



**INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA**

**CONDUCTING ANTI-MONEY LAUNDERING REVIEWS:
GUIDANCE FOR ACCOUNTING FIRMS**

APRIL 2022

ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) was established in 1992 by the Accountants Act, Cap 266. This has now been repealed and replaced by the Accountants Act, 2013.

The functions of the Institute as prescribed by the Act are to regulate and maintain the Standard of Accountancy in Uganda and to prescribe and regulate the conduct of accountants and practising accountants in Uganda. Under its legal mandate, the Institute prescribes professional standards to be applied in the preparation and auditing of financial reports in Uganda.

Vision

To be a world-class professional accountancy institute.

Mission

To develop and promote the accountancy profession in Uganda and beyond.

Core Values

- 1) Professional Excellence
- 2) Accountability
- 3) Integrity
- 4) Innovation

International Affiliations

The Institute is a member of the International Federation of Accountants (IFAC) and the Pan African Federation of Accountants (PAFA).

DISCLAIMER

This guide is aimed at helping practitioners enhance their ability to conduct Anti- Money Laundering independent audits as a fulfilment of their duty to act in the public interest. The guide is not intended to act as a replacement for the relevant laws and regulations such as the Anti-Money Laundering Act 2013 and the Anti-Money Laundering (Amendment) Regulations 2022. As such practitioners are encouraged to educate themselves on the provisions in the relevant laws and regulations and utilise this Guidance alongside the ICPAU Anti Money Laundering Guidelines in light of their professional judgment and the facts and circumstances involved in their organisations and each particular engagement.

While every care has been taken in the preparation of the guidance, neither ICPAU nor its employees, members of the council and its committees accept any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of this Guide.

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1.0 INTRODUCTION

Due to the associated security threats, the fight against economic crimes such as money laundering is more than just a compliance exercise. Money laundering related crimes such as human trafficking and modern slavery exploit the most vulnerable people and promote drugs and violence which damages the moral fabric of society. Accountancy, as a public interest profession has a role to act as a first line of defence in the fight against money laundering. This Paper is developed specifically to guide practitioners on how to conduct independent audits as envisaged in the Anti-Money Laundering Regulations.

2.0 BACKGROUND

The rapid technological advancements in the 21st century have not only introduced modern information and communication technologies which have tremendously transformed the way we live but also facilitated financial crimes and abuse of financial systems. Money Laundering, by its nature, is dangerous as it encompasses activities (often criminal) outside the normal range of economic and financial activities. While it is difficult to estimate the exact figure, the estimated amount of money laundered globally in one year is 2-5% of the global Gross Domestic Product (\$800- \$2 trillion)¹.

However, the true magnitude of money laundering is thought to be worse because the illegal nature of the transactions involved makes it impossible to obtain a precise estimate of the money that is laundered globally every year. It is against this background that the Financial Action Task Force (FATF) was established by the G7 countries to ensure that countries comply with relevant international conventions among which are the FATF 40 Recommendations which require criminalization of money laundering and oblige countries to:

- Require financial institutions to report suspicious transactions and closely monitor and scrutinize wire transfers;
- Take the necessary legislative and administrative measures to freeze and confiscate assets of money launderers, terrorists, and terrorism organizations;
- Regulate alternative remittance systems;
- Take measures to ensure terrorists and other criminals cannot finance their activities and launder the proceeds of their crimes; and
- Cooperate fully with law enforcement activities.

¹ United Nations Office on Drugs and Crime: Money Laundering, <https://www.unodc.org/unodc/en/money-laundering/overview.html>
Patel, et al (2012): Money Laundering among globalised world, <https://www.intechopen.com/chapters/38372>

The above are some of the parameters that the FATF uses to continuously assess the safety and level of risk of financial systems of countries, with non-compliant countries blacklisted and put on the red list of the watchdog.

Generally, African countries have had serious challenges in complying fully with the FATF Recommendations. This is because their fragile financial systems and weak economies characterised by high cases of poverty and political instability make it hard to detect and control money laundering activities such as smuggling, drug and human trafficking and illegal arms sales. In 2022, Uganda was put on the FATF's grey list as its policies against money laundering and terrorism financing were not deemed satisfactory, with an additional warning of being blacklisted if the anti-money laundering measures are not upgraded². This, if mishandled would cause serious challenges such as delays in business transactions which would increase the cost of doing business in the country.

2.1 Risks associated with Money Laundering

Due to its association with crime, money laundering presents significant economic and social consequences to society and the economy at the large, including the following:

- a) Undermining the legitimate private sector.

Money launderers are known to use shell companies that appear legitimate and engage in legitimate business but are in fact controlled by criminals who commingle the proceeds of illicit activity with legitimate funds to hide the ill-gotten gains. Such companies have an advantage over legitimate companies as they have access to substantial illicit funds, allowing them to subsidize products and services. This makes it difficult for legitimate companies to compete. Money laundering, therefore, impairs the development of the legitimate private sector.

- b) Weakening financial institutions

Money laundering can harm the soundness of a country's financial sector which negatively affects the stability of individual banks or other financial institutions such as insurance companies. Criminal activities have been associated with a number of bank failures around the globe.

- c) Dampening effect on foreign investments

² The Independent (2022, April 12): Uganda to be blacklisted over money laundering, <https://www.independent.co.ug/uganda-to-be-blacklisted-over-money-laundering-2/>

Rampant cases of money laundering and the associated financial crimes create a dampening effect on Foreign Direct Investments as the commercial and financial sectors will be perceived to be compromised and subject to the influence of organized crime.

d) Loss of control of decisions regarding economic policy

The enormous funds involved in money laundering activities may distort government economic policies. Money laundering, for example may have adverse effects on currencies and interest rates as launderers reinvest funds where their schemes are less likely to be detected rather than where rates of return are higher. Money laundering can also increase the threat of monetary instability due to misallocation of resources.

e) Economic distortion and instability

Money launderers are not primarily interested in profit generation from their investments but rather in protecting their proceeds and hiding the illegal origin of the funds. This causes them to invest in activities that are not necessarily economically beneficial to the country. Financial crime redirects funds from sound investments to low-quality investments that hide their origin which distorts economic growth.

f) Loss of tax revenue

Money laundering diminishes tax revenue as it is difficult to collect revenue from money laundering-related transactions. This loss of revenue indirectly harms honest taxpayers since leads to higher tax rates would normally be the case for the genuine business.

3.0 MONEY LAUNDERING EXPLAINED

Money laundering is the process of turning illegitimately obtained money or property into a seemingly legitimate source³. Illegitimate activities include activities such as human trafficking, smuggling, fraud, and terrorism. Money laundering may also be defined as the concealment or disguise of the true nature, source, location, disposition, movement, and rights with respect to or ownership of property knowing that it is derived from a criminal offense⁴. Money laundering legitimizes the proceeds of crime and allows crime to thrive as criminals expand and benefit from their operations.

Although money laundering is a diverse and complex process, it generally takes place through a cycle of three distinct stages:

a) Placement

This is the initial stage of the money laundering cycle which involves the introduction of funds from criminal sources into the legitimate financial system. This stage basically

³ S.1 of the Anti- Money Laundering Act, 2013

⁴ The United Nations 2000 Convention against Transnational Organised Crime (Palermo Convention)

involves all the activities used to evade legal reporting requirements for cash or currency transactions conducted with financial institutions. This might be done by breaking up large amounts of cash into less conspicuous smaller sums (usually just below the reporting or record-keeping thresholds) that are then deposited directly into a bank account or by purchasing a series of monetary instruments that are then collected and deposited into accounts at another location.

b) Layering

This is the most complex money laundering stage that entails a series of conversions or movements of funds to distance or separate the funds from their source. This stage often involves the use of several financial transactions with the main objective of concealing the audit trail and breaking the link of the illicit funds with criminal activities. Common activities at this stage include the transfer of funds to jurisdictions that do not cooperate in anti-money laundering investigations, buying or selling securities through numerous accounts, exchange of monetary instruments for larger or smaller amounts, and obtaining loans in numerous financial institutions.

c) Integration

This is the final stage of the money laundering process during which money is returned to the perpetrators from what seems to be a legitimate source. The criminal proceeds that were initially placed as cash and layered through a number of transactions are now fully integrated into the financial system and can be used for any legitimate purpose such as real estate or securities investments.

4.0 LEGAL AND INSTITUTIONAL FRAMEWORK

While the FATF Recommendations are set as a basis on which all countries should meet the shared objective of tackling money laundering, terrorist financing, and the financing of proliferation, it is important to note that Countries have diverse legal, administrative, and operational frameworks and different financial systems, and so cannot all take identical measures to counter these threats. In this spirit, Anti- Money Laundering activities in Uganda are regulated under the Anti-Money Laundering Act 2003 (hereafter referred to as the Act) and the corresponding Anti-Money Laundering Regulations 2015 (hereafter referred to as the Regulations). S.3- 5 of the Act criminalizes money laundering and provides for the prosecution of persons convicted of crimes generating the proceeds of money laundering. The enactment of the Act, therefore, formed the basis for the AML regime which is premised on and supported by several other laws and regulations including:

- Anti-Money Laundering (Exchange of Information) Regulations 2018
- Financial Institutions (Amendment) Act, 2016
- Capital Markets Authority (Amendment) Act, 2016

- Insurance Act 2017
- Narcotics and Psychotropic Substances (Control) Act, 2016
- Anti-Terrorism (Amendment) Act 2005 and Regulations therein;
- Tier 4 Microfinance Institutions and Money Lenders Act, 2016
- Lotteries and Gaming Act 2016
- Penal Code Act 1950 and
- Inspectorate of Government Act, 2002; among others

S.18 of the Act further provides for the establishment of the Financial Intelligence Authority (FIA), a government agency mandated to monitor, investigate and prevent money laundering in Uganda and enforce the Anti-Money Laundering laws and regulations. Some of the key duties of the FIA include:

- Enforcing compliance with the Anti-Money Laundering Act 2003.
- Enhancing identification of proceeds of crime.
- Increasing awareness and understanding of matters related to money laundering, terrorism financing, and proliferation.
- Collection and dissemination of information to competent authorities
- Strengthening international cooperation in issues related to money laundering and terrorism financing.

In terms of the institutional framework, it is candid to note that the ecology of the AML/CFT/CPF regime is comprised of various stakeholders who take lead in overseeing the development and establishment of the AML/CFT/CPF regime, licensing, and supervising entities that contribute and affect the financial sector and system, and those involved in law enforcement, investigation and prosecution of ML, TF, and PF. The table below highlights the key entities and stakeholders in the AML/CFT/CPF regime.⁵

SN	INSTITUTION	ROLE/ RESPONSIBILITIES
1.	Financial Action Task Force (FATF)	develop international standards and promote policies through the implementation of legal, regulatory, and operational measures to protect the integrity of the global financial system against ML, TF, and PF.
2.	Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)	Associate member of FATF and is charged with conducting mutual evaluation exercises for each of its members to assess the extent to which the 40 FATF standards are being implemented
3.	Ministry of Finance, Planning, and Economic Development	Sets AML Policy, strategy, and regulatory framework

⁵ GoU (2020) National Strategy for Combating Money Laundering and the Financing of Terrorism and Proliferation FY 2020/21 – FY 2024/25 pp 18

4.	Bank of Uganda	Financial Sector Regulator and supervisor for AML/CFT compliance.
5.	Ministry of Lands,	Housing and Urban Development Sets policies for land and real estate transactions.
6.	National Lotteries & Gaming Board	Regulator of Lotteries and gaming and supervisor of AML/CFT compliance
7.	Ministry of Justice and Constitutional Affairs	Drafting laws and regulations on AML/CFT
8.	Institute of Certified Public Accountants Uganda	Regulating and Supervising Accountants on their compliance with AML/CFT
9.	Insurance Regulatory Authority.	Regulating and supervising the Insurance sector on AML/CFT
10.	External Security Organization	Gathers intelligence information on possible launders and financiers of terrorism.
11.	Internal Security Organization	Gathers intelligence information on possible launders and financiers of terrorism
12.	Uganda Wild Life Authority	Law enforcement Authority for wildlife crimes
13.	Uganda Revenue Authority	Law enforcement Agency for receiving intelligence reports from FIA on tax-related crimes
14.	Uganda Registration Services Bureau	Licensing all companies operating in Uganda where FIA confirms operations of some businesses
15.	Directorate of Public prosecutions	Prosecutes money laundering cases
16.	Capital Markets Authority	Regulates and supervises the Securities Market sector against ML/TF
17.	Ministry of Foreign Affairs	Policy and enforcement of United Nations Security Council Resolutions.
18.	Uganda Police Force	Investigates ML/TF cases
19.	Inspectorate of Government	Investigates corruption cases that generate proceeds that are laundered
20.	Ministry of Internal Affairs	Enforces control of the cross-border movement of funds and other crimes
21.	Non-Government Organizations Bureau	Regulates and supervises NGOs against ML/TF
22.	Office of the President -	Directorate of Ethic and Integrity Government Ministry through which the Minister for the Presidency on behalf of the Executive provides leadership in public policy management and good governance for National Development.
23.	All accountable Persons as mentioned in the Second Schedule of the AMLA 2013	The roles and responsibilities of each are indicated in the AML Regulations 2015 and guidelines and guidance notes for each category.

Source: GoU (2020) National Strategy for Combating Money Laundering and the Financing of Terrorism and Proliferation FY 2020/21 - FY 2024/25

5.0 PROFESSIONAL ACCOUNTANTS' ROLE IN COMBATING MONEY LAUNDERING

Professional accountants are key gatekeepers in the financial system as they facilitate vital transactions. Accountants have access to the financial records and activities of their clients. The access to financial records and involvement of clients in money laundering activities increases the accountants' vulnerability to money laundering. This implies that they have a significant role to play in efforts to prevent money laundering during the execution of their duties.

Besides, the principle of professional behaviour requires professional accountants to comply with relevant laws and regulations. The Non-Compliance with Laws and Regulations (NOCLAR) provision in the International Ethics Standards Board for Accountants (IESBA) Code creates an ethical obligation for professional accountants to speak out if they become aware of or suspect non-compliance with laws and regulations, including in relation to money laundering.

Being trusted business advisors, accountants therefore become pivotal in the fight against AML/CFT. Conducting AML/CFT reviews becomes a key activity in cushioning entities' policies and procedures but also ensuring compliance with the required regulatory regime on AML and CFT.

According to the National Risk Assessment of Uganda's Money Laundering (ML) and Terrorism Financing (TF) risks undertaken in 2016, the analysis of the threat at the sectorial level and the analysis of the most common ML methods showed that the real estate sector posed the highest ML threat. The threat analysis concerning the financial sector presented different degrees of ML threat, with securities posing the lowest ML threat and other financial institutions such as money lenders, money for value transfers, and forex exchange the highest, with banks posing a medium-high risk to ML. It, therefore, becomes pertinent to any accountant wishing to conduct an AML/CFT review to appreciate the risk exposure if such an accountant is to play any meaningful role in galvanizing their client's approach to managing AML/CFT risks.

6.0 AML AND GOING CONCERN

It is very important for accountants to consider whether and how money laundering can potentially affect the going concern assumption. There are about five common examples of where going concerns were seriously threatened or even toppled, as a result of being exploited by money launderers. These include where:

- i) Law enforcement seized and shut down a going concern for being owned and operated by money launderers or being highly exploited by them (e.g., money

service businesses such as currency exchange businesses, automobile dealerships, and gaming establishments).

- ii) A going concern was a sham operation owned or operated by money launderers whose intentions were never to operate the enterprise in perpetuity in the first place. In such situations, money launderers and their accomplices will vanish into the sunset with little warning and difficult-to-detect trails.
- iii) Law enforcement seized assets in the belief that illicit proceeds were in the process of being laundered or that such assets were linked to suspected terrorists or other persons, organizations, and even governments subject to national interdiction, economic or military sanctions. The seizing and freezing of material assets in the laundering pipeline may seriously threaten a going concern's operations, liquidity, and of course, reputation. Similarly, the apprehension or arrest of business owners or employees suspected of money laundering activities for indefinite periods of time may result in major business interruptions or failure.
- iv) Regulators revoked business licenses because an entity failed to demonstrate good governance, safety and soundness or failed to remediate serious control deficiencies identified in the course of inspections.
- v) The increasing importance placed by regulators on money laundering risk assessment, performing more in-depth customer due diligence in establishing business relationships, and enhancing scrutiny in executing transactions may also have an impact on the going concern. Businesses that in fact constitute, or are regarded to be in the higher risk categories e.g., money service businesses may be denied access to financial services, funds, or credit required to sustain their livelihood and even their existence.

Finally, in all cases, associations or mere associations with money laundering can cause significant and even fatal damage to a business's reputation.

7.0 CONDUCTING ANTI-MONEY LAUNDERING AUDITS

7.1 LEGAL REQUIREMENTS

In line with the duty to act in the public interest, professional accountants have a duty to ensure that they not only institute the right systems and controls to comply with the money laundering regulations but also ensure that their clients or employers comply with anti-money laundering regulations.

R.43 of the Anti-Money Laundering Regulations requires all accountable persons to carry out periodic independent audits to assess compliance with the requirements of the Act and the Regulations and to prepare reports for all independent audits carried out, a copy of which should upon request be made available to the Financial Intelligence

Authority. An annual independent AML audit is therefore one of the cornerstones of any AML program.

7.2 MEANING AND PURPOSE OF AN INDEPENDENT AML AUDIT

An independent AML audit is actually a test of an accountable person's (AP) AML program. An AML review is not a financial audit but rather an analysis to verify whether an AP has a proper and functional anti-money laundering program. The audit is therefore designed to test the design, implementation, and operating effectiveness of the AP's AML policies, procedures, and controls and report on whether an AP has an appropriate AML program and is doing what they say they are doing.

The purpose of the audit is to:

- Examine and evaluate the adequacy and effectiveness of the policies, controls, and procedures adopted by the AP to ensure compliance with the requirements of the money laundering laws
- Make recommendations in relation to those policies, controls, and procedures; and
- Monitor compliance with those recommendations

7.3 WHO CAN CONDUCT AML AUDITS?

While the Regulations are silent about who should conduct the AML Independent audit, the practice in several other jurisdictions is for the AML audit to be conducted by an independent person/team within the organization or a third party outside the entity. Actually, Recommendation 18⁶ requires the inclusion of an independent audit function as part of the internal control programmes against money laundering and terrorist financing for particular accountable persons. ICPAU believes that where the audit is done by someone other than an external auditor, such person(s) will need to be independent of the AML function of the entity and has enough knowledge to be able to conduct the audit. This implies that the independent audit cannot be conducted by the approved AML compliance officer (or anybody on his or her team) or anyone who was involved in the drafting of the policies and procedures. Where the AML audit is to be conducted by a third party outside the entity, we believe this being an audit- should then be conducted by practising members of ICPAU.

⁶ Financial Action Task Force (2012): International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation

7.4 FREQUENCY OF INDEPENDENT AML AUDITS

While the requirement for independent AML audits is on an annual basis in a number of jurisdictions, in the Ugandan context, r.43(1) requires an accountable person to carry out periodic independent audits to assess its compliance with the requirements of the Act and these Regulations. The implication of this is that the AML audits would be carried out more than once in any particular year. The frequency and extent of the AML reviews should be proportionate with the business risk assessment of a company. If the business risk assessment changes, then it is advisable to conduct more frequent AML reviews. However, given the nature of costs, this may be associated with, an annual AML audit would be considered sufficient, otherwise, specific guidance targeting particular accountable persons may be considered with respect to the frequency of AML audits.

7.5 APPLICABLE FRAMEWORK

AML reviews shall be conducted in accordance with the International Standard on Related Services 4400: Engagements to perform Agreed Upon Procedures Engagements. In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and related findings in the agreed-upon procedures report. The engaging party and other intended users consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.

An agreed-upon procedures engagement is not an audit, review, or other assurance engagement. Like any other agreed-upon procedures engagement, AML reviews do not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form.

7.6 CONDUCTING AML AUDITS

AML independent audits shall be conducted with the accountable person's MLCO and/or any other money laundering compliance principal with the entity using various approaches such as onsite or remotely via desktop. As part of the AML monitoring review process, the accountable person will be required to present and/or submit records and documentation to the audit team. Professional accountants should follow the risk-based approach while conducting AML audits.

7.6.1 Key Risk Areas

This will involve emphasis on three key risk areas:

a) Geographical Location

The level of risk associated with money laundering activities tends to be higher in particular geographic areas especially those with high levels of corruption, criminal activity, and low effectiveness of anti-money laundering regulations.

b) Type of Client

Clients whose businesses are in sectors with a high risk of money laundering such as banking and real estate may require enhanced due diligence. Business clients whose owners are identified as politically exposed persons will also require enhanced due diligence during AML audits.

c) Service Offered

To avoid being used to cover money laundering activities, professional accountants should carry out additional checks when providing services that have an increased level of money laundering vulnerability such as taxation, payroll management, and general accounting services.

d) Delivery Channels

Institutions have various modes of transaction and distribution (delivery) channels. Some delivery channels may pose a higher money laundering risk as they increase the challenge of verifying the customer's identity and activities. For example, in the banking sector, delivery channels such as non-face-to-face channels like mobile and internet banking or the involvement of third parties including intermediaries and agents for the case of agency banking could increase the inherent money laundering risk in financial institutions.

7.6.2 The AML Audit Process

A typical AML audit will be conducted in the following phases:

7.6.2.1 Policy review

A review of the AP's policies and procedures against the requirements of the legislation may include:

- Reviewing the AP's firm-wide risk assessment.
- Reviewing documented AML Policies and Procedures.

- Review client risk assessment processes, e.g., for consistency and documentation of rationale for client risk ratings.
- Review client due diligence (CDD), enhanced due diligence (EDD), and ongoing monitoring procedures, including a review of a sample of client files, for evidence of relevant and up-to-date know your client (KYC) information and evidence of the client risk assessment.
- Reviewing the firm's process for identifying and reporting suspicious activity/transactions, including a sample of records of internal and external large cash /suspicious transactions report and filings ((Form A,⁷ Form B,⁸ Form C, and D) for accuracy and completeness.
- Review staff awareness (including evidence of their understanding of money laundering regulations and how to recognize red flag indicators and deal with suspicious activities/transactions).
- Review AML training records and materials to ensure they are up to date and cover appropriate topics.
- Evaluation of automated monitoring systems and management information systems
- Reviewing record-keeping systems, procedures, and controls.
- Reviewing MLCO independent reviews of MLTF systems, procedures, and controls.
- Review of past audit reports to assess the efficacy of recommended implemented changes.

7.6.2.2 Information stage

This stage involves the testing of the knowledge, understanding and application of processes as mentioned above through staff interviews and reviews of files.

7.6.2.3 The report

Drafting the report, including recommendations for changes.

Upon review, the AML audit team will issue a final report to the firm. The report will highlight the AML control deficiency found during the review and the remedial actions that the firm must take in order to improve its AML controls and comply with the money laundering regulatory framework. The major goal of the AML review should be to promote compliance with the AML regulations.

A deadline for implementation of the remedial actions may be set in a discussion between the audit team and the AP. This is intended to exhibit a clear and orchestrated plan to full compliance with the requirements of the law.

⁷ S.8 AMLA

⁸ S.9 AMLA

7.6.2.4 Documentation

S. 45 of the Regulations requires accountants to submit to FIA a compliance report setting out the level of compliance with the Act and the Regulations. This report, which shall contain findings of periodic independent audits of the accountants' compliance with the Anti-Money Laundering regulations, shall upon request be made available to the FIA.

8.0 TRANSITIONING TO AML REVIEWS

The transition to AML reviews can be a fairly seamless process if appropriate steps are taken to ensure that the right person is assigned the right role. The AML reviewer needs to self-assess to determine what level of expertise one has in order to understand which suitable areas in AML reviews he or she is best equipped to perform.

Training may be necessary to help AML reviewers quickly embrace the AML review role. General topics during such training could include methodology, audit work paper training, and effective interviewing training. The methodology training should cover sampling methodology to determine and justify sample selections and work paper documentation. The work papers should include the source of the population, population description details, the sampling method used, items selected, details of audit tests performed, and conclusions reached. Work papers should clearly identify the methodology used for selecting the sample and should include a justification for the sample size selected.

AML reviewers should have a clear grasp of the importance of good documentation given the importance of demonstration of compliance with AML regulations in such reviews. The AML reviewer should be able to “tell the story” of the review, the results of the review, and the rationale for escalation or non-escalation of issues to the regulator within the work paper documentation.

9.0 CONCLUSION

Compliance with money laundering laws and regulations is generally a very critical issue for businesses. In the duty of acting in the public interest, professional accountants need to provide reasonable assurance over compliance with money laundering laws and regulations. In this regard, they have a duty to support their clients in developing clear policies and procedures against AML/CFT and in assessing their level of effectiveness and hence compliance with the law, or else an accountant is expected to report confirmed or suspected money laundering operations and transactions. This can only be achieved if professional accountants embrace AML reviews in the execution of their duties.

APPENDIX

SN	Procedure	Expected tests/Actions
1	Reviewing documented AML Policies and Procedures	The auditor should obtain the AP’s AML policies and procedures and perform the following: <ul style="list-style-type: none"> ▪ Confirm the procedures are up-to-date and comprehensive (e.g., address current regulatory requirements; include considerations for all relevant lines of business). ▪ Verify control activities include responsible parties, frequency, method, segregation of duties, approval, etc. ▪ Evaluate documentation accessibility for relevant personnel. ▪ Verify approval from appropriate levels of senior management following material changes, to the extent required by the firm’s policies and procedures.
2	Money Laundering Control Officer	(a) The auditor should confirm that the AP has formally appointed and approved the MLCO and submitted Form 3 in the Schedule to the Regulations to the FIA (b) The auditor should also confirm that the MLCO reviews and addresses heightened due diligence and “red flag” issues that are relevant to the line(s) of business. (c) In addition, the auditor should evaluate the following as it relates to the office and activities of the MLCO: <ul style="list-style-type: none"> ▪ Approvals and regulatory filings are timely and complete. ▪ The experience, authority, competence, and independence of the MLCO appear adequate. ▪ Confirm that the MLCO demonstrates (1) competence and is knowledgeable regarding how the AP’s business is managed based on its risk of money laundering and (2) knowledge regarding enforcement actions, regulatory authority, and relevant regulatory risks to the firm. ▪ Any Board and Senior Executive management reporting, to the extent required by the firm’s

		<p>policies and procedures, is thorough and presented at appropriate intervals.</p> <ul style="list-style-type: none"> ▪ Staff is competent, participates in relevant training initiatives, understands and utilizes mechanisms to escalate concerns, and has appropriate access to report potential red flag issues to the MLCO. ▪ Notification for a person who ceases being MLCO is made to the FIA within the required time and form.
3	Client Assessment Risk	<p>(a) The auditor should confirm whether the firm adopted Customer Due Diligence measures based on the customer’s profile and risk</p> <p>(b) Confirm whether where there was a need for Enhanced Due Diligence, the same was performed and documented. In particular, the due diligence shall focus on whether;</p> <ul style="list-style-type: none"> ▪ Has The firm identified any politically exposed person? (Politically exposed persons, PEPs, are individuals whose prominent position in public life may make them vulnerable to corruption. The definition extends to immediate family members and known close associates). ▪ The firm had full visibility and knowledge of the ultimate beneficial owners and/or all directors. ▪ The firm identified the client as a high-net-worth individual. (e.g., clear guidance should establish the threshold as per the firm’s policies) ▪ Does the firm identify whether the client or its beneficial owners have attributes known to be frequently used by money launderers or terrorist financiers? (e.g., is the structure of the customer unusual or excessively complex?) ▪ Is evidence /documents proving the source of wealth and funds been provided? ▪ Is the firm’s client proof of identification and address provided? ▪ Does the firm document any hardships experienced in establishing the relationship with the client for example has the client been evasive or uncooperative? (e.g., appeared reluctant to provide ID)

		<ul style="list-style-type: none"> ▪ Does the firm assess geographical risk for example; <ul style="list-style-type: none"> - Is the firm’s client based outside of Uganda? - Does the firm’s client have any association in Sanctioned jurisdictions? (e.g., does the client transact with customers in sanctioned jurisdictions or have operations or trade with jurisdictions subject to sanctions?) - Does the firm’s client resident or has any association with any geographical areas that are considered to have weak AML and Terrorist Financing controls? (e.g., does the client transact with customers in countries listed in the Financial Action Task Force black and grey lists? ▪ Does the firm assess the nature of the business of the client? i.e., whether it is a high-value business (e.g., jewellers, car dealerships) or not or the type of industry/business of the firm’s client at high risk of MLTF e.g., money services business, import/export, charities, etc.
4	Training Programmes	<p>(a) The auditor should evaluate the firm’s ongoing AML training program to evaluate the completeness, accuracy, and applicability of training content, including:</p> <ul style="list-style-type: none"> ▪ Overview of the regulatory framework (local and international) and the AP’s policies and procedures to comply; ▪ Customized firm-specific risks and/or applicability; ▪ Relevant red flags and signs of money laundering; ▪ Escalation protocols; and ▪ Consequences of non-compliance. <p>(b) The auditor should also evaluate the availability and completeness of training records, including audience selection criteria, basis for excluded personnel, and rationale for non-completion records, and may wish to further consider the following:</p> <ul style="list-style-type: none"> ▪ Training frequency, method/medium (online, in person, outsourcing), and opportunities for automation, where appropriate; ▪ Interactive nature (case studies, knowledge test questions, etc.);

		<ul style="list-style-type: none"> ▪ Requirements and timing for new employee onboarding training; ▪ Role-specific supplemental training for higher-risk personnel (customer-facing, AML Compliance, alert reviewers, large cash and Suspicious transactions filers); and ▪ Executive management/Board-specific training in addition to sponsorship and support (tone at the top).
5	Customer Due Diligence	<p>Establish whether AP’s CDD requirements for the AML program are adequate. These may include, testing whether there is proper:</p> <ul style="list-style-type: none"> ▪ Identification and verification of the identity of customers, where applicable; ▪ Identification and verification of the identity of beneficial owners of legal entity customers and other persons of significant control. There must be proof verified by taking a valid form of photo ID for each individual (i.e., passport or driving license) and a valid proof of address. Documents typically accepted as valid proof of address are a recent utility bill linked to a fixed address, council tax statement, tenancy agreement, mortgage agreement/statement or bank statement, etc. ▪ Understanding of the nature and purpose of customer relationships to develop a customer risk profile; and ▪ Ongoing monitoring for reporting suspicious transactions and, on a risk basis, maintaining and updating customer information.
6	Customer Identification Program (CIP)	<p>(a) The auditor should review CIP procedures to confirm there are provisions for the following:</p> <ul style="list-style-type: none"> ▪ Obtaining identifying information from each customer prior to or during the course of establishing a business relationship or conducting a transaction for an occasional customer, ▪ Verifying the identity of each customer, either through documentary or non-documentary methods, within a reasonable time prior to or during the

		<p>course of establishing a business relationship or conducting a transaction for an occasional customer;</p> <ul style="list-style-type: none">▪ Making and maintaining a record of information obtained relating to identity verification (i.e., name, street address, TIN, and date of birth for individuals);▪ Determining within a reasonable time after account opening or earlier whether a customer is a foreign or domestic politically exposed person or appears on any list of known or suspected terrorist organizations; and▪ Providing each customer with adequate notice, prior to opening an account, that information is being requested to verify the customer’s identity. <p>(b) The auditor should perform testing to confirm CIP controls are designed effectively and operating as designed. This can be achieved in a variety of ways including, but not limited to, the following:</p> <ul style="list-style-type: none">▪ For a sample of new accounts, confirm that the required customer information was provided by the client timely (prior to account opening) and is accessible.▪ Confirm that CIP system logic considers/includes all relevant account and relationship types and assess any account type exclusions for reasonableness.▪ Evaluate activities performed by the ‘second line of defense’ such as quality assurance reviews performed by AML compliance and confirm the reviews identify and remediate CIP-related exceptions or overrides. <p>(c) The auditor should also determine if there is a CIP delegation agreement in place. Under certain circumstances, an AP may rely on the performance of a third party to fulfil some or all of the requirements of due diligence measures. If such an agreement(s) exists, the auditor should obtain and review the contract between the parties.</p>
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		(d) The firm's record retention policy
7	Suspicious Activity Identification and Reporting	<p>(a) As a general principle, the auditor should be familiar with the range of products and services offered by the AP, along with an understanding of the AP's client base, in order to understand the potential sources of suspicious activity and to evaluate if proper controls to detect and report such activity are in place.</p> <p>Such transactions can be identified using guidance such as:</p> <ul style="list-style-type: none"> ▪ Complex, unusual, or large transactions, whether completed or not, and to all unusual patterns of transaction which have no apparent economic or lawful purpose; ▪ transactions made on behalf of a person whose identity has not been established to the satisfaction of the officer of the AP; ▪ business relations and transactions with persons in jurisdictions that do not have adequate systems in place to prevent or deter money laundering or the financing of terrorism; ▪ electronic funds transfers that do not contain complete originator information, with the exceptions as provided for under the Act; <p>(b) The auditor should consider the following methods for evaluating the design and operating effectiveness of the control activities within the AP intended to (1) prevent or detect potentially suspicious activity and (2) file timely and accurate reports with FIA:</p> <ul style="list-style-type: none"> ▪ Verify that automated surveillance system source data, including customer and transactional data, negative media, etc., come from appropriate sources and systems (this may require the assistance of integrated information technology audit specialists) and is accurate and complete. ▪ Test automated surveillance system filtering criteria, also sometimes known as scenarios or models, to verify that (1) the purpose is documented and deemed reasonable in light of the

		<p>risk, and (2) they are subject to controls to prevent inappropriate modification.</p> <ul style="list-style-type: none"> ▪ Validate that the automated surveillance is working as designed (i.e., periodic model validation). ▪ Confirm there are processes and controls to adjust the settings within automated surveillance systems to allow for an appropriate level of false positives. ▪ Test that alerts from the automated transaction surveillance systems are investigated timely and contain adequate documentation to either clearly and sufficiently dispose of the alert or validate the decision to investigate further in order to file a suspicious transaction. ▪ Review organizational charts and résumés to determine whether staffing is adequate from both a headcount and qualification perspective to ensure that the volume of alerts can be sufficiently managed. ▪ Review the aging of alerts to identify any backlogs. ▪ Confirm that other sources of potentially suspicious activity (e.g., manual referrals from other lines of businesses within the AP, etc.) are treated in a similar fashion to automated alerts and tracked similarly. ▪ Review management information reports to ensure that all alerts (both automated and referrals) are identified, are sufficiently granular (e.g., location, type of activity, aging, etc.), and are provided to senior management, as may be required by the firm’s policies and procedures. ▪ Assess the policies and procedures specific to potential Suspicious transaction investigations, including alert and referral intake procedures, standard research elements, escalation protocols, cycle times, etc. ▪ Review a sample of cases with a non-filing determination, including the underlying documentation supporting the decision for reasonableness, confirming that the supporting
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		<p>materials provide an adequate rationale for a qualified third party to understand.</p> <ul style="list-style-type: none"> ▪ For a sample of filed Suspicious transactions, confirm the form is accurately and completely populated (Form B in the Schedule to the Regulations). ▪ Assess quality assurance reviews performed for completeness, timeliness, and adequate follow-up actions. ▪ Test the timeliness of the Suspicious transactions filing process to verify the forms are filed not later than forty-eight hours after the occurrence of the suspicious activity or transaction. ▪ Verify that senior management is informed of suspicious activity or transaction filings on a routine basis, as appropriate. ▪ Verify that safeguards exist to prevent potential “tipping-off” of a suspicious activity or transaction filing to the clients in question.
8	AML Independent Audit	To comply with the requirements of the Act, the audit must confirm that the AP conducts an annual review by a qualified and independent party.
9	Information Sharing	<p>The auditor should perform the following procedures (including sample testing where warranted) around the mandatory and voluntary information sharing:</p> <ul style="list-style-type: none"> ▪ Confirm dedicated firm points of contact have been assigned, and FIA is notified timely of changes. ▪ Confirm that all relevant record is obtained and kept for the required time. <p>Where applicable that the annual notifications for a cessation to act as MLCO to FIA as required under r.6(6) of the Regulations are available and complete</p>
10	Large Cash and Monetary Transaction Reporting	<p>(a) The auditor should assess whether large cash and monetary transactions are applicable to the firm and whether or not it deals in currencies.</p> <p>(b) If applicable, the auditor should test the firm’s processes to ensure regulatory requirements are being followed. Specifically, the auditor should:</p>

		<ul style="list-style-type: none"> ▪ Review business line procedures and confirm there are processes for preparing, retaining, and filing cash and monetary transactions in a timely manner. ▪ Confirm that all transactions involving a domestic or foreign currency exceeding one thousand currency points are recorded in the manner prescribed. ▪ Confirm there are procedures to identify and report on transactions that in aggregate meet reporting thresholds, and confirm the means for aggregation is appropriate (i.e., TIN, customer number). ▪ Confirm that personnel does not have the capability to override currency aggregation systems. If override capability exists, review the controls in place to ensure the capability is used appropriately. Controls may include the generation of exception reports and the AML Compliance Officer’s review of exception reports. ▪ Confirm that there are procedures to escalate potential suspicious activity for customers attempting to evade the reporting threshold. ▪ Select a sample of reportable transactions, including those multiple transactions that meet the threshold, and confirm that they were completed accordingly.
11	Global Sanctions Lists	<p>(a) The auditor should evaluate whether relevant sanctions lists are maintained internally or if a third-party service is used. In either instance, the auditor should assess the lists for accuracy and completeness.</p> <p>(b) Audit tests may include independently verifying the completeness of the lists using data analysis techniques and confirming the most recent updates are reflected within the sanction’s lists used by the firm for any compliance screening processes.</p>
12	Information Technology	Throughout all applicable sections of the Act and corresponding audit scope areas, the auditor should consider and assess relevant information technology systems and controls supporting fundamental compliance with AML requirements, especially those

		<p>supporting suspicious activity monitoring, Global Sanctions screening, and customer identification processes. Particular areas of focus should include, but are not limited to:</p> <ul style="list-style-type: none"> ▪ Data integrity and completeness (e.g., incomplete/inaccurate/corrupt data); ▪ Data source/feed completeness (e.g., record counts, data security); ▪ Access management (e.g., inappropriate access, access provisioning); ▪ Change management (e.g., audit trail, documented approvals); ▪ System parameters/logic (e.g., exclusions, thresholds, criteria, timeframe); and ▪ Cybersecurity controls.
13	AML Governance	<p>Although embedded at nearly every step of the detailed testing listed above, the auditor should consider additional governance activities as part of an overall assessment of the AML program. AML governance activities are not explicit requirements under the Act, and these activities may vary widely from firm to firm.</p>

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

@PLOT 42/46/48 BUKOTO STREET, KOLOLO, P.O. BOX 12464, KAMPALA, UGANDA