



Circular No.: AMLD 12/2024

Date: 21 October 2024

To Chief Executive Officers of all Financial Institutions

Dear Sir/Madam,

AUDIT OF AML/CFT POLICIES, PROCEDURES AND CONTROLS

1 Financial institutions ("FIs") are required to maintain an audit function, or an equivalent function (thereafter referred to as "audit function"), to provide an independent and regular assessment of the effectiveness of their AML/CFT policies, procedures and controls, and compliance with MAS' requirements. In this regard, FIs are expected to have established policies to steer their periodic AML/CFT audits, and to escalate audit observations to support Board and Senior Management ("BSM") oversight of ML/TF risks.

2 This circular is intended to set out additional guidance and highlight the good practices observed by the MAS during our engagements with the industry. FIs should take the guidance below into account when determining the scope of their regular audits as well as the approach to take to validate the effectiveness of existing controls:

- (a) **BSM should ensure that the audit function is adequately resourced with sufficient AML/CFT expertise.** The extent of AML/CFT expertise in the audit function should be commensurate with the size and nature of the FI's business. In order to supplement its own audit function's AML/CFT expertise, BSM may consider engaging external parties to provide an independent assessment of the effectiveness of specific aspects of its AML/CFT policies, procedures and controls.
- (b) In determining the scope of their periodic AML/CFT audit, an FI's audit function should:
 - (i) **Conduct regular AML/CFT risk assessments** to identify changes in the FI's inherent ML/TF risk profile (including considerations for material changes in the FI's business strategy and customer profiles), as well as changes in regulatory requirements. Due consideration should also be given to any recent regulatory or audit issues noted in the FI. Such risk assessments can help to guide the planning of audits, and ensure adequate audit focus on the controls in place to deal with the risk; and
 - (ii) **Ensure that the frequency and intensity of AML/CFT audits are commensurate with identified ML/TF risks.** In particular, FIs should identify and prioritise higher risk areas for audit, and establish a minimum baseline

audit cycle for other areas to ensure adequate attention is accorded on an ongoing basis. In determining the frequency and intensity of audits, an FI may also take into consideration similar audit work that was recently performed by its regional or head office, where applicable – for example, including whether the audit scope included sampling of local accounts.

- (c) **FIs should consider the use of data analytics (“DA”) in the conduct of AML/CFT audits**, to more effectively identify key risk areas for audit as well as to identify accounts and transactions for closer scrutiny. From our industry engagements, we noted good examples of DA tools used to automate risk-scoring of customer data for higher quality sample selection, and machine learning models to identify anomalous transactions which were not detected by the FI’s transaction monitoring system. FIs are encouraged to harness the use of DA tools to further strengthen the effectiveness of its audit outcomes.

3 In addition, MAS notes that the Anti-Money Laundering Audit Peer Group’s (“AAPG’s”)¹ has recently published its Best Practice Paper² that sets out baseline standards and best practices for auditors to consider when determining the appropriate scope and extent of testing in the conduct of AML/CFT audits for banks. MAS welcomes such industry-led initiatives to level-set industry practices. FIs should conduct a gap analysis of their existing audit practices against the practices set out in this circular, as well as the AAPG’s Best Practice Paper.

Yours faithfully

(via MASNET)

THONG LENG YENG
EXECUTIVE DIRECTOR
ANTI-MONEY LAUNDERING DEPARTMENT

¹The AML Audit Peer Group (AAPG) is an industry-led initiative established in 2022 to (a) facilitate sharing of AML/CFT audit best practices in the financial industry; and (b) promote engagement with the MAS and the wider audit community on key AML/CFT risk areas. The AAPG comprises of members from across the banking industry, professional services firms, and relevant associations.

² Enhancing Anti-Money Laundering and Countering the Financing of Terrorism Audit Effectiveness for Banks: Key Baseline Standards and Best Practices found on the website of the Association of Banks in Singapore. [Website Link: <https://abs.org.sg/docs/library/aapg-best-practice-paper-enhancing-amlcft-audit-effectiveness-for-banks.pdf>]