

**OVERVIEW OF AML/CFT INDEPENDENT
AUDIT COMPLIANCE FUNCTION
PRACTICES FOR LICENSEES OF THE FSC**

**Information Note
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1. Introduction

Developing an Anti-Money Laundering/Countering the Financing of Terrorism ('AML/CFT') programme is the first step towards achieving regulatory compliance, protecting your reputation and having the appropriate measures in place to combat Money Laundering and Terrorism Financing ('ML/TF'). Moreover, an in-depth knowledge and understanding of the complexities within the AML/CFT legislation is imperative.

By virtue of the Financial Intelligence and Anti-Money Laundering Act 2002 ('FIAMLA') and Financial Intelligence and Anti-Money Laundering Regulations 2018 ('FIAMLR'), every Financial Institution ('FI') has the statutory obligation to have an audit function in place to evaluate its AML/CFT programme and to ascertain whether the established Policies and Procedures ('P&P'), systems and controls are adapted to the business of the FI and the ML/TF risks identified.

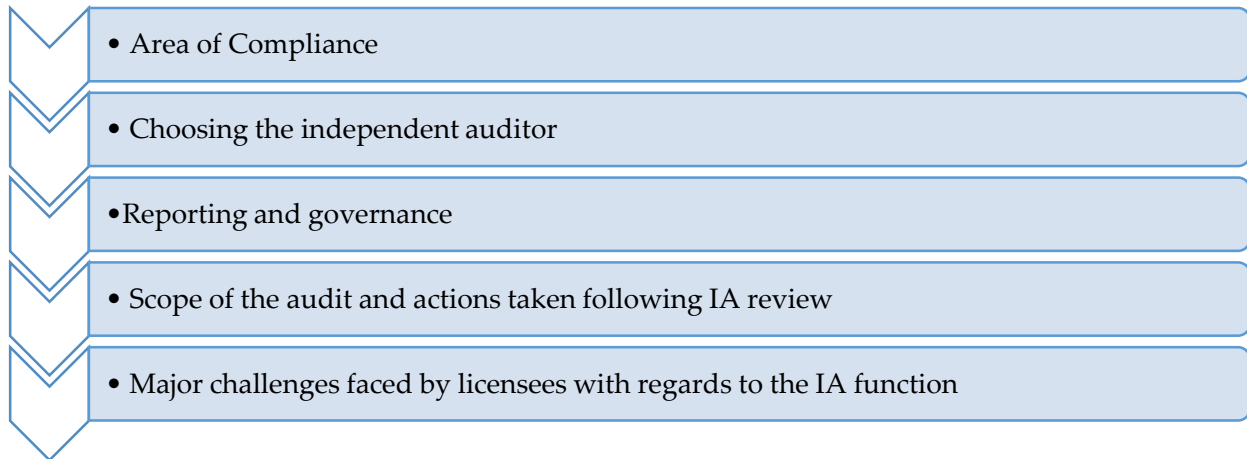
1.1. FSC Independent Audit Thematic Questionnaire

The Financial Services Commission, Mauritius (the 'FSC') has, through AML/CFT onsite inspections and offsite policy reviews observed that many licensees are not complying with their Independent Audit ('IA') obligations. The FSC, therefore, launched the Independent Audit Thematic Questionnaire ('IA Questionnaire') on 15 October 2021 in order to understand the practices adopted by licensees vis-à-vis the IA function.

The IA Questionnaire was targeted to 345 licensees, out of which 326 responded, resulting in a 94% response rate.

1.2. Scope of the IA Questionnaire

Below is the scope of the IA Questionnaire which will be further elaborated in Section 3:



2. Improvement and Testing

Putting an AML/CFT compliance programme into motion is not enough; the programme must be monitored and evaluated. FIs should assess their AML/CFT programmes regularly to ensure their effectiveness and identify new risk factors.

The AML/CFT compliance function should ensure the ongoing monitoring of the fulfilment of all AML/CFT duties by the employees working at FIs. This implies an assessment of AML/CFT compliance, review of exception reports, and reporting of compliance failures to the board of directors and/or senior management. AML/CFT compliance assessment should be programme-wide and risk-based, and should include main AML/CFT compliance aspects, such as:

- Customer due diligence processes;
- Suspicious transaction reporting;
- Cash (currency) transaction reporting;
- Training;
- Systems supporting AML/CFT compliance (for example, transaction monitoring, customer information management) and AML/CFT methodologies used by FIs (for example, risk assessment, client risk assessment, product risk rating, and country risk rating).

As part of FIs' continuous improvement programme, robust AML/CFT compliance assessments play a key role in self-identifying weaknesses in existing AML/CFT controls and remediating identified deficiencies and thus, are essential to sustaining an effective AML/CFT risk management.

3. Findings and key observations

Scope 1: Areas of compliance

- In general, 97% of the respondents have a properly documented AML/CFT programme in place;
- 88% of the respondents stated that they have controls and P&P in place in respect of the IA function;
- The highest level of compliance was observed in the Trusts and Company Service Providers/Management Companies ('TCSP/MC') sector (59%) and FinTech sector (100%). The highest non-compliance was noted in the Capital Markets ('CM'), Investment Funds ('IF') and Insurance sectors.
- 67% of respondents have carried out training sessions on the IA review;
- 21% of the respondents who indicated that they were yet to conduct an IA review reported that they had not conducted any related training sessions; and
- The sectors of concern are CM, Insurance and IF given the low number of respondents conforming to the IA compliance area.

Good practices observed

- The P&Ps of a FI have to be tailor-made to the business, as well as, the risks faced by the FI while taking into account the regulatory framework in place.
- 82% of the respondents stated that the Independent Auditor takes into account all parameters highlighted in the Financial Services Commission Anti-Money Laundering and Countering the Financing of Terrorism Handbook (the 'Handbook') for compliance verification.

Areas of improvement

- FIs across all sectors must have in place the relevant P&Ps such that there are proper guidelines for the IA review in order to achieve greater compliance. Moreover, having formalised P&P facilitates accountability, continuity and ensure sustainability.
- Reporting persons are required to ensure that all relevant staff (including resident directors, money laundering reporting officer, compliance officer and administrators) undergo training, emphasising the importance of the IA function. Training is one of the most important ways to accentuate the importance of AML/CFT efforts, and educate staff on the course of action to adopt when facing potential ML/TF risks. Training also acts as an essential control to mitigate ML/TF risks to which FIs may be exposed.

Scope 2: Choosing the independent auditor

In line with Chapter 13.3 of the Handbook, the auditor is required, at a minimum, to have:

- the necessary skills, qualifications and relevant experience of the audit process;
- a proper understanding of FIAMLA and its supporting regulations;
- sufficient knowledge of the FI industry/sector; and
- knowledge of AML systems and technologies.

Good practices observed

- 96% of the respondents assessed the independence of the audit professional;
- 98% of the respondents confirmed that the person carrying out the audit does not have any relationship with any shareholder, director, senior management and/or employees of the FI nor any financial interest in the business, and
- 65% of the respondents have documented the assessment of the auditor's independence.

Areas of improvement

Recommendations for licensees:

- To have documented criteria for choosing the auditor included in the P&P of the FI; and
- To ensure that a proper assessment of the auditor's qualifications and independence is conducted and documented.

In all cases, the FI must be satisfied and able to demonstrate that the person or the firm undertaking the audit is appropriately qualified and independent from the area of the business function responsible for risk assessment and AML/CFT programme, and ensure that there are no conflicts of interest (Chapter 13.3 of Handbook or Regulation 22(1)(d) of FIAMLA).

Scope 3: Reporting and governance

- More than 90% of respondents stated that the frequency of the IA is dependent on the FI's size, nature, context, complexity and internal risk assessment;
- 38% respondents reported that the frequency for conducting the IA should be 1 year as compared to others who opted for 2 years and above;
- 51% of the licensees are taking more than 1 year to conduct another IA review; and
- 93% of licensees perceived the cost for conducting the IA as reasonable.

Good practices observed

- 95% of the respondents confirmed that their audit report includes documented work plan, audit scope and documented transaction screening;
- 97% of the respondents rely on the below circumstances to amend their audit cycle:
 - (i) When there are material changes to the FI's business;
 - (ii) When there are changes to the business risk rating of the FI;
 - (iii) When there are changes to the risk rating of the clients of the FI; and
 - (iv) When there are changes in the legislative or regulatory obligations.
- 98% stated that auditors were provided with access to all relevant information during the IA exercise; and
- A majority of the licensees are resorting to remote auditing given the Covid-19 situation.

Areas of improvement

- As per the Handbook, all FIs should consider the appropriateness and effectiveness of their compliance arrangements and policies for the review of compliance at a minimum annually;
- FIs should ensure that audit exercises are of sufficient quality to comply with the prevailing legislation.

Scope 4: Actions taken following IA review

The IA review involves understanding the FI's business, reviewing relevant core documents, samples testing, testing the live application of P&P, and interviewing a cross-section of players. The audit process must have sufficient depth and breadth to support the findings and to make the report worthwhile.

The audit professional is expected to make recommendations for the FIs to address/rectify any areas of non-compliance, which may include recommendations on highest priorities for rectifying non-compliance. The audit professional may also identify areas to be improved. It is the responsibility of the board of directors of the FIs to take appropriate corrective actions to remediate any issues identified in the IA report within the specified timelines.

The results of the IA Questionnaire show that 24% of the respondents' audit report failed to include red flags for failure to address recommendations and findings of previous audits.

Good practices observed

Majority of the respondents confirmed the following:

- Their IA report was comprehensive and identified areas where the FI did not meet minimum legal or regulatory standards. Also, the report included an indication of potential discrepancies and the recommended course of action; and
- 86% of the respondents have taken appropriate measures to remedy the discrepancies identified in the IA report, within a reasonable timeframe.

Areas of improvement

A key element of the whole audit process is effective follow-up. Failure to address recommendations and findings of previous audits should be red flagged to the board or audit committee. FIs may adopt structured processes to plan and monitor the effective implementation of remedial actions which would include the identification of involved parties for remediation, agreeing on the set target dates for completion and reporting to senior management on the progress made.

In line with the recommendations of the IA report, FIs should take corrective measures to address deficiencies identified by the auditor, subject to approval from the board of directors. It is crucial that the board of directors ensures that these actions are completed in a timely manner.

Scope 5: Major challenges faced by licensees with regards to the IA function

Factors that may render the conduct of the audit exercise challenging and time consuming for the auditor are as follows:

- Collecting information from the FI;
- Testing the different parameters of AML/CFT;
- Availability of beneficial ownership information;
- Difficulties to agree on date of audit on premises;
- COVID-19 restrictions and inconveniences in attending queries from auditors; and
- Size and complexity of the business.

Areas of improvement

- FIs need to have the appropriate AML/CFT programme and P&P in place to prevent any non-compliance to the regulatory framework and to ensure that their businesses are safeguarded from ML/TF risks.
- COVID-19 should not impede on the quality and the frequency for conducting an IA review and for remedying the deficiencies identified in the IA report given that remote working is being adopted by the FIs; and
- FIs should provide trainings to ensure that staff are apprised of the need to undergo an IA review.

4. Conclusion

Overall, many of the respondents are yet to be subject to an IA review and many of these respondents have not conducted any training sessions to apprise their staff of the importance of having an IA review of the FIs. It was also observed that the majority of respondents have an AML/CFT programme and adequate AML/CFT P&P in place.

Strategies to address the identified challenges:

- FIs should have processes in place to ensure that the quality of the audit exercise is appropriate and that audits are performed by qualified independent auditors;
- FIs should take necessary steps to ensure the audits performed are of sufficient quality and they should be able to demonstrate that the IA report assesses the effectiveness of AML/CFT controls across and within the entity or group's operation.
- The staff of FIs should be appropriately trained to take cognizance of the importance of an IA review; and
- FIs may undertake audits more regularly, especially if they operate in high-risk sectors. FIs should also reconsider the timeliness to remedy the deficiencies identified in the IA report. A large gap in each of these factors may leave a way for further issues and deficiencies to arise.

FIs need to comprehend the importance of undergoing an IA review, as well as, having the appropriate AML/CFT programme in place to prevent them from not complying with the prevailing regulatory framework and ensure that FIs safeguard their business against ML/TF risks.