



AML inspection guide

How to prepare for an anti-money laundering (AML)
inspection

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Meet the AML team



Graham MacKenzie, Head of AML

Graham has 18 years' experience in a wide variety of financial crime-related roles within the financial sector and joined the Society seven years ago. Graham leads and supports the team in their day-to-day work, and works closely with HM Treasury / Government, other supervisory bodies and law enforcement on various anti-money laundering initiatives, including Legal Sector Affinity Group (LSAG) guidance.



Dale Trahms, AML Risk Manager

Dale spent 14 years working within the financial services sector. She gained an interest in anti-money laundering early in her career, spending the last 12 years working within the anti-money laundering and financial crime space for a large bank.



Jenni Rodgers, AML Risk Manager

Jenni graduated with a degree in Scots Law and intended to practise law before being bitten by the compliance bug. She has over six years' experience within anti-money laundering and financial crime, having spent time with HM Revenue and Customs in its capacity as an AML supervisor and within the AML team of a global legal firm.



Emma Cairns, AML Risk Manager

Emma has over 24 years' experience working in anti-money laundering and financial crime prevention roles, which include 16 years working in a large corporate legal firm, 14 months in a private client legal firm and over seven years working in the financial sector.



Stewart Rowles, AML Risk Manager

Stewart is ex-military having served in the British Army Intelligence Corps for 22 years. Since his army days Stewart has worked in Corporate Security, Financial Services with Credit Suisse and HSBC predominantly in Financial Crime, Assurance and Operational Risk. Stewart also has an LLB in Law.

Our statutory basis and objectives

The Law Society of Scotland is the Professional Body AML Supervisor for Scottish solicitors. Our AML supervisory authority status is ratified by HM Treasury and discharged through the Solicitors (Scotland) Act 1980.

The Act gives us disciplinary powers and entitles us to issue Practice rules by which practices must abide. These include Practice rule B9: “Money Laundering & Terrorist Financing”. Key provisions include:

- / A duty to comply with Money Laundering Regulations (MLRs)
- / Records required to be kept
- / A duty to co-operate with supervisory inspections

Our risk-based AML inspection regime centres on assuring practices are compliant with the requirements of the MLRs, along with HM Treasury approved AML guidance for the legal sector (Legal Sector Affinity Group guidance).

Why is this important?

- / Through this regime we work to **protect the public and the local communities we all live and work in**, as well as ensuring our members meet the highest legal and ethical standards in this area.
- / We work to **minimise the risk of criminals using the Scottish legal profession** to launder the proceeds of their crimes.
- / By doing so **we promote and protect the public interest** and ensure public **trust in the legal profession**.

What types of inspections do we conduct?

We conduct different types of risk-based inspections to ensure compliance against the Money Laundering Regulations and Legal Sector Affinity Group guidance requirements. These include:

- / **Full assurance inspections**
- / **Re-inspections (full or limited in scope)**
- / **Risk-based single file reviews**
- / **Thematic reviews**
- / **Attestation statements**

Over the coming slides, each inspection type will be explained in detail, highlighting what the inspection is for and what happens during the inspection process.

Full assurance inspection

What is it?

A full assurance inspection **tests the adequacy** of a firm's Practice Wide Risk Assessment, Governance and Policies, Controls and Procedures (PCPs) set against fundamental Money Laundering Regulation (MLR) requirements and the HM Treasury-approved Legal Sector Affinity Group (LSAG) AML guidance.

A **sample review of client/matters** is also undertaken against MLR and LSAG requirements, to measure the effectiveness of AML controls that the practice unit has in place.

The AML team will also assess the **AML culture and effectiveness** at the practice by undertaking interviews of the MLRO/MLCO, partners and potentially other key individuals at the practice who are responsible for AML compliance.

We will conduct such reviews;

- / As part of our overarching risk based AML supervisory assurance regime or
- / On receipt of specific information or intelligence.

Full assurance inspection process

What is involved in this inspection?

The practice MLRO will be contacted by a member of the AML team advising that the practice has been selected for an inspection, which consists of three parts.

Part 1

- / An inspection notification email will be sent to the MLRO, which will include Terms of Reference, along with guidance and details of the information required to allow us to conduct our assurance inspection (please see appendix 1). This will also request high level details of clients and matters the AML team will sample from.
- / We will request that the MLRO provides us with the required information / documentation within a standard three-week timescale.

Part 2

- / Following receipt of information requested in Part 1, the AML team will also then request a specified sample of client/matter documentation for review (please see appendix 2).
- / We will request that the MLRO provides us with the required information / documentation within a standard three-week timescale.

Full assurance inspection process (continued)

Part 3

- / Members of the AML team will also organise and conduct an interview with the MLRO/MLCO and potentially others at the practice, who are responsible for AML compliance.
- / This may cover any further questions and follow-up on the inspection process and preliminary findings, and will allow us to test the knowledge, awareness and experience of those primarily responsible for AML compliance.
- / Outcomes from this discussion will form part of our assessment of AML culture and effectiveness at the practice, issued at final report stage.

Next steps following preliminary review

- / A preliminary report will be issued to the MLRO for review.
- / We will request that the practice provides a response and any further evidence for us to consider within a standard three-week timescale.
- / Following review and consideration of any practice unit response, a final amended report will be issued to the practice, along with any next steps, remedial action to be undertaken or referral to our AML Sub-Committee (where appropriate).
- Please see appendix 3 for a process flow of this inspection type.

Re-inspection

What is it?

Re-inspections are undertaken to ensure **remedial action has been undertaken and completed** following the previous inspection, and that compliance against AML requirements has been achieved.

What is involved in this inspection?

- / Re-inspections can comprise of a full or limited-scope inspection of a practice that has been previously inspected.
- / Re-inspections can be limited in scope, in order to review remediation of specific areas of non-compliance raised at any previous inspection. For example, policies, risk assessment, governance etc.
- / They can be directed by the AML team or the Law Society's AML Sub-Committee. Where directed by the sub-committee, it may be undertaken at the practice unit's expense.
- / The **specific requirements** of practices, such as document submission and timescales, **will vary** depending on the circumstances, whether it is a full or limited in scope re-inspection.
- Please see appendix 4 for a process flow of this inspection type.

Single file review

What is it?

In addition to the general AML assurance regime, we may choose to request and **review a single file or a defined set of client/transactional files** from a practice, instead of undertaking practice-wide AML assurance activity.

We conduct this type of inspection for a variety of reasons, such as:

- / A specific issue or client / matter has been identified for review through analysis of AML Certificate information or other submissions to the Society, such as thematic reviews.
- / Action on receipt of specific information or intelligence.
- / This type of assurance will review the file or files in light of Money Laundering Regulations and LSAG Guidance. The process is set out on the next slide.
- / It may be that initial findings of a focused file review leads to the widening of the scope of review. This could include further files or a more practice-wide high-risk AML assurance review.

Single file review process

What is involved in this inspection?

- / As a courtesy the practice MLRO will be contacted by a member of the AML team to notify of a forthcoming request.
 - / A notification email will then be sent to the MLRO, which will include a high-level information spreadsheet detailing what information is required to be submitted for review.
 - / We will request that the MLRO provides us with a response along with the requested information within a standard two-week timescale.
 - / The AML team will review documentation/evidence submitted against key Money Laundering Regulations and Legal Sector Affinity Group guidance requirements and provide a preliminary report to the MLRO on their findings.
 - / We will request that the MLRO provides a response to the preliminary report within a standard two-week timescale.
 - / Following review and consideration of the practice unit's response, a final amended report will be issued to the practice, along with any next steps, remedial action to be undertaken or referral to our AML Sub-Committee (where appropriate).
- Please see appendix 5 for a process flow of this inspection type.

Thematic review

What is it?

Thematic reviews are **sample-based reviews focused on specific areas** of the Money Laundering Regulations (MLRs) and Legal Sector Affinity Group (LSAG) guidance. These reviews help us identify and assess specific current and emerging AML risks within the regulated population, and the robustness of AML controls within firms. They also allow us to gain insight into how the profession complies with obligations under the MLR and LSAG guidance.

What is involved in this inspection?

Thematic reviews typically involve:

- / An information gathering exercise, where the AML team will send a request for documentation to a selected group of practices, mostly likely via a questionnaire/survey. Practices will have four weeks from the date of the email to submit the information.
- / The AML team will analyse the responses and collate findings. Once this is done, selected onsite visits, staff interviews and file sampling may be conducted.
- / A report will be written highlighting our overall anonymised findings, with key areas for improvement and practical help and support for firms to aid compliance. The report will be published on our website to benefit the wider regulated population with the information they need to mitigate risks or issues found. Detailed, individual findings will be fed back to the practices selected for review.
- Please see appendix 6 for a process flow of this inspection type.

Attestation statement

What is it?

These reviews allow us to gain **insight into how the profession complies with obligations** under the Money Laundering Regulations (MLRs) and Legal Sector Affinity Group (LSAG) and LSAG guidance.

What is involved in this inspection?

- / The AML team will contact a selected group of practices that may not fall under the scope of our full AML inspection process to complete an attestation statement.
- / Practices selected are asked to return the attestation document stating their compliance with various areas of the MLR and LSAG guidance.
- / We will request that practices provide this attestation within a standard five-week timescale.
- / A cohort of these practices will be asked to provide documentary evidence in support of their attestation, which will be reviewed by the AML team.
- / Responses will also be cross-referenced against the information submitted by practices via the AML Certificate.
- / Practices may then be contacted about their original attestation, with remedial action being instructed. In some cases, a referral to our AML Sub-Committee may be made.
- Please see appendix 7 for a process flow of this inspection type.

How to prepare for an inspection

LSAG Guidance Key Compliance Principle 9 states:

“Procedures (including robust, easily accessible record keeping) must be in place to ensure comprehensive and timely reporting and submissions to relevant supervisory authorities.”

In order to prepare for an inspection, practices should familiarise themselves with the documentation and information that would be required for each type of inspection, as per the information provided in this guide.

Practices should consider whether:

- / all documentation and requirements are held and consideration made to any remedial action required the practice is aware of and wants to notify the Society about pre-emptively.
- / all documentation in support of AML controls at the practice are organised and held in a central location, easily accessible and clearly labelled should the Law Society carry out an inspection.

Please note that having AML record-keeping in good order will benefit the practice should you ever be selected for an inspection, minimising the operational impact of the inspection on the practice.

How to provide the requested documents

Practices should submit the requested documents to the Law Society via our **secure portal facility or egress encryption**. Full details on how to do this will be provided by the AML team.

All **files should be clearly labelled**. For example:

- / Risk assessment should be in the style of: Risk Assessment – Client Name
- / Photographic ID should be in the style of: Passport – Client Name

When **providing information on specific matters**:

- / Only provide information pertaining to the matter in question, ensuring that details of other matters are not contained in the information provided.
- / Non AML-related documents or material are not required.

A brief summary file note of key client details and a description of the matter is extremely useful and may minimise impact on the practice by eliminating further enquiry by the AML team.

Documentation we look for (appendix 1)

Full Assurance Inspection Part 1

- / Practice-wide Risk Assessment
- / AML policy and any related controls and procedures
- / Client / matter risk assessment templates and forms
- / ID&V / CDD templates & forms
- / High Risk / Politically Exposed Persons (PEP) registers
- / Suspicious activity report (SAR) reporting forms / templates
- / AML training materials and records
- / Practice's partnership, management and employee structure
- / MLRO reports / Risk Management Committee minutes
- / Independent audit function procedures, findings and results
- / Details of any AML Electronic Verification Systems used
- / Details of any sanctions / PEPs / adverse media systems used
- / Data protection and record keeping policies and procedures
- / Evidence that the policies, controls and procedures have been approved by the board or the equivalent
- / Evidence that the policies, controls and procedures have been communicated to all staff
- / If relevant, evidence that the practice-wide risk assessment has approved by the board, or the equivalent
- / Evidence that the board, or its equivalent, receive periodic reports from the MLRO
- / Evidence that compliance with the Money Laundering Regulations is a standard agenda item at board meetings, or the equivalent

Documentation we look for (appendix 2)

Full Assurance Inspection Part 2

- / Terms of business / letter of engagement issued to the client
- / All AML risk assessments conducted on the client/matter, including any considerations regarding the purpose and nature of the transaction(s)
- / Identification and verification documentation for all individuals and corporate bodies related to the matter
- / Ownership structures, where applicable, plus the registers to evidence their management and control
- / Evidence of the source of funds / wealth checks conducted
- / Evidence of screening undertaken. For example, PEP status, sanctions, adverse media.
- / Any other due diligence materials as applicable, such as ongoing monitoring, reliance etc.
- / Internal and external emails relating to AML requests and discussion on the matters
- / Proof that the property was acquired

Full assurance inspection process (appendix 3)

Step 1

The practice MLRO will be contacted by a member of the AML team advising that the practice has been selected for an inspection.



Step 2

The MLRO will be sent an inspection notification email, along with guidance and a request for Part 1 information / documentation (please see appendix 1).



Step 3

We will request that the MLRO provides us with the required information / documentation within a standard three-week timescale.



Step 4

Following receipt of the Part 1 information / documentation, the AML team will then request Part 2 information, a specific sample of client/matter documentation for review (please see appendix 2).

Step 5

We will request that the MLRO provides us with the required documentation within a standard three-week timescale.



Step 6

Part 3 of the process will involve an interview between members of the AML team (the inspector(s)) and the MLRO/MLCO and potentially others at the practice.

Please note -the interview may be conducted at any time during the inspection).



Step 7

A preliminary report will be issued to the MLRO for review. We will request that the practice provides a response and any further evidence to be considered within a standard three-week timescale.



Step 8

Following review of the Practice Unit response, a final report will be issued to the practice, along with any next steps, remedial action to be undertaken or referral to our AML Sub-Committee (where appropriate).

Re-inspection process (appendix 4)

Step 1

Re-inspections comprise of conducting a full or limited-scope assurance inspection of a practice previously inspected.



Step 2

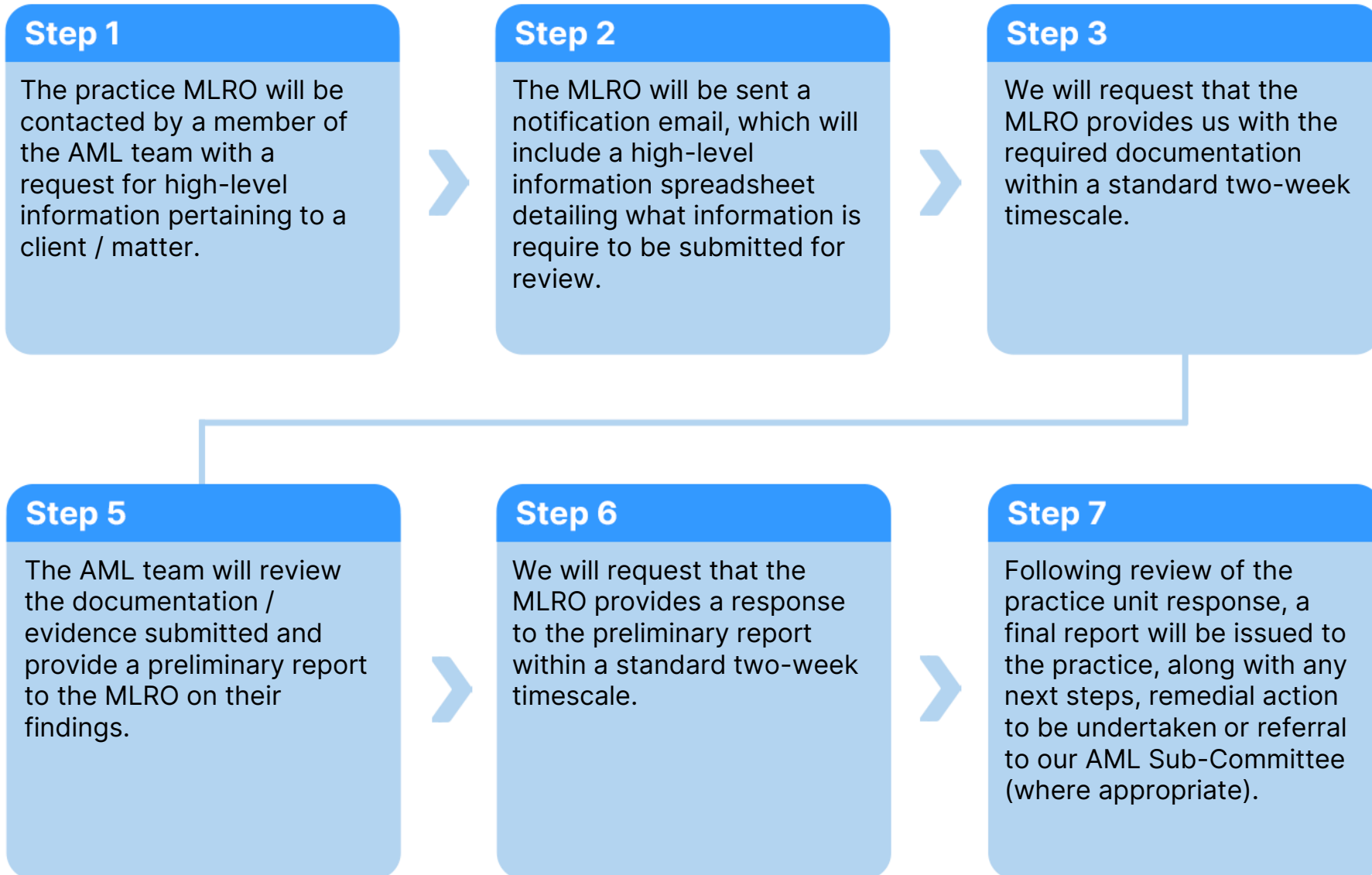
Specific requirements of practices in terms of document submission and timescales will vary depending on the circumstances, whether the inspection is a full inspection or limited in scope.



Step 3

These inspections can be directed by the AML team or the Law Society's AML Sub-Committee. Where directed by the sub-committee, it may be undertaken at the practice unit's expense.

Single file review process (appendix 5)



Thematic review process (appendix 6)

Step 1

The practice MLRO will be sent a request for documentation from the AML team, most likely via questionnaire / survey, giving a submission date of four-weeks from the date of the email.



Step 2

The AML team will analyse these documents and collate findings. Once findings have been collated, selected onsite visits, staff interviews or file sampling may be conducted.



Step 3

The MLRO will be issued a report highlighting our overall anonymised findings, along with key areas for improvement.

Attestation statement process (appendix 7)

Step 1

Practices that may not fall under the scope of our full AML inspection process will be contacted to complete an attestation statement.



Step 2

The selected practices will be asked to return an attestation document stating their compliance with various areas of the MLRs and LSAG guidance within a standard five-week timescale.



Step 3

A cohort of these practices will be asked to provide documentary evidence in support of their attestation, which will be reviewed by the AML team. Responses will be cross referenced against the information submitted via the AML Certificate.



Step 4

The practice unit may then be contacted about their original attestation, with remedial action being instructed. In some cases, a referral to our AML Sub-Committee may be made.