Independent AML/CFT/CPF and Sanctions Audit

Indicative Scope Overview

Cayman Islands Regulated Financial Service Providers

ABOUT THIS OVERVIEW

This document provides a high-level overview of the areas that may be considered as part of Waystone's Independent AML/CFT/CPF and Sanctions Audit ("AML Audit") service. It is informational only. The final scope and depth of testing would be agreed separately and tailored to the entity's activities, structure, operating model and risk profile.

1. Purpose of the AML Audit

The AML Audit is designed to provide the Governing Body[1] with an independent assessment of the adequacy and effectiveness of the entity's AML/CFT/CPF and financial sanctions compliance programme.

The audit may also assess the entity's compliance with applicable Cayman Islands AML/CFT/CPF and financial sanctions legislation, regulations, rules and regulatory requirements, together with the entity's approved policies, procedures and controls.

The AML Audit is intended to assist the Governing Body to understand whether key policies, procedures, systems, controls and oversight arrangements are appropriately designed, operating effectively and supported by appropriate governance and evidence.

2. Areas Typically Reviewed

Governance and Oversight

- governing body's oversight and reporting structures
- Anti-Money Laundering Compliance Officer (the "AMLCO"), Money Laundering Reporting Officer (the "MLRO") and Deputy Money Laundering Reporting Officer (the "DMLRO") (collectively, the "AML Officers") arrangements, qualifications, competence, authority, independence, role capacity, resources, access to information, accountability, conflicts of interest and escalation arrangements
- compliance programme governance, resourcing and oversight.

Policies, Procedures and Controls

- completeness and applicability of the AML/CFT/CPF and financial sanctions framework
- consistency with applicable Cayman Islands requirements
- governing body approval and periodic review
- alignment with the entity's activities, structure and risk profile
- communication and implementation across relevant functions and service providers
- procedures for updating the framework following legal, regulatory, business or risk changes
- evidence that documented procedures are followed in practice.

Risk-Based Approach

- AML/CFT/CPF and financial sanctions risk assessments
- customer or investor, geographic, product, service and delivery-channel risks
- outsourcing, service-provider and portfolio risks, where applicable
- linkage between identified risks and mitigating controls
- methodology for identifying, assessing and documenting inherent and residual risks
- risk-scoring, weighting, approval, challenge and override arrangements
- rationale and evidence supporting assigned risk ratings
- periodic and trigger-event review of business, customer and investor risk assessments
- practical linkage between risk ratings, CDD, EDD, ongoing monitoring, screening and review frequency

[1] Governing Body: the Board of Directors where the entity is a corporation, the General Partner where the entity is a partnership, the manager (or equivalent) where the entity is a Limited Liability Company, and the Board of Trustees where the entity is a trust business.

- emerging ML/TF/PF/TFS risks, trends and typologies
- new products, services, markets, distribution arrangements and technologies
- processes for incorporating material business, investor, portfolio, service-provider, geographic, regulatory and risk-environment changes into the Compliance Programme.

Customer or Investor Due Diligence

- onboarding, identification and verification
- beneficial ownership and eligible-introducer, nominee and intermediary arrangements where applicable
- customer or investor risk classification
- enhanced due diligence application - politically exposed person(s) screening and higher-risk relationships
- ongoing due diligence, monitoring, handling of overdue documentation and periodic refresh and trigger-event reviews.

Financial Sanctions and Targeted Financial Sanctions

- sanctions-risk assessment and screening controls
- screening and screening frequency of relevant customers, investors, beneficial owners, connected persons, transactions and service providers
- sanctions-alert investigation, escalation and reporting procedures
- ownership-and-control considerations
- asset-freezing, blocking and reporting arrangements, including supporting documentation;
- sanctions governance, oversight, training and recordkeeping
- remediation and resolution of sanction-screening exceptions
- compliance with applicable financial sanctions and targeted financial sanctions requirements.

Proliferation Financing

- proliferation-financing risk considerations
- customer, investor, geographic, counterparty, service-provider and portfolio exposure, where relevant
- sanctions-evasion and proliferation-financing indicators
- and escalation, reporting and governance arrangements.

Suspicious Activity Reporting

- transaction or activity monitoring proportionate to the business model
- internal suspicious-activity escalation
- MLRO investigation and decision-making
- confidentiality and recordkeeping
- and external reporting arrangements.

Outsourcing, Delegation and Reliance

- AML delegate[2], administrator, investment-manager and other relevant service-provider arrangements
- outsourcing and service-provider due diligence
- ongoing oversight, reporting and evidence of control effectiveness
- findings, exceptions and remediation oversight.

Training, Employee Screening and Recordkeeping

- AML/CFT/CPF, financial sanctions and proliferation-financing training
- governing body, AML officers and role-based training
- employee or relevant-person screening where applicable
- training records and effectiveness
- record-retention arrangements
- accessibility and security of records.

Independent Audit Governance and Remediation

- auditor independence, competence and conflict-of-interest arrangements
- audit-cycle governance and external review requirements
- management actions, remediation tracking and validation testing
- governing body oversight of findings through closure.

3. Entity-Specific Coverage

The audit scope would be tailored to the entity. Depending on the business model, this may include:

Investment Funds

- investor onboarding, subscriptions, transfers and redemptions
- administrator and AML Delegate controls
- fund specific policies, controls, governance and risk assessments
- Investment objectives, investment policies and portfolio-related risks
- investment manager and other outsourced service provider arrangements
- cash-flow, payment capital contribution, return of capital, transaction monitoring and counterparty controls
- evidence obtained in relation to the individual Fund's Compliance Programme; and
- and Governing Body oversight of delegated activities.

Securities Investment Businesses

- customer acceptance and regulated activities
- products, services, markets and distribution channels
- client transactions, payment flows and assets where applicable
- employee and representative controls
- and business-specific monitoring, escalation and recordkeeping.

[2] AML Delegate: the corporate body, entity or individual to whom the process of customer identification and verification, risk rating, politically exposed persons ("PEPs") and sanctions screening, ongoing monitoring, record keeping and escalation of suspicious activity to the MLRO has been delegated by the entity or on whom the Entity has placed reliance to perform these activities on its behalf.

4. How the AML Audit Would Be Performed

The audit approach would be risk based and proportionate to the entity. It may include:

- review of policies, procedures, governance records, risk assessments and supporting documentation
- review of service-provider information, oversight records and independent assurance reports where applicable
- risk-based sample testing
- inspection of supporting evidence and control records including interviews and walkthroughs as required
- assessment of control design and operating effectiveness
- assessment of the adequacy and effectiveness of the Compliance Programme
- review of any prior audit, compliance and regulatory findings
- review of remediation actions and validation testing where appropriated
- formulation of an overall audit conclusion based on the evidence obtained.

The precise testing approach and sample sizes would be determined during engagement planning after the relevant populations, activities and risk profile are understood.

5. Typical Deliverables

- an Independent AML/CFT/CPF and Sanctions Audit Report for the Governing Body
- an executive summary and overall audit conclusion regarding the adequacy and effectiveness of the Compliance Programme
- a summary of findings, risk implications and recommendations
- management responses, action owners and target dates
- a remediation tracker to support follow-up and closure of findings.

6. Why Waystone

Independence

The Regulatory Assurance practice operates independently from Waystone's AML Officer, Fund Governance and other operational service teams, enabling the delivery of objective and independent assurance services.

Specialist Regulatory Expertise

Our professionals combine extensive AML/CFT/CPF, sanctions, governance and regulatory compliance experience with established audit and assurance methodologies.

Cayman Regulatory Knowledge

Deep understanding of Cayman Islands regulatory requirements, supervisory expectations and market practice across regulated financial service providers.

Experience Across Regulated Entities

Significant experience conducting AML, compliance, governance and control reviews for investment funds, securities investment businesses and other regulated entities.

Practical and Risk-Based Approach

Reviews are tailored to the entity's activities, structure, operating model and risk profile, with a focus on identifying practical and proportionate recommendations.

Governance and Assurance Focus

Assessments are designed to support Governing Bodies in understanding the adequacy and effectiveness of their AML/CFT/CPF and sanctions compliance programmes and oversight arrangements.

Established Market Presence

As one of the largest providers of governance, compliance and regulatory support services to Cayman Islands regulated entities, Waystone has extensive experience supporting clients operating within complex and evolving regulatory environments.

7. Further Information

Waystone would be pleased to discuss how the AML Audit service may apply to a particular entity, including the proposed audit cycle, scope, timing and interaction with existing AML Officers and service-provider arrangements.

TAILORED ENGAGEMENT

This overview is not an engagement letter or a fixed audit programme. If a client elects to proceed, Waystone would agree the entity-specific scope, timing, information requirements, responsibilities and commercial terms separately.