

Inaugural ACAMS
**Anti-Money Laundering
& Counter-Terrorism
Financing Conference**
AFRICA Pre-Conference Workshop – 2 November 2011
Main Conference – 3-4 November 2011 **JOHANNESBURG**

**Independent Assessments:
How to Review Risk and Assess
Deficiencies in Your AML/CFT
Programme**
Friday, November 4, 2011 • 10:00AM – 11:00AM

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**International Standards: FATF
Recommendation 15**

“FIs should develop programmes against ML and TF. These programmes should include:

- a) The development of internal policies, procedures and controls
- b) An ongoing employee training programme.
- c) **An audit function to test the system.**

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**International Standards: FATF
Methodology Criterion 15.2**

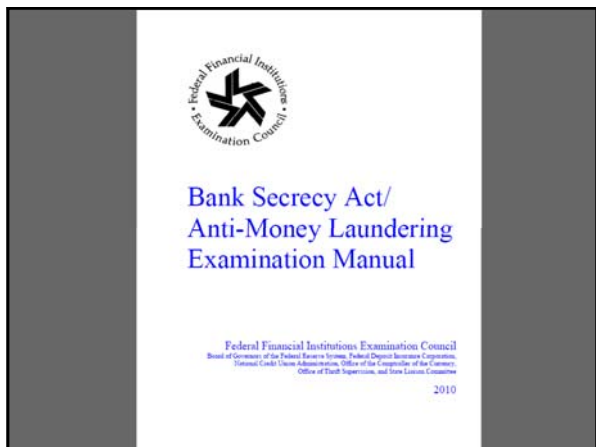
“FIs should be required to maintain an **adequately resourced and independent audit function** to test compliance (including sample testing) with these procedures, policies and controls.”

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International Best Practices: US Law, Regulation and Guidance

- Independent audit function is one of four pillars of AML Program
- Must be periodic, but no specific legal or regulatory requirement
- Generally interpreted to be every 12 – 18 months, more often if indicated by risk profile

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International Best Practices: US FFIEC BSA/AML Examination Manual

- Applies to all banks (state and Federal), savings associations and credit unions
- Other US regulators (e.g., SEC) also refer to its 439 pages
- "It's the greatest gift that the regulators have ever given us," Hellen Chirino-Roosberg, the former head of the Curacao FIU
- US MSBs have their own Exam Manual courtesy of the IRS

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International Best Practices: US Examination Manual

- Must be performed by an independent person, including but not limited to internal audit department, accountants, consultants
 - Auditor should be qualified and experienced, even if internal audit dept.
 - Not be part of or reporting to compliance function or AMLCO's boss
 - Not drafter of policies, procedures and internal controls or risk assessment
 - Beware the bait and switch tactic that some consulting firms use
 - CAMS certified is a plus

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International Best Practices: US Examination Manual

- Audit should be “comprehensive, accurate, adequate, and timely” (p. 40, para. 7)
- Should mirror the regulatory on-site examination or inspection
- Often one of the first documents that onsite inspectors look at
- A window into compliance culture of firm

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International Best Practices: Basics of Independent Audits (IAs)

- Should be risk based – focus on highest risks faced by FI
- Start with risk assessment; if none you can consider doing a rough analysis
- In the US, bank examiners (inspectors) are **required** to draft a risk assessment if they find it lacking or unsuitable!
- Pending revisions to the FATF Recommendations contain a new emphasis on risk based approach for FIs and countries

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International Best Practices:

Basics of IAs, cont.

- Start with reviewing previous IAs, regulatory examination/inspection reports, and the FI's own reports, reviews or assessments of AML/CFT controls, if any
- Schedule interviews with AMLCO and other relevant management, such as GC, CEO, CRO, others who play a role in AML/CFT compliance

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International Best Practices:

Basics of IAs, cont.

- Then look at highest risk customers/accounts/transactions:
 - Private banking
 - Trade finance & import/export
 - Retail businesses (i.e., cash-based)
 - Embassy banking
 - Bulk cash shipments

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Also look at:

- Oversight and management of AML/CFT compliance program
- Policies, procedures, and internal controls
- Employee training (including board of directors)
- Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD)
- Politically Exposed Persons (PEPs), but note that new FATF Recommendations are expected to include domestic PEPs for the first time
- Transaction monitoring systems, automated or manual

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Other Areas, cont.

- Suspicious transaction and/or suspicious activity reporting
- Large transaction or currency monitoring and reporting, if required by domestic law
- Purchase and sale of monetary instruments
- Foreign correspondent accounts
- Funds transfers (e.g., wire transfers, ACH)
- Sanctions and OFAC screening
- Recordkeeping
- Vendor Management

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Common IA-Related Deficiencies

- Lack of rigorous risk assessment process
- Frequency and scope of audits not risk-based
- Lack of sufficient transaction testing
- Lack of follow-up of previously identified issues to ensure appropriate corrective actions were taken
- Unqualified and/or inexperienced personnel conducting the audits
- Insufficient scope – too narrow

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Some Do's and Don'ts: Do –

- Prepare, prepare, prepare – you cannot over-prepare
- Look for anomalies, things that don't look right, such as hesitation in providing documents or rationales for STRs/SARs that don't make sense
- Understand the business lines, customers/clients, transactions of the FI
- Focus on risk generally and the risk assessment in particular
- And remember that you have many audiences – the compliance team, senior management, the board/audit committee, and the regulators, of course!

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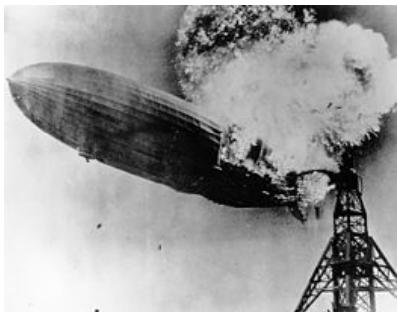
Some Do's and Don'ts: Don't –

- Take sloppy notes – your work papers will be available to examiners, at least in the US
- Gloss over areas that the compliance function isn't comfortable talking about
- Be snowed by tech-speak or IT jargon
- Be too suspicious or too trusting – as President Reagan once said "trust but verify" – he was talking about nuclear weapons, but a bad audit can blow up as well!

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AML/CFT failures burn, then crash and burn

Source: Wikipedia (Hindenburg Disaster, 1937)



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Citigroup's Jones Denies Blame

Dismissed Former Executive Says Auditors Failed to Flag Problems in Japanese Operations

By Mitchell Pacelle, Staff Reporter of THE WALL STREET JOURNAL
 November 19, 2004

Thomas W. Jones, one of the three top Citigroup Inc. executives dismissed last month, accused his former employer of unfairly holding him accountable for a private-banking scandal in Japan. "Do I feel there's anything more I could have done?" asked Mr. Jones, former chief executive of Citigroup investment and asset-management units, in reference to the private-banking problems in Japan. "The answer is 'no.'"

In an interview, Mr. Jones . . . said that **Citigroup auditors in New York had failed to flag the problems for him and other executives** at the financial-services firm's Park Avenue headquarters. "Given the responsibilities and seniority of the three individuals, it was appropriate for each of them to leave the company," a Citigroup spokeswoman responded.

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Citigroup's Jones Denies Blame, cont.

In September, Japanese regulators yanked Citigroup's private-banking license and charged the company with violations ranging from failure to implement safeguards against money laundering to misleading customers about the risks of investments. The then-head of Citigroup's global private bank, Peter Scaturro, reported to Mr. Jones.

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Conclusions

- Take independent audits seriously, the job that is lost may be your own!
- Make sure the auditor is truly independent, not just outside the compliance function
- Conduct due diligence to ensure that team leader and team members are qualified
- AML/CFT requirements undergo constant evolution, not always by intelligent design

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And, finally, as Nelson Mandela once said:

“In my country we go to prison first and then become President.”

Anything is possible!

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Here's to safe landings!

Source: Wikipedia (Apollo 13, 1970)



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