



Assessing an Organization's Anti-Money Laundering Program

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Introduction

Introduction

What is Financial Crime?

Financial Crime generally refers to any kind of crime or misconduct including:

-  Fraud or Dishonesty
-  Bribery & Corruption
-  Cyber Crime
-  **Money Laundering**
-  Economic and Trade Sanctions
-  Tax Evasion
-  Market Abuse (insider trading, market rigging/collusion)
-  Handling the proceeds of Crime
-  Conduct Breaches



Introduction

What is Money Laundering?

Money laundering is the process by which criminals introduce illegally obtained funds or assets into the financial system

Overview

- Criminals disguise the source of funds so that proceeds appear to have been obtained through legal sources
- Money laundering is used to conceal illegal profits obtained from Ponzi schemes, narcotics trafficking, fraud and identity theft, organized crime, weapons proliferation, smuggling, and other criminal activity
- Advances in technology and the increased availability of complex financial products and transactions have led to increasingly sophisticated money laundering technique

Stages of Money Laundering

Placement

- Structuring
- Smurfing
- Currency Smuggling
- Purchase of high-value goods

Layering

- Conversion of Cash into monetary instruments
- Loans and borrowing against financial and non-financial assets

Integration

- Money integrated into the financial system through additional transactions until the 'dirty money' appears 'clean'

Introduction

What is Terrorist Financing?

Terrorist financing provides financial support to terrorist organizations, or individuals who encourage, plan or support their activity.

Source

**Individuals or
Businesses**

Criminal

Other

Examples

- Private businesses
- Non-profit charities
- Personal donations and fundraising campaigns

- Drug trafficking
- Weapons and goods smuggling
- Fraud (e.g. credit card, check, identify theft)
- Kidnapping and extortion

- State-sponsored
- Self-funded

Introduction

Regulatory Expectations for Internal Audit

Independence



Independence

- Independent assurance to the Board of Directors and Senior Management
- Independent of the daily operations, with direct reporting to the Board or a Board Committee

Risk-Based Approach



Risk-Based Approach

- The Internal Audit (IA) approach should be risk based with higher risk areas being reviewed more frequently

Board Approval of the IA Plan



Board Approval of the Internal Audit plan

- The Internal Audit plan should be Board approved and a copy provided to the relevant regulator

Performance of Special Audits



Performance of Special Audits

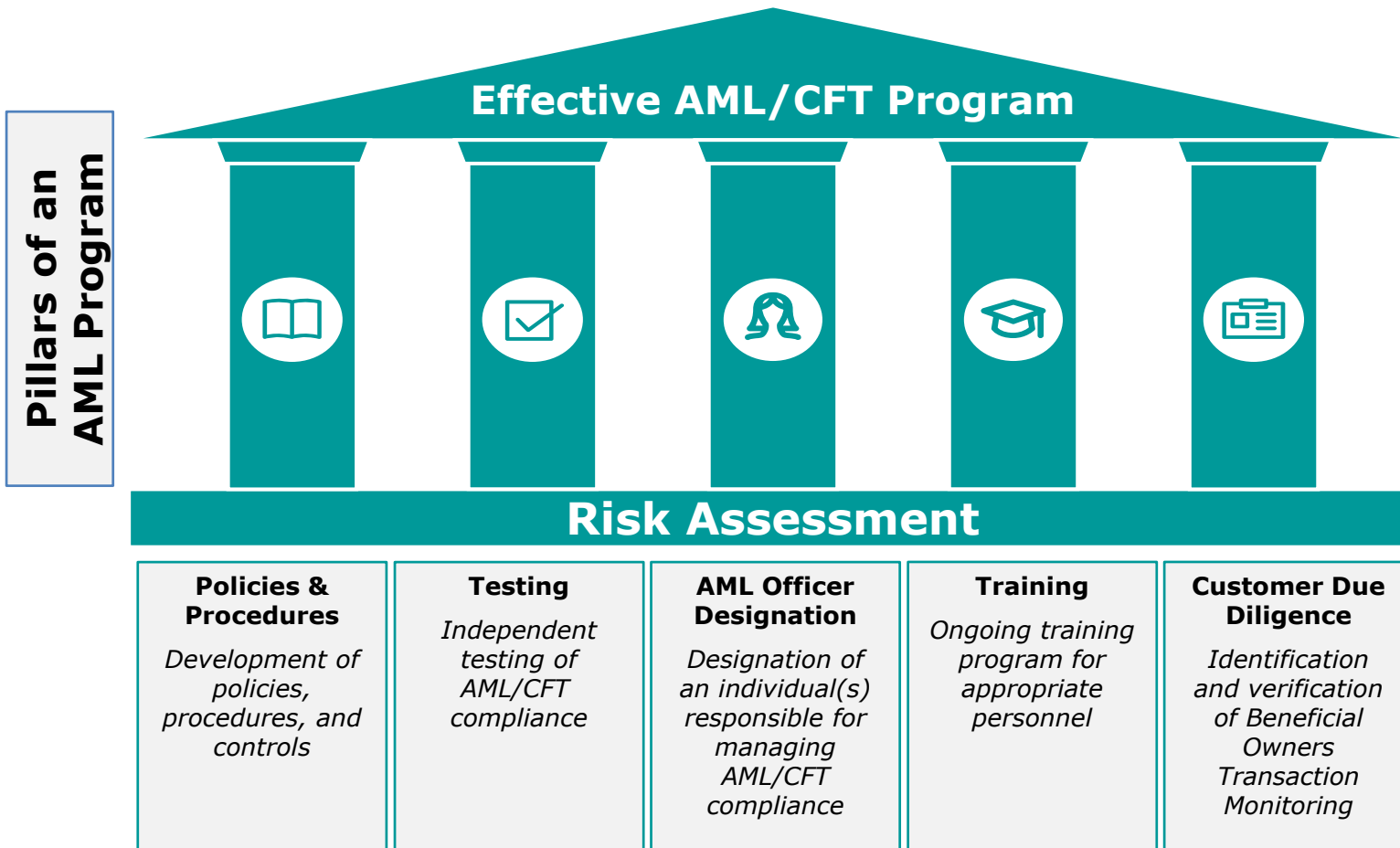
- Internal Audit should perform special audits as part of regulatory directives, requirements, and expectations
- Internal Audit should verify remediation of any findings based on regulatory examinations

Pillars of an Effective AML/CFT Program

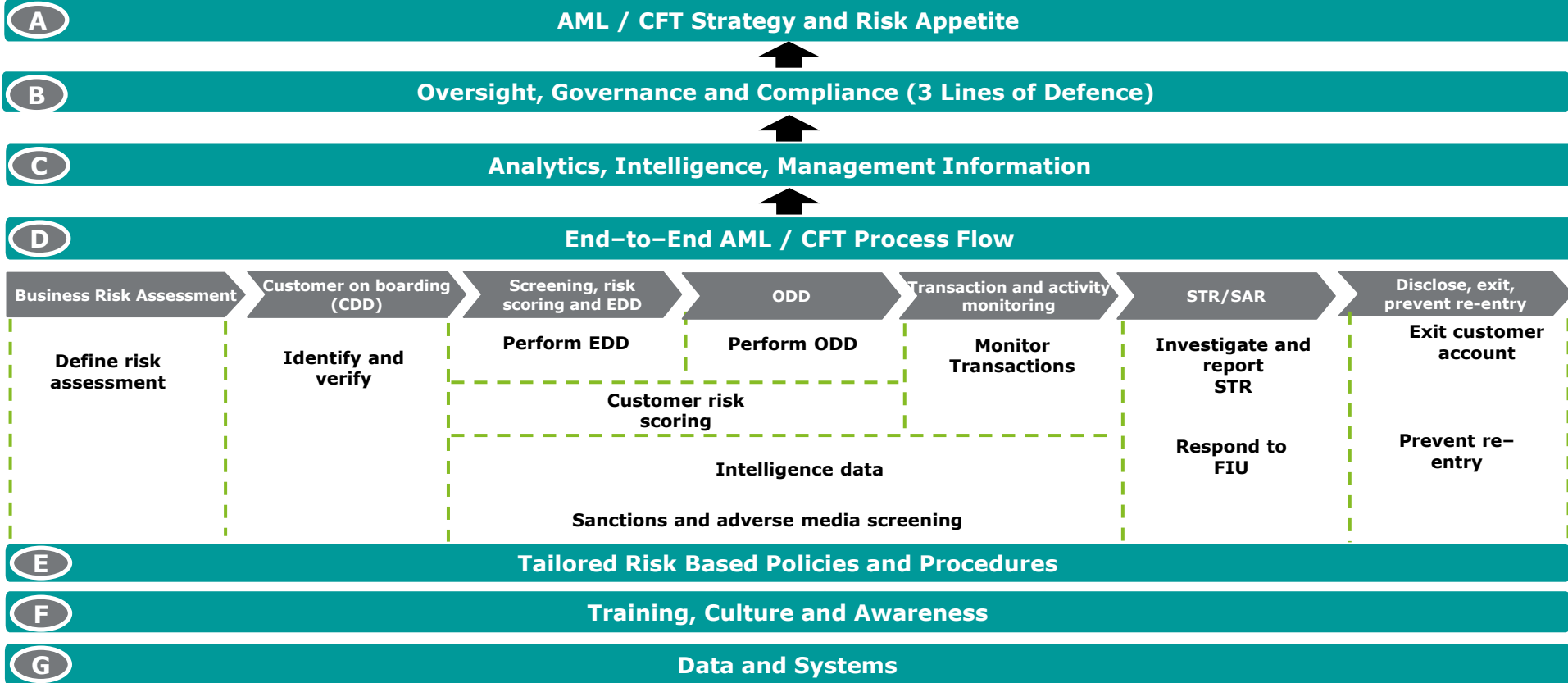
Pillars of an Effective AML/CFT Program

Regulatory Expectations for the AML/Compliance Unit

Regulators have clear expectations of an Institution's AML/CFT Program.



Pillars of an Effective AML/CFT Program



Developing the AML/CFT Assessment Plan

Developing the AML/CFT Assessment Plan

Several components should be considered when creating a strong AML Assessment Plan. There is no one right answer as every institution has its own unique obstacles; however, all organizations to consider planning, execution and reporting components.



Developing the AML/CFT Assessment Plan

Planning: Governance

- ✳ Define a strong governance structure which establishes a **tone at the top**
- ✳ Set up structures to facilitate the **sharing of information** between the assessment team and the lines of business
- ✳ Provide a **training plan for the assessment team** which will encourage continued improvement
- ✳ Produce an **Audit risk assessment** to help identify the areas of the organization where the AML coverage is needed based on the risk levels
- ✳ Develop a risk-based **assessment plan**

Developing the AML/CFT Assessment Plan

Planning: Risk-Based Approach

Enterprise Wide Risk Assessment



Define the scope and structure of business areas to assess, including business units, legal entities, divisions, countries and regions

Select risk areas and factors to assess inherent risk based on empirical data analysis and analytical techniques for both ML, TF risks, and Sanctions risks

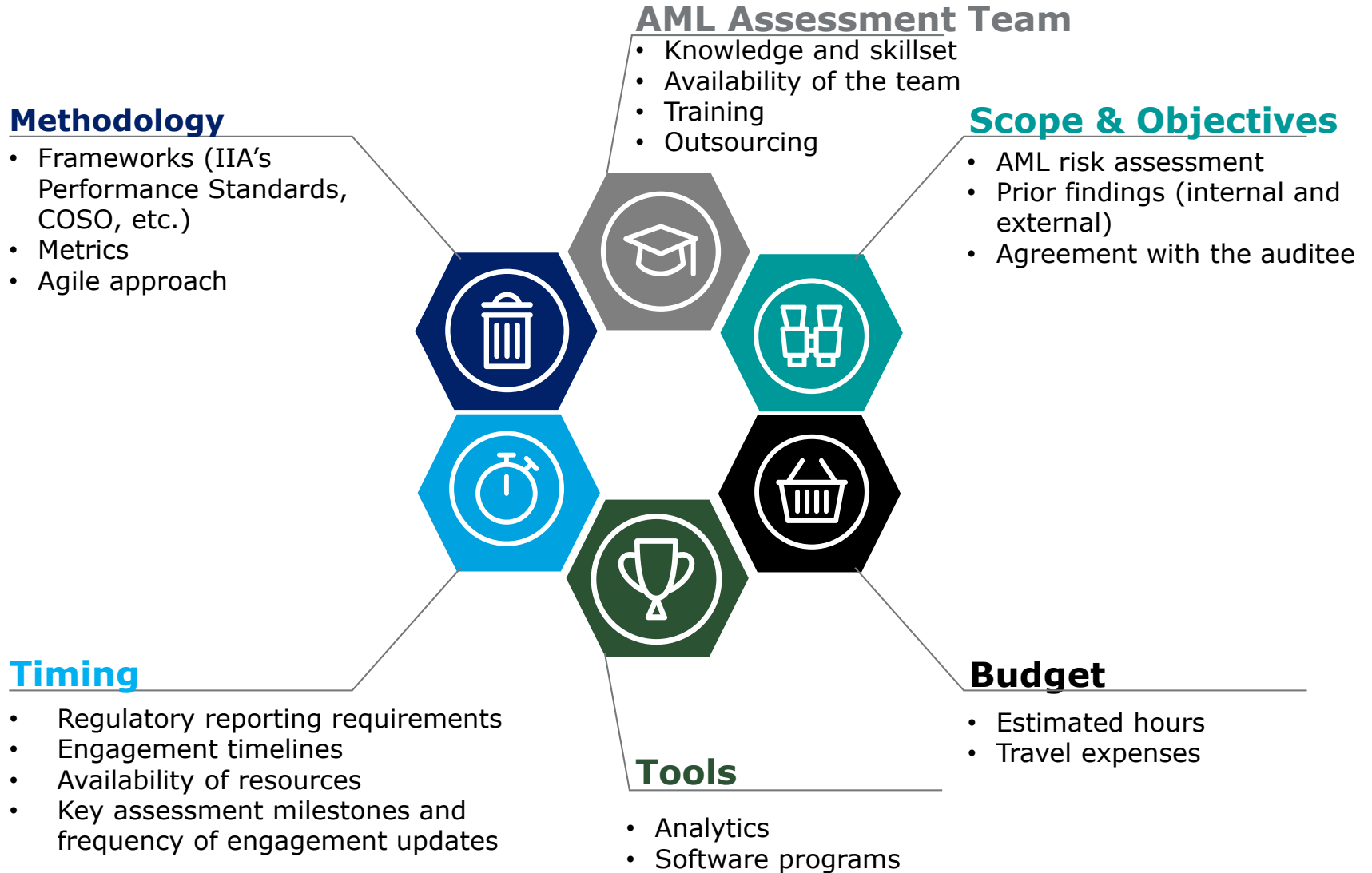
Assess design and operating effectiveness of mitigating controls based on self-evaluation questionnaires and document evidence of controls

Highlight risk factors without sufficient mitigation and business areas posing the greatest risk, and evaluate results against institution's risk appetite statement

Develop action plan for underperforming controls based on identified gaps, create reporting, and prepare documentation for audit / exam purposes

Developing the AML/CFT Assessment Plan

Planning: Other Planning Considerations



Developing the AML/CFT Assessment Plan

Fieldwork: Execution and Testing

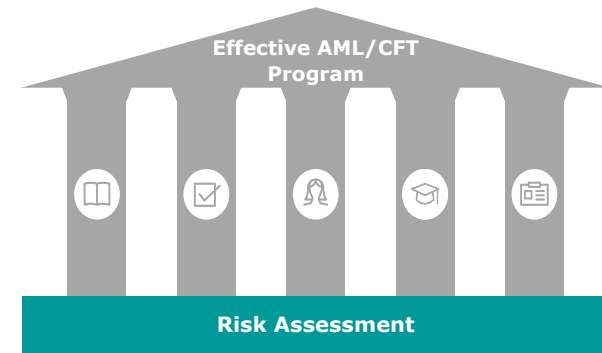
Risk Assessment and Risk Rating

Objectives

Regulations require Financial Institutions to conduct a Money Laundering/Terrorist Financing Risk Assessment commensurate to the nature, size and complexity of the institution.

Key Considerations

- Understand and assess the following:
 - The current methods in place and how risk parameters are tailored to each business unit, product, channels, and customer type
 - The policies and procedures for establishing and adjusting risk ratings
 - How risk ratings are responsive to past events



Developing the AML/CFT Assessment Plan

Fieldwork: Execution and Testing

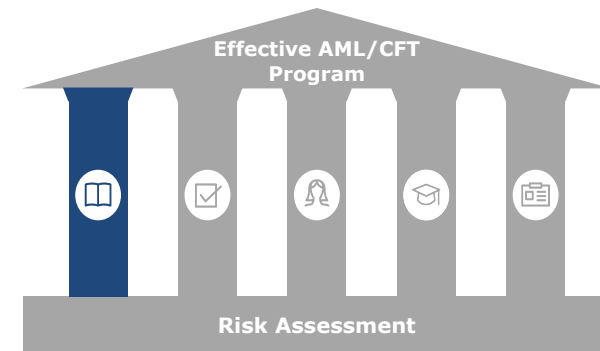
AML Program: Governance, Policies, Procedures and Internal Controls

Objectives

Regulations require that financial institutions develop policies, procedures and controls to combat money laundering or the financing of terrorism. This is generally documented in a detailed AML program.

Key Considerations

- Examine documented company AML/CFT Policies and Procedures to ensure Board approval
- Understand how regulatory and business changes are incorporated into the program
- Assess whether the Board of Directors and Senior Management receive reports on AML/CFT compliance and the frequency of reporting



Developing the AML/CFT Assessment Plan

Fieldwork: Execution and Testing

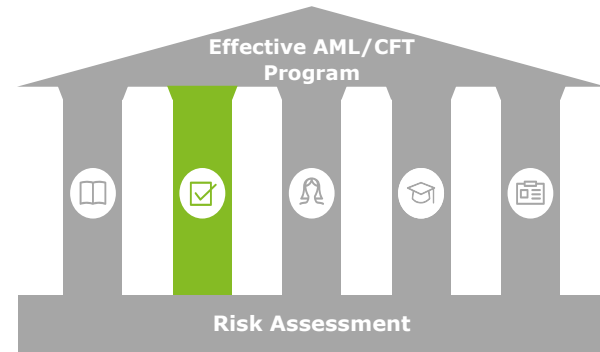
Independent Testing

Objectives

As part of an institution's AML controls regime, regulators require institutions to have independent audits arranged to review and verify compliance with AML/CFT regulations as part of the institution's internal controls.

Key Considerations

- Assess whether prior findings were identified in previous examinations and/or audit reports (internal and external)
- Assess whether management has resolved or has established remedial efforts to address prior findings



Developing the AML/CFT Assessment Plan

Fieldwork: Execution and Testing

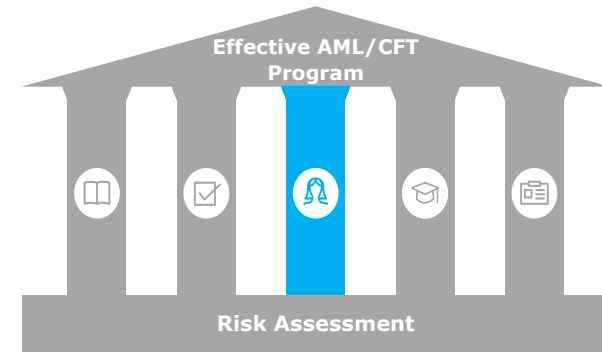
AML Officer Designation

Objectives

Supervised Financial Institutions are required to appoint a Compliance Officer and a Money Laundering Reporting Officer (MLRO).

Key Considerations

- Ensure such appointments have been exercised
- Determine that the qualifications and authority of these persons allow them to conduct their duties as prescribed by the regulations
- Assess any ongoing training undertaken by these appointments



Developing the AML/CFT Assessment Plan

Fieldwork: Execution and Testing

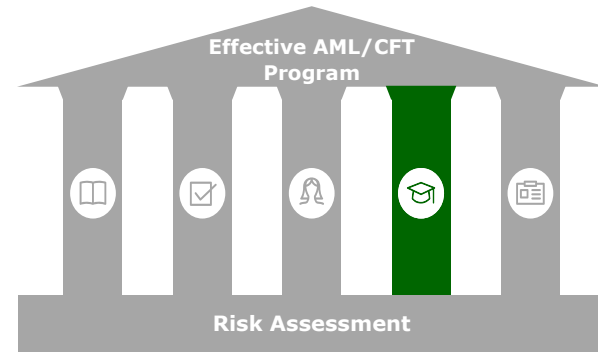
Training

Objectives

Regulations outline that training and awareness in the recognition and handling of transactions carried out by persons who may be engaged in money laundering be conducted, at least once per year.

Key Considerations

- Assess any documented training programs and understand how frequently training is provided
- Review training provided during the year for appropriateness
- Determine if training is tailored to different groups of employees



Developing the AML/CFT Assessment Plan

Fieldwork: Execution and Testing

Customer Due Diligence

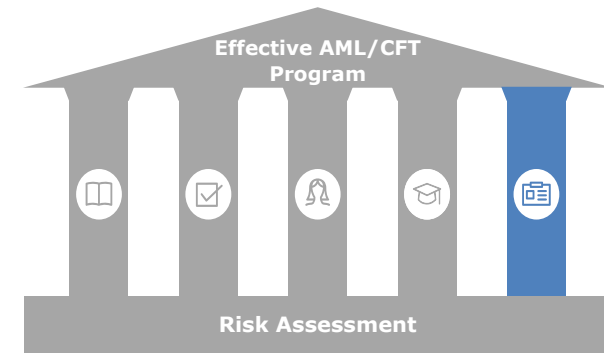
Objectives

Regulations require that due diligence is performed at the start and throughout a business relationship.

The type and amount of due diligence should be part of a risk based approach, with enhanced due diligence applied for those customers and services which pose a greater potential risk to the institution.

Key Considerations

- Understand and assess the following:
 - The extent of documentation collected from customers
 - The extent of verification and validation of said documentation
 - How customers risk is assessed
 - How due diligence requirements are adjusted based on levels of risk



Developing the AML/CFT Assessment Plan

Fieldwork: Execution and Testing

Transaction Monitoring and Suspicious Transaction Reporting

Objectives

Financial institutions are required to monitor transactions to determine if there is any reasonable grounds to suspect the transaction involves proceeds of crime, the financing of terrorism or is suspicious or unusual in nature.

Most regulations define what categories unusual transactions may fall into and these can be found in guidance notes or appendices to the legislations.

Key Considerations

- Understand and assess the following:
 - The policies, procedures and systems for detecting and investigating potential suspicious activity
 - How alerts are investigated and processed on a timely basis
 - The particular rules and thresholds now in place for monitoring

Developing the AML/CFT Assessment Plan

Fieldwork: Execution and Testing

Business Continuity/Crisis Management








Example
Triggers



Developing the AML/CFT Assessment Plan

Reporting

-  **Confirm findings** with management and provide **timely reports**
-  **Retain working papers**, planning documents, narratives, interview schedules
-  **Explain** any out of scope areas
-  Ensure the reporting of **AML issues are escalated** and given the appropriate attention commensurate with the level of associated risk
-  **Periodically report** to executive management (audit committee, etc.)

Key Takeaways

Key Takeaways

- ✓ Review **past audit reports** to assess the effectiveness of recommended implemented changes
- ✓ Build a detailed **risk-based testing program**
- ✓ Consider approaches and methodologies: **automated auditing, analytics, sampling approaches**
- ✓ **Identify issues** and discuss with management throughout the audit, assessing the significance of the deficiencies
- ✓ **Retain all working papers** and documentation of conclusions
- ✓ Conduct a **Quality Assurance Review** of the AML audit work

Q & A

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