



## **Update on Common Findings from AML Monitoring Visits**

Recently, I was fortunate enough to visit Cyprus where I was involved in the beta and field testing of the latest version of WiseBOS AML. While there, I came across a report that was sponsored by the local chapter of the ACCA, titled “Update on common findings from AML Monitoring visits”, that was presented this April and so is very relevant and up-to-date. With all the focus on MLD4 in Ireland at present, I thought the report would be very useful to an Irish audience as it highlights the key focus areas for the monitors and identifies some of the most common mistakes that the monitors have encountered. This paper is my summary of the main report and as I believe it to be relevant to all businesses that are impacted by MLD4, I have tried to make it as easy to scan and digest as possible.

### **Key Findings by Area.....**

#### **The AML Manual**

##### **No or insufficient documentation of AML policies, procedures and controls**

- Businesses are expected to monitor the adequacy, effectiveness and relevance of their policies, procedures and controls with the MLD4 requirements on a regular basis
- This regular monitoring can only be done properly if the policies, procedures and controls are documented in an AML Manual
- Documented policies and procedures should be relevant to the services provided by the firm
- In some cases where the system was well documented there was little evidence to show that it had been applied

#### **Client Identification**

##### **Reliance placed on overseas associated firms (same network) or branches that introduce clients**

- Not confirmed that the group applies a common due diligence and record keeping procedures
- Not ascertained that the client due diligence and record keeping procedures are supervised by a competent authority

- For each client introduced, written confirmation not obtained from the overseas firm or branch

(It should be noted that in Ireland it is not acceptable to delegate responsibility for the CDD to an overseas branch or outsource the role to a consultant. Your firm's Compliance Officer must review and verify the CDD results and there must be evidence of same.)

### **Ownership and control structure of client entities not identified and verified**

- Must have standard and robust client identification process.
- No supporting evidence of identity of Beneficial Owner (BO)
- Need evidence of a permanent address
- Not all directors / shareholders identified
- Not enough evidence gathered on overseas clients
- If using a third party's system, verify that the system and procedures are implemented and are in line with the requirements of the appropriate competent authority
- Ensure the internal Compliance Officer (MLCO) has reviewed and approved the due diligence data prior to on-boarding of new clients.

## **Client Due Diligence**

### **Insufficient initial client due diligence – use of inappropriate client acceptance questionnaire**

- Insufficient understanding of the client's ownership and control structure
- No record of the business rationale behind the existence and the work and transactions to be undertaken on its behalf
- No records of sources of funds
- No understanding of the client's structure

### **No enhanced initial due diligence procedures for high risk clients**

- Two official documents not obtained to confirm the clients identity
- Not obtaining a credit reference agency search or obtaining reference from a reputable bank or other professional advisor
- Not undertaking thorough checks of documents supplied
- Need to determine that the wealth and funds involved in the business came from legitimate sources
- No ensuring that the first payment is made from an account with a credit institution within the EEA, in the client's name

### **Establish source of funds for all clients**

- Source of particular funds which are the subject of the business relationship need to be determined
- Should ensure that the source of funds is logical and backed by supporting documents
- If the source of funds comes from a 3<sup>rd</sup> party, the risk increases and further enquiries should be made

### **Establishing source of wealth (SOW)- PEPs and other high risk clients**

- Obtain information on net worth
- Obtain information on the source of net worth
- Verify the information based on a risk sensitive basis

### **Common deficiencies in establishing SOF and SOW**

- Client due diligence questionnaire is too brief
- Accept clients explanation at face value
- Over-reliance on unverified information
- Procedures followed are not risk based
- Not able to distinguish between customer's source of funds and source of wealth

### **No /insufficient on-going due diligence**

- No scrutiny of transactions undertaken
- No ongoing monitoring of transactions from countries with insufficient anti money laundering and anti-terrorist financing systems
- No checks performed to assess changes in client's structure or or ownership or in nature of transactions
- No / insufficient on-going due diligence when relied on third parties for initial client identification and due diligence

### **Controls and procedures not established**

- Written instructions from clients for execution of transactions on their behalf
- Instructions received from client are validated
- Transactions are monitored to ensure they are consistent with the data

## **Risk Assessment**

### **No risk assessment and management system or if documented in AML Manual, it's not applied**

- Risks must be calculated by assessing the legal structure of the client organisation, the beneficial owners, the integrity of the owners and key personnel, the clients geographical location, the nature of the operation and its sources of wealth.
- The auditors want to see the use of risk profiling and the application of the implementation of the appropriate systems and procedures of KYC and Due Diligence based on the level of risk that was generated for each client.
- In many cases it was found that there was not enough detail contained within the manual. What was of particular concern was the fact that the Risk Assessment process which is made up of a combination of customer identification and Due Diligence were not expanded upon and described in detail.
- You should be able to differentiate between clients based on Risk and where identified as being of High Risk, the appropriate mitigation steps should be taken.
- No ongoing monitoring of initial risk assessment.

### **Common deficiencies in the application of AML Risk Assessment**

- No risk matrix used
- Not enough risk categories considered
- Incorrect risk weightings – leading to wrong risk score

### **Not adequate procedures within the firm for high risk clients**

- System was not configured to identify “High Risk” clients
- Not enough due diligence done for high risk clients
- Increased awareness among staff (need for better internal communications on risk matters)
- Escalations / review procedures need to be implemented
- More robust “On-boarding” processes are required

### **No ongoing monitoring of initial assessment**

- In some cases, the monitoring of transactions should be implemented to ensure the client matches their risk profile.

## **Recognition and Reporting of Suspicious Transactions**

### **Money Laundering Compliance Officer (MLCO)**

- Money Laundering Compliance Officer (MLCO) not appointed or notified to relevant oversight authority
- MLCO not senior, must have authority
- Roles and responsibilities for internal escalation process must be document
- MLCO does not have timely access to due diligence information and transaction records

### **Recognition**

- Must give training to staff on how to recognise suspicious transactions
- Suspicious transactions must be out of the ordinary for that industry
- Must have internal reporting channels, process and tools
- Staff must be given guidance on legal obligations

### **Annual MLCO’s Report**

- Must be submitted by the declared due date.

## **Record Keeping**

### **Records not always sufficient**

- Only accept original documents (copies to be kept on file)
- There were not enough records on the source of funds and wealth
- Need evidence of instructions to support transactions
- Evidence of correspondence with the client

### **No retention policy**

- All records should be retained for a minimum of 5 years

### **Assessing fitness and propriety of staff**

#### **Must provide training to staff on firms policies and procedures**

- MLCO should have in-depth training on legislation.
- Must have ongoing “refresher” training for all staff
- Should have formal procedures in place that are linked to on-going training
- Auditors will ask if there is any reason why the staff cannot comply with the regulations
- Training on legal obligations – failure to report suspicious transactions to MLCO in accordance with internal procedures



If you have any queries in relation to this material we would be delighted to discuss them with you...just drop us a line at [info@amlquest.ie](mailto:info@amlquest.ie) or visit us at [www.amlquest.ie](http://www.amlquest.ie)