Special Investigation Commission
Lebanon's Financial Intelligence Unit

Audit work on financial Sector Components

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This presentation covers:

- Auditors' Obligations in local regulations
- Effective AML audit Program
- Efficient & Effective Planning
- Key AML Audit Deficiencies
- FATF recommendations

Law 318
Fighting Money Laundering
April 20, 2001

Law 318/ article 5

a) Identity verification, BRO

b) Same process for transient clients

c) Document filing

d) ML indicators & Due Diligence principles

e) Incorrect Statements

Law 318/ article 5

- The verification by banks and financial institutions' auditors of the compliance of these institutions with the regulations to be set out under this Article, and the reporting of any violation to the Governor of the Banque du Liban.

BDL Basic Circular No. 83
Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing (AML/CFT)
Addressed to Banks and Financial Institutions

(These regulations were last amended by BDL Intermediate Circular No. 277 dated August 22, 2011)

Circular 83

1. Relations with foreign correspondent banks abroad
2. Relations with customers and due diligence measures
3. Controlling certain operations and customers
4. Committees & administrative units in charge
5. Final Provisions

Circular 83/ article 13

The External Auditor of the bank must:

- Review the internal audit procedures to ascertain compliance by the bank with the provisions of the law and of these Regulations. In this respect,

- Prepare an annual report to be submitted to the Board of Directors of the bank, to the Governor of Banque du Liban, and to the Banking Control Commission

Circular 83/ article 13

Some areas covered by the audit report:

- Fill KYC
- New customers accounts policy
- Source of funds & final destination
- Reasons for cash operations
- Ceilings for cash deposits & withdrawals
- Periodical reports on cash movement

BDL Basic Circular No. 126
Addressed to Banks and Financial Institutions, The Relationship between Banks and Financial Institutions and their Correspondents

April 5, 2012

BDL Circular 126

Banks must

- Adopt a RBA, identity of customers, BRO
- Have procedures for monitoring accounts
- Update their database for ML/TF
- Notify the SIC
- Be Informed of laws & regulations governing correspondents
- Control transactions on Payable Through Accounts

BDL Circular 126/article 2

- External auditors must check banks and financial institutions' compliance with the provisions of this Decision.

- They must also insert in their report detailed information about their inspection of the adopted procedures, the results of their audit, and their remarks in this regard.

SIC Circular No. 14
Addressed to External Auditors Appointed at Category "A" Exchange Institutions

May 27, 2011

SIC Circular 14

- External auditors are required to prepare an annual report and to submit it to the SIC Secretariat by the end of March following the audited fiscal year, provided the report indicates whether or not these institutions have complied with the following obligations:

- Checking the customers’ identity & addresses
- Keeping special records for operations >= USD 10,000
- Retaining, for five years at least, copies of formal documents
- Sending to the bank a special notification when the exchange institution performs in favor of its customers any banking operation through the bank >= USD 10,000
- Informing Banque du Liban beforehand and in writing that it will undertake cash transfers in accordance with Hawala System
- Reporting to the SIC the details of the operations suspected of concealing money laundering or terrorist financing, in case they take place.

Effective AML Audit Program

- Appropriate for the bank's risk profile
- Covers all applicable regulations & guidance
- Ensure adequate transaction testing
- No gaps in the program - covers all appropriate areas
- Well-organized work-papers
- Communicate exceptions effectively
- Identify violations and explain risks
- Recommend appropriate corrective action
- Communicate results to Board /Audit Committee/senior Mgt.

Efficient & Effective Planning

- Follow up on Previous audit findings

- Consider factors that have changed since prior audit, such as:

    - Changes to Bank's risk profile since last audit
    - Changes in the compliance function since prior audit
    - New regulations introduced since the prior audit
    - IT enhancements introduced
    - Changes in monitoring parameters
    - New products or services

Key AML Audit Deficiencies

- Failure to properly document the audit
- Insufficient transaction testing
- Major gaps in the audit
- Not all areas tested adequately
- No indication of what was reviewed during that particular test
- Documents reviewed had deficiencies, audit failed to identify
- Ineffective communication of findings
- Delayed issuance of audit reports
- Failure to require appropriate corrective action

FATF Recommendations

23. DNFBPs: Other measures *

The requirements set out in Recommendations 18 to 21 apply to all designated non-financial businesses and professions, subject to the following qualifications:

(a) Lawyers, notaries, other independent legal professionals and accountants should be required to report suspicious transactions when, on behalf of or for a client, they engage in a financial transaction in relation to the activities described in paragraph (d) of Recommendation 22. Countries are strongly encouraged to extend the reporting requirement to the rest of the professional activities of accountants, including auditing.

FATF Recommendations

INTERPRETIVE NOTE TO RECOMMENDATION 18
(INTERNAL CONTROLS AND FOREIGN BRANCHES AND SUBSIDIARIES)

1. Financial institutions' programmes against money laundering and terrorist financing should include:

   (a) the development of internal policies, procedures and controls, including appropriate compliance management arrangements, and adequate screening procedures to ensure high standards when hiring employees;

   (b) an ongoing employee training programme; and

   (c) an independent audit function to test the system.

FATF Recommendations

INTERPRETIVE NOTE TO RECOMMENDATION 19 (HIGHER-RISK COUNTRIES)

2. Examples of the countermeasures that could be undertaken by countries include the following, and any other measures that have a similar effect in mitigating risks:

(h) Requiring increased supervisory examination and/or external audit requirements for branches and subsidiaries of financial institutions based in the country concerned.

FATF Recommendations

REPORTING OF SUSPICIOUS TRANSACTIONS

20. Reporting of suspicious transactions *

If a financial institution suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it should be required, by law, to report promptly its suspicions to the financial intelligence unit (FIU).

21. Tipping-off and confidentiality

Financial institutions, their directors, officers and employees should be:

(a) protected by law from criminal and civil liability for breach of any restriction on disclosure of information imposed by contract or by any legislative, regulatory or administrative provision, if they report their suspicions in good faith to the FIU, even if they did not know precisely what the underlying criminal activity was, and regardless of whether illegal activity actually occurred; and

(b) prohibited by law from disclosing ("tipping-off") the fact that a suspicious transaction report (STR) or related information is being filed with the FIU.

Questions ???