

The following is from the *2007 FFIEC BSA/AML Examination Manual*.

Independent Testing

Independent testing (audit) should be conducted by the internal audit department, outside auditors, consultants, or other qualified independent parties. While the frequency of audit is not specifically defined in any statute, a sound practice is for the bank to conduct independent testing generally every 12 to 18 months, commensurate with the BSA/AML risk profile of the bank. Banks that do not employ outside auditors or consultants or have internal audit departments may comply with this requirement by using qualified persons who are not involved in the function being tested. The persons conducting the BSA/AML testing should report directly to the board of directors or to a designated board committee comprised primarily or completely of outside directors.

Those persons responsible for conducting an objective independent evaluation of the written BSA/AML compliance program should perform testing for specific compliance with the BSA, and evaluate pertinent management information systems (MIS). The audit should be risk based¹ and evaluate the quality of risk management for all banking operations, departments, and subsidiaries. Risk-based audit programs will vary depending on the bank's size, complexity, scope of activities, risk profile, quality of control functions, geographic diversity, and use of technology. An effective risk-based auditing program will cover all of the bank's activities. The frequency and depth of each activity's audit will vary according to the activity's risk assessment. Risk-based auditing enables the board of directors and auditors to use the bank's risk assessment to focus the audit scope on the areas of greatest concern. The testing should assist the board of directors and management in identifying areas of weakness or areas where there is a need for enhancements or stronger controls.

Independent testing should, at a minimum, include:

- An evaluation of the overall integrity and effectiveness of the BSA/AML compliance program, including policies, procedures, and processes.
- A review of the bank's risk assessment for reasonableness given the bank's risk profile (products, services, customers, entities, and geographic locations).
- Appropriate risk-based transaction testing to verify the bank's adherence to the BSA recordkeeping and reporting requirements (e.g., CIP, SARs, CTRs and CTR exemptions, and information sharing requests).
- An evaluation of management's efforts to resolve violations and deficiencies noted in previous audits and regulatory examinations, including progress in addressing outstanding supervisory actions, if applicable.
- A review of staff training for adequacy, accuracy, and completeness.
- A review of the effectiveness of the suspicious activity monitoring systems (manual, automated, or a combination) used for BSA/AML compliance. Related reports may include, but are not limited to:
 - Suspicious activity monitoring reports.
 - Large currency aggregation reports.
 - Monetary instrument records.
 - Funds transfer records.

¹ Refer to Appendix J ("Quantity of Risk Matrix") for guidance.

- Nonsufficient funds (NSF) reports.
- Large balance fluctuation reports.
- Account relationship reports.
- An assessment of the overall process for identifying and reporting suspicious activity, including a review of filed or prepared SARs to determine their accuracy, timeliness, completeness, and effectiveness of the bank's policy.
- An assessment of the integrity and accuracy of management information systems (MIS) used in the BSA/AML compliance program. MIS includes reports used to identify large currency transactions, aggregate daily currency transactions, funds transfer transactions, monetary instrument sales transactions, and analytical and trend reports.

Auditors should document the audit scope, procedures performed, transaction testing completed, and findings of the review. All audit documentation and workpapers should be available for examiner review. Any violations, policy or procedures exceptions, or other deficiencies noted during the audit should be included in an audit report and reported to the board of directors or a designated committee in a timely manner. The board or designated committee and the audit staff should track audit deficiencies and document corrective actions.