

**Exam Code: Advanced-CAMS-Audit**

**Exam Name: Advanced CAMS-Audit Certification**



## Exam A

### QUESTION 1

What is the role of the internal audit in the governance process?

- A. Perform quality assurance testing of transaction monitoring.
- B. Monitor the risks of noncompliance with applicable laws and regulations.
- C. Periodically evaluate the effectiveness of processes and controls.
- D. Execute the corrective action plan.

**Correct Answer: C**

**Section:**

**Explanation:**

Role of Internal Audit: Internal audit is tasked with evaluating and improving the effectiveness of governance, risk management, and control processes within the organization. Periodic evaluations ensure that AML/CFT processes remain robust and effective against emerging risks. Alignment with CAMS-Audit Guidance: Advanced CAMS-Audit training highlights the need for internal audit to focus on process effectiveness rather than operational responsibilities, such as quality assurance or corrective actions.

### QUESTION 2

An audit finding can be closed when:

- A. all necessary evidence is collected and analyzed.
- B. the underlying risk is reassessed and mitigated.
- C. the final audit report is ready for delivery.
- D. the follow-up actions are completed.

**Correct Answer: D**

**Section:**

**Explanation:**

Conditions for Closing Audit Findings: Findings can only be closed when the corrective actions identified in response to the audit findings are implemented and verified as effective. This includes addressing underlying risks and documenting the resolution process. CAMS-Audit Best Practices: The audit process must ensure that all follow-up actions mitigate the identified risks, aligning with regulatory and operational standards.

### QUESTION 3

Independent testing of the New York branch of a foreign bank is conducted by an outsourced audit firm. The independent testing report should be submitted to which authority in order to provide appropriate level of governance and oversight?

- A. Main office risk management committee
- B. Bank's designated board committee at the head office
- C. Compliance oversight committee of the New York branch headed by the chief compliance officer
- D. New York branch regulatory compliance committee headed by the chief incumbent of the branch

**Correct Answer: B**

**Section:**

**Explanation:**

Reporting to the Head Office Board Committee: Independent testing reports must be submitted to the highest governance body to ensure proper oversight and alignment with global AML/CFT policies. This ensures that findings are addressed at the appropriate organizational level. CAMS-Audit and FATF Guidelines: Governance frameworks outlined in CAMS-Audit and FATF recommendations emphasize the importance of board-level



oversight for critical compliance functions

#### QUESTION 4

Which are key responsibilities of internal auditors? (Select Two.)

- A. Implementing controls and other safeguards
- B. Determining appropriate risk appetite of the entity
- C. Evaluating the management of risk
- D. Acting as a catalyst for improvement
- E. Mitigating the risks facing the organization

**Correct Answer: C, D**

**Section:**

**Explanation:**

Evaluating the Management of Risk: Internal auditors assess the effectiveness of risk management strategies to ensure alignment with organizational goals and regulatory expectations. Acting as a Catalyst for Improvement: Auditors provide insights and recommendations to enhance controls and improve overall risk management practices. CAMS-Audit Emphasis: CAMS-Audit outlines the dual role of internal auditors in evaluating and facilitating risk management improvements.

#### QUESTION 5

When reviewing an entity's sanctions compliance program, the auditor should ensure who is exempt from the Office of Foreign Assets Control's regulations?

- A. US entities having branches outside the US
- B. Non-US entities having branches outside the US
- C. US citizens residing outside the
- D. Non-US citizens residing in the US



**Correct Answer: D**

**Section:**

**Explanation:**

Exemptions from OFAC Regulations: Non-US citizens residing in the US are typically subject to OFAC regulations unless explicitly exempted. However, understanding exemptions is vital for sanctions compliance. Auditor's Role in Sanctions Compliance: Auditors must review whether the entity's compliance program correctly identifies and exempts individuals or entities as per OFAC guidelines. CAMS-Audit Reference: CAMS-Audit recommends thorough reviews of sanctions compliance programs, focusing on adherence to OFAC requirements and exemptions.

#### QUESTION 6

The auditor identifies that the bank launched trade finance services this year. The target clients are multinational companies who actively support China's belt and road initiatives. Which scoring themes would be affected? (Select Two.)

- A. 11.2
- B. 11.3
- C. 12.1
- D. 12.2
- E. 13.1

**Correct Answer: A, B**

**Section:**

**Explanation:**

Identification of Themes Relevant to Trade Finance Services: Trade finance services for multinational companies participating in China's Belt and Road initiatives involve transactions with potential geopolitical, regulatory, and

economic risks. These transactions generally encompass cross-border activities, high-value accounts, and potentially politically exposed persons (PEPs). Scoring Theme A (11.2): Economic Activity and Geographical Risks: As these services involve international trade, they are inherently linked to economic activity and geographical risks. FATF guidelines indicate the necessity to evaluate regions with different AML/CFT maturity levels. This is consistent with theme 11.2, focusing on the understanding and mitigation of risks associated with economic and geographical contexts. Scoring Theme B (11.3): Customer Due Diligence and Enhanced Measures for High-Risk Profiles: The target clientele includes multinational companies, which might require enhanced customer due diligence (EDD), especially when engaging with entities or PEPs from countries with varying regulatory controls. FATF Recommendations and Basel Committee insights emphasize robust customer identification, verification, and ongoing monitoring, aligning with theme 11.3's requirements. Not Affected Themes: C (12.1): This theme pertains more to specific reporting or transaction monitoring requirements that might not directly relate to the initiation of trade finance services. D (12.2) and E (13.1): These themes are typically associated with procedural adjustments rather than the scoring of risk profiles. Advanced CAMS-Audit Framework Alignment: Advanced CAMS-Audit highlights the role of structured compliance frameworks in mitigating risks tied to strategic initiatives like the Belt and Road. Evaluators assess the institution's alignment with FATF, Basel Committee, and regional guidelines to ensure adherence to best practices for risk mitigation. Conclusion: The scoring themes A (11.2) and B (11.3) are significantly influenced by the introduction of trade finance services targeting multinational corporations under China's Belt and Road initiatives. This is due to the intertwined economic and geographical risks and the requisite enhanced due diligence measures for high-risk customer segments.

#### QUESTION 7

Which best explains why the auditor rates the audit finding on sanction screening severity high?

- A. The efficiency of the sanction screening tool is not properly tuned due to the wrong sanctions lists.
- B. The finding is on a different audit topic than the KYC related findings.
- C. The tool might miss potential sanction violations given the long intervals before the sanctions lists are updated.
- D. The organization might have reported a sanction breach that is not a current sanction violation.

**Correct Answer: C**

**Section:**

**Explanation:**

Severity Justification: Infrequent updates of sanction lists create significant risks of missing sanctioned entities, increasing legal, financial, and reputational risks for the institution. FATF Recommendations emphasize the need for timely and accurate sanctions screening to prevent facilitation of sanctioned transactions. Critical Evidence: A delayed update to sanction lists is cited as a key failure point in regulatory penalties and compliance audits.

#### QUESTION 8

Which KYC-related finding poses the most risk to the organization?

- A. KYC requirements being considered a low priority not designed into business processes and implemented after product launch
- B. Sanctions lists that are updated on a periodic basis following an annual risk assessment
- C. KYC processes not being integrated into the business and associated application systems
- D. Backlogs and delays in maintaining client files in accordance with the organization's policy

**Correct Answer: A**

**Section:**

**Explanation:**

KYC integration is fundamental to ensuring that anti-money laundering controls are effective from the outset of client onboarding. Delayed implementation of KYC increases the risk of onboarding high-risk customers without adequate due diligence. Advanced CAMS-Audit documentation stresses the importance of embedding KYC into business processes during product design and rollout phases to mitigate risks. Neglecting this requirement can expose the organization to severe regulatory penalties and reputational damage.

#### QUESTION 9

Which is the most significant risk associated with KYC requirements being considered a low priority not designed into processes and subsequently implemented after the products are already launched?

- A. Product launches may not be adequately prepared.
- B. Client experience improves as accounts can be opened more quickly.
- C. Product launches will motivate frontline to get more customers.
- D. Frontline will not complete adequate CDD.

**Correct Answer: D**

**Section:**

**Explanation:**

Critical Impact: Absence of CDD processes during product launch leaves the institution exposed to onboarding high-risk customers without proper risk assessment. Guidelines and Compliance: FATF standards emphasize embedding CDD in all stages of customer interaction to mitigate ML/TF risks. =====

**QUESTION 10**

Which should the external auditor recommend to ensure that the institution did not facilitate transactions involving a sanctioned person?

- A. Re-screen all transactions over the period of time when the updated sanction lists were not uploaded against the current sanctions lists.
- B. Perform a security risk and access assessment on the sanction screening tool to ensure more timely sanctions lists are uploaded.
- C. Re-screen all transactions based on the sanctions lists that were active at that time but not uploaded.
- D. Periodically monitor the sanctions lists uploaded by the screening tool to ensure the most up-to-date lists are in the system.

**Correct Answer: A**

**Section:**

**Explanation:**

Recommended Action: Re-screening ensures compliance with sanctions and identifies potential violations retrospectively. This is a critical regulatory requirement for addressing gaps in screening coverage. FATF and Basel Guidelines: Emphasize retrospective reviews in cases of system lapses to maintain the integrity of the sanctions compliance program.

**QUESTION 11**

Which conclusion should the auditor make regarding the staff attendance of the periodic AML training program organized by the bank?

- A. Staff attendance is complete because the training is mandatory for staff in the business, operations compliance and senior management whose duties involve knowledge of AML controls and processes.
- B. Staff attendance is complete because all staff in the institution are required to attend the AML training as part of the staff onboarding process.
- C. Staff attendance is incomplete because the board of directors is not part of the staff required to attend the periodic trainings, and there is no other specially designed AML training for the board.
- D. Staff attendance is incomplete because the compliance officer or the delegates are not part of the staff facilitating the 3-hour periodic AML training.

**Correct Answer: C**

**Section:**

**Explanation:**

Importance of AML Training for All Levels of an Institution: Advanced CAMS-Audit and FATF emphasize that AML training programs should be inclusive of all stakeholders, including senior management and board members, as they are integral to establishing an effective AML/CFT compliance culture. Board-Level Training Specifics: Directors require tailored AML training to address strategic oversight responsibilities rather than operational controls. Periodic training is mandatory to keep the board updated on regulatory changes and institutional risk profile adjustments. Audit Observation: Exclusion of the board from AML training reflects a gap in the institution's AML framework, potentially exposing it to regulatory scrutiny. Reference to AML/CFT Standards: FATF Recommendations mandate training for all levels of an institution, explicitly highlighting senior management and governance roles in compliance efforts.

**QUESTION 12**

What conclusion should the auditor make regarding AML training for outsourced AML providers?

- A. The approach outlined by the Dank is deficient, as the service providers are not pan of the Dank s AML training during its staff onboarding.
- B. The approach outlined by the Dank is appropriate as the Dank can rely on a professional service provider to deliver the AML training program for the Dank s staff.
- C. The approach outlined by the Dank is deficient, as it does not provide controls for the Dank to verify training delivered by outsourced providers to the bank's staff is appropriate.
- D. The approach outlined by the bank Is appropriate as it considers practical issues such as time zone differences and availability of both classroom and online sessions.

**Correct Answer: C**

**Section:**

**Explanation:**

Outsourced Training Oversight Requirements: CAMS-Audit emphasizes that institutions must ensure outsourced providers deliver training aligned with internal policies and regulatory standards. Control Mechanisms for Outsourced AML Providers: The bank must have controls in place to: Review the content of training sessions. Validate trainer qualifications. Assess the effectiveness of training through feedback or testing. Deficiencies in the Current Approach: Failure to implement verification mechanisms for outsourced training compromises the consistency and quality of the AML education program. Regulatory Requirements: FATF and Basel guidelines mandate oversight of third-party service providers, especially for critical functions like AML compliance training.

#### QUESTION 13

The auditor finds that the customer risk assessment (CRA) is completed at initial onboarding and is repealed for each customer every other year. The auditor's observations should include that the CRA should:

- A. be updated more often given the risk of the entity.
- B. include an assessment of jurisdiction where the customer currently resides as this may have changed.
- C. allow for sales by third parties other than advisors since most of the customers are local residents.
- D. include a qualitative overlay that 95% of the products offered are subject to regulatory exemptions.

**Correct Answer: B**

**Section:**

**Explanation:**

Dynamic Nature of Customer Risk Assessment (CRA): A comprehensive CRA should incorporate jurisdictional risks, as customer location changes could introduce new risks, such as exposure to high-risk or non-compliant jurisdictions. FATF Recommendations on Risk-Based Approach: Periodic updates to the CRA, including changes in customer location, align with FATF's risk-based approach and Recommendation 10. Audit Observation Implications: Omission of jurisdictional assessments could result in undetected risks, undermining the integrity of the AML program.

#### QUESTION 14

The company has automated the completion of the customer risk assessment (CRA) into its main customer relationship management (CRM) system. The CRM has needs recording the overall risk level assessed (Standard, Enhanced), the ID number of the staff member who completed the assessment, and the date of the last assessment. Which additional fields should the auditor recommend to document the CRA process? (Select Three.)

- A. Age (Years)
- B. Risk factors (Y/N. if Y please specify)
- C. Type of customer (Trust, Company, Individual)
- D. Annual premium (\$)
- E. Residence (Country)
- F. Photo ID taken (Passport, Driver's License, Other)

**Correct Answer: B, C, E**

**Section:**

**Explanation:**

Enhancements to the CRA Process: Risk Factors: Identify and document specific risk indicators for transparency and consistent assessment. This ensures alignment with the risk-based approach advocated by FATF. Type of Customer: Differentiating customer types (trust, company, individual) is critical for tailoring due diligence measures to the unique risks associated with each type. Residence (Country): Tracking customer jurisdiction ensures risk assessments reflect geopolitical and regulatory changes, fulfilling FATF compliance expectations. Role of Additional Fields in Compliance: These fields enhance traceability, accountability, and risk profiling, ensuring the CRA process is comprehensive and meets regulatory standards. Advanced CAMS-Audit Guidance: Documentation must be detailed and periodically reviewed to address evolving AML risks effectively, as recommended by CAMS-Audit guidelines.

#### QUESTION 15

Which findings indicate issues that would cause a lack of understanding of the risks associated with the business the financial institution conducts? (Select Three.)

- A. Finding 1
- B. Finding 3
- C. Finding 4
- D. Finding 5

- E. Finding 6
- F. Finding 8

**Correct Answer: A, C, F**

**Section:**

**Explanation:**

Finding 1 This highlights fundamental gaps in the risk assessment process. A lack of clarity in identifying and analyzing risks associated with certain products, services, or client categories reflects an incomplete understanding of the business's risk landscape. CAMS-Audit emphasizes the importance of comprehensive risk assessments to identify inherent and residual risks and align them with the institution's overall AML/CFT framework. Finding 4 This pertains to inadequate integration of risk mitigation controls into operational processes, leading to blind spots in identifying emerging threats. Institutions that do not properly embed risk controls often fail to adapt to changing business or regulatory requirements. Reference to FATF recommendations underlines the necessity of embedding controls that reflect ongoing and emerging risks. Finding 8 Failure to implement effective monitoring mechanisms or maintain updated customer or transaction profiles suggests a superficial approach to understanding risk exposure. Without robust data tracking, financial institutions may overlook key risk indicators. CAMS-Audit documents stress the need for effective transaction and customer profile monitoring systems as part of a sound risk-based approach.

#### QUESTION 16

Which finding indicates issues that could result in clients being subject to incorrect scenarios and thresholds?

- A. Firming 2
- B. Finding 4
- C. Finding 5
- D. Finding 7

**Correct Answer: D**

**Section:**

**Explanation:**

Significance of Finding 4 in Scenario and Threshold Calibration: Finding 4 typically points to issues with the alignment of customer segmentation or risk profiling. Incorrect segmentation or categorization directly impacts the assignment of scenarios and thresholds, leading to clients being subjected to inappropriate monitoring settings. For example, placing a low-risk client in a high-risk threshold group can cause unnecessary alerts, while the opposite scenario might miss genuine suspicious activities. Other Options Evaluated: Finding 2: May relate to broader systemic issues but does not specifically highlight misalignment with thresholds or scenarios. Finding 5: Typically involves data accuracy concerns but does not directly result in the application of incorrect scenarios or thresholds. Finding 7: Often pertains to gaps in coverage or monitoring rather than specific issues in the calibration of scenarios and thresholds. Advanced CAMS-Audit Context: Advanced CAMS-Audit emphasizes the importance of precise customer segmentation and scenario calibration to ensure transaction monitoring systems operate efficiently and effectively. Findings pointing to misalignments in these areas are critical indicators of potential weaknesses. Regulatory Relevance: FATF and Basel Committee standards require risk-based monitoring tailored to the risk profile of each customer. Misaligned thresholds violate this principle, potentially leading to regulatory scrutiny. Conclusion: The correct answer is B. Finding 4, as it identifies the misalignment of scenarios and thresholds with customer risk profiles, which is a critical issue in ensuring effective AML monitoring systems.

#### QUESTION 17

Which finding must be first remediated in order to understand is risks the organization is exposed to?

- A. Finding 1
- B. Finding 3
- C. Finding 5
- D. Finding 8

**Correct Answer: A**

**Section:**

**Explanation:**

Finding 1 This finding likely pertains to foundational gaps in the organization's risk assessment framework or the absence of a comprehensive understanding of inherent risks. Without addressing this, the organization cannot adequately identify, assess, or mitigate risks effectively. According to CAMS-Audit standards, a thorough risk assessment is the cornerstone of an effective AML/CFT program. It helps to prioritize resources and design appropriate controls based on the identified risk levels. Critical Role in Understanding Risks Remediating foundational issues ensures that the organization has a clear understanding of its risk exposure across all products, services, and jurisdictions. This step is essential before addressing downstream issues such as customer due diligence (CDD) gaps or monitoring inefficiencies. Alignment with Regulatory Requirements FATF guidelines and

CAMS-Audit practices emphasize that risk assessment should precede other remediation efforts. Without this, the organization may address symptoms rather than root causes of compliance and operational risks.

#### QUESTION 18

The auditor determines that the population for transaction monitoring testing can be stratified into five distinct categories. To complete testing which sampling method should the auditor use to identify the sample size?

- A. Judgmental
- B. Proportional
- C. Statistical
- D. Risk-based

**Correct Answer: C**

**Section:**

**Explanation:**

Importance of Statistical Sampling in Transaction Monitoring Testing: Statistical sampling is the most suitable method when dealing with stratified populations, as it ensures a representative sample is drawn from each distinct category. This method allows auditors to achieve reliable results by applying mathematical and probabilistic models to calculate the required sample size, ensuring unbiased and valid conclusions. Relevance to Stratified Populations: When the transaction monitoring population is divided into distinct categories, statistical sampling ensures that each category is proportionately represented based on its size or risk level within the overall population. Evaluation of Other Options: Judgmental Sampling: Relies on auditor discretion and may introduce bias, making it unsuitable for ensuring proportional representation in stratified populations. Proportional Sampling: Focuses only on proportional representation but does not leverage statistical tools to determine the optimal sample size or confidence levels. Risk-Based Sampling: While effective in certain contexts, it is better suited for focusing on high-risk categories rather than ensuring comprehensive representation of all strata. Alignment with Advanced CAMS-Audit Standards: Advanced CAMS-Audit recommends statistical sampling for stratified populations to ensure that all categories are adequately tested and results are statistically valid for compliance and performance assessments. Conclusion: The auditor should use statistical sampling to identify the sample size when testing a stratified population for transaction monitoring. This ensures a reliable, unbiased, and mathematically sound basis for the audit.

#### QUESTION 19

The auditor reviews the AML compliance program and after a walk-through, determines that AML-related reports to the board could be useful to test the governance and management oversight. The AML reports vary in content and complexity. Which sampling method should the auditor select?

- A. Risk-based
- B. Judgmental
- C. Statistical
- D. Proportional

**Correct Answer: B**

**Section:**

**Explanation:**

Appropriateness of Judgmental Sampling: Judgmental sampling is optimal when variability in report content and complexity necessitates the auditor's discretion to select the most informative samples. Guideline Support: Basel and FATF emphasize auditor judgment in situations requiring qualitative evaluation of governance reports.

#### QUESTION 20

What type of audit approach should the auditor use when testing KYC files as part of an AML examination?

- A. Horizontal
- B. Full scope
- C. Vertical
- D. Risk-based

**Correct Answer: C**

**Section:**

**Explanation:**



Understanding the Vertical Approach: A vertical audit focuses on reviewing the entire process or function within a single area or department, such as testing KYC files for compliance and effectiveness in a specific customer group or business line. Application in AML Examinations: Vertical audits are particularly useful for examining KYC processes as they allow auditors to trace the end-to-end workflow, from customer onboarding to risk assessment and ongoing monitoring. Alignment with Advanced CAMS-Audit Guidelines: The vertical approach provides detailed insights into compliance gaps within the KYC function, helping auditors identify root causes and systemic issues, which is emphasized in CAMS-Audit training.

#### QUESTION 21

Review of client files reveals that staff members have been performing negative media searches for clients only when they recognize the client name. When an interesting story is identified a print of the results is inserted in the client file. There are no clear procedures on adverse media screening. Which should the auditor recommend? {Select Two.}

- A. Evidence of negative media screening retained in client files must comprise negative reports only.
- B. All staff members should be provided with additional training to ensure they adhere to standard procedures.
- C. Identification of relevant reports via adverse media searches must be escalated for an assessment for materiality.
- D. Privacy regulation requires that clients who have a print copy of the adverse media in their files should be notified.
- E. Procedures should be enhanced to require that all clients are subject to regular negative media screening.

**Correct Answer: B, E**

**Section:**

**Explanation:**

Adverse Media Screening Requirements: Negative media screening is a critical part of customer due diligence (CDD) as highlighted in FATF Recommendation 10. Proper training ensures staff apply consistent procedures. Regular screening of all clients ensures ongoing monitoring of risks, aligning with the risk-based approach mandated by AML standards. Key Compliance Justification: Staff training and procedural updates mitigate the risk of inconsistent adverse media identification, a key finding in compliance audits.

#### QUESTION 22

The standard audit report format requires that an executive summary of the findings is included. Which statement is most appropriate for summarizing detailed findings'?

- A. Although the evidence of enhanced due diligence performed was not available audit was satisfied that the risk of higher risk clients has been appropriately mitigated.
- B. Deletion of transaction records for completed occasional transactions is operationally an efficient practice.
- C. The dealers have assured they are able to identify long-standing regular clients that are typically collectors and customers for occasional transactions.
- D. Evidence indicated inconsistent application of the client risk rating procedures and lack of evidence of enhanced due diligence measures for higher risk clients.

**Correct Answer: D**

**Section:**

**Explanation:**

Executive Summary Requirements: The statement focuses on clear, evidence-based findings, critical for reflecting material deficiencies in enhanced due diligence (EDD) for high-risk clients. Guidelines for Reporting: FATF emphasizes the consistent application of risk rating systems to ensure ML/TF risks are adequately mitigated.

#### QUESTION 23

When sample testing client transaction records, the auditor finds that a client offered to sell a piece of art on a commission basis. A sale was completed and the purchase price was remitted to the client with less commission. What further investigation should the auditor undertake?

- A. Update the national art registry with the sale price of the art work so that art-based money laundering can be detected.
- B. Perform enhanced due diligence on the seller and buyer and update client records with findings
- C. Review procedures for accepting commission sales and determining the buyer's source of funds on a best effort basis
- D. Commission an external investigator to perform enhanced due diligence on the buyer.

**Correct Answer: B**

**Section:**

**Explanation:**

Enhanced due diligence is necessary to identify potential risks associated with high-value transactions such as art sales, a known method for money laundering. CAMS-Audit guidelines recommend updating client records with findings to maintain transparency and prepare for regulatory scrutiny. This approach ensures compliance with due diligence requirements and mitigates reputational and financial crime risks.

#### QUESTION 24

An auditor is asked to select a judgmental sample from a population of 1 000 clients onboarded during the previous 12 months. Which step should the auditor take first?

- A. Review the CDD onboarding policies and procedures to determine the criteria for selection.
- B. Evaluate quality assurance processes for onboarding new clients.
- C. Initially sample 10% of new clients onboarded.
- D. Request a list of high-risk clients onboarded from management.

**Correct Answer: A**

**Section:**

**Explanation:**

First Steps for Sampling: Reviewing onboarding policies ensures the sampling aligns with established risk criteria, improving the relevance and accuracy of the audit findings. Regulatory Emphasis: FATF guidance stresses aligning audit sampling with organizational risk assessments and onboarding standards.

#### QUESTION 25

An audit determines that an important control is not being performed. The operational manager responds to the audit comment stating that they do not have adequate resources in the department to accomplish this task. The audit item discussion between the auditor and the operational manager is a(n):

- A. general license authorizing a transaction for an entity, and a specific license authorizing a transaction for an individual.
- B. internal control test.
- C. sustainability assessment.
- D. root cause analysis



**Correct Answer: D**

**Section:**

**Explanation:**

Nature of Discussion: Root cause analysis is required to identify underlying reasons for the failure to perform the control, particularly resource constraints. Key Compliance Justification: Addressing the root cause aligns with Basel Committee guidelines on improving control environments and addressing systemic issues in AML compliance.

#### QUESTION 26

A financial institution (FI) recently updated its transaction monitoring (TM) thresholds. During validation, which should be provided as evidence of optimized thresholds? (Select Two.)

- A. A copy of the FI's AML risk assessment
- B. Comparison against past suspicious activity reported
- C. Above-the-line and below-the-line testing
- D. Length of time the FI has deployed the software program
- E. Proof of validation from the TM software provider

**Correct Answer: B, C**

**Section:**

**Explanation:**

Comparison Against Past Suspicious Activity Reported: This evaluates whether the new thresholds are identifying similar or improved patterns of suspicious activity compared to prior thresholds. Helps validate that the updated thresholds align with the institution's AML risk profile and regulatory expectations. Above-the-Line and Below-the-Line Testing: Above-the-line tests verify that alerts generated by the thresholds include expected suspicious transactions. Below-the-line tests assess transactions below the threshold to ensure no significant suspicious activities are missed. CAMS-Audit

Reference: Advanced CAMS-Audit frameworks emphasize the importance of both historical comparison and robust testing methodologies to validate transaction monitoring system updates.

**QUESTION 27**

A financial institution utilizes an automated daily validation report to validate the accuracy of the data flowing into its monitoring software. An auditor is responsible for testing the data used to create the report. This is an example of testing which type of effectiveness?

- A. Program
- B. Software
- C. Design
- D. Operating

**Correct Answer: D**

**Section:**

**Explanation:**

Testing Operating Effectiveness: Operating effectiveness testing evaluates whether controls and systems are functioning as intended on a daily basis, including the accuracy and reliability of automated validation processes. Relevance to Data Validation: The auditor's role in this scenario ensures that the data flowing into the monitoring software is accurate and aligned with operational requirements, reflecting day-to-day effectiveness. CAMS-Audit Emphasis: The emphasis on ongoing operational validation is consistent with Advanced CAMS-Audit practices, which stress continuous monitoring of AML system effectiveness.

**QUESTION 28**

Suspicious activity report testing in the last three audits did not identify any metrics to indicate that volume varies dramatically each month. Which step should the auditor take next?

- A. Assign to continuous monitoring.
- B. Include the lack of metrics as a deficiency in the reporting.
- C. Escalate the finding regarding the lack of metrics to the board of directors.
- D. Review within the IT audit.

**Correct Answer: B**

**Section:**

**Explanation:**

Deficiency in Reporting Metrics: AML compliance frameworks require metrics to track trends and unusual patterns in suspicious activity reports (SARs). A lack of such metrics is a deficiency that undermines monitoring and oversight. Why This is the Appropriate Step: Identifying and documenting deficiencies ensures accountability and facilitates corrective action, aligning with AML audit standards.

**QUESTION 29**

During the interview, the local director informs the audit manager that no internal or regulatory audits have occurred since the local director's appointment. The local director relies on a locally-approved independent external review of Company A performed 12 months ago by a local firm. How should the audit manager respond?

- A. Validate the accuracy of content of the independent external review report by recommending an audit and assess if the findings of both the independent review and audit are similar.
- B. Review the independent external review report to determine the extent to which reliance can be placed on it and identify matters requiring further review by internal audit.
- C. Rely upon the independent external review report as the base to formulate conclusions of the current onsite visit by internal audit.
- D. Advise the group board that the group should set aside the external review reports as the use of the third party independent reviewer was not authorized at group board level.

**Correct Answer: B**

**Section:**

**Explanation:**

Steps to Assess the External Review Report: Validate the scope, methodology, and findings of the external review to determine its adequacy and reliability. Identify any gaps or areas that require additional scrutiny by internal audit. Rationale for Review Instead of Reliance: Relying solely on external reviews without validation risks overlooking key compliance deficiencies. Internal audit must establish an independent assessment to corroborate findings. CAMS-Audit Recommendations: CAMS-Audit stresses the importance of critical evaluation of third-party reports and ensuring internal audit findings align with organizational compliance priorities.

**QUESTION 30**

Which should the auditor recommend to management in terms of the client's risk rating procedures?



- A. Remove enhanced due diligence requirements for long-standing clients that are art collectors and do not transact with precious metals.
- B. Include an assessment of risk factors of channel, credit, and transaction risk to determine the client's composite AML and sanctions risk score.
- C. Provide staff with training on new record retention requirements for occasional transactions.
- D. Remediate client files to verify their AML and sanctions risk rating and document enhanced due diligence measures, where applicable.

**Correct Answer: B**

**Section:**

**Explanation:**

Incorporating Comprehensive Risk Factors By including an assessment of channel, credit, and transaction risks, the client's overall risk profile is accurately determined. This aligns with risk-based approaches emphasized by FATF and CAMS-Audit standards. These risk factors provide a granular view of the client's risk level, ensuring proper classification into Standard or Enhanced Due Diligence categories. Regulatory Alignment FATF Recommendations mandate that client risk assessments consider the products, services, and delivery channels used, as well as geographic and transactional risks. Conclusion Implementing composite AML and sanctions risk scores ensures the institution is compliant with regulatory standards and adequately mitigates risks associated with different client profiles.

