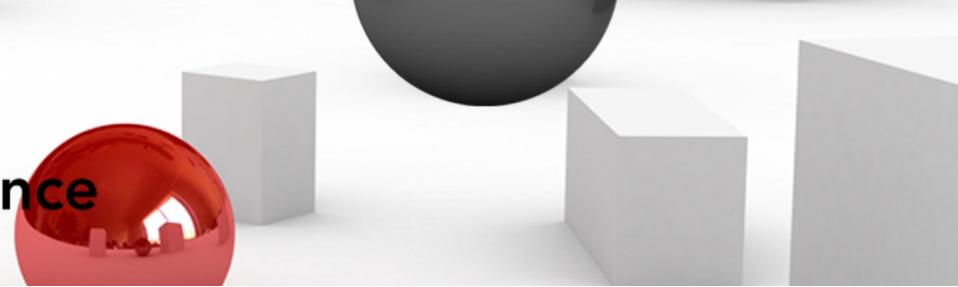


# 15th Annual International Anti-Money Laundering Conference

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## **Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators**

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# Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators

Overview of this session – How to:

- Meet risk management needs
- Consider internal v. external audits
- Address examiners' expectations
- Include key elements of independent audit
- Be mindful of costs and budget
- Set proper scope of audit program
- Test effectiveness
- Include AML audit best practices

# Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators

## • Audit Guidance

- Define the scope of the Audit or Review
  - Set time frame
  - Go through audit planning process
- Apply consistent AML Audit approach
- Implement Best Practices across all areas
- Focus on quality of the people and the work
- Identify key AML issues
- Implement corrective action plans
- Close issues before next examination, or show progress

# Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators

## Internal Audit Team

- Hire and train staff
- Create inclusive Audit Plan
- Define scope of the AML auditors responsibilities
- Obtain funding
- Ensure no gaps in audit coverage
- Work with, not against, established Regulatory examination schedule
- Implement and complete Audit Plan on time and within budget

# Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators

## External Audit Group

- Institution should approve audit scope prior to on-site review.
- Ensure that scope is appropriate for the institution based on its RAS
- Do not take a “cookie cutter” or technical compliance approach
- Name recognition, age, or size of firm is not important as the people who will actually conduct the testing
- Get resumes!

# Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators

## Examination Parameters - Timing/Frequency

- Submit overall conclusions about the AML program to Board of Directors annually
- Conduct portions of BSA/AML testing by product or line of business throughout the year
- Audit Higher-risk Products, Services and Customers every 12-18 months
- Review lower-risk Products, Services and Customers less frequently if no prior deficiencies noted
- Conduct follow-up testing to confirm previously identified issues have been corrected

# Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators

## Examination Parameters - Scope

- Must include actual transaction testing – “Check-list” or interview audits do not meet the program requirements.
- Scope should be driven by BSA/AML and OFAC risk assessments; this means that the scope can change annually based on changes to the risk assessments.
- Scope should cover “input” as well as “output” of monitoring systems
- Too often independent testing is focused on technical BSA compliance only
- Scope should cover AML risk management/suspicious activity monitoring process, including alert validation and alert management.

# Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators

## Examination Parameters - Documentation

- Must include a conclusion on the adequacy and effectiveness of the institution's BSA/AML compliance program;
- It is not sufficient to identify issues only
- Keep and make available for regulators testing procedures **and** workpapers that document the specific testing and results of the files reviewed
- If you don't have the documentation, it didn't happen

# Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators

## Transaction Testing

- Must always be included as part of AML/BSA audit
- Picking a proper sample
  - Technical Compliance: Objective
  - AML Risk Management: Subjective
- There is no set number or percentage
- Must test enough files to determine compliance or non-compliance or to identify a pattern of compliance or non-compliance

# Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators

## Client Due Diligence

- Systems assessment
- New Clients
- Existing Clients
- Special or Suspicious Client Reviews
- PEPs
- USA Patriot Act Certificates
- Enhanced Due Diligence
- Foreign Financial Institutions
- Client Exit
- Management Information Systems Reporting

# Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators

## Transaction Filtering

- Policies and procedures
- System Assessment
- List Management
- Filtering Transactions
- Filtering Account Lists
- OFAC contacts and reporting
- Cover Payments
- USA Patriot Act Section 311 names

# Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators

## Transaction Monitoring

- System assessment
- Manual monitoring
- SAR reporting
- 314 (a) and (b) searches
- Escalation within and without institution

# Mastering AML Audits to Meet the Needs of Your Institution and Satisfy Regulators

## Responding to Audits and Regulatory Examinations

- Document all actions taken
- Make certain the AML/BSA plan is approved by the Board of Directors
- Implement the plan!!!