AML Audit

- In an era where financial transactions cross borders within milliseconds and the complexity of financial services continue to grow, the importance of robust anti-money laundering and counter terrorist financing practices has never been more pronounced
- Money laundering and terrorist financing pose significant threats to the integrity and stability of financial systems worldwide
- Auditors play a crucial role in this ecosystem. Identify gaps in compliance and recommend enhancements to ensure that the institution not only meets regulatory requirements but also contribute to the broader fight against financial crimes

AML framework

- The financial action task force stands as the premier global standard setter in the fight against money laundering and terrorist financing

Key aspects of the FATF

- **The risk-based approach**
    - To identify, assess and understand money laundering and terrorist financing risks to effectively allocate resources and apply preventive measures
- **Customer due diligence**
    - To know their customers and understand the nature of their transactions
- **Reporting suspicious transactions**
    - Report transactions suspected of being related to or part of money laundering or terrorist financing activities

Adapting to local regulations

- While the FATF provides a global framework, each country adapts these recommendations into their local legal and regulatory systems.

Risk identification and assessment

- This approach ensures that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks associated with customers, countries or geographic areas, products, services, transactions and delivery channels

Conducting a risk assessment

1. Gather information
    a. Review existing documentation
        i. Reviewing the institution's existing AML/CFT policies, procedures and previous risk assessments
    b. Understand the business model
        i. Familiarize yourself with the institution's business model
    c. Regulatory environment
        i. Research the AML/CFT regulatory requirements
2. Identify risk categories
    a. Customer risk
        i. Different customer categories pose different levels of risk
        ii. PEPs, non-resident customers, case-intensive businesses
    b. Geographic risk
        i. Countries and regions with inadequate AML/CFT controls, high levels of corruption, or known terrorist financing hotspots
    c. Product and service risk
        i. Products and services that allow anonymity, involve cash transactions, or provide cross-border payment capabilities
    d. Transactional risk
        i. Transactions that do not fit the customer's usual pattern of activity, involve high-risk countries or are complex and unusually large
    e. Delivery channel risk
        i. Non face-to-face business relationships or transactions conducted through new technologies without proper risk mitigation strategies
3. Conduct interviews and on-site observations
    a. Interview key personnel
    b. On-site observations
4. Analyze data and transactions
    a. Review transaction samples
    b. Use technology
        i. To help analyze customer data and transaction patterns more efficiently
5. Document and categorize risks
    a. Document findings
    b. Categorize risks
6. Continuous learning and feedback

Control measures in risk mitigation framework

- Control measures are specific actions or procedures designed to manage and mitigate identified risks of money laundering and terrorist financing within financial institutions

Customer due diligence

- To identify and verify the identity of customers and understand the nature of their activities to assess ml/tf risks

Transaction monitoring

- To monitor customer transactions in real-time or near real-time for detecting unusual patterns or activities indicative of ml/tf

Reporting of suspicious activities

- To ensure timely reporting of suspicious activities to relevant authorities, in compliance with legal and regulatory requirements

Employee training and awareness

- To ensure that all employees are aware of ml/tf risks, understand their roles in mitigating these risks, and are familiar with the institution's policies and procedures

Independent testing and review

- To evaluate the effectiveness of the AML/CFT program and identify areas for improvement

Key strategies for risk mitigation

- Enhanced due diligence
- Ongoing monitoring
- Independent audits and reviews
- Technology utilization

Customer due diligence

- A critical element in the fight against ML and TF.
- Involves identifying your customers and understanding their financial activities to assess the associated ml/tf risks

Key components of CDD

- Customer identification and verification
  - Collecting reliable information to establish the customer's identity
- **Beneficial ownership identification**
  - Identifying the natural persons who ultimately own or control the customer
- **Understanding the nature and purpose of the business relationship**
  - To establish a baseline against which future transactions can be assessed
- **Ongoing monitoring**
  - Continuously monitoring the business relationship and transactions to ensure they are consistent with the institution's knowledge of the customer

Enhanced due diligence

- Involves taking additional measures to obtain more detailed information to better assess the risk
- Simplified due diligence involves fewer or simplified controls for low-risk customers
- Financial institutions can overcome challenges by utilizing international databases, third-party verification services, and understanding the AML/CFT regulatory landscape of each jurisdiction

Governance structures of AML/CFT

- A strong governance structure is essential for overseeing the institution's AML/CFT program:
  - Board of directors and senior management commitment
  - Designated AML/CFT compliance officer
  - Clear lines of communication
- **Compliance mechanism**
  - Risk assessment and management
  - Policies and procedures
  - Training and awareness program
  - Independent review and audit
- **Reporting obligations**
  - Suspicious activity reporting
  - Regulatory reporting
  - Internal reporting
- **Practical implementation**
  - Compliance calendar
  - Technology solutions

    - Feedback loo[
- The AML/CFT compliance officer oversees the day to day operations of the AML/CFT program, including policy development, implementation and monitoring
- Financial institutions can meet their reporting obligations by maintaining up-to-date knowledge of regulatory requirements, implementing up-to-date knowledge of regulatory requirements, implementing robust internal and external reporting mechanisms and utilizing technology to streamline reporting processes

Record keeping and international cooperation

- Effective record keeping and international cooperation are pivotal components of a robust AML and CFT framework
    - Provide evidence of compliance
    - Facilitate investigation
    - Support effective monitoring

Key record-keeping requirements

- Customer identification and verification records
- Transaction records
- Account files and business correspondence
- Reporting records

Best practices for record keeping

- Retention period
- Accessibility
- Protection and confidentiality

Sector-specific AML audit guides

- **Customize audit approaches**
    - Tailor audit methodologies to address the specific risks and regulatory requirements of each sector
- **Stay informed**
    - Keep up to date with emerging trends, technologies and regulatory changes affecting each sector
- **Engage with sector experts**
    - Collaborate with experts who have in-depth knowledge of the specific products, services and practices of each sector

- **Use data analytics**
    - Leverage data analytics tools to identify patterns and trends that may indicate money laundering activities

Audit focus areas

- CDD processes for individual and corporate accounts
- Transaction monitoring systems and processes for identifying suspicious activities
- Compliance with sanctions screening requirements
- Risk management practices in correspondent banking relationships
- EDD focus on customers who pose higher risks, such as PEPs and those involved in high-value transactions
- **Wire transfers**: Monitor and verify international wire transfers, ensuring transparency of fund origins and destinations
- **Corresponding banking**: assess the bank's controls over correspond banking relationships, particularly with institutions in high-risk jurisdictions
- **New products and services**: evaluate the AML risks associated with new banking products an digital banking services
- **Sanctions screening:** ensure robust processes for screening against UN, EU, OFAC and other relevant sanctions lists
- **Institution-wide AML policies:** ensure that AML policies are consistently applied across all departments and international branches
- **Comprehensive risk assessment:** conduct a comprehensive AML/CFT risk assessment that covers all areas of banking operations
- **Customer risk categorization:** Categorize customers based on their risk level and apply appropriate monitoring and due diligence measures
- **Employee training:** provide ongoing AML/CFT training to all employees with specialized training for those in high-risk roles
- **Audit and review:** regularly audit AML/CFT controls and procedures for effectiveness and compliance with regulatory standards