

# **INTERNAL AUDITING ON AML/CFT ISSUES**

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## **Private Sector Presentation**

on

**Wednesday, 18 April 2007**

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**Presented by:**

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**For:**

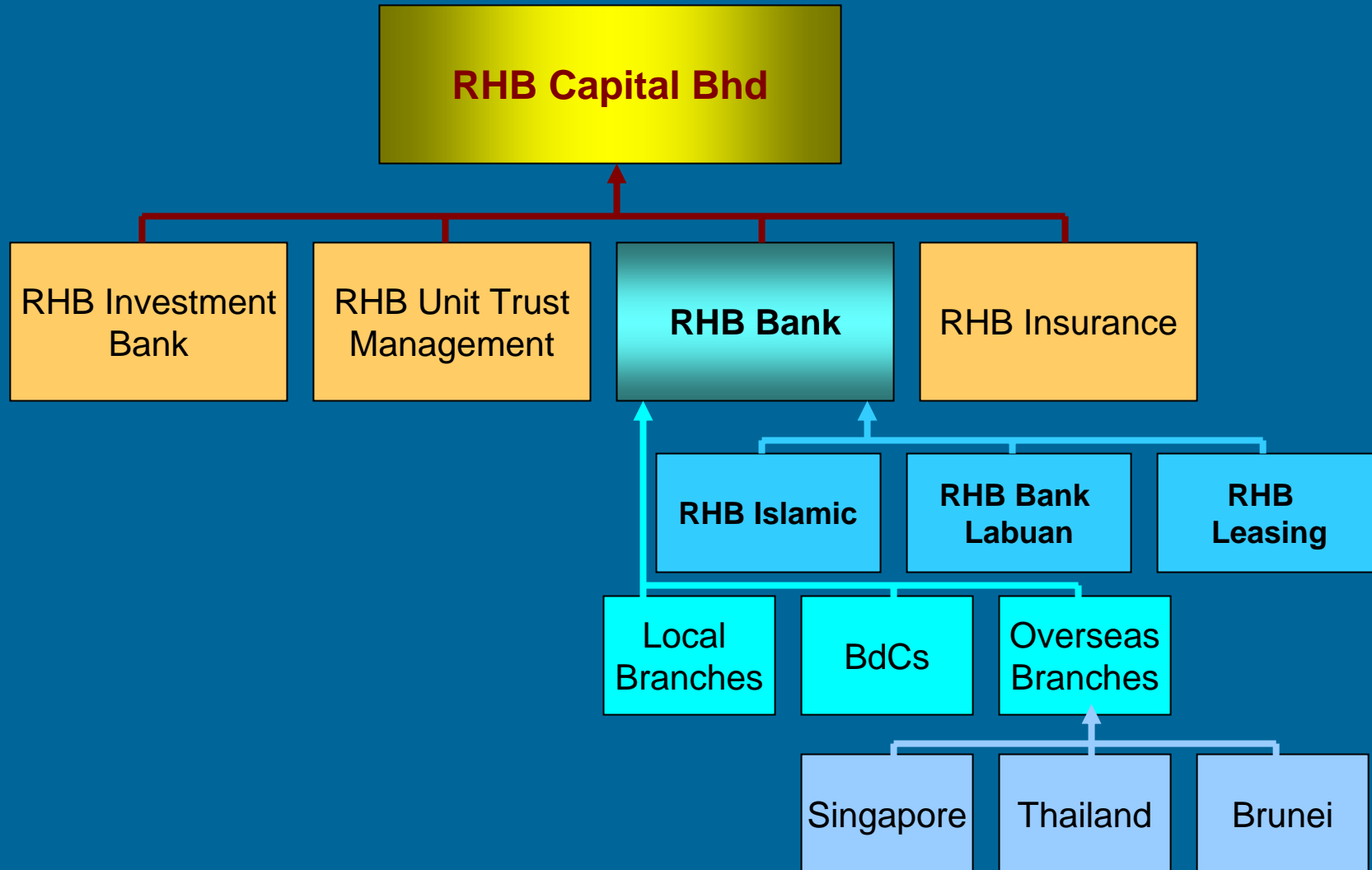
**SEACEN-WB Regional Advanced  
Workshop for Banking Supervisors  
on AML/CFT, KL**

# Agenda:

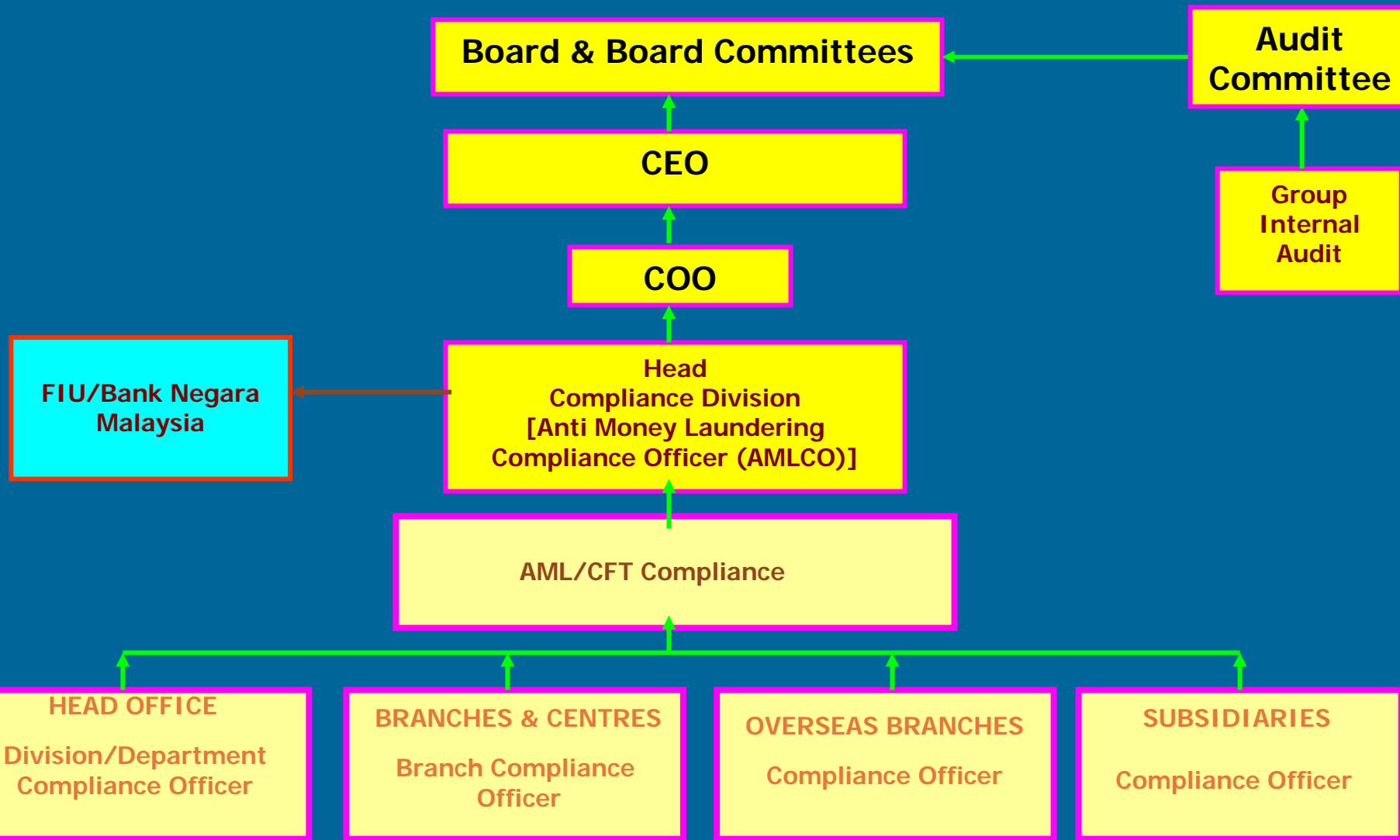
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- Introduction
- RHB Bank Structure
- AML/CFT Reporting Structure
- AML/CFT Framework
- AML/CFT Compliance Flow for Liabilities Products
- AML/CFT Compliance Flow for Asset Products
- Internal Audit – Scope in General
- Auditing Methods on AML/CFT Issues
- Conclusion

# RHB Bank Structure



# AML/CFT Reporting Structure

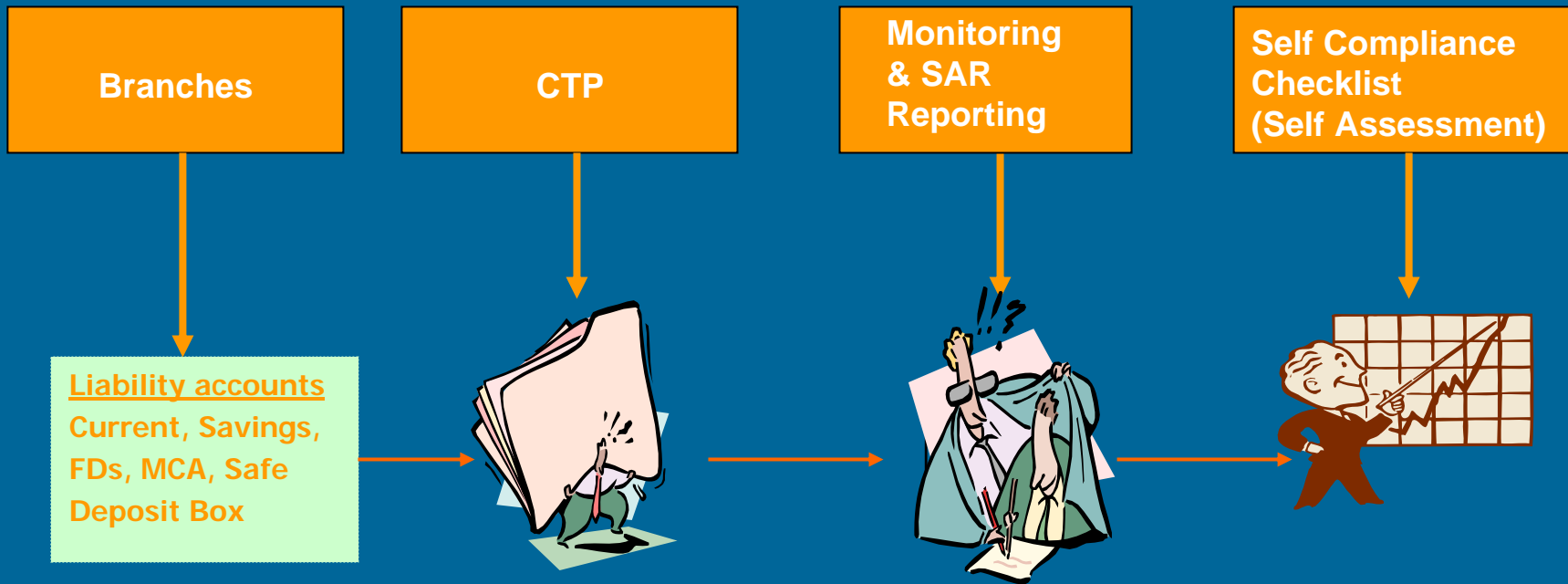


# AML/CFT Framework

- RHB Bank, Overseas Branches & Subsidiaries



# AML/CFT – Compliance Flow for Liabilities Products

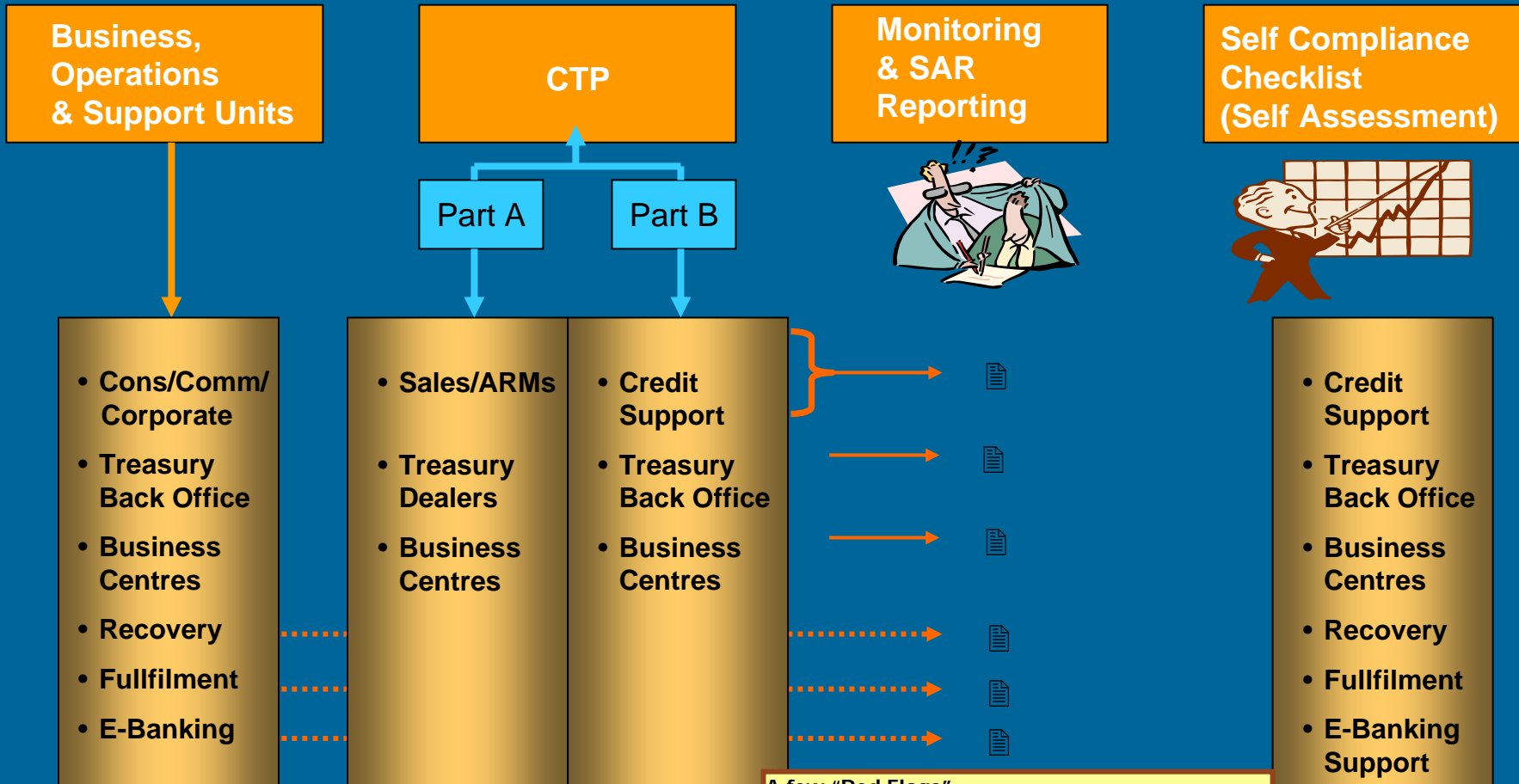


Note:

CTP – Customer Transaction Profile

SAR – Suspicious Activity Report

# AML/CFT – Compliance Flow for Asset Products



**A few "Red Flags"**

- Customer suddenly pays a large problem loan with no reasonable explanation
- Unexpected redemption / repetitive payment of housing / personal loan (more than the installment / early settlement)
- Accounts where deposits/withdrawals are primarily in cash rather than cheques

# Internal Audit

## - Scope in General

- Evaluate adequacy and effectiveness of the internal controls
- Evaluate compliance with all laws, statutory guidelines and regulatory requirements
- Establish whether accounting records, regulatory & management reports and business transactions are complete, reliable and accurate
- Determine the level of compliance with the organisation's policies and procedures





# Internal Auditing on AML/CFT Issues

Audit on AML/CFT risk focuses on the following:-

- Board & Management oversight
- Policy, procedures & internal controls
  - Customer identification and Customer Due Diligence
  - Ongoing monitoring of accounts and transactions
  - Record-keeping and reporting of suspicious transactions
  - Compliance with new requirements
- Human Resource & staff training
- Management Information System
- Continuous testing

# Board & Management Oversight

- Continuous update is made on latest development of AML/CFT
- Statistics on Suspicious Transaction Report (STR) are submitted
- Modus operandi is described
- Issues/weakness on the AML/CFT Framework is highlighted
- Product risk assessment is conducted and updated
- Audit findings are reported to the board of directors and/or a designated committee
- Audit deficiencies and corrective actions are taken



# Policy, Procedures & Internal Controls

Assess customer identification and Customer Due Diligence has been carried out through random testing:-

- New relationships are established after proper identification and KYC
- Evaluate the risk assessment (country/geography, business, product and transaction) is performed
- KYC forms completed at the point of account opening and duly signed by Officer-In-Charge & Supervisor
- Customers/transactions checked for AML/CFT Blacklisting and Greylist
- Customers are properly risk scored
- Records are kept as per bank's policy



# Policy, Procedures & Internal Controls

Test the effectiveness of internal controls on the ongoing monitoring of accounts and transactions

- Procedures are adhered to based on random testing
- Errors or omissions are checked to identify whether intentional or unintentional
- Segregation of duties is practiced (playing the designated role)
- Monitoring of daily reports, reviewing transactions for suspicion and justifications recorded
- Proper escalation and reporting is practiced

# Policy, Procedures & Internal Controls

Record-keeping and reporting of suspicious transactions:-

- An assessment of the overall process for identifying and reporting suspicious activity including a review of SARs to determine their accuracy and timeliness
- Evaluate the process in which the information is captured, recorded and protected
- Determine control procedures over the record keeping and reporting are adequate
- Timely responses to enforcement agencies request

# Continuous Testing

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- Existence of Self Assessment (SA)
- Frequency of SA
- Validation of the Self Compliance Checklist (self assessment) have been properly completed and the responses given represents true picture

# Continuous Testing

Random review of risk assessment for changes in risk profiles is conducted for the following:-

- New products and services (e-banking, trade, investment accounts etc)
- Adequacy and effectiveness of new internal controls
- Evaluate processes are in place to comply with latest requirements

# Human Resource & Training

- Review HR screening process addresses AML/CFT risk
- Review of staff training attendance registers at the branches / business units for attendances by the mandatory category
- Ensure half yearly refresher training is conducted based on the bank's Quick Reference Guide
- Review policies and procedures on managing staff violating and collaborating with launderers



# Management Information System

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- Evaluate adequacy of reports to monitor transactions
- Set threshold is reasonable to represent bank's transactions
- Adequacy of audit trails and archival system
- Review bank's effort in meeting new requirements e.g. automation

# Conclusion

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- Internal Audit's review should assist in ensuring the bank's efforts on AML/CFT meets the AML/ATF Act
- Internal Audit must act to provide independent view to Board and Senior Management on the adequacy and applicability of AML/CFT Framework
- Internal Audit should be able to identify weaknesses in implementation and recommend corrective measures

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**In RHB Bank, compliance with AML/CFT is everyone's KPI in their Balance Score Card .**

**Thus, everyone must ensure effective AML/CFT implementation.**

**THANK  
YOU**

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