



Conducting an ML/TF Risk Assessment – A Quick Ready Reckoner

Conducting an effective ML/TF Risk Assessment begins with a number of foundational governance elements.

The first step is preparing the **Board's Risk Appetite Statement** (or **RAS**), which sets out how the Board considers ML/TF risk and **what level of risk it is willing to accept**.

This is followed by documenting the methodology that will guide the risk assessment (or **RAM**) - outlining the reporting entity's **context**, its **approach**, **sources of risk**, **control evaluation methods**, and **how residual risk will be determined**.

Next, the reporting entity performs its ML/TF Inherent Risk Assessment to identify and assess the raw exposure to ML/TF risks before considering controls. This involves evaluating risk factors such as products and services, customer types, jurisdiction, and delivery channels (reflecting AUSTRAC's guidance).

There are other factors you can choose to include, some of which will depend on your context (e.g. Employee, Location(s)).

Once inherent risks are documented, and your controls are collected together (ideally in a register or library), the **design and operating effectiveness of existing controls must be tested** to determine whether they are designed properly and functioning as intended.

The results of this testing are then used to complete the **Residual Risk Assessment**, which reflects the risk that remains after controls have been applied.

Finally, residual risks are mapped against the reporting entity's stated risk appetite. **Where do you sit against appetite – "inside" or "outside"?**

Where risks fall outside of appetite, **tailored action plans** must be developed to mitigate and bring them back within acceptable levels. The Board or governing body of the reporting entity should be kept informed on progress.

To ensure sustained oversight, reporting entities should create Key Risk Indicators (**KRIs**) aligned to their most material risks, providing clear, data-driven reporting for senior management and the Board.

The last step involves updating Transaction Monitoring Program (**TMP**) rules and AML training content to reflect the findings and lessons from the risk assessment, ensuring continuous alignment of operational controls with the evolving risk.

- 1 Prepare your Board's Risk Appetite Statement for how it views ML/TF Risks
- 2 Document your Methodology for how you will conduct your ML/TF Risk Assessment
- 3 Complete your ML/TF Inherent Risk Assessment
- 4 Test the Design and Operating Effectiveness of your Controls
- 5 Complete your ML/TF Residual Risk Assessment
- 6 Map your Residual Risk to your Risk Appetite – inside or outside of appetite?
- 7 Create Action Plans to bring Risks outside of appetite back within appetite
- 8 Create KRIs to keep your Board and Senior Management Informed
- 9 Update your TMP rules and Training

LaneLZ

Consulting & Advisory

20B Armstrong Street Middle
Park, Victoria 3206

0421 671 571

louise@laneconsultingandadvisory.com

<https://laneconsultingadvisory.com>



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