemed to be of inherently higher risk but through the course of inspection is found to be lower risk, the scope of the assurance activity/inspection can be altered to reflect these findings.

### *Inherently High – High/High Risk Rating Assurance Processes*

Depending upon the circumstance, any intelligence received and the specific risks identified and highlighted via the certificate, assurance reviews can encompass full-practice assurance reviews or be more focused on specific clients, matters or areas of a practice's business.

Full assurance reviews aim to test the adequacy of the practices Practice Wide Risk Assessment (PWRA), Governance, and Policies, Controls and Procedures (PCPs). To do this we measure compliance against fundamental Money Laundering Regulatory requirements and the HM Treasury-approved Legal Sector Affinity Group AML Guidance (LSAG), specifically its 36 High-Level AML Compliance Principles.

The full assurance review process also goes on to review the effectiveness of the practice's AML controls 'on the ground', by testing adherence to the requirements and their own PCP's through a review of selected client/matter files, focusing on those of higher inherent risk.

AML Certificate returns form the basis of client/matter file selection and allow the AML team to sample in accordance with our risk-based approach, effectively and efficiently, whilst focusing on higher-risk or other matters of interest from an AML perspective.

Further, the full assurance review process contains an overall assessment of the AML control effectiveness including culture, expertise & awareness, quality of training and governance at the practice. We conduct supervisory interviews of the MLRO/MLCO, key partners and members of staff to assist us in this assessment.

Findings from such reviews will also be fed back into future inspection planning and modelling.

### *Inherently Medium – Medium/High Risk Rating Assurance Processes*

Practices deemed to have Medium – Medium/High inherent AML risk profiles can also subject to assurance reviews/inspections; however, these are often undertaken by members of the wider Financial Compliance Team on an ongoing basis as part of the onsite Financial Compliance team Account Rules inspection processes.

These inspections are a very important element of our overall regime and focus predominately on file-level AML compliance in the context of wider client accounting matters. Where issues are identified which may indicate higher AML risk, these can be highlighted and escalated to the AML team who can apply the appropriate risk assurance procedure.

Practices rated Medium – Medium/High Risk may also be subjected to Single File assurance reviews. This process involves testing adherence to the requirements set out in fundamental regulatory requirements and LSAG.

Certain client/matter files can be selected for review and sampled by the AML team in accordance with our risk-based approach, effectively and efficiently, whilst focusing on higher-risk or other matters of interest from an AML perspective. This may be in place of undertaking the full practice assurance review which may be reserved for those deemed to be of inherent higher risk.

Again, the AML Certificate returns assist with file selection, with a focus placed on indicators of higher inherent risk such as higher risk jurisdictions or service types or combination of services/risks.

### *Inherently Low/Low – Low Risk Rating Assurance Processes*

Whilst practices deemed to have lower risk profiles are not generally subject to in-depth or full assurance reviews such as those in the categories *Medium – High/High*, the AML team ensures appropriate assurance activities are applied where applicable to practices within these risk bandings.

Assurance activities at this level of inherent risk can involve:

- Non-AML specialist Financial Compliance Team assurance reviews. These are centred around review of file/matter level compliance. In line with Financial Compliance Team Assurance reviews in the Medium – High Risk category these can be escalated to the AML team for specialist input where required.)
- Reviewing information provided within AML Certificate returns and conducting follow up work with practices to corroborate information where deemed applicable.
- Requirement to submit Low-Risk Supervisory Attestations regarding quality of PCPs followed by sample-based reviews of information attested to.
- Sampling of “AML Exempt” practices using open and closed source information. Practices found to appear in scope whilst presenting as exempt from regulatory requirements are engaged with, using varying assurance techniques.
- Potential for single AML File Reviews in line with those detailed under the heading for Inherently Medium – Medium/High Risk Rating Assurance Processes

### Intelligence-based AML Supervisory Assurance

Along with assurance work generated according to the risk profiles developed in the AML Certificate process, we also target other areas of concern which have been appropriately and legitimately highlighted to us through intelligence sharing - for example via law enforcement and our reporting concerns helpline.

Currently the AML team have several such inspections ongoing which have either been identified through our data analysis from AML Certificate returns and also via intelligence sharing pathways.

### Thematic Reviews

Thematic reviews are another tool which the AML team utilise to assess and identify specific AML risks and the robustness of AML controls within our regulated population. These reviews will be undertaken across a number of practices selected from existing data held and help establish and build our knowledge of risks/controls within the sector

Broadly, thematic reviews consist of:

- The development of a structured questionnaire around a particular AML topic.
- Questionnaires circulated to a limited number of practices identified through AML Certificate responses or other data held by the AML team.
- Responses to the questionnaire are reviewed and analysed.
- Individual practices may then be subject to further engagement such as the sampling of files or information obtained throughout the thematic process.
- Overall findings and results are documented with high level findings, and outcomes will be published in order that the wider supervised population benefit and have the information necessary to mitigate risks or issues found.
- Utilisation of tools such as a targeted "Dear MLRO" letter, where open feedback can be undertaken to the wider population.

The Team published the results of their [AML thematic review of Policies, Controls and Procedures](#) in April 2023.

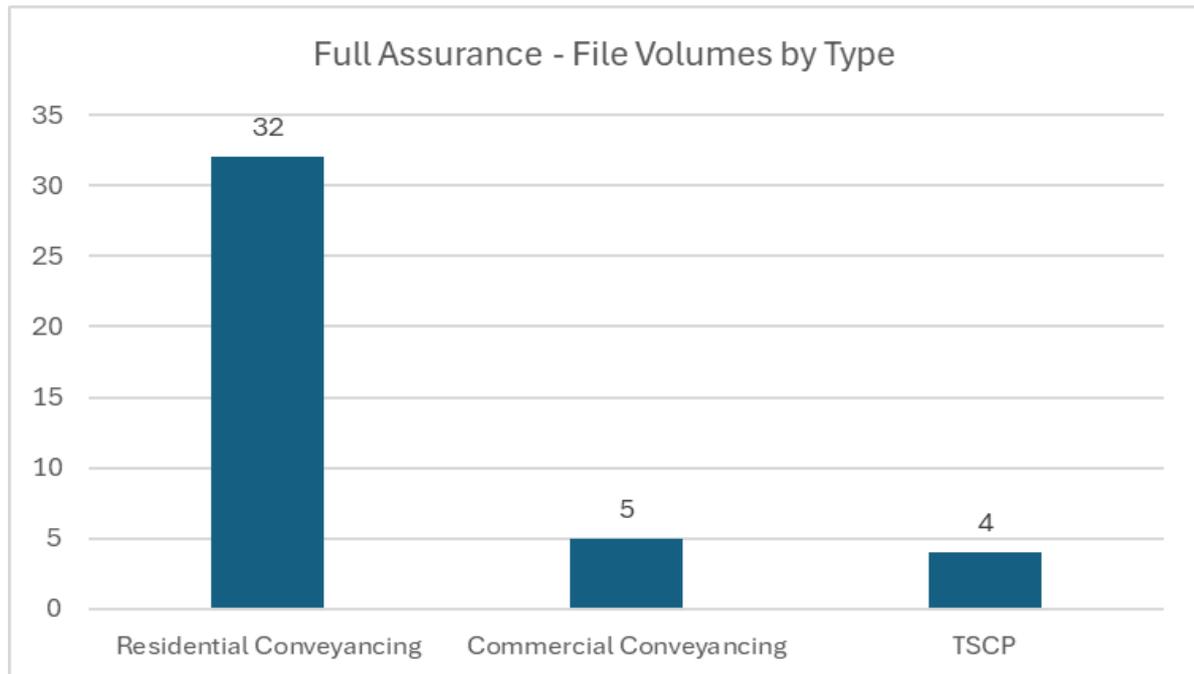
The Team's current thematic review covering Suspicious Activity Reporting across Scottish Solicitors is ongoing and findings will be included in next year's annual report.

## Supervisory Assurance Volumes

### High Risk Rating Assurance volumes

From April 2023 to April 2024 the AML team conducted **8** high-risk assurance reviews. These were all full assurance reviews and were driven by either risk profiling or intelligence received.

As part of the **8** full assurance reviews the effectiveness of the practices AML controls 'on the ground' was tested, through a review of selected client/matter files across **41** files in the following categories:



In addition to the **8** completed inspections, the AML team also initiated an additional **3** assurance reviews within the relevant period and these will be included in figures reported within the 2025 Annual Report.

### High-risk Single File review volumes:

In the same period the AML team also initiated **16** Single File reviews out with the full assurance review process.

**15** of these potential Single File Reviews were triaged and either added to the pipeline to be reviewed or deemed to require no further action, **1** Full Single File Review was completed during the period.

### Medium Risk Rating Assurance volumes

From April 2023 to April 2024 **c.48** practices were subject to assurance reviews undertaken in line with the Financial Compliance team Accounts Rules inspection process.

These inspections were either conducted on-site or moved to partially on-site later within the process dependent on the risk ratings of the practices and initial findings of the review.

Low Risk Rating and Thematic Assurance volumes

From April 2023 to April 2024 the AML team gathered **45** Low Risk Attestations from practices as part of lower risk assurance, with **16** practices having their AML Policies, controls and procedures sampled and reviewed as a result.

Supervisory Assurance Ratings and Outcomes

Assurance Compliance Ratings

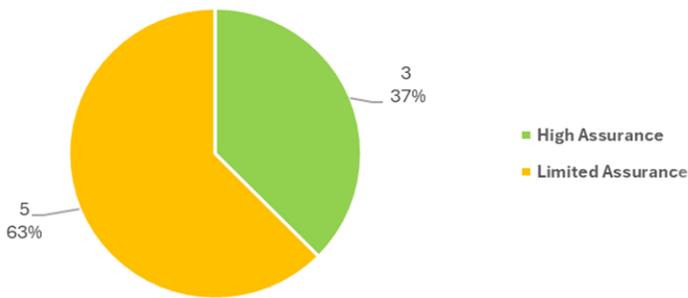
The AML team grade the varying levels of compliance relating to the assurance processes such as Full Assurance Reviews and Single File Reviews. These are categorised as:

<b>High assurance:</b>	There is a high level of assurance that the documentation reviewed is delivering compliance against the AML requirements, duties or responsibilities of the Practice Unit. The review has identified only limited scope for improvement in existing arrangements and as such it is not anticipated that significant further action is required to reduce the risk of non-compliance.
<b>Reasonable assurance</b>	There is a reasonable level of assurance the policy, control or procedure reviewed is delivering compliance against the AML requirements, duties or responsibilities of the Practice Unit. The review has identified some scope for improvement in existing arrangements to reduce the risk of non-compliance with these requirements
<b>Limited assurance:</b>	There is a limited level of assurance that the policy, control, or procedure reviewed is delivering compliance against the AML requirements, duties or responsibilities of the Practice Unit. The review has identified considerable scope for improvement in existing arrangements to reduce the risk of non-compliance with these requirements.
<b>Very Limited Assurance</b>	There is a very limited level of assurance that the policy, control, or procedure reviewed is delivering compliance against the requirements, duties, or responsibilities of the relevant MLRs. The review has identified a substantial risk that the objective of MLR compliance will not be achieved. Immediate action is required to improve the control environment.

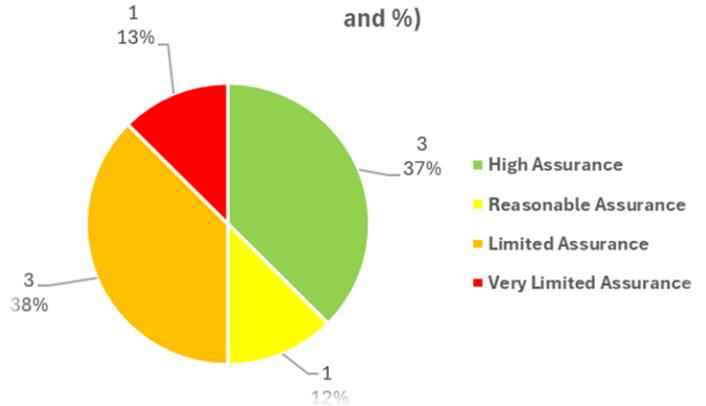
High Risk Assurance Ratings

Across the **8** full assurance reviews conducted in the reporting period, the below graphs demonstrate the spread of assurance gradings in relation to practices Practice Wide Risk Assessment, Governance and Policies, Controls & Procedures:

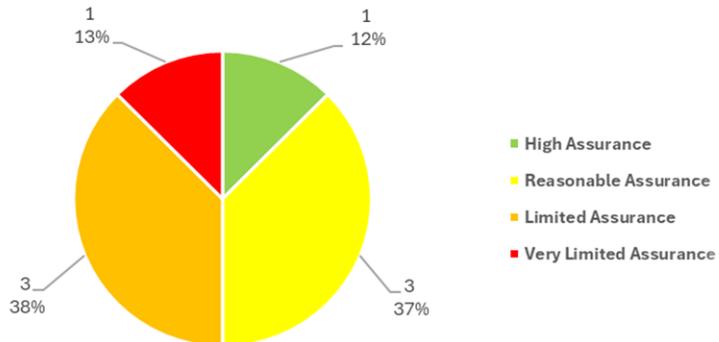
Schedule 1.1 Outcomes - Practice Wide Risk Assessment (PWRA) (Volume and %)



Schedule 1.2 Outcomes - Governance (Volume and %)

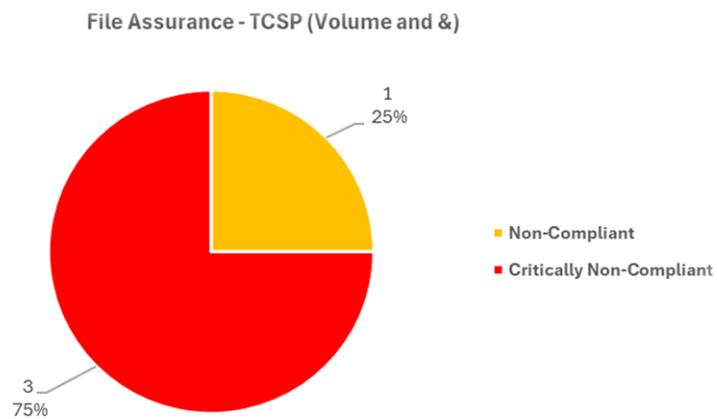
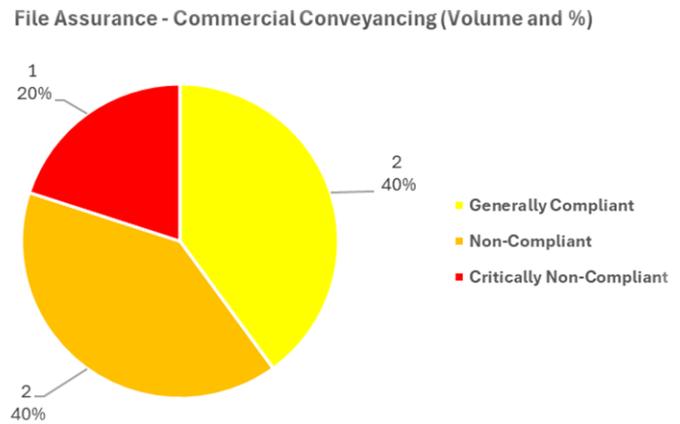
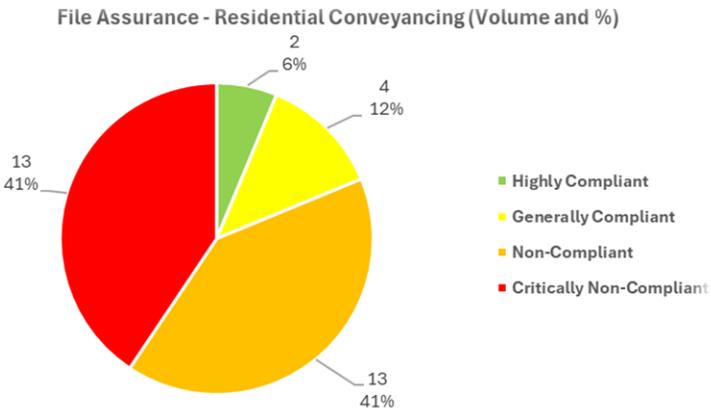
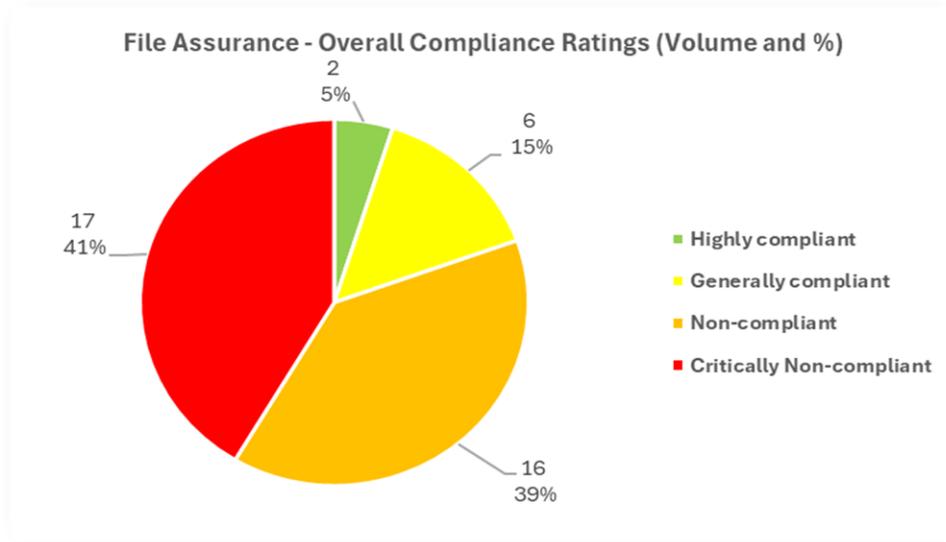


Schedule 1.3 Outcomes - Processes, Controls and Procedures (Volume and %)



These **8** reviews included **41** file reviews undertaken across higher risk areas of Residential & Commercial conveyancing and Trust and Company Services such as, Provision of Registered Office/Company Secretary.

The below graphs demonstrate the spread of assurance gradings in relation to file assurance ratings and also as split by file type.



### *High-Risk Disciplinary Outcomes:*

When the AML team is deciding whether or not to refer practices to the Society's AMLSC, relevant factors are considered such as the size, nature and risk profile of the practice, the duration of any non-compliance findings, the attitude/conduct of the practice in light of the findings and assurance process and, any previous findings, amongst other factors.

These factors are also used by the AMLSC in determining outcomes of their deliberation, including any disciplinary sanction.

Such potential sanctions include:

- No further action
- Further inspection at the Society's expense
- Reinspection of the practice at their own expense
- Referral of a conduct complaint for breaches of the Money Laundering Regulations
- Ordinary interview
- Suspension Interview
- In certain circumstances it is possible for the Society to apply to the Court of Session for the appointment of a Judicial Factor over a practice unit.

More than one sanction can be applied.

Within the relevant period, the following actions have been taken:

- **7/8** Practices subjected to the full assurance reviews were referred to the AMLSC. This resulted in:
  - **3** members being invited for Section 40 Interviews resulting in the suspension of 2 solicitors.
  - **3** practices having a referral of a conduct complaint against their MLRO.
  - **2** MLRO's being invited for an informal interview resulting in a reinspection being planned.
  - **5** future re-inspections at the expense of the practice
- 4 inspections were also subject to a programme of timed remediation overseen by the AML team.

### *Single File Review Ratings & Disciplinary Outcomes*

**1** Single File Assurance review (undertaken as a standalone review outwith the full high risk inspection process) was completed in full.

The file reviewed related to the Residential conveyancing workflow.

- A further **15** Single Files were triaged by the AML team by obtaining and scrutinising further information from the practice, with no further action undertaken following this process. In each of these instances however, the practices were provided further advice and guidance relating specifically to the matters/files reviewed.

*Outcome:*

- **1** Practice subjected to a Single File assurance review was referred to the Society's AMLSC. The outcome determined that a full Assurance review should be conducted by the AML team. This has been added to pipeline workstack.

Low Risk and Thematic Assurance Outcomes

*Outcomes:*

- **45** Reviews of Low-Risk Attestation documentation obtained from practices in lower risk categories have been conducted with advice and guidance provided to the practices.

**Assurance – General Observations**

The Law Society of Scotland's AML Team understands that AML is **not** a zero-failure regime. While the AML team recommend swift and direct disciplinary action where necessary, the wider intention of our supervisory work is to help build a Scottish legal sector which is engaged with the issues around AML and which understands its risks and obligations and therefore organically applies itself to the suppression of financial crime through adequate, effective and compliant policies, controls and procedures.

Through our AML assurance work and frequent engagement with the profession, the AML team continues to make observations on areas requiring improvement in understanding and underlying compliance.

Themes identified through Assurance Reviews, PCP Thematic and Low Risk Attestations continue to include:

- No evidence of **Senior Management/Partnership engagement** with AML issues such as the review and documented approval of PCPs.
- A lack of **detail contained within Practice Wide Risk Assessments (PWRAs)** which leads to limited effectiveness in terms of application of a risk-based approach.
- An absence of PCPs that clearly demonstrate **customer due diligence should be holistic in nature** and tailored to mitigate the risks present in the client and/or transaction – leading to failure to identify and undertake appropriate due diligence to mitigate specific risk at a client/matter level.

- The importance of **assessing and documenting risk at a client/matter level**, including nature, background, and circumstances
- A general misunderstanding of the additional measures required in higher-risk situations – i.e., what constitutes effective '**Enhanced Due Diligence**'.
- Inability to effectively demonstrate understanding of the definitions and the application relevant to **Source of Funds/Source of Wealth checks** – and in what circumstances these are appropriate.
- A misunderstanding regarding **Beneficial Ownership** (including definitions, dilution issues and what is meant by 'ultimate beneficial ownership') and associated CDD requirements.
- Issues regarding contemporaneous, comprehensive and compliant AML-related **record-keeping and document management**.
- A lack of **understanding regarding AML technology** deployed.

*Continuing Supervisory Action to Address Weaknesses:*

The AML team continue engagement with the Scottish legal profession regarding the requirement to improve in these areas of AML Compliance. This is undertaken through:

- The use of observations and findings gained from assurance work and thematic reviews as the basis for supervisory publications and materials intended to guide and support the profession e.g., FAQs, toolkit items, blogs and Dear MLRO letters on specific topics.
- Ongoing dialogue with practices during the course of supervisory assurance reviews.
- AML presentations, conferences and seminars given.
- General queries and concerns raised and answered through the AML team Mailbox and Call Queue.

## 4. Response to Financial Sanctions Regimes

The situation in Ukraine continued to dominate the news headlines throughout the reporting period, and the role of the legal profession and regulators has been under ongoing scrutiny in relation to their response to events.

The AML team at The Law Society of Scotland recognises the expectation to assess the profession's exposure to sanctions, whilst balancing this with the fact we are not a Sanctions Supervisor.

Ongoing assurance has been undertaken set against Money Laundering Regulations 2017, **r.33(6)(c)(iii)**:

*“When assessing whether there is a high risk of money laundering or terrorist financing in a particular situation, and the extent of the measures which should be taken to manage and mitigate that risk, relevant persons must take account of risk factors including, among other things— geographical risk factors, including— (iii) countries subject to sanctions, embargos or similar measures issued by, for example, the European Union or the United Nations”*

As an effective AML supervisor, LSS must ensure that practices are assessing exposure to these jurisdictions effectively and that the extent of the enhanced due diligence measures they take manages and mitigates any associated risk.

This remains an ongoing monitoring and awareness piece for the team.

## 5. AML Training, Competency & Continuous Improvement

To ensure the ongoing competence of the AML team and others involved in AML supervision, we continue to upskill, engage with training providers and undertake relevant training where appropriate.

### External Training

Within the reporting period the team has commissioned bespoke, specialist AML supervisory training via a third-party AML expert training provider. This training included an update on the AML landscape globally, as well as a review of the team's current processes, reporting standards and support to the AMLSC regarding its supervisory function.

To share learnings, experiences and inputs, the team also extended invites to other Public Body Supervisors (PBS') to attend.

### Additional Training

During the reported period the following additional training/upskilling measures have included:

- Engagement with external contacts at HMRC seeking to arrange potential cross supervisor training relating to intelligence sharing and analysis best practices.
- Two members of our AML team remain trained to International Compliance Association (ICA) AML Diploma standard, and regularly participate in continued professional development and training courses specifically related to AML.
- One further member of the team is currently working their way through the ICA AML Diploma standard and will complete the course in 2024.
- The remaining two members of the team who are not currently trained to ICA Diploma level are scheduled to undertake this training in future.
- Three members of the team visited the Solicitors Regulation Authority as a cross-learning exercise in October 2023.
- The AML team conducted a Knowledge Sharing session in June 2023 for Regulation directorate colleagues. This involved providing a general update on AML, as well as a reminder on obligations to submit a Suspicious Activity Report when required.
- The team attended a webinar on ownership and control run by OFSI in November 2023.
- The Law Society of Northern Ireland visited the team in October 2023.

- Some of the team completed online courses run by Edinburgh College on Managing Effective Meetings and Resilience.

## 6. Intelligence Sharing & Participation in National AML Supervisory Forums

The Law Society of Scotland continues to be an active member of key national AML supervisory forums, these include:

- The national AML Supervisory Forum (AMLSF) alongside other relevant stakeholders including *Law Enforcement, Professional Body Supervisors, HMRC, The FCA, HM Treasury* and *OPBAS*.
  - The Head of AML at LSS had also assumed the role of chair of this group in 2024.
- The Legal Sector Regulators Forum
- The Legal Sector AML Affinity Group (LSAG)
- The National and Regional Legal Sector Information Sharing Working Groups (ISEWGs).
  - *The Legal Sector ISEWG works to improve information sharing (regarding both AML risk trends and specific threats) between law enforcement and AML supervisors, so contributing to our risk-based approach.*
- OFSI's Legal Sector Engagement Forum on Sanctions.

Membership of these forums allows LSS not only to monitor sectoral and national AML developments, issues and trends but also to help promote collaborative working, information-sharing and, joined up consistency in supervisory efforts cross-sector. It also helps ensure that ongoing and productive gateways/contacts with key stakeholders are maintained.

The AML team at LSS also previously led the efforts to develop and publish fully revised and updated legal sector AML guidance and remain active participants in relevant aspects of the Government's Economic Crime Strategy.

The Society also has intelligence & data sharing agreements with Police Scotland and Regional HMRC FIS unit, based at Gartcosh. The agreements add operational colour to the terms of r.52 of the MLRs, and their proactive use will be explored in future annual reports.



## 7. Reporting Breaches & Concerns

In response to our obligation under **r.46** to take effective measures to encourage the sector to report breaches, the Society operates a reporting concerns hotline.

The hotline allows anonymous concerns to be disclosed by any person (the public, solicitors or others working in the legal sector) via a phonenumber and/or a dedicated webpage contact form. These channels are monitored and managed by the Society's public communications team with agreed escalation routes to the Director of Financial Compliance.

### Reporting Concerns – Key Numbers

- *13 reports received by Director of Financial Compliance*
- *2 reports on one firm resulted in an AML inspection*
- *7 reports (5 firms) resulting in accounts rules inspections*
- *2 reports resulted in enquiries into possible “holding out” as a solicitor – “policing the perimeter”*
  - *2 reports resulting in no further action being taken*

All concerns reported are all assessed for AML relevance, a number of reports received during the relevant period were found to be unrelated to AML and where appropriate, reporters were advised by the Society to consider a complaint to the Scottish Legal Complaints Commission (SLCC).

Other official and unofficial channels for reporting breaches or concerns are also available and open to the profession. We have, for example, included a specific section in the AML Certificate which asks respondents to share relevant information or intelligence which may help the Society mitigate AML risk within the sector.

## 8. Suspicious Activity Reporting by The Law Society of Scotland

Under **r.46(5)** obligations we are obliged to submit Suspicious Activity Reports (SARs) where we have knowledge or suspicion, or reasonable grounds for suspicion, of money laundering. We consider this to be an essential element of our supervisory duties, and an important gateway by which we share intelligence with law enforcement agencies.

During the reporting period, LSS submitted **18 SARs** to the National Crime Agency (NCA), based on information gathered and suspicions arising from our inspection work and other activities.

### SAR Reporting – Key Numbers

- *18 SARs were disclosed to the National Crime Agency (NCA).*
- *6 SARs raised directly to MLRO by other members of staff leading to disclosure to the NCA.*
- *14 SARs were the result of internal discussions within LSS leading to disclosure to the NCA*
  - *4 SARs featured suspicion relating to Chinese Money Laundering linked to Conveyancing.*
  - *6 SARs related to other matters involving Conveyancing.*
- *8 SARs related to Miscellaneous fraud concerns including – Bounce Back Loans, Tax Evasion, Property Matters and Insolvency.*



## 9. Guiding the Profession

The AML team continues to engage with the Scottish legal profession in order to provide guidance and ensure that relevant areas of improvement toward AML compliance requirements are delivered and understood.

Ways in which the AML team meets this objective include a number of initiatives such as:

- Extensive AML support section and sub-sections on [The Law Society of Scotland Website](#). Recent updates to our FAQ's include:
  - *"My client is looking to fund a purchase/activity with crypto currencies/assets, what should I do?"*
  - *"What type of breaches must I report?"*
  - *"Is there any guidance available regarding identifying and verifying transgender, intersex or non-binary individuals?"*
- AML presentations, conferences and seminars including requested local faculty visits/roadshows across Scotland, as well as visits to universities to speak with Law Students on the importance of AML.
- The team participated in numerous insight days run by the Society covering all things AML for school pupils, LLB/Diploma students and graduates
- General queries and concerns raised through the AML team Mailbox and Call Queue.
- The launch and continued upkeep of [refreshed Client and Matter Level Risk Assessment \(CMLRA\) templates](#) for both natural and non-natural clients and matters and accompanying guidance notes to assist with completion.
- Launch, and continued upkeep of a new set of [templates for the profession](#) to use covering AML Policies, Controls and Procedures.
- We have contracted the use of ICAEW video – *"All too Familiar"* which is used to draw attention to regulatory concerns and common missteps within AML regulated businesses. This has now been shared with our entire membership.
- A range of 'Spotlight on' [blogs](#) which covered topics such as Human Trafficking, Terrorist Financing, Holistic due diligence and Training.

The AML team also continues to make the most of their extensive presence on social media platforms such as LinkedIn, issuing and promoting relevant AML-related information, new website content, sources of support and other topical

information to both the profession and the wider stakeholder community.

The AML team recognises that the non-assurance work undertaken is also of significant importance in the context of the wider support the Society offers its supervised population and as illustrated here, this can range from specific assistance to practices on AML matters, ad hoc queries, webinars, conferences and national projects.

### **Case studies:**

#### Out of Scope Practices:

The AML team wanted to test that practices who had confirmed they were exempt from our supervision were not participating in any of the activities covered by the Money Laundering Regulations 2017. In order to do this the team undertook research on those practices who declared themselves out of scope. Upon conducting the research, the team discovered that two practice units were conducting activities that were in scope of the Money Laundering Regulations 2017.

#### OFSI Legal Sector Engagement Forum

OFSI liaised with the AML Team in April-May 2023, advising of their intention to form a Legal Sector Engagement Forum on financial sanctions based on feedback they had had from the profession.

We voiced to OFSI that this was indeed an idea of merit and that we would get the Scottish Solicitor profession on board by issuing communications and invites.

The first forum took place in April, they now take place every quarter. This is a space for the profession to ensure financial sanctions are properly understood, implemented and enforced in the UK as well as enhancing engagement directly with the legal sector and OFSI.

### Conveyancing Involving Funds from China

Following strong intelligence and evidence of money laundering through Scottish properties associated with Chinese underground banking networks, the Society has undertaken significant supervisory communications and assurance work in this area.

While the Society recognises the legitimacy of the majority of conveyancing with a Chinese nexus - and does not advocate a “de-risking” approach based solely on ethnicity, residency or nationality - we have emphasised the importance of conducting thorough due diligence on the Source of Funds involved in such transactions, along with making clear that practices must possess the requisite skills and knowledge if undertaking work in this area.

As a result of this work, we have seen a significant reduction in the number of practices engaged in such transactions from 84 practices reported in the 2022 AML Certificate to 24 practices in 2023.

We believe this evidences the effectiveness of our supervisory approach in this area.

## 10. Supervisory Reform, Continuous Improvement & A Look Ahead

### Economic Crime Reform

We continue to actively participate in the Government's Economic Crime reform agenda and during the relevant period provided a response to the forthcoming HM Treasury consultation regarding the structure of the UK AML supervisory regime.

As stated in last year's report, we have made clear we are open and amenable to reform where it aligns with our stated objective of modern, effective regulation, and we believe such reform is in the public interest and ensures public trust in the profession.

We do not oppose additional powers being granted to OPBAS, or the consolidation of the Professional Body Supervisory framework if undertaken on a devolved basis. We do, however, oppose national consolidation given the separate legal and regulatory frameworks on which the regulation of Scottish solicitors is undertaken.

We oppose the potential creation of a single professional services or all-encompassing AML supervisor as we believe these options would be detrimental to the effectiveness of the UK AML infrastructure, with significant and undue cost, operational and legal issues to overcome. We also hold significant concerns regarding the independence of the legal sector should any such body be accountable directly or indirectly to the UK government.

We note a decision is yet to be made - whilst this consultation takes place, we remain resolutely committed to discharging our AML supervisory obligations in a responsible and effective manner.

### Continual Improvement

The relevant period saw the AML team introduce considerable changes and further improvement to the way in which we discharge our AML supervisory responsibilities.

We have welcomed OPBAS oversight in supporting our continuous improvement plan and have engaged constructively with them regarding their findings. We continue to update and strengthen our processes following OPBAS input.

Several new processes have been implemented, and are now embedded – for example, in the relevant period we extended our supervisory reach further into our lower risk population through the issuance of attestations and following up with sample-based review of Policies, Controls and Procedures.

We have also extended and enhanced data verification and checking of AML certificate returns – looking for anomalies, outliers and test checking using open

and closed sources. We have contacted practices to query information supplied, and where required, sought an explanation of for errors submitted.

We have enhanced our assurance approach by incorporating further scrutiny and assessment of overall practice unit AML culture & effectiveness, along with key person supervisory interviews.

### *A Look Ahead into 2025*

Following the success of the [AML Thematic on Review of Policies, Controls and Procedures](#), the AML team are currently working closely with the UK Financial Intelligence Unit, undertaking a further thematic looking at volumes and quality of Suspicious Activity Reports generated by the Scottish solicitor profession, and the understanding of SARs and their requirements in general. We reassert that the effective reporting of SARs by regulated entities is of paramount importance and is central to the effectiveness of the AML system. This was launched in May and initial findings have been released.

As our first round of reviews across higher-risk practices concludes (and we therefore gain increasing comfort with the compliance and standard of AML policies, controls and procedures across the supervised population) we look forward to increasing focus on the proactive use of intelligence-sharing arrangements, including recently signed agreements signed with HMRC and Police Scotland, to enhance our supervisory effectiveness and approach.

We will also be able to dedicate increasing time to reviewing the effectiveness of PCPs “on the ground” by dialling up our scrutiny of files, or particular areas of higher risk across the population.

2025 will be another significant year both in the implementation of the UK’s wider Economic Crime plan and in preparation for the follow-up to the FATFs 2018 Mutual Evaluation of the UK. We look forward to playing our full part in both, along with being actively engaged with ongoing Companies House reforms, including the roll out of Authorised Corporate Service Provider (ACSP). We also continue to partner the National Economic Crime Centre (NECC) on the Cross-System Professional Enablers Strategy 2024-2026.

We look forward to further strengthening our relationships across our membership and the wider external stakeholder community to ensure the Scottish legal profession continues to be a hostile environment to launder the proceeds of crime.