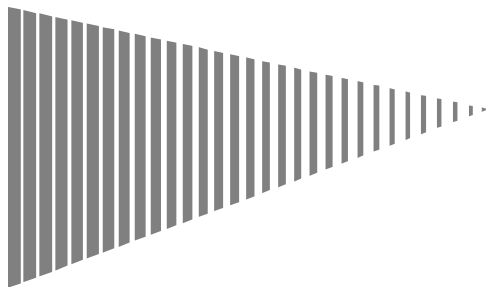


# AML, Sanctions, Anti-Bribery and Corruption – emerging trends, threats and opportunities

NSW members' meeting Institute of Internal Auditors  
28 October 2014



Building a better  
working world

# Today's agenda

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- ▶ World events, increasing regulatory expectations and fines and scandals are keeping AML, Sanctions and Anti-Bribery and Corruption at the forefront of risk management. These areas of Regulatory Financial Crime have developed exponentially over recent years, and protecting organisations' balance sheets and reputations requires a robust and expert audit plan.
- ▶ This session will include:
  - ▶ Background on each of these areas
  - ▶ Recent and emerging issues and trends
  - ▶ A framework for internal audit
  - ▶ Challenges and hot spots

# Introduction



# Why are AML/CTF, Sanctions and Anti-Bribery and Corruption important?

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- ▶ UN estimate of money laundered globally in one year is 2-5% of global GDP
- ▶ Australia GDP: AUD1.5 trillion, so potentially AUD50 billion
- ▶ ABAC estimate globally – USD1 trillion + drag on world economy plus development costs
- ▶ US fines over USD50bn last year – Sanctions, AML/CTF, mis-selling
- ▶ Many of the banks involved in regulatory fines did not think they could be involved with money laundering
- ▶ World events including Russia, Ukraine, Syria, Iran , Iraq directly impact Australian banks and their ML/TF and sanctions risks (eg many changes to sanctions rules for Russia this year)
- ▶ FATF is conducting its 4th round of mutual evaluations focused on effectiveness. Australia's review is in progress

# Why are AML/CTF, Sanctions and Anti-Bribery and Corruption important?

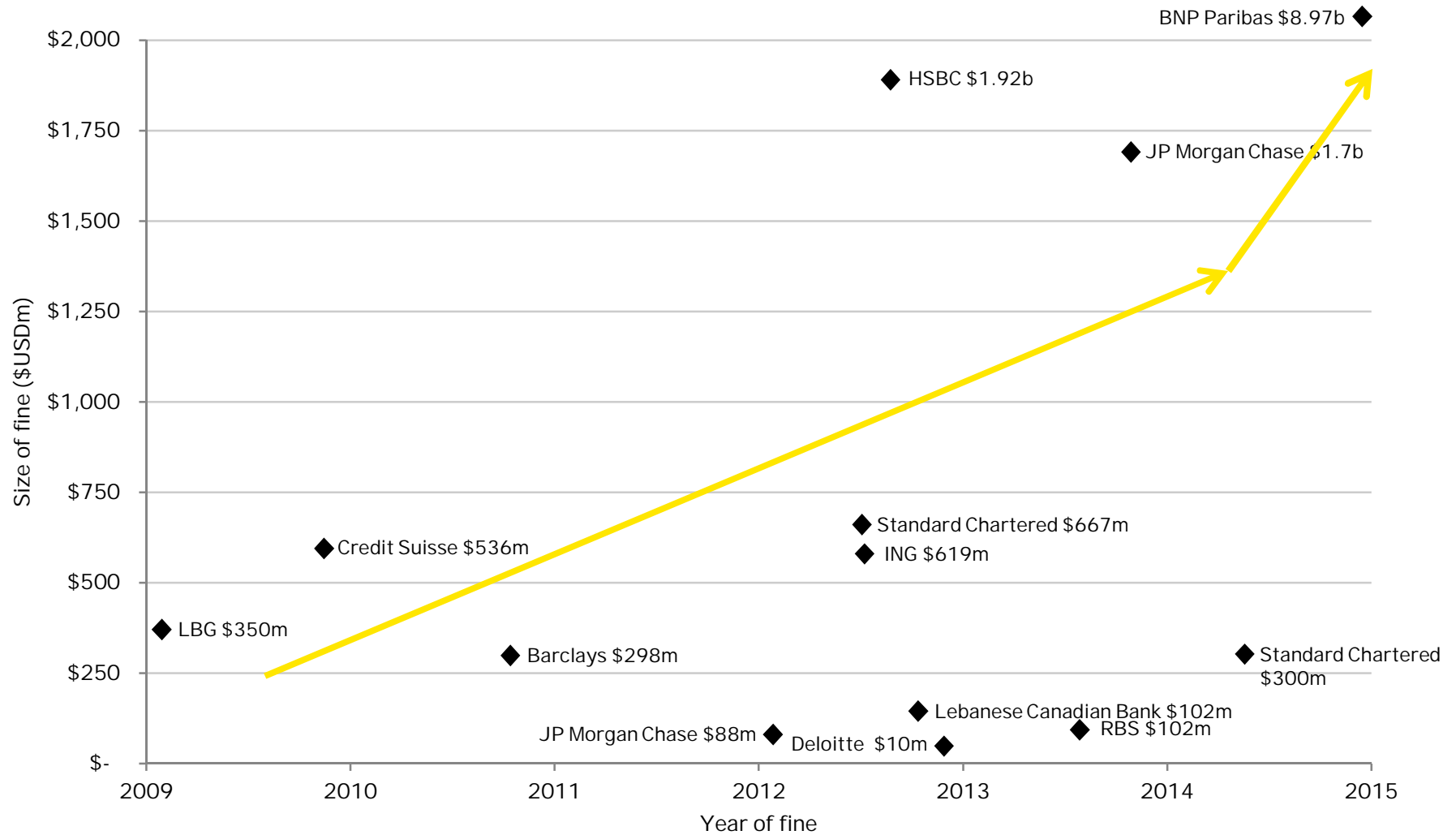
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*Australia's banks are backing away from the remittance business, as concerns about the financing of Islamic State ramp up the costs of complying with tough new laws that have made conducting international fund transfers increasingly risky to bank reputations.*

*It is understood that Westpac Banking Corp is in the process of closing most of its remittance accounts, while National Australia Bank, ANZ Banking Group and Commonwealth Bank of Australia have stopped providing remittances to some clients. Bank of Queensland is no longer accepting new remittance customers.*

AFR 20 Oct 14

# Recent AML and sanctions fines



# Money laundering and terrorist financing



# What is money laundering?

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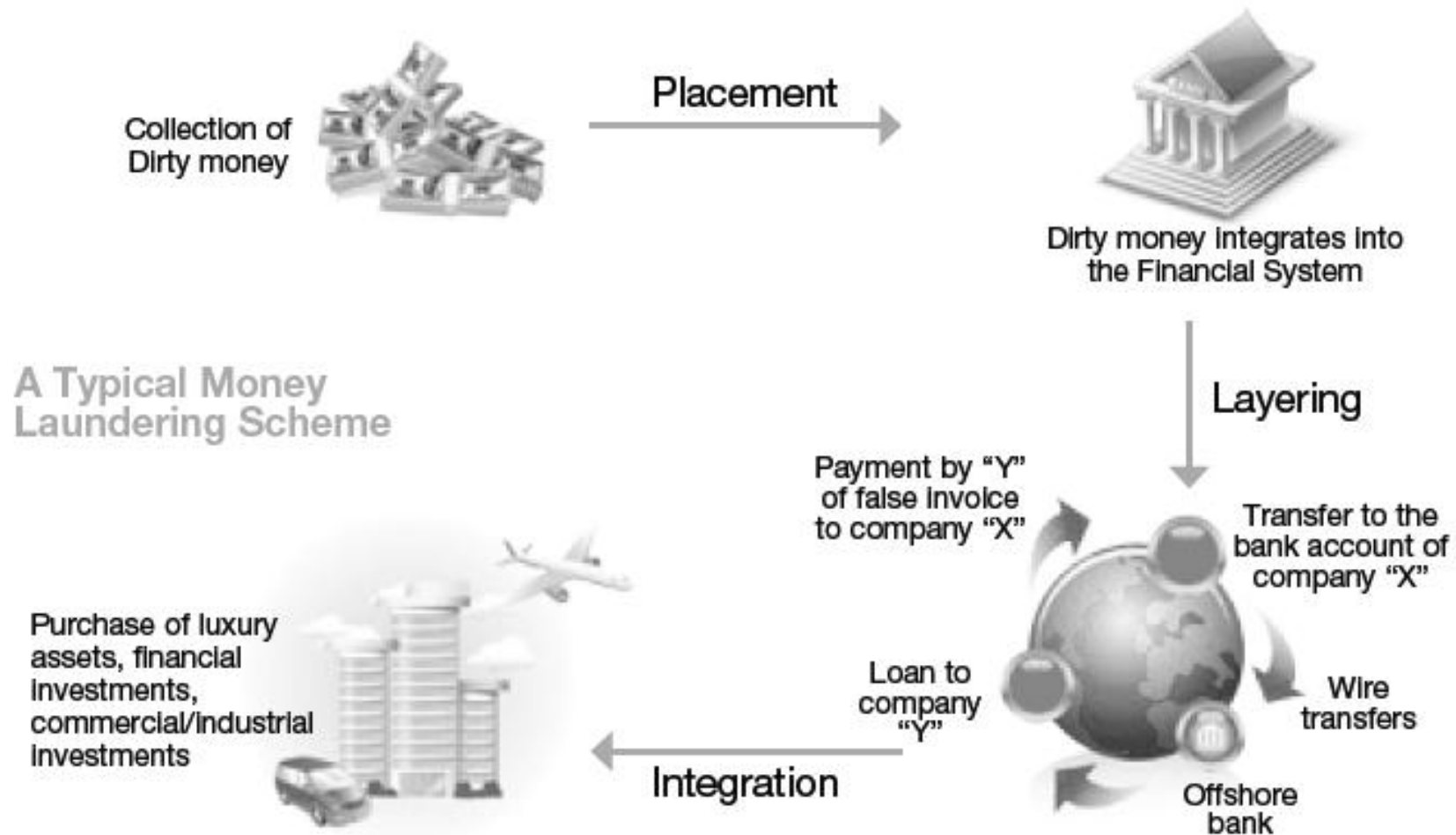
- ▶ In practical terms, money laundering is the process whereby criminals attempt to hide and disguise the true origin and ownership of the proceeds of their criminal activities, thereby avoiding prosecution, conviction and confiscation of the criminal funds.

(Source: AUSTRAC Regulatory Guide)

- ▶ Common typologies includes:
  - ▶ Currency smuggling
  - ▶ Structuring / Smurfing
  - ▶ Cuckoo smurfing
  - ▶ Telegraphic Transfers and Bank Drafts
  - ▶ Credit Cards and Debit Cards



# Example of a typical money laundering scheme



Source: Fintrac Terrorist Financing Models (Canadian Government)

# What is terrorist financing?

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- ▶ Terrorist financing is the financing of terrorist acts and of terrorists and terrorist organisations.  
(Source: AUSTRAC Regulatory Guide)

- ▶ Terrorist attack
  - ▶ The cost of explosive materials, firearms, communications equipment, vehicles, travel and accommodation
- ▶ Terrorist organisations
  - ▶ Those who plan or encourage terrorism, provide funding to support groups or individuals who may plan a terrorist attack and those who provide training to terrorist groups. The funding may also be used to maintain terrorist infrastructure such as training camps
- ▶ Schemes revolve around
  - ▶ Raising funds (often clean), moving them, using them

# Similarities and differences

- ▶ Terrorist financing uses funds for an illegal political purpose, but the money is not necessarily derived from illicit proceeds.
- ▶ Money laundering always involves the proceeds of illegal activity. The purpose of laundering is to enable the money to be used legally.

	Motivation	Source of Funds	Conduits	Detection Focus	Transaction amounts	Financial Activity	Money Trail
Money Laundering	Profit	Internally within criminal organisations	Favours formal financial system	Suspicious transactions, such as deposits uncharacteristic of customer's wealth or expected activity	Large amounts often structured to avoid reporting requirements	Complex web of transactions often involving shell or front companies	Circular - money eventually ends up with person who generated it
Terrorist Financing	Ideological	Internally from self funding cells or externally from benefactors and fundraisers	Favours cash couriers or informal financial systems such as currency exchange firms	Suspicious relationships, such as, wire transfers between seemingly unrelated parties	Small amounts usually below reporting thresholds	No workable financial profile or operational terrorists exists	Linear - money generated is used to propagate terrorist group and activities

# Key AML/CTF requirements

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- ▶ Conduct ML/TF risk assessments
- ▶ Implement systems and governance to manage their ML/TF risks and maintain a program
- ▶ “Know your customers”
- ▶ Make themselves known to AUSTRAC
- ▶ Report to AUSTRAC

# Recent developments AML and Sanctions

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- ▶ Regulatory burden - increase in regulatory burden for AML and Sanctions globally. Increase in interest and enforcement by regulators means more to take into account. Use of sectional sanctions.
- ▶ Regulatory action – How effective is it? Are current enforcement actions effective or sufficient. Move to personal accountability. Have we lost sight of the criminals?
- ▶ Response - is there an advantage in being good in these areas? Remediation is very expensive

# Sanctions



# What are sanctions?

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- ▶ 'Measures not involving the use of armed force' imposed 'in situations of international concern', including 'the grave repression of the human rights or democratic freedoms of a population by a government, or the proliferation of weapons of mass destruction or their means of delivery, or internal or international armed conflict.'

(Source: Explanatory Memorandum to Autonomous Sanctions Bill 2010)

- ▶ Sanctions are a political tool available to Governments and Supra-National bodies (UN, EU)
- ▶ Many Governments have Sanctions programs. Indeed, an obligation on UN member states to reflect UN Security Council sanctions
- ▶ US Sanctions program is a major driver in shaping policies of global financial services providers, exporters, importers, investors

# Why the focus on US sanctions?

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- ▶ Size and reach of US economy
- ▶ Use of US Dollar – a sovereign asset of the US Government
- ▶ An actively used tool of US Foreign Policy
- ▶ Very vigorous regulatory enforcement – staggering fines
- ▶ Criticality of access to US economy and banking system for international business
- ▶ Dynamic and growing



# Characteristics of sanctions compliance program

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- ▶ Strict liability regime
- ▶ Screening of customers, counterparties, suppliers
- ▶ Understanding of end users – red flags
- ▶ Documented policy, procedures, requirements
- ▶ Assurance assistance
- ▶ Actively updated – dynamic environment (politics)
- ▶ Enhanced due diligence for high risk activity
- ▶ Tone from the top
- ▶ Education – counter intuitive aspects
- ▶ Third line defence

# Anti-bribery and corruption



# What is anti-bribery and corruption?

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- ▶ Definitions vary, but generally involve 3 elements:
  1. Offer / give / seek / receive inducement
  2. Improperly perform a function (action / omission)
  3. Reward
  
- ▶ Again – extra-territorial application of laws – US and UK
  
- ▶ World Bank estimate – USD1,000,000,000,000 p.a.
  
- ▶ Effects – embeds unfairness, limits development, court and government systems, safety and health shortcomings

# Recent developments – ABAC

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- ▶ Robust laws developed
- ▶ Cover overseas behaviour of nationals, and where limited nexus of foreigners to US and UK
- ▶ Application to agents
- ▶ Can apply where promise not delivered upon (reward)
- ▶ General exemption – extortion or duress where safety genuinely threatened
- ▶ Variations in regulatory enforcement
- ▶ Media coverage – e.g. China – outflow of funds

# A framework for internal audit



# Regulatory / industry expectations

## 1. Governance

Policies and procedures	Governance structure	Roles and responsibilities
Management Information	Record keeping	Escalation and approval process
Training and awareness	Enterprise-wide risk assessment	Staff performance

## 2. Customer due diligence

Customer and related party identification	Customer business profile	Source of funds and wealth	Client relationship approval
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## 3. Ongoing customer monitoring

Transaction monitoring	Periodic customer review	Trigger review event driven
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## 4. Sanctions screening

Payments screening	Staff screening	Name screening
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## 5. Investigation, escalation and reporting

Suspicious activity reporting	Sanctions hits reporting
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## 6. Financial crime intelligence

Previous intelligence analysis	Trends and law enforcement case analysis	Information from regulatory and legal updates
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## 7. Monitor and improve effectiveness of controls

Ongoing monitoring of financial crime processes	New regulation and guidance	Compliance monitoring	Internal Audit
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# Third line response

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- ▶ Board response – tone from the top
- ▶ Big data – analytics – use of leading tools
- ▶ Education – tailored. One size doesn't fit all
- ▶ Regular assessments and review
- ▶ Escalation procedures
- ▶ Budget support for compliance and audit functions
- ▶ Agents, suppliers, customers, end-users
- ▶ Enhanced due diligence where appropriate
- ▶ Data quality
- ▶ Turn-around time for response to developments

# Challenges and hot spots





# Challenges and hot spots

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- ▶ Difficulty in linking risk assessment to controls
- ▶ Recent changes to Customer Due Diligence rules
- ▶ Board and senior management oversight and ownership
- ▶ Monitoring and supervision between L1, L2 and L3
- ▶ Reporting quality and completeness
- ▶ Rapid changes and volume of changes to sanctions

# Questions



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