



INTERNAL CONTROL & AUDIT

IN AN ANTI-MONEY LAUNDER FRAMEWORK

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Group: Bahamas Association of Compliance Officers (BACO)/
Caribbean Anti-money Laundering Program (CALP) Seminar

INTRODUCTION

- Money laundering is the criminal practice of filtering illegally obtained money (or lawfully derived money intended to be used for illicit purposes) through a series of transactions to break the investigative trail.
- A professional money launderer is limited only the breadth of his/her imagination

INTRODUCTION - SOME CONSEQUENCES OF MONEY LAUNDERING

- Damage to corporate reputation and goodwill;
- Negative publicity;
- Legal and regulatory Issues;
- Civil or criminal prosecution; and
- Adverse effect on the corporate bottom line.

INTRODUCTION - POLICIES & TERRORISM

- *Weaknesses in policies and procedures, regulatory and internal audit compliance functions, and transaction and information systems all compound the financial institution's exposure to money laundering risk.*
- Money laundering aids and abets terrorism

INTRODUCTION - CHALLENGES

- Financial institutions face unique challenges
- The challenge is even greater for complex financial institutions
- Problem is compounded exponentially for global financial services firms
- International community adopting stricter regulations on financial transactions

AUDITING

- External vs. internal/compliance function
- Emphasis on internal functions
- Need for “speed” and proactive actions

SOME QUESTIONS THE AUDITOR and YOU SHOULD BE ASKING

- Are our policies and procedures sufficient to address money laundering risks;
- Are our policies and procedures properly implemented;
- Are we operating in line with best practice;
- Is our technology up to industry standard;
- Do we assess our customers and focus on those who are considered high risk; and
- How well do we know our customers and how well do our customers know their customers

STONE AT THE TOP

- Managing the risk of money laundering is now an element of good governance, not merely a regulatory compliance issue
- the audit committee playing a greater role in managing the legal, operational, reputational and strategic risks facing their organizations
- the leadership of financial services companies must demonstrate their commitment to managing money-laundering risk
- Auditor design procedures to capture sufficient information to test tone at top

AUDITING & TESTING

Monitoring and testing should examine:

- Customer relationship management and the transactions that flow from these relationships;
- Written policies and Risk management processes;
- Operating procedures;
- Internal controls;
- Training programs
- Regulatory, legal, and supervisory issues

AUDITING & TESTING - A DETAILED ANALYSIS

KYC Procedures – very critical

- Evidence that the company “know” its customers
- Was proper due diligence carried out?
- Was research conducted on the customers?
- Documentation of all the “know your customer” research undertaken and retain all information?
- Have customers been introduced to you via an intermediary?
- If so do you really know the underlying beneficiary of each transaction and account?

AUDITING & TESTING - A DETAILED ANALYSIS

- Identification evidence (*dictated by legislation*)
 - Compliance with FTRA/FTRR (or similar)
 - Is there records of customer identification and of each transaction provide a sufficient audit trail?
 - Are your records easily retrievable?
 - Do you have checks in place to ensure transaction records are not destroyed until 5 years after the completion of the transaction?

AUDITING & TESTING - A DETAILED ANALYSIS

Money Laundering Reporting Officer (MLRO)

- Does he/she have sufficient seniority and experience to discharge his role?
- Does your MLRO have sufficient resources to carry out his role effectively?
- Are senior management in your firm aware of their responsibilities in respect of money laundering?

AUDITING & TESTING - A DETAILED ANALYSIS

Training and competence

- The law relating to money laundering;
- Their own responsibilities;

- The identity of the Money Laundering Reporting Officer and internal reporting procedures to the Money Laundering Reporting Officer
- Is the staff provided with relevant examples they can identify with their everyday work?

- Does money laundering training provide staff with the skills and competence to identify suspicious transactions?

AUDITING & TESTING - A DETAILED ANALYSIS

Monitoring and reporting Transactions

- Does the company monitor all types of transactions and not just cash transactions?
- Does the company monitor the transactions of existing clients?
- Can the company identify if an existing client's transactions change in nature or size in a suspicious manner?
- Are all suspicious transactions reported to FIU?
- Are there policies in place to deal with cases where staff fail to report transactions that should have been identified as suspicious?

AUDITING & TESTING - A DETAILED ANALYSIS

Leveraging technology solutions

- Technology provides the backbone of a firm's anti-money laundering program, and should be leveraged enterprise-wide to support all of the elements of an organization's money laundering risk management program.
- Such technology includes transaction monitoring software.
- Systems that capture data and produce STR reports.
- Use of IT resources within the audit process.

WRAP UP

Questions?



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