

AML TRAINING:
PREPARING AUDITORS
TO ADEQUATELY
ASSESS AML
PROGRAMS

*Jack Sonnenschein,
CAMS-Audit*

AML Training: Ensuring a Solid Foundation for AML Programs

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Introduction

The Bank Secrecy Act (BSA) includes training as a requirement and one of four core pillars of an effective anti-money laundering (AML) program along with effective internal controls, independent testing and specific accountability for oversight of BSA/AML.

The Act was one of the first pieces of legislation (originally enacted in 1970) in the financial regulatory framework that places specific emphasis on and highlights the importance of training in the overall fight against money laundering. In comparison with the other requirements of an effective AML prevention and detection program, for example, implementing effective know your customer (KYC) and customer identification programs or automated transaction surveillance and suspicious activity reporting systems, complying with the training requirement would seem to be rather straightforward and uncomplicated.

Independent Testing and the Three Lines of Defense

Yet, in a steady stream of consent orders by the various U.S. regulators (and undoubtedly in non-public examination letters, memorandums of understanding and reports), training is cited as an issue requiring additional continuing attention by institutions. In particular, internal audit departments responsible for delivering on the independent testing requirements of the BSA have been criticized for “insufficient knowledge and expertise” in AML matters. And when this issue is raised, it is at the intersection of two of the four pillars of the AML program: training and independent testing.

Business managers, the first line of defense, are primarily responsible for understanding and assessing key risks and effective implementation and ongoing operation of internal controls. Compliance, as a second line of defense control function, provides independent oversight of adherence to AML laws and regulations. And internal audit, as the third line of defense, is responsible for independent review of the overall framework of compliance and independent testing of controls and transactions as appropriate.

Figure 1. Three Lines of Defense



Regulatory examination focus on training will continue as reliance on and expectations from internal audit as the third line of defense intensifies. This paper will provide guidance on how

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those responsible for independent AML testing can ensure that regulatory expectations on training and experience are satisfied.

Independent AML Testing Training and Experience Framework

The objective of an Independent AML Testing Training and Experience Framework is to ensure a consistent approach to periodically assessing AML independent testing training needs, building risk-based training plans and delivering, tracking, documenting and reporting on training results. Such a framework will also facilitate and optimize training, matching and balancing development opportunities and on-the-job requirements and experience for those conducting independent testing work plans.

The components of such a framework are:

- Independent AML Testing Skills Matrix
- training needs assessment
- AML training plan
- training delivery, tracking and reporting
- independent testing resource plan

Independent AML Testing Skills Matrix

An Independent AML Testing Skills Matrix helps paint a clearer picture of areas of independent AML testing training and auditor experience in these areas and is the foundation for identifying training needs and formulating an appropriate training plan for personnel responsible for carrying out AML independent testing. The matrix would be prepared by those responsible for independent AML testing training (AML Training) and would be tailored to the institution's business and AML risk profile as explained below.

The matrix would be distributed to independent AML testing personnel for completion and returned to AML Training for evaluation and analysis.

The two components of such a skills matrix would therefore be:

1. AML knowledge areas, and
2. audit expertise in these AML areas.

Specifically, the Independent AML Testing Skills Matrix should consider:

- inherent AML risk-based on customer, product and channel and country risk components;

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- evaluation of the AML control environment considering control design (preventive or detective, automated or manual) and results of business self-testing, compliance monitoring, internal audits and regulatory exams;
- new or proposed AML laws, rules, regulations, requirements, regulatory expectations or increased areas of regulatory focus;
- Changes in business focus, strategies, markets, countries, such as:
 - new products offerings, new target customer segments, new products or delivery channels,
 - significant modifications to existing products, customer segments, etc., and/or
 - business restructuring or realignments;
- experience level of employees and roles and responsibilities;
- number of new hires and staff turnover; and
- existing training available and relevance to current needs and environment.

The knowledge component of internal audit Independent AML Testing Skills Matrix should parallel the approach that the broader organization would take in providing more specialized training expectations as product complexity and AML risk increased. For example, an enterprise-wide AML training assessment would consider training requirements at various strata in the organization:

- **Firm-wide**, the broadest AML training would provide a basic understanding of relevant laws, requirements, firm policies and red flags tailored to the financial institution's target markets and locations.
- **Business or department-wide** training that would focus on AML risks that are particularly relevant to that business. For example, business units that provide retail banking services would receive additional training on AML risks tailored to that business or department.
- **Specialized** training would be provided to personnel with specific AML-related duties. As an example, training for frontline branch personnel would include KYC requirements for onboarding new accounts, instructions on completing currency transaction reports (CTRs) for cash transactions and red flags that might indicate unusual or suspicious customer behavior.

Staff responsible for maintaining currency transaction reporting exemption lists would receive even more specialized training on customers eligible for addition to this list and requirements for annual recertification commensurate with risk and required knowledge.

Similarly, an internal audit assessment would evaluate training required for the department as well as specialized training for those focused primarily on AML independent testing.

Consider the following curriculum for a multi-national, full service financial institution:

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Topics for Internal Audit Department-Wide Training

- BSA/AML Compliance Program
- AML Risk Assessment
- Customer Identification Program (CIP)
- Customer Due Diligence (CDD)
- Suspicious Activity Monitoring/Reporting
- Currency/Monetary Instrument Sales Reporting/Recordkeeping
- Sanction Screening
- Information Sharing

Higher Risk Topics Tailored to Business, Product and Country Internal Audit

- Funds Transfers
- Private Banking
- Foreign Correspondent Banking
- Broker/Dealers
- Money Services Businesses
- Pouch Activity
- Payable Through Accounts
- Concentration Accounts
- Non-deposit Investment Products
- Trade Finance
- Trust and Asset Management
- Politically Exposed Persons
- Non Resident Aliens

Specialized Advanced Topics Tailored to Internal Audit AML Subject Matter Experts

- KYC/CIP Systems
- Sanctions Screening Systems
- Name and Entity Matching Technologies
- Surveillance Systems
- Embassy Banking
- Model Validation
- Monitoring Rule Selection and Optimization
- Cash Aggregation and Reporting Systems
- AML Operations
- AML Data Controls
- Suspicious Activity Reporting Systems
- Case Management Systems
- Senior Public Figures
- AML Quality Assurance

At this point the “what” of required knowledge can be determined. In order to round out the AML skills picture, the “expertise” component needs to be developed. In addition to taking inventory of auditor AML skills, the matrix can be used to ensure that:

- appropriate AML auditor expertise is matched to AML audits,
- growth and learning opportunities for auditors in performing and supervising AML audit work are recognized, and
- AML training requirements for auditors are documented.

AML skills and expertise can be acquired through a number of channels including:

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- certifications demonstrating acquisition of AML knowledge (such as the Certified Anti-Money Laundering Specialist, especially the advanced audit certification);
- experience in AML areas such as KYC, suspicious activity surveillance and reporting, OFAC, etc., acquired working in compliance, legal, technology or operations departments;
- performing AML audit procedures and testing;
- supervision of AML auditors and/or reporting of AML issues;
- writing papers, articles or presenting on AML topics; and
- other relevant experience.

Experience can also be acquired in various environments besides financial institutions. Non-bank financial institutions (which may include broker/dealers, insurance and money services businesses) as well as consulting firms with AML specialties can provide AML experience. And of course, experience as a regulator or examiner can deliver broad horizontal experience in AML.

Not all products, services and customers will be applicable to every financial institution. As financial institutions offer different products and services to different customers and maintain varying risk profiles, AML auditors will not be required to show experience in all products and services in order to demonstrate AML expertise.

In order to facilitate review of results and interpret these in a consistent manner it would be helpful to prepare guidelines and scores that can be used by auditors completing the skills matrix on experience level.

An example of such guidelines and skill categories would be as follows:

Figure 2. Scoring for Expertise Levels

Expertise Level	Score	Description
Experienced	3	Extensive experience in area gained over multiple years and/or audits
Intermediate	2	Participated in audit planning, performed steps or prepared report comments on at least 2 audits
Entry-level	1	Participated in at least one audit

Auditors would be asked to self-assess and report expertise for knowledge categories based on the above resulting in an Independent AML Testing Skills Matrix, extract as shown below:

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Figure 3. Independent AML Testing Skills Matrix (Extract)

Auditor Name:				
<i>Experience</i>	<i>Compliance/ Legal/ Consulting</i>	<i>Performed Audit Testing</i>	<i>Audit Supervision, Review and/or Reporting</i>	<i>Reference/Comments</i>
AML Skills				
Core Regulatory				
BSA/AML Compliance Program				
AML Risk Assessment				
Customer Identification Program				
Customer Due Diligence				
Suspicious Activity Monitoring/Reporting				
Currency/MI Reporting/Recordkeeping				
BSA/AML Technology				
KYC/CIP Systems				
OFAC Screening				
Surveillance Systems				
Case Management Systems				
Unusual or Suspicious Activity Reporting Systems				
Experience Level Legend				
Experienced	3 = Extensive experience in area gained over multiple years and/or audits			
Intermediate	2 = Participated in audit planning, performed steps or prepared report comments on at least 2 audits			
Entry-level	1 = Participated in at least one audit			
Completed by:				
Date:				
Reviewed by:				
Date:				

The Independent AML Testing Skills Matrix should be reviewed and agreed on for each auditor and considered by managers in formulating the work plan for AML audits and the supervision and formal and on-the-job training requirements for auditors.

Managers and auditors share responsibility for maintaining the Independent AML Testing Skills Matrix up-to-date and periodically following-up to assess progress and/or further actions required.

Training Needs Assessment

The Training Needs Assessment (TNA) should answer the question:

What AML and audit specific training and experience, based on the financial firms' product offerings, customer base and risk profile and geographic footprint and reach does the independent testing group require?

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The answer to the above question should be risk-based and it should go beyond strictly AML risks in order to take into account audit and expertise risks such as the risk of not including a particular AML area or function into the audit scope as well as the risk of missing or incorrectly interpreting audit evidence and reaching an incorrect audit conclusion.

Results for the Independent AML Testing Skills Matrix would be tabulated to determine group training opportunities, moving beyond the individual assessment discussed above. What is important is that training needs be arrived at holistically taking into account the urgency of acquiring the skill and the complexity of the skill being acquired.

It may be possible to conclude that, as a result of highly specialized needs or the length of time to develop a required skill set to an acceptable level or the very limited circumstances that a highly specialized skill would be required; it would be more efficient and prudent to “rent” the required skills from a professional services firm.

The Independent AML Testing Skills Matrix and the resultant Training Needs Assessment now enables firms to proceed in a methodical manner in acquiring the required training.

AML Training Plan

In developing a plan to address training needs identified, a good starting place would be to consider existing compliance and AML “assets” such as training programs that may be available from firm-wide, business or department-wide or specialized areas as detailed above. The ability to repurpose such training and use it as a foundation for internal audit training may be quicker and more efficient than developing such training *de novo* and would have the added advantage of creating a “shared map” of experience between the business, compliance or operations areas and the auditors.

If the above approach is not practical, as in most other areas, financial institutions should consider the “purchase” option. There are trade groups, numerous vendors and professional services firms that may be able to deliver state of the art, bespoke training in a quicker and more economical way than pursuing an in-house solution.

Training Delivery, Tracking and Reporting

As with other training initiatives, it is critical to be able to demonstrate that the training took place, the specific training materials that were used, the satisfactory credentials of the instructors and the details of the audit staff in attendance.

A training plan should be developed that would take into consideration busy periods for auditors, for example, at year end as annual audit plans need to be completed. Additionally, training plans may wish to take into account specific audit scheduling and strive to deliver

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training immediately before such audits in order to reinforce classroom learning with practical application on an audit.

No-shows or cancellations should be strongly discouraged as excessive missed training can raise questions concerning commitment to this important activity. Approvals at senior levels in the audit department should be required for cancellations or changes to plan. Metrics that portray commitment and progress in meeting training obligations should be developed, reported and escalated.

A best practice would be to maintain a “perpetual inventory” of training records and supporting documentation so that when the request comes from the regulators for AML training records, such information can be produced timely with minimum effort.

Taking into consideration the importance of training in the AML space, it may be helpful to codify the above in a policy, procedure or both with clear roles and responsibilities, timing and documentation retention requirements.

Independent Testing Resource Plan

As noted above, in order to maximize the learning experience, audit training should preferably precede the audit during which this training would be put into practice. A testing resource plan would also improve the auditor development opportunity by coordinating a sequence of practical experiences that would link the various elements of an AML system of internal control.

For example, in large financial institutions, audit departments may trade efficiencies that would be obtained by utilizing audit staff repeatedly in certain areas such as KYC audits and encouraging and facilitating staff assignments in other AML areas, such as surveillance and case investigation, that build on knowledge and skills acquired in KYC reviews.

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Summary

Training and independent testing are core requirements and key pillars of a satisfactory BSA/AML program. Regulators have noted deficiencies in the knowledge and expertise of internal audit staff charged with conducting independent AML audits.

Institutions can take a proactive approach in ensuring that internal audit staff has the requisite knowledge and expertise through developing an Independent AML Testing Skills Matrix that records required knowledge and expertise on hand to satisfy the requirements.

The Independent AML Testing Skills Matrix can also be used to identify training opportunities and serve as the basis for developing and implementing an AML training plan and should be considered in AML audit scheduling.

Clear roles and responsibilities and policies and procedures may be useful in ensuring training needs and materials are periodically evaluated and that appropriate documentation is obtained and retained to demonstrate adherence to the AML training requirements and that audit staff can demonstrate the expected AML knowledge and expertise.