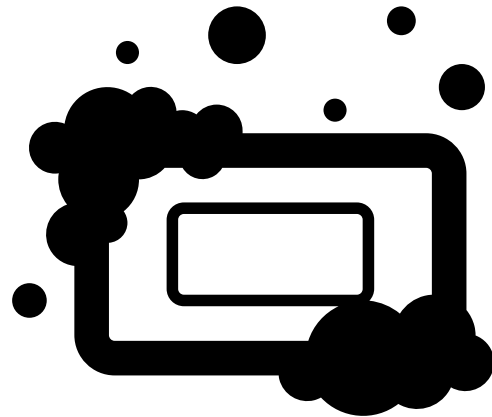
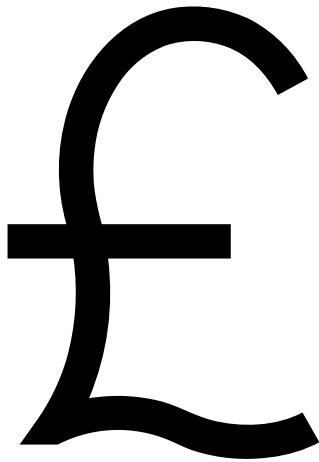
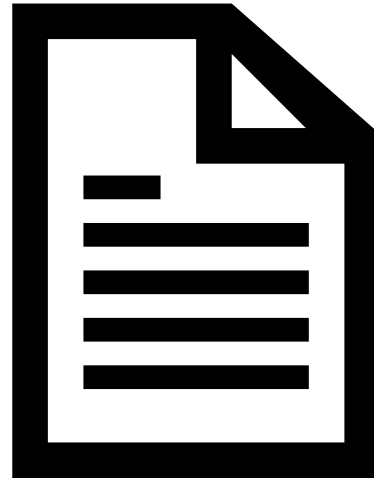




## 5 Key Benefits of Conducting a Regulation 21 Audit

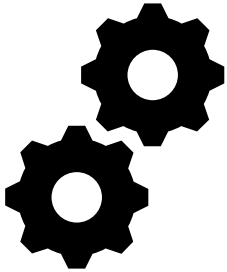


## Regulation 21

Firms that are in-scope of the Money Laundering Regulations, terrorist Financing and Transfer of Funds (Information on Payer) Regulations 2017 (MLRs<sub>17</sub>), and *where appropriate* to the *size and nature* of the business the relevant person must establish an independent audit function. Regulation 21(1) (c) states that the independent audit function will have responsibility in the following areas:

1. to examine and evaluate the adequacy and effectiveness of policies, controls and procedures adopted by the relevant person to comply with the requirements of the MLRs<sub>17</sub>
2. to make recommendations in relation to those policies, controls and procedures (PCPs) and
3. to monitor the relevant person's compliance with those recommendations.

# 5 Key Benefits



## 1.Regulation:

It is a requirement in the MLRs<sup>17</sup>, that if you are in-scope, where appropriate and depending on the size and the nature of the firm, that the relevant person **must** undertake an independent internal audit function.

The relevant person is tasked with determining the method of establishing the independent internal audit function.

Some may decide to undertake this requirement internally within the business.

However, it is crucial to consider whether the individual conducting the audit possesses adequate knowledge of the regulations and is truly independent.

Individuals who are involved in the firm's risk and compliance program, and who have authored key documents such as the Firm Wide Risk Assessment, and the PCPs, may lack the necessary independence to conduct the audit.

This typically excludes individuals like the MLRO, COLP, and Compliance Manager.

The common phrase '**marking your own homework**' is often used to describe this situation.

Alternatively, the relevant person may opt to engage the services of an external independent anti-money laundering auditor to carry out the audit.

Many relevant persons prefer to engage an external auditor due to their impartiality and objectivity, which allows for an independent evaluation of the compliance program.

External auditors bring a fresh perspective and a critical eye to the audit process, ensuring an unbiased assessment.



## 2. Insight

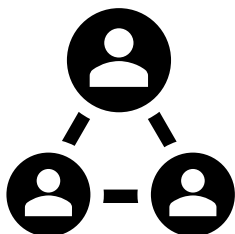
An anti-money laundering audit is a crucial control tool for businesses.

This audit allows for a review of the compliance program in place.

Rather than simply assuming that the program is effective, it is essential to test and evaluate its implementation.

This includes assessing what is working well, identifying areas for improvement, ascertaining staff awareness and comprehension, and observing if the program is being implemented.

Through this evaluation and gap analysis, businesses can actively engage in the process of continuous improvement.



## 3. Internal Control and Governance

An internal audit is part of your internal controls.

The report will be provided to senior management. It is the relevant person's decision whether they decide to implement the recommendations or not.

This may help strengthen oversight and to remediate issues.

It may demonstrate to your regulators that you are taking your obligations seriously and being proactive.



#### 4. Legal and Regulatory Compliance

It is imperative that you provide your regulator with the documents that they request, they are likely to ask for your last internal audit report or for you to justify to them the reason for not having one.

Failure to do so could result in regulatory scrutiny, especially in an environment where regulations are constantly evolving.

It is crucial to avoid becoming siloed within your organisation. A second set of eyes assessing, interviewing staff, reviewing sample files may well find some gaps that could be remediated.

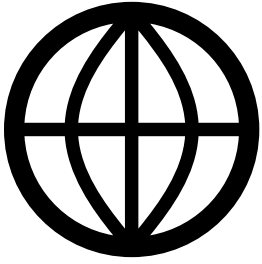
Having someone to talk to about your compliance is helpful.

Implementing robust controls is essential to ensure compliance and mitigate potential risks.

Internal audits can provide valuable insights and recommendations that can help your team make informed decisions and implement necessary changes.

Failure to establish effective and robust systems could lead to financial penalties and potentially involvement with enforcement agencies.

It is essential to prioritise compliance and risk management to safeguard your organisation's reputation and financial stability.



## 5. Real World Impact

The significance of money laundering is frequently underestimated as merely a routine compliance task. A topic that is commonly debated.

However, the true essence of implementing a strong anti-money laundering program lies in safeguarding society from crimes such as drug trafficking, human trafficking, exploitation (including children, adults, vulnerable adults, and wildlife), and the illicit appropriation of artefacts, to name a few examples.

A robust anti-money laundering program not only serves to protect your business but also carries a broader societal impact.

By effectively combating money laundering, we contribute to the collective effort of creating a safer and more secure environment for all members of society.

### Conclusion:

The 5 key benefits listed above for conducting an independent internal audit are not exhaustive.

There may be additional compelling benefits to consider.

As the relevant person, it is your responsibility to adhere to the law, regulations and guidance, and your obligations cannot be outsourced.

For more information about an independent internal regulation 21 audit contact Alexander Christian.

[www.alexanderchristian.co.uk](http://www.alexanderchristian.co.uk)

# Glossary - abbreviations

Abbreviation	Refers to
COLP	Compliance Officer for Legal Practice
MLRs <sup>17</sup> or Regulations	Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
MLRO	Money Laundering Reporting Officer
Regulation 21 (1) (c)	Regulation 21 (1) (c) of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017

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## Disclaimer

The above 5 key benefits are not to be regarded an exhaustive list of benefits for considering a Regulation 21 Audit.

This document is not to be regarded as legal or regulatory advice.

If you require legal or regulatory advice you should seek it elsewhere.

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