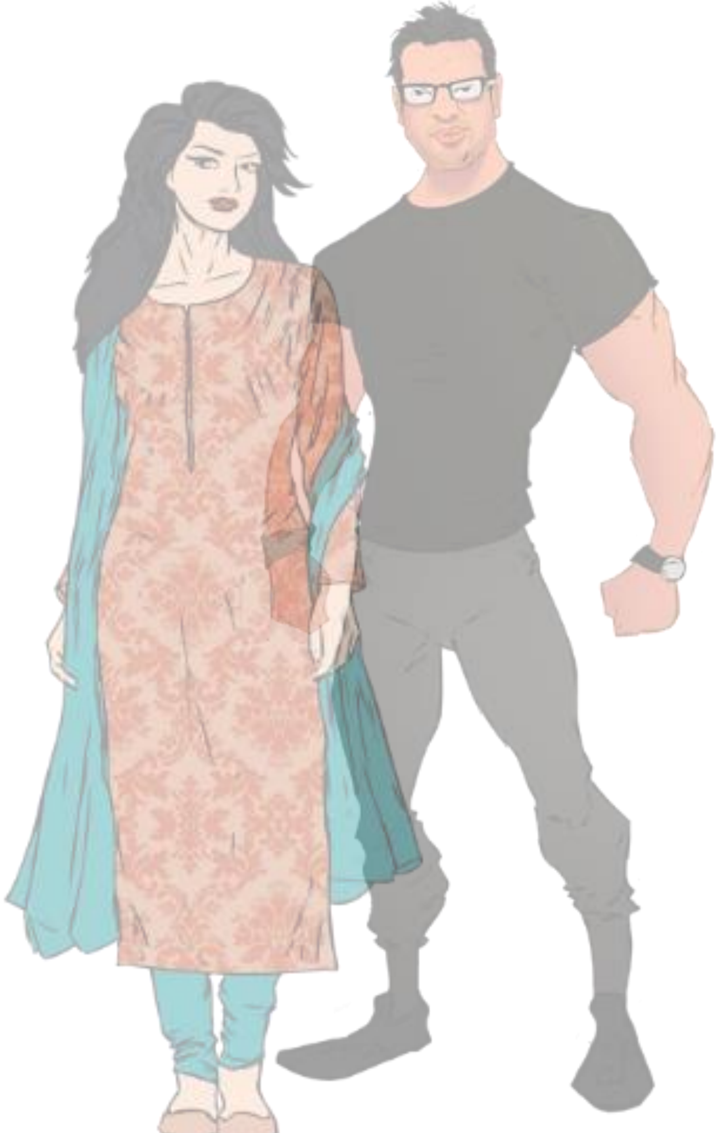
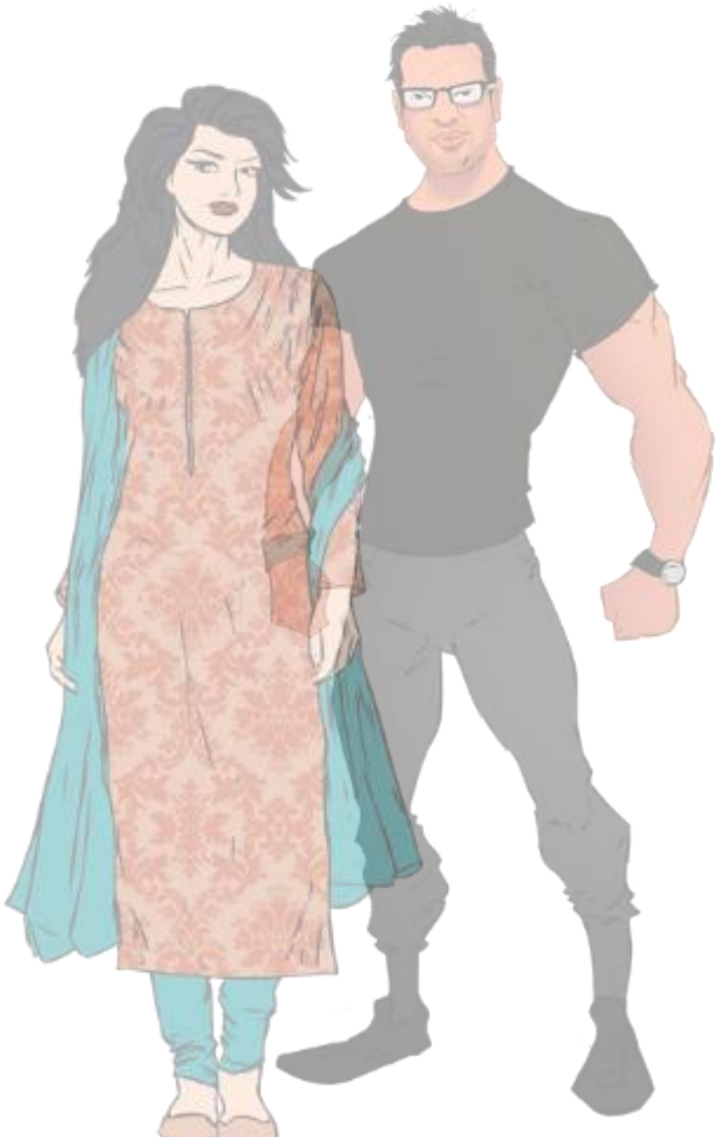
Chapter 7

Money Laundering



Money Laundering:

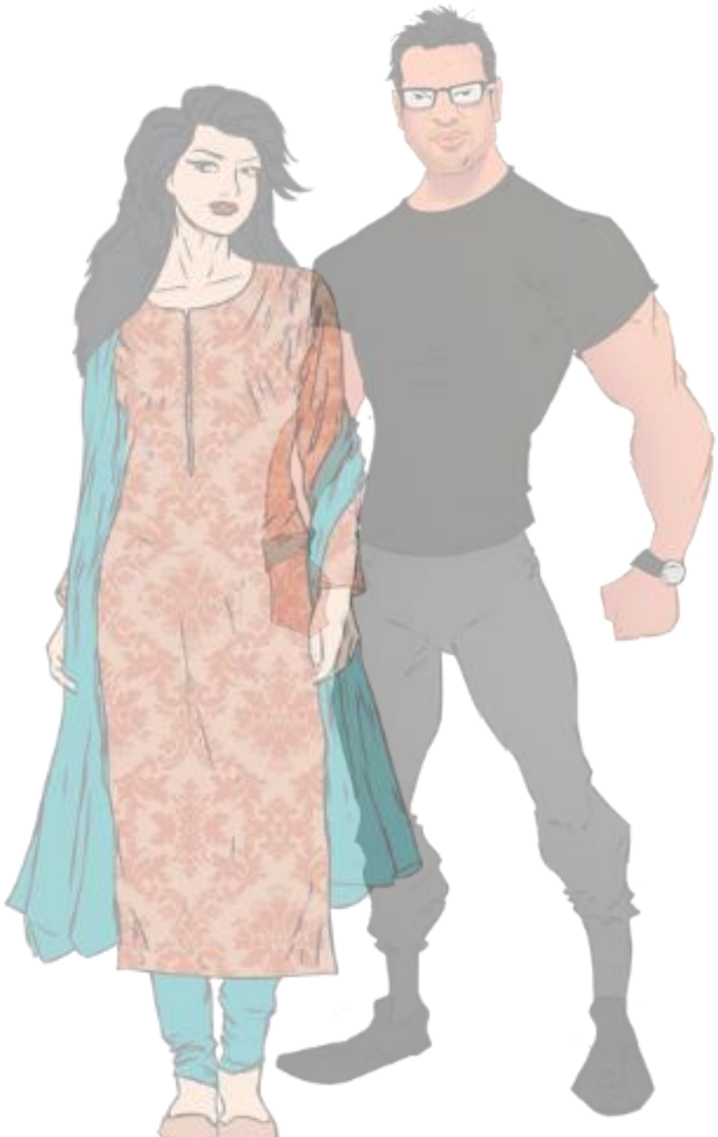
Money laundering is the process by which criminals attempt to conceal the true origin and ownership of the proceeds generated by illegal means, allowing them to control over the proceeds and ultimately, providing a legitimate cover for their sources of income.



Stages of Money Laundering:

There are Three stages of money Laundering

1. Placement
2. Layering
3. Integration

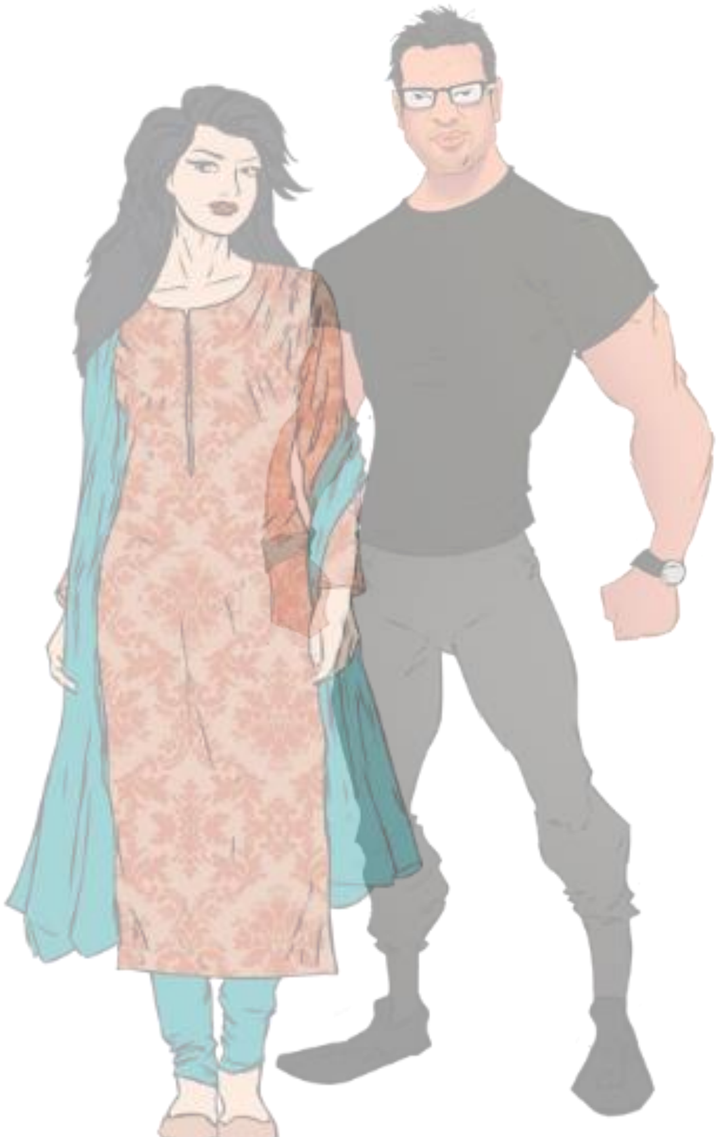


Placement:

Where funds obtained through criminal activity is first placed into the financial system.

Layering:
Where the illegal cash is disguised by passing it through complex transactions making it difficult to trace

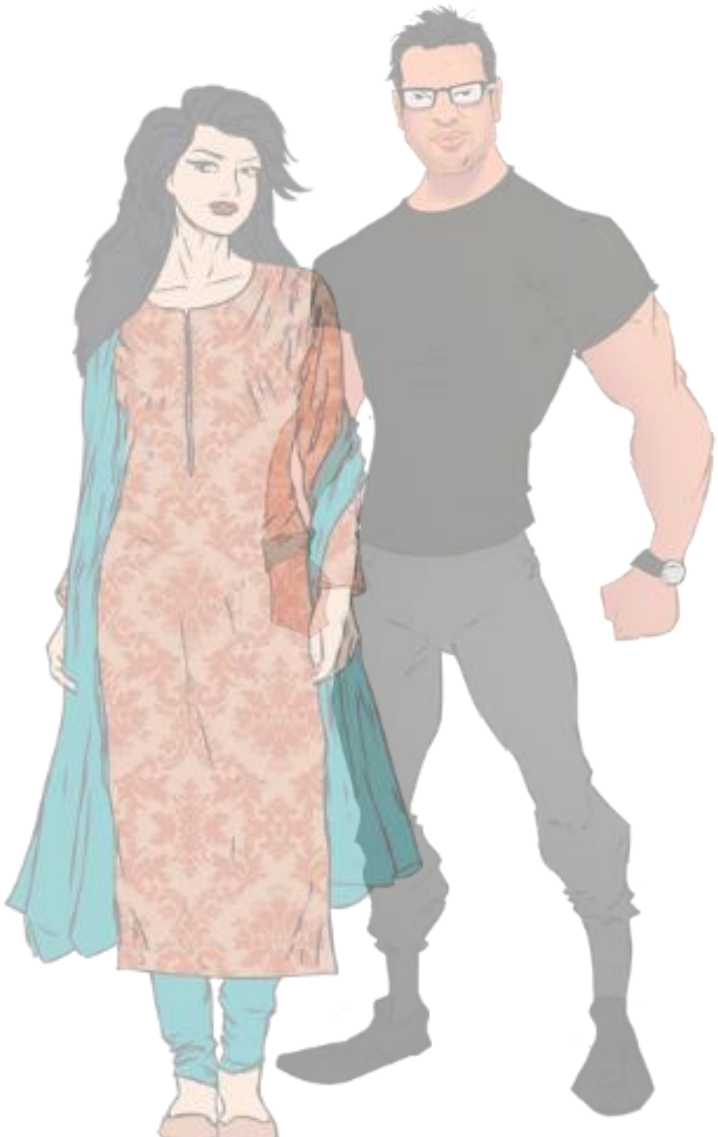
Integration:
Where the illegal obtained funds are moved back into the legitimate economy and is now clean.



Money Laundering offences:

There are five money laundering offences:

- ❑ Acquiring, possession or use of criminal activity.
- ❑ Concealing or disguising or transferring criminal property or removing it from the country
- ❑ Failure to disclose knowledge or suspicion of money laundering
- ❑ Failure by financial services business to meet their obligations under money laundering regulations
- ❑ Tipping off

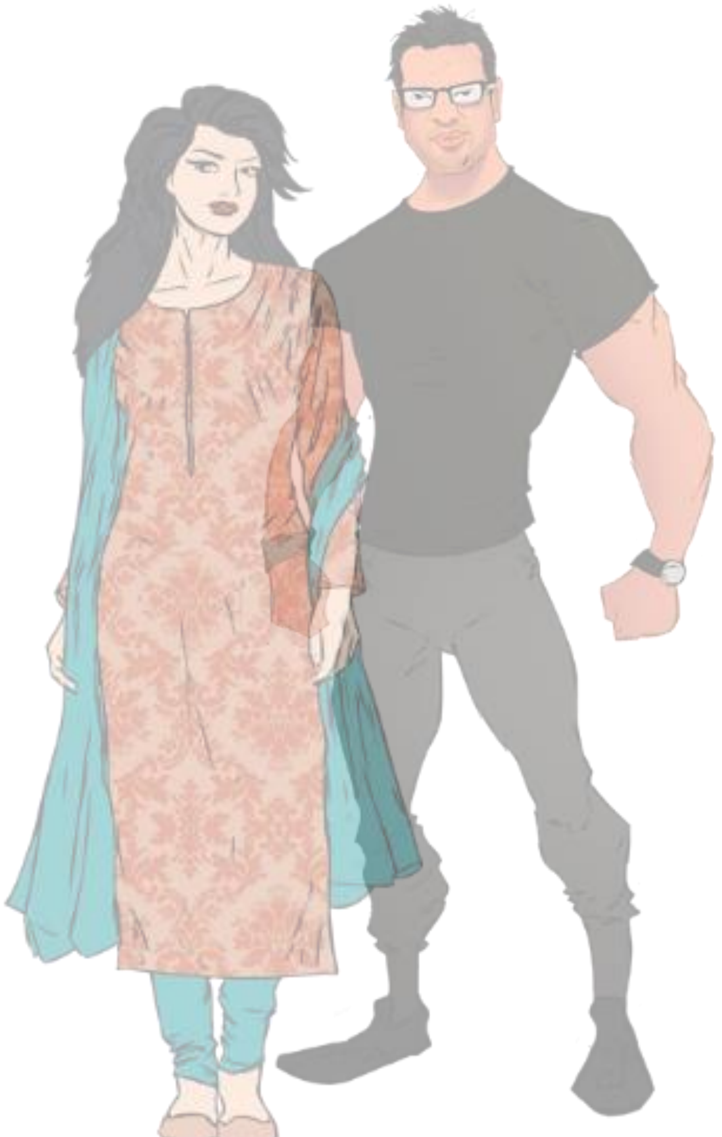


Tipping Off:

Tipping off means to carry out any action that may make suspected money launderers aware that they are under investigation, or prejudicing the outcome of an investigation.

Failure to disclose knowledge of suspicion of money laundering may include:

- Failure by an individual to inform about suspicion to Money laundering reporting officer (MLRO) or regulator
- Failure by MLROs in the regulated sector to make the required report to the regulators.



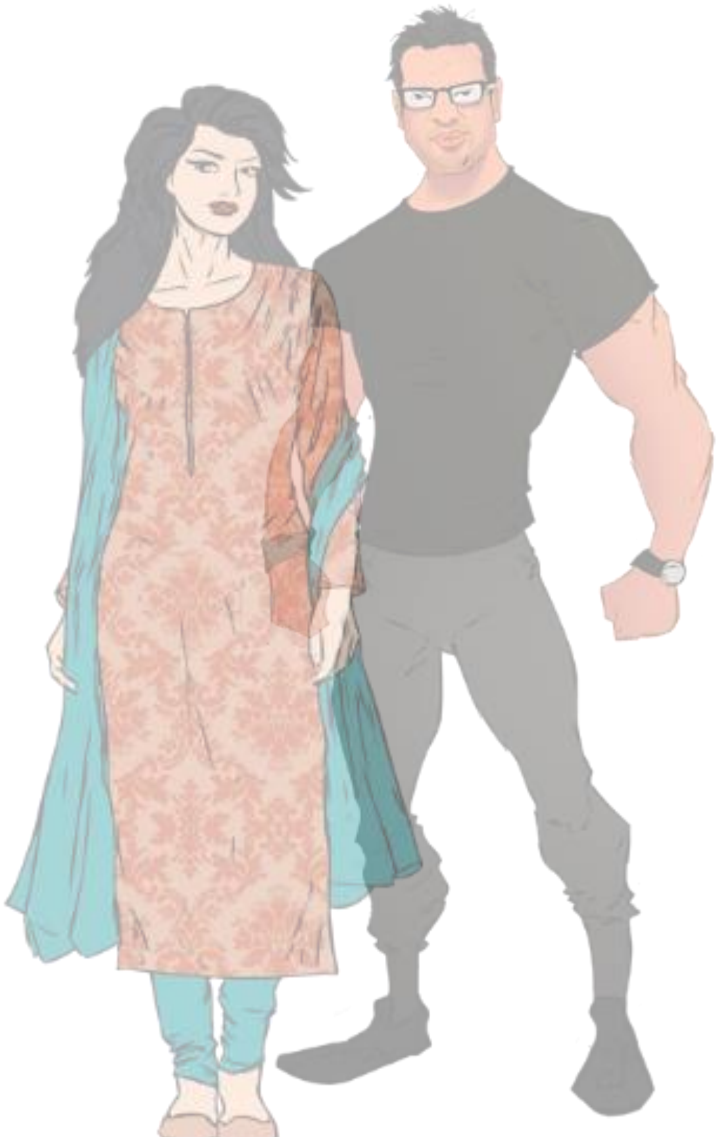
Anti Money Laundering Program:

Money laundering regulations impose certain obligations on financial services businesses., which are designed to assist in detecting money laundering and preventing the financial services organizations being used for money laundering purposes.

At a minimum, Anti money laundering program should include

- Customer identification procedures
- Enhanced record keeping for all transactions and the verification of client identities
- Appointment of MLRO
- Establishing internal reporting procedures to MLRO
- Procedures for the reporting of suspicious transactions to MLRO

- Systems and controls that effectively manage the risk that the firm is exposed to in relation to money laundering activities and ensure compliance with the legislation.
- Communication and training of all staff in the main requirement of the legislation.

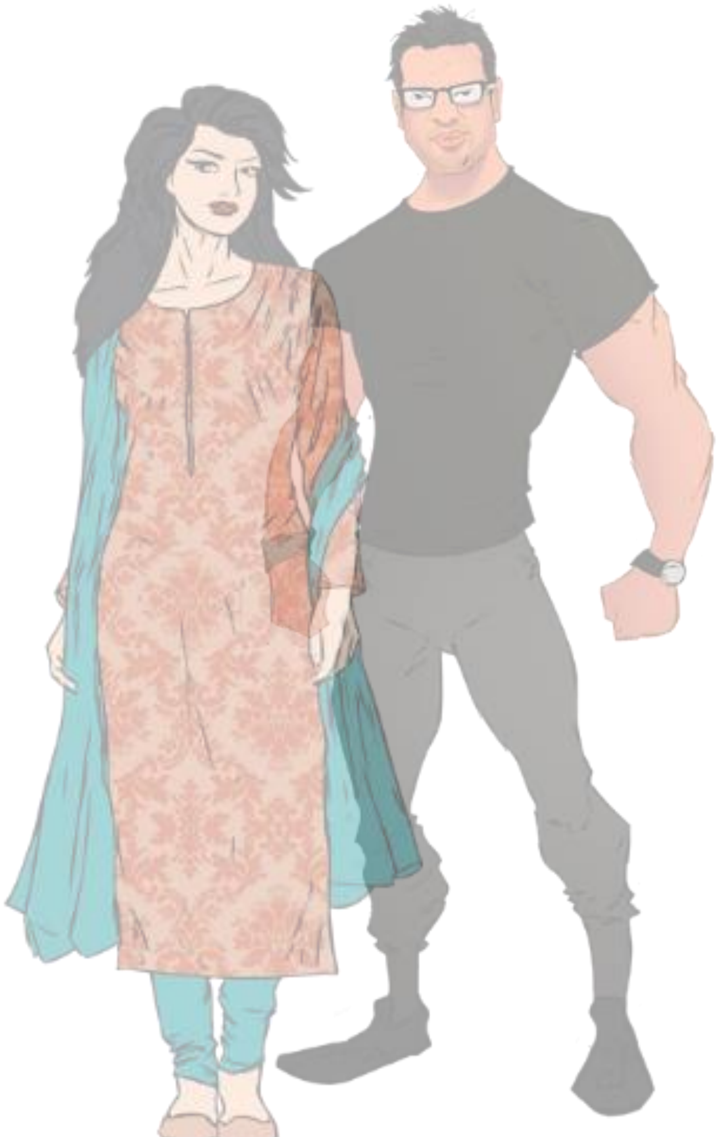


Customer Identification process/Due Diligence:

Accountants are required to establish new clients are who they claim to be by obtaining satisfactory evidence of identity from the client. This is also known as customer due diligence process

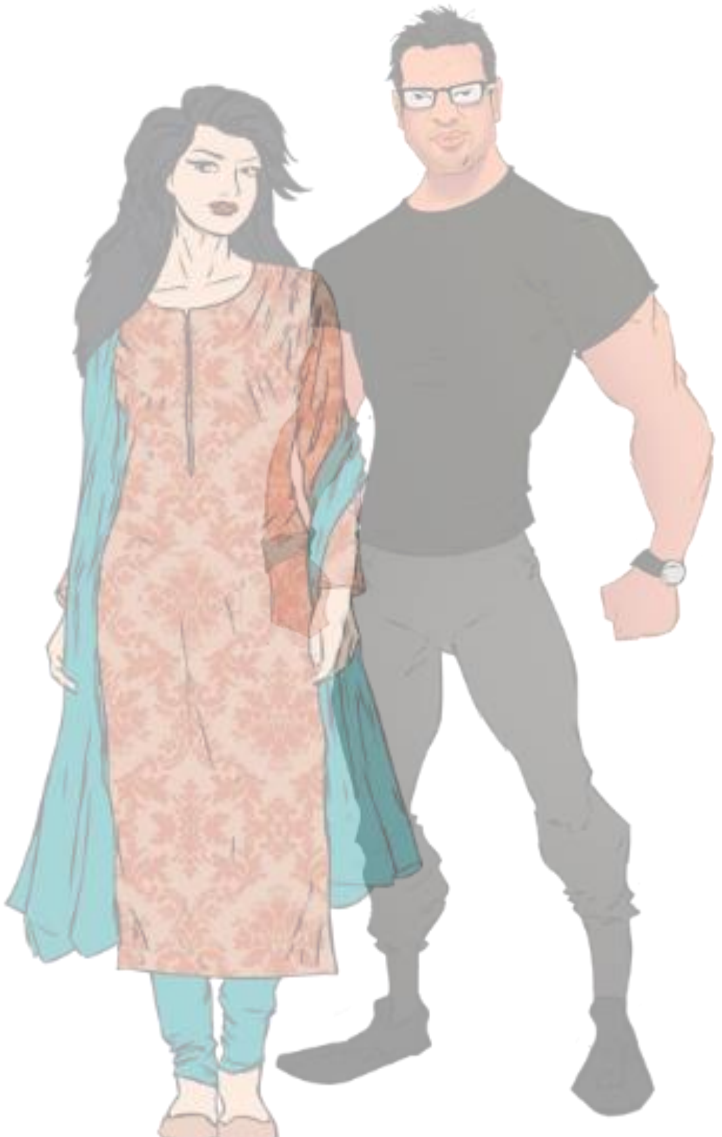
Customer due diligience is an essential part of anti money laundering program. It ensures that Accounts:

- Do not unwillingly accept the clients who are at high risk
- Know who their clients are



Basic Identification process Includes:

- For individuals: inspection of evidence to establish the full name and permanent address of client for example Driving licence, National Identity card, passport, copy of recent utility bills
- For businesses: inspection of evidence include: the certificate of incorporation; list of registered members and directors; certificate of registered address.



Enhanced Record Keeping:

It is very important that accountant keep comprehensive records to show that they have complied with money laundering regulaitons.

Records must be kept off:

- All customers due diligence completed, including the copies of the evidence inspected
- Transactions with each client
- Internal and external money laundering/suspicious activity reports

Record must be held for five years after a relationship with client ended or the date of transaction is completed.

The MLRO:

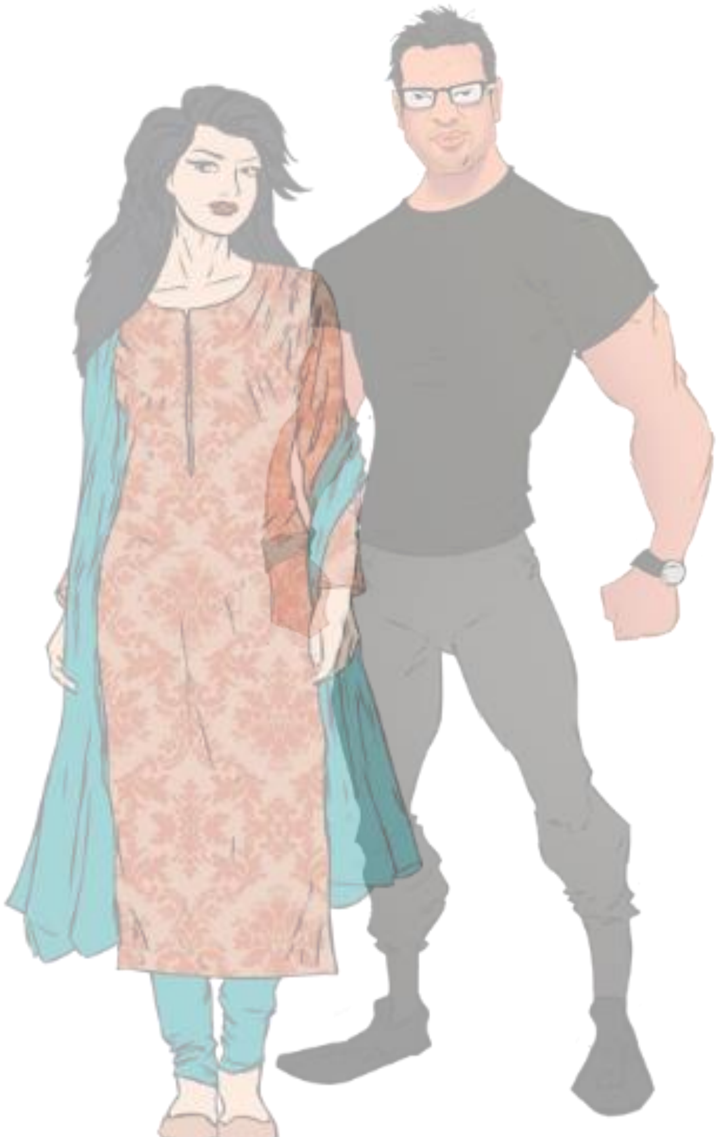
The MLRO should be an individual of suitable sonority and experience. Alternative arrangements must be made when the MLRO is unavailable. (on holiday, sick , etc)

Sole practioners with no employees or associates are exempt from the requirement of MLRO, As they are reporting themselves.

Reporting Procedures:

The reporting Procedures in the UK are codified in the MLR 2007 that are typical of procedures adopted internationally, which are as follows:

- A person in the organization is nominated to receive disclosures under this regulation.
- Anyone in the organization, to whom organization comes in the course of relevant business as a result of which he suspects that a person is engaged in money laundering, must disclose it to MLRO
- Where disclosure is given to the MLRO, they must consider it in the light of any relevant information which is available to the organization and determine whether give rise to suspicion.



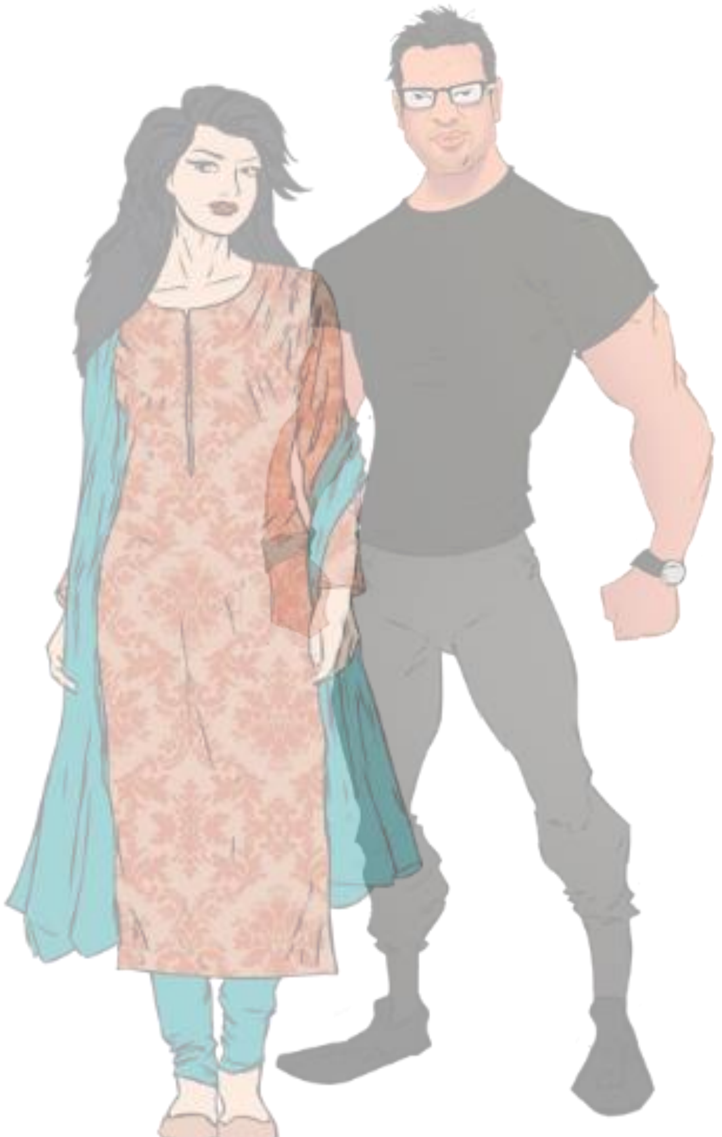
Potentially Suspicious transaction:

A suspicious transaction will often be inconsistent with the client known or unusual transaction, example include:

- Unusual large cash deposits
- Frequent exchange of cash into other currencies
- Overseas business arrangement with no clear business arrangement

Communicating and training:

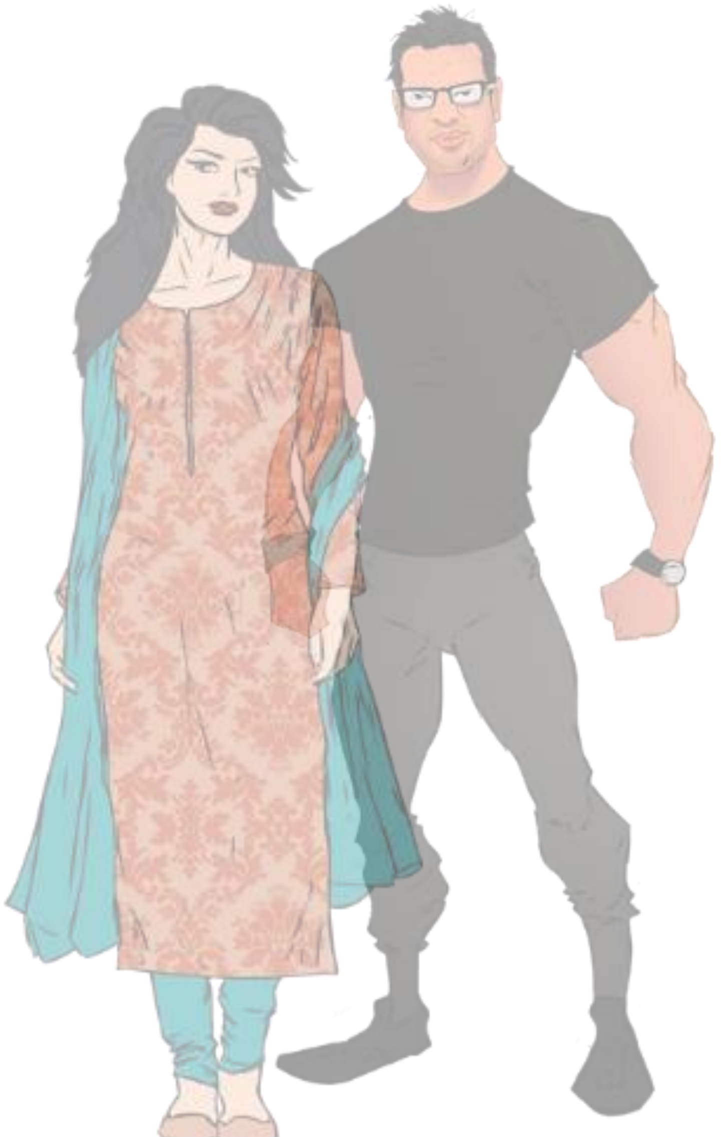
Financial service firm in the conduct of relevant business must take appropriate measures to ensure that employees are:



- Made awareness of the provision of anti money laundering regulations
- Give training that how to recognize and deal with the transactions which may be related to money laundering.

System and controls:

The system and controls described above including, customer due diligence, record keeping, reporting and communication and training of employees. Should be tested periodically to ensure that they comply with the relevant money laundering laws and regulations.

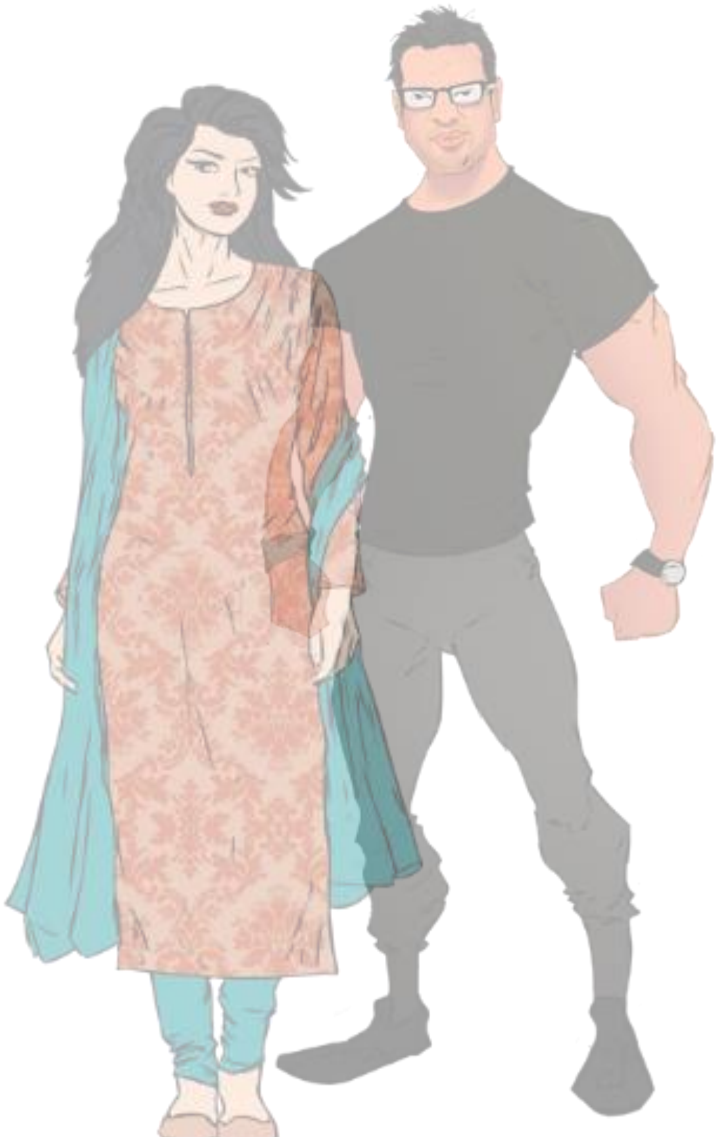


The Need for ethical guidance on money Laundering:

ACCA provides guidance in its code of ethics and conduct in the area of money laundering

this is needed because there is clear conflict between:

1. The accountant's professional duty of confidentiality in relation to his client business
2. The duty to report suspicions of money laundering to the appropriate authorities required by law.



International efforts to combat money laundering:

The financial action task force (FATF) is an international body that promotes policies globally to combat money laundering and terrorist financing. FATF issued recommendations to combat money laundering.

- International cooperation including extradition of suspects
- Implement relevant international conventions on money laundering
- Establish a financial intelligence unit to receive suspicious transactions reports
- Criminalise money laundering and enable authorities to confiscate the proceeds of money laundering