



Anti-Money Laundering and Countering Financing of Terrorism

Why AML/CFT compliance officers should still be thinking about their future independent audits, even in the middle of the COVID-19 crisis.

It would be fair to assume that the two-year independent audit of the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) risk assessment and programme is currently not front of mind for many AML/CFT compliance officers. However, as we move out of full lockdown, we must begin to think about the 'new normal' post COVID-19 and what impact this has had (or continues to have) on compliance with the AML/CFT Act 2009 (the Act).

This article intends to provide AML/CFT compliance officers with some guidance as to what KPMG, as an independent auditor, is expecting to see in response to COVID-19 and provides useful and practical points on how reporting entities can set themselves up for future AML/CFT success in an uncertain environment.

COVID-19 changes in criminal behaviours

Whilst most New Zealanders are focused on staying safe and working to eliminate coronavirus, reporting entities must be aware that criminals will be looking for new opportunities to exploit the financial system to launder money and finance terrorism.

Looking to guidance issued from Australia, AUSTRAC have identified examples of areas of where these actors are presented with increasing opportunities during the COVID-19 pandemic. These include¹:

- Targeting of government assistance programs through fraudulent applications and phishing scams – for more information about fraud in the COVID-19 environment, see [here](#) for KPMG's recent publication;
- Movement of large amounts of cash following the purchase or sale of illegal or stockpiled goods;
- Out of character purchases of precious metals and gold bullion;
- Exploitation of workers or trafficking of vulnerable persons in the community;
- An increase in the risk of online child exploitation following restrictions on travel; and
- A rise in extremist views either against members of the community or the government.

We also know that criminals will seek to exploit weaknesses and vulnerabilities in existing policies, procedures and controls, which may have been exasperated by the rapidly changing environment.

Consequently, AML/CFT compliance officers will need to be think about ever developing external factors as well as any operational changes to their AML/CFT programmes as a result of COVID-19 to ensure compliance with the Act.

¹<https://www.austrac.gov.au/smrs-during-covid-19> 19 March 2020

Meeting your AML/CFT auditors' expectations

When completing independent audits in the post-COVID-19 environment, KPMG will expect to see notable differences in your AML/CFT programme before, during and after COVID-19.

What you can do as a reporting entity is ensure that you have identified, assessed and documented any changes to your risk assessment and AML/CFT programme, which demonstrate that you applied, and continued to apply, a risk-based approach to mitigating and managing your money laundering and terrorism financing risks.

Auditors will be reviewing your analysis of COVID-19 and its impact on your ongoing compliance with AML/CFT obligations and will need to understand any changes that took place.

A key area of risk for many reporting entities will be navigating the various legal obligations they have whilst managing business in a different environment and AML/CFT compliance officers may see activities or transactions that (out of necessity) need to be conducted out of step with your normal AML/CFT programme requirements.

You must document the basis for any decision which impacts (or impacted) the design or operation of your AML/CFT programme. You should also try to quantify the impact and include meaningful data to support where you may have vulnerabilities, for example, documenting how many customers were onboarded using 'interim measures' during Alert Levels 3 and 4.

Challenges in customer onboarding

A primary example of changes to 'normal procedures' would be the response to the challenge in performing face-to-face customer due diligence (CDD) in accordance with the Act and the Identity Verification Code of Practice and explanatory note (IDVCOP) under Alert Level 4. This challenge was swiftly recognised by the sector supervisors with urgent guidance released after New Zealand entered Alert Level 4.

This guidance did not tell us anything new about how AML/CFT can be implemented – the Act and IDVCOP already provide this information. What it did do, was clarify how reporting entities, who are providing essential services, could reasonably apply a risk-based approach during the Level 4 lockdown.

We note that the supervisors were very clear in their direction that while the 'interim' measures adopted may be currently appropriate, they do not allow for permanent deviation from the current Act principles and IDVCOP requirements. The application of a risk-based approach should be understood and rationalised continuously to reflect the changing environment.

The supervisors have stated that 'interim' measures for CDD may include:

- Reliance on electronically scanned identity documents;
- Delayed verification of identity documents; and
- Acceptable use of exception handling procedures.

The adoption of these interim measures must still be risk-based, and you must have implemented proportionate procedures and controls; none of these suggestions alleviate your obligation to manage and mitigate the risk of money laundering or terrorism financing.

This is a point that has been clearly stated by the supervisors in the guidance note and is what an independent auditor will be considering when determining compliance against the Act in future audits.

Ongoing management of AML/CFT risks

As we begin to move out of crisis management mode and into business as usual, AML/CFT compliance officers should be quantifying and documenting the impact that COVID-19 has had on their business and their ability to fully comply with the requirements of the Act throughout the different levels of alert.

We expect that reporting entities should be able to demonstrate to their governance bodies, supervisor and/or auditors that money laundering and terrorism financing risks were, and continue to be, appropriately managed throughout each of the COVID-19 alert levels and beyond.

Critical functions, such as ensuring that transactions were subject to appropriate oversight, monitoring and reporting, and that customers subject to enhanced customer due diligence were treated appropriately will be just some of the areas examined closely during your audit.

Even in unprecedented times, we stress that "under a risk-based approach, there is no such thing as "zero risk"² and policies, procedures and controls must still be implemented to mitigate and manage money laundering risks.

Key considerations for reporting entities

Recommencing 'normal' business activities will be the front of mind for many reporting entities and remaining compliant with the Act may be increasingly difficult.

To assist in these challenging times, we have thought of some key questions which may help AML/CFT compliance officers stocktake any changes and impacts on their AML/CFT programmes:

Do you understand the impact of COVID-19?

- Have your money laundering and terrorist financing risks changed with COVID-19 and if so, have you kept your risk assessment and AML/CFT programme up-to-date?

² <https://www.rbnz.govt.nz/-/media/ReserveBank/Files/regulation-and-supervision/anti-money-laundering/guidance-and-publications/AML/CFT-programme-guideline.pdf?la=en&revision=99a02a6f-a888-4e59-b1e9-d83de6b5953c>

- If New Zealand heads into a recession, will this change the likelihood or impact of any money laundering and terrorist financing risks identified in your AML/CFT programme or does it present new risks? Has this analysis been documented, and changes rationalised?
- Can you demonstrate a clear link between any changes in risk and your AML/CFT compliance programme?
- Does your AML/CFT programme still operate within the Act, IDVCOP and supervisory guidance requirements?
- Have you used new technologies to assist your compliance duties during COVID-19? How do you satisfy that they have effectively mitigated money laundering or terrorism financing risks?
- In this declining economic environment, how has your organisations risk appetite changed and are your reporting metrics still fit for purpose?

Are your resources aligned to changing demands?

- During the different levels of response, we expect that many businesses will have functions which were not operating at full capacity, or in some circumstances at all. Has this been documented and understood in an AML/CFT context?
- Similarly, many organisations will redeploy staff from compliance, risk and internal audit teams to support business units. If this has occurred, how do you demonstrate that there is adequate oversight of control functions across your business?
- Where staff with little or no AML/CFT exposure have been redeployed into AML/CFT centric roles, were appropriate measures and training in place to manage and support this; can you demonstrate this?
- How did the different levels of alert impact your 'normal' customer behaviours, for both new business relationships and transactional behaviours? Were these changes reflected in your account and transaction monitoring activities?

Were any temporary measures understood, approved and properly executed?

- Good governance and effective oversight of policies, procedures and controls are ever important in times of crisis. If you implemented temporary policies or procedures, were these authorised and executed appropriately?

- In view of reduced or impacted operations, what were the monitoring and oversight measures in place to ensure that your organization was not being used to facilitate money laundering activities? Can you explain this for each of your product, service or delivery channels?
- Was there any impact on meeting the requirements of the Act where there are clearly prescribed timeframes to adhere to? For example, prescribed transaction reporting and suspicious activity reports? If so, how widespread were the issues and have they been remediated and reported to your supervisor?

The current environment poses unprecedented challenges to all businesses to remain viable and compliant. Our specialist team of financial crime experts are here to work with you to understand your challenges and offer support in addressing COVID-19 impacts to your AML/CFT risk assessment and programme.

Please do not hesitate to contact us should you have any questions or concerns during this challenging time.

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