

Supplemental Guidelines

Preparing an AML/CFT ANNUAL AUDIT REPORT or ANNUAL REVIEW

Made by the Supervisory Authority pursuant to Section 11(vii) of the Money Laundering (Prevention) Act 1996

Issued: 19 May 2008

This document is issued to help financial institutions in preparing the Annual Review of their system and procedures for combating money laundering and the financing of terrorism as required by regulation 15(1) of the MLPR 2007. This should be done even where there is unlikely to be a need to effect changes to the system. The Annual Review must be kept ready in case requested by the Supervisory Authority or a regulator.

This document is also issued to help financial institutions in the preparation of the Annual AML/CFT Audit Report required to be submitted to the Supervisory Authority as provided for by regulation 15(2) of the MLPR 2007.

The preparation and/or submission of these reports are due by the last day of September of each year. The Annual Review or the Annual Audit Report should be an account of the operation and effectiveness of the AML/CFT systems and controls of a financial institution or business activity listed in the First Schedule of the MLPA and established in compliance with regulation 15 of the Money Laundering (Prevention) Regulations and paragraph 1.3A of the Money Laundering Guidelines of January 2004.

Financial institutions and relevant business activities (and internal and external auditors) should craft their reports to take into consideration all elements of these guidelines that are relevant to their business so as to optimize the effectiveness of the review or the report, and where appropriate may provide additional information considered useful to shaping the picture of the AML/CFT system.

The level of detail used in an annual review or report will depend on the type and size of the institution.

Some issues discussed below may not be relevant to particular financial institutions.

Introduction and summary

1. Obligation to submit an Annual AML/CFT Audit Report is set out in Paragraph 1.3A of the Money Laundering & Financing of Terrorism Guidelines (MLG) issued 29 January 2004 and Regulation 15(2) and Schedule II of the Money Laundering (Prevention) Regulations 2007. They set out the requirements for the review of the system. These guidelines indicate the issues that should be addressed in order to produce a report of an acceptable standard.
2. Obligation to make an Annual AML/CFT System Review is set out in Regulation 15(1) of the Money Laundering (Prevention) Regulations 2007. The present guidelines set out the issues that should be addressed in carrying out that review to an acceptable standard. The results of the review should be put in writing and kept in the event that it is requested by the Supervisory Authority or a regulator.
3. Issues to be covered in the report: The report should focus on outcomes. In particular, it should reach conclusions on the effectiveness of the financial institution's AML/CFT systems and controls, and should make appropriate recommendations for improvement in the management of risks and priorities, including resources.
4. The report should contain a section prepared by the Money Laundering Compliance Officer (hereinafter "the Compliance Officer"). This would serve to:
 - allow the Compliance Officer to set out the substance of his/her duties
 - allow the Compliance Officer to take stock of what transpired over the past year
 - discuss work planned for the upcoming year
 - document key AML/CFT performance and risk indicators
 - record policies in place and identify key issues that should be reported up the line to senior management
 - refer to activities of persons who directly assist the Compliance Officer
5. The outline given in these guidelines could assist in producing an annual report for senior management.
6. Restrictions in putting together the information for the Report or Review should be indicated.
7. **Summary of Contents: These guidelines cover the following matters:**
 - A) The persons responsible for AML systems and controls, and the structure within which they operate**
 - B) Report on operation of systems and controls**

C) Summary of business issues**D) Conclusions and recommendations for action****GUIDELINES ON REPORT PREPARATION**

The Report should include:

A) Description of the persons responsible for AML/CFT systems and controls, and the structure within which they operate.

- (1) The specific director/senior manager/compliance officer with responsibility for the establishment and maintenance of effective AML/CFT systems and controls, and where appropriate the demarcation of responsibilities.
- (2) Name and location of the Compliance Officer and anyone to whom responsibilities have been delegated.
- (3) Any other roles held by the Compliance Officer (such as compliance officer for purposes of the Prevention of Terrorism Act)
- (4) List the Compliance Officer employment dates, dates of any delegation of responsibility, details of any temporary arrangement
- (5) If the financial institution is in a group, the group compliance structure should be described.

Compliance Officer functions

- (6) Confirm responsibilities of the Compliance Officer in accordance with the Money Laundering & Financing of Terrorism Guidelines and Regulations
- (7) Consider areas where the Compliance Officer has been restricted from fully carrying out his/her functions.
- (8) Consider whether resources to assist the Compliance Officer's function, and access to information, are sufficient.

B) Report on operations of systems and controls

- Appropriate staff training
- Documentation of risk management policies and risk profiles
- New products, take-on of new customers, change in business profile
- monitoring arrangements.

Staff Training

- (9) Summarise the policy for training, along with time frame details for any rolling programme.
- (10) Summarise the methods of training used and quality checks performed

for awareness and training.

- (11) Indicate relevant employees, along with the number that have actually received money laundering training for the year in question, broken down into management, staff, temps, etc. Indicate the number of relevant employees that have not received training and provide an explanation for this.
- (12) Consider the intended programme of training for the year ahead along with perceived budgetary considerations.
- (13) Outline the Compliance Officer's training (and that of relevant senior managers/directors) over the year, where different from that of other staff members.
- (14) Consider any difficulties faced in achieving a satisfactory level of training.

Information to senior management

- (15) Describe arrangements for regular reporting of AML/CFT matters, indicating frequency and those individuals to whom reports are made.
- (16) Describe scope and coverage of regular reports.

Documentation of policies and risk assessments

- (17) Describe arrangements for documentation of policies and risk assessments.
- (18) Describe any material changes to documented policies and risk assessments in the period.
- (19) It may be helpful to say something about how the Money Laundering Guidelines are used.
- (20) Comment on any regulatory/legislative changes during the period, and indicate any known forthcoming ones, and on the projected impact on the policy and risk management processes.
- (21) Describe how guidance from different sources and competent authorities were taken into account.

New products

- (22) Describe the new product approval process.
- (23) If new technology is involved and has been adopted describe the process for assessment of the AML/CFT risks, and the countermeasures implemented.

New customers

- (24) Describe the new customer acceptance process
- (25) Describe steps to respond to a change in customer profile or change in business profile.

Arrangements for monitoring effectiveness of systems and controls

- (26) Describe arrangements for ensuring that the AML/CFT systems and controls cover the areas required by the MLPR 2007 and regulations relating to other regulators, and the MLG as well as guidance issued by other regulators.
- (27) Describe arrangements for review by the Compliance Officer of compliance with systems and controls. (This provision is mandatory.)

C) Summary of business issues**Business areas**

- (28) Outline the business operations covered over the last year, indicating changes in activity and elements of the business that have had implications for money laundering controls.

Customers and CDD processes

- (29) Summarise the type and size of the customer base over the last year.
- (30) Summarise the policies and procedures for dealing with politically exposed persons (PEPs), and the number of known PEPs with whom a business relationship is maintained.
- (31) What sources are used to check for PEPs?
- (32) Sanctions compliance: What lists are checked for specified entities in relation to reporting requirements under the Prevention of Terrorism Act 2005? How frequently are these sources checked? What accounts and transactions are checked?
- (33) Summarize relationships where identification and due diligence have not been conducted directly
- (34) Outline the procedures for being satisfied that introducers may be "relied" upon.
- (35) Highlight the methods used for identification verification.
- (36) Summarize how individual high risk customers are dealt with.
- (37) Describe arrangements for monitoring transactions.

Product profile

- (38) Summarise product range and risks.
- (39) Geographical area(s) of operation and risks
- (40) Delivery channels and risks.

Record keeping

- (41) Note the format and location of record keeping and any intentions to change this.
- (42) Describe any material control failures identified during the period, and the actions taken to address these.

Court Order, etc

- (43) Note the number and briefly indicate the sanitized circumstance of Production and other Orders served on the financial institution by the Supervisory Authority or that were related to money laundering cases.
- (44) Discuss compliance with court orders, and lessons learned from them.

Suspicious transaction reporting

- (45) Outline the method used to identify suspicious transactions (i.e. system monitoring, case-by-case basis) and consider any shortcomings with this process. Summarize any other ways that suspicions arose.
- (46) Highlight improvements/ enhancements/ system upgrades deemed necessary.

Internal reporting

- (47) Summarize by business area the number of internal reports made. Distinguish between the number of reports picked up by the central monitoring units and the staff.
- (48) Number of 'false positives' generated where internal reports were not forwarded to the Supervisory Authority. Whether this has increased or decreased since the last report.
- (49) Summarize the circumstances that may have led to increased/decreased reporting and consider any significant trends in reporting.

External reporting

- (50) Note whether there have been any money laundering cases that have arisen where reports have not been made.
- (51) Provide a breakdown by business area of reports passed on to the Supervisory Authority and the number of reports that have not been passed on.
- (52) Consider any significant trends in reporting that might require the Compliance Officer to change system parameters for suspicious transaction reporting. Indicate whether such changes have been implemented or are requested.
- (53) Describe any feedback from the Supervisory Authority or regulators.

D) Conclusions and recommendations

- (54) Conclusion: Overall assessment of systems and controls
 - (a) Are they comprehensive and proportionate?
 - (b) Have they been reviewed regularly?
 - (c) Summarise details of any material control failures identified, including the identification of issues which may amount to rule breaches, and any remedial action taken.
 - (d) Effectiveness of transaction monitoring processes?

Recommendation for Action

(55) Describe in order of priority areas for remedial/preventative action, the action deemed necessary, and an expected timeframe for completion. Note any other recommendations to senior management.

(56) Comment on adequacy of resources.

A handwritten signature in black ink, appearing to read 'Croft', is written over a horizontal line. The signature is enclosed within a hand-drawn oval.

Lt. Col Edward Croft
The Supervisory Authority
Under the Money Laundering
(Prevention) Act 1996