



CIRCULAR NO.CMA/MRT/No.05/2023

November 2, 2023

**To: All Chief Executives/Managing Directors –
All Market Intermediaries**

**RE: DIRECTIVE ON INDEPENDENT AUDIT REVIEW OF ANTI-MONEY LAUNDERING
AND COMBATING FINANCING OF TERRORISM (AML/CFT) COMPLIANCE
PROGRAMS**

Money Laundering (ML) and Terrorism Financing (TF) can have adverse social and security implications including jeopardizing investments opportunities that contribute to economic growth by destabilizing the financial sector including the capital markets sector and development of the economy at large. To mitigate the ML and TF risks market intermediaries are exposed to, they are required to develop and implement comprehensive and effective AML/CFT compliance programs.

In this regard, all market intermediaries are hereby reminded of their obligation under the following provisions:

1. Regulation 43 of the Proceeds of Crime and Anti-Money Laundering Regulations, 2023 (POCAMLRL) requires reporting institutions to adopt an independent audit function to check compliance by the institution with the Proceeds of Crime and Anti-Money Laundering Act, 2009 (POCAMLRA) and POCAML Regulations.
2. Clause 3 (4) of the Guidelines on the Prevention of Money Laundering and Terrorism Financing in the Capital Markets, 2015 requires a market intermediary to review its policies, procedures and controls at least once in every two years to ensure their effectiveness as required by the Regulations.
3. Clause 14(1)(d) of the Guidelines on the Prevention of Money Laundering and Terrorism Financing in the Capital Markets, 2015 requires market intermediaries to develop, adopt and implement internal programmes, policies, procedures and controls that include an independent audit function to check compliance with the AML/CFT legal and regulatory requirements.

An independent audit review enables an effective examination of a market intermediaries' AML/CFT compliance program and processes to ensure they are comprehensive and in

compliance with legal and regulatory requirements for the purpose of detection and prevention of money laundering and terrorism financing in the capital markets.

To enable effective implementation of AML/CFT independent audit reviews, and in accordance with the powers vested in the CMA under Section 12A(2)(g) Capital Markets Act (Cap 485A) (revised 2023) and Section 36C(1)(d) the Proceeds of Crime and Anti-Money Laundering Act, 2009 (POCAMLA) (revised 2023), the CMA issues the following directives:

1. All market intermediaries to appoint an independent and competent auditor to review the firms' AML/CFT compliance programs with requirements of:
 - a) The Proceeds of Crime and Anti-Money Laundering Act, 2009 (POCAMLA) (Revised 2023).
 - b) The Proceeds of Crime and Anti-Money Laundering Regulations, 2023.
 - c) The Prevention of Terrorism Act, 2012 (POTA) (Revised 2023).
 - d) Prevention of Terrorism (Implementation of the United Nations Security Council Resolutions on the Suppression of Terrorism) Regulations, 2022 (Revised 2023).
 - e) The Guidelines on the Prevention of Money Laundering and Terrorism Financing in the Capital Markets, 2015.

2. The independent auditor shall review the market intermediaries' AML/CFT framework and ML/TF risk mitigation measures including;
 - a. Assessing the Board and senior management responsibility to set the AML/CFT policy, ensuring adequacy of AML/CFT systems and controls and implement effective monitoring and reporting procedures.
 - b. Assessing the Board and senior management responsibility to conduct assessment of ML/TF risks inherent in the business.
 - c. Assess the adequacy of the firm's policies and procedures for risk-based approach.
 - d. Assess the adequacy of MLRO experience, training and resources.
 - e. Assess the adequacy of reports to management and the Board.
 - f. Assess the adequacy of the firm's CDD and EDD procedures.
 - g. Assess the adequacy of the firm's ongoing monitoring and identification of suspicious activities.
 - h. Assess the adequacy of reporting of suspicious activity to the FRC.
 - i. Assess the adequacy of training programs.
 - j. Assess the adequacy of record keeping practices.
 - k. Assess the adequacy of the monitoring and reporting system.
 - l. Assess the firm's risk assessment and mitigation of terrorism financing risks.

Under Section 36A(5)(ba)(a) of the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA), 2009 (Revised 2023), the reporting institutions shall submit to the Authority a detailed independent auditor's report documenting the findings including deficiencies or areas of improvement, recommendations on areas of improvement, evidence of boards

commitment to address the deficiencies identified by the independent auditor and enhancements to the AML/CFT program. The submissions should be made to the Authority by **December 31st, 2023** and going forward independent reviews should be done at least once every two years.

The independent auditor should follow-up on the recommendations made to ensure both that they are implemented correctly in the timeframe agreed and that the actions undertaken have effectively addressed deficiencies identified in the independent review.

In alignment with regulatory requirements, the independent audit reviews can be carried out by the market intermediary's internal audit function. Where a market intermediary does not have an internal audit function and ordinarily relies on outsourced services, the outsourced internal auditor can conduct the independent audit review. However, market intermediaries are encouraged to consider appointing an external auditor to undertake the independent audit review.

Market intermediaries are expected to implement these directives immediately and failure to comply may lead to regulatory intervention and enforcement action.

For any clarifications please contact:

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Yours sincerely,



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