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Study of Accountants' Performance to Combat Money Laundering

Atefe Maleki, Farshad Rahimi

Boroujerd branch, Islamic Azad University, Boroujerd, Iran

Abstract

In current years, globalization of economy, release of currents of international capitals, development of electronic banking, innovation and using new tools of electronic transfer of money at international level has facilitated money laundering to some extent and money launderers often transfer their networks to the countries that have weak financial systems or the countries that do not take any effective actions against money launderers. Money laundering has imposed many negative effects on economic, security, and political, etc. areas so that it has led to adopting solutions and strategies by international and regional organizations and most of the world countries to combat this phenomenon. The current research studies the accountants' role to combat money laundering. Since accountants are involved in financial operations and the relevant documents to it as the staff working for financial institutions and banking systems, they could play a very effective role to combat money laundering.

Keywords: Money Laundering, Financial Systems, Electronic Banking.

Introduction

Crimes have always been part of the human society. Social developments, expansion of societies and even different strategies to prevent criminals have not been completely successful and crimes have been growing and adapting with the situational conditions on an ongoing basis. Currently the crimes also develop together with the remarkable developments of different social areas. Nowadays, particularly the crimes that have enormous profits are committed in an organized fashion by Mafia groups at international level and international organized crime is one of the most important problems that have attracted the attention of the countries and international organizations in the recent decades. The final target of these groups is to earn financial profits, hence the crimes have turned to an industry and trade, and the relevant income from it has also been more than the income from most of the occupations that have high income. However earning these incomes and profits do not put an end to committing crimes and completion of crimes requires maintaining these incomes and using it in a way not to disclose its criminal nature to prevent seizure of properties by the judicial and law enforcement authorities so that commitment of the basic crime is not detected and the criminals are not identified and prosecuted. This is when the issue of legitimacy and legality of the resulting revenues from these crimes is raised and attempts toward money laundering are made. Increased security risks for the banks, financial institutions and the private sector have created new legal issues including legal risks resulting from breach of national and international rules and regulations. This issue has given rise to money laundering being known as an international crime and has made the UN and the EU and other economic and regional organizations to adopt strategies to prevent, control and combat money laundering and this issue has been the topic of many conventions and is focused on by international and regional instructions and laws and has highlighted the role of international law in this regar (Alaei, 2000). Since accountants are engaged with the financial operations and documents of the companies and they are experts in designing, maintaining and conducting the operation of internal checks, we intend to study the accountants' role to combat money laundering.

Corresponding author: Atefe Maleki, Boroujerd Branch, Islamic Azad University, Boroujerd, Iran. E- mail: atefemaleki79@yahoo.com

Statement of the problem

Money laundering is a trend through which the origin of huge money earned through illegal means such as medical drugs smuggling, terrorist activities and other serious crimes is given a legal and legitimate presentation (Pour Qahremani.2009). During these years, globalization of economy, release of currents of international capitals, development of electronic banking, innovation and use of new tools of electronic transfer of money at international level has facilitated money laundering to some extent (Myers, 1998). Some of the crimes are profitable from financial aspects and have provided the criminals with huge incomes. If such incomes are kept in the original form, the owners will be accused of committing crimes and the investigations run by the penal justice authorities will manage to detect and identify the origins of the monies and this will lead to prosecution, seizure and confiscation of the criminal revenues. That is why the criminals committing profitable crimes conduct operations to show the earned illegal profits as legal and legitimate by covering the crimes to be the source of the illegitimate properties and securing these properties from the risk of being detected and seized, and they eventually resort to money laundering operations to reach this target (Shams and Heidari, 2004). Money laundering distorts the operation of markets. The transactions conducted for money laundering purposes increase the demand for liquidity, destabilize the rate of interests and transactions and leads to unfair competition and consequently increases the inflation drastically in the countries where the criminals conduct their commercial activities, and destroy the credibility and stability of the financial markets. If the banking system loses its credibility as a result of organized crime, the entire financial system of the country or even the financial system of the region in question will face serious vulnerability. Small countries have higher vulnerability against money laundering phenomenon. The economic power gained through illegal activities makes the dominance of criminal organizations over small economies possible. The countries that do not have mechanisms to conduct proper financial control or conduct weekly will provide the money launderers with the possibility to launder the revenues from their illegitimate activities using structural weaknesses and abusing the gaps and weak points of the organizational and law enforcement bodies of the countries (Deilamipour, 2004). The main money laundering method goes through financial institutions such as banks, interest-free funds, etc. The point that should not be confused is the difference between tax evasions and money laundering. In other words, tax evasions of any sort are not considered as an evidence of money laundering. The money launderers are inclined to pay tax for their illegal money to legalize them. Recognition of this issue requires an auditor's knowledge and experience and his professional justification. The accountants are expected nowadays to assist their communities to clear them away from money laundering calamity and to use professional standards to materialize this social demand successfully (Deilamipour, 2004). Money launderers often need the assistance of professional people including the accountants and lawyers and they often use the accountants' assistance without letting them know their actual objectives. Knowledge of money laundering crime is vital for the accountants and it requires them to consult with a competent lawyer as soon as they face doubtful situations regarding money laundering activities to prevent the potential issue, hence, the accountants need to take professional care to reject or accept potential customers. Also, the government's concern and care regarding the current crisis of confidence in accounting profession requires the accountants to fulfill their anti-money laundering duties correctly, as they will be found guilty and should be held accountable for their violence of responsibility otherwise.

History of Money Laundering

The word 'Money Laundering' has recently been added to the economic concepts subject to crimes. It is said that this expression was extracted from Mafia's ownership of coinage of washing machines in the US. In 1920s gangsters earned huge amounts in cash through extortion, prostitution, gambling, smuggling, alcoholic drinks, etc. and had to introduce a source for their illegal funds. One of the ways to reach this target was to buy legal commercial units and to mix their illegal revenues with legal and legitimate revenues that they earned from the commercial center. Coinage washing machines were selected for this reason because a lot of cash was acquired through these machines on daily basis and this did not provoke any sensitivity. In Watergate issue in the US in 1973, the expression

'Money Laundering' was used in the press for the first time and it found its way to the legal and judicial texts of the US in 1982. Some writers drew a line between this word and the time when Watergate scandal took place and believed that this word was used for the first time in an American dispute from a legal point of view in 1982 (Heidari, 2003). In Iran's laws, not only article 49 of the Constitution has obliged the government to seize, confiscate and return illegitimate wealth, but also the government of the Islamic Republic of Iran approved the law to combat money laundering following when it joined Palermo convention in February 2008 and has registered crimes in this regard. In this process, financial tools of accounting and law were used as means to change the origin, nature, shape and ownership of illegal properties (Shams and Heidari, 2004). In the US, the terrorist attacks of september11 made the government take actions targeting at preventing terrorism and the relevant money laundering activities. Although before september11 the government had stressed ongoingly that the accountants should cooperate to prevent money laundering (Pour Qahremani, 2009). The development and rapid growth of this phenomenon was the result of three distinct international trends as follows: The first trend is the rapid growth of the financial markets. In the recent two decades, the international financial markets grew massively so that there is no balance and equilibrium among the financial and actual economic sectors of the world and the eye-catching variety of tools, mediators and financial institutions have restricted the supervision possibilities very hard. The second trend is the technological and scientific revolution during the recent two decades. As a result of these developments, a remarkable progress in financial transactions has taken place using computers and advanced telecommunication services that have had countless positive and negative impacts. One of the positive impacts of this technology is to pave the ground suitable for establishing commercial and economic exchanges. This newly-emerging phenomenon which is called electronic trade could only turn to a suitable basis to be abused by the money launderers when it is presented in an insecure way as it is impossible and difficult to follow up the origin of money and the actual nature of the traders. The third trend is globalization and mixing national economies and international financial markets together. Because of the developments related to globalization and release of financial markets, money transfer beyond the national borders has been easier than in the past because of the link and merger of the markets.

Different Types of Money Laundering

The four identifiable types of money laundering could be enumerated as follows:

1. Local Money Laundering: This consists of dirty money earned from the conducted criminal activities inside the country that should also be laundries there.

2. Exporting Money Laundering: This consists of dirty money earned from the conducted criminal activities inside the country that were laundered outside Iran.

3. Importing Money Laundering: This consists of dirty money earned from the conducted criminal activities in other parts of the world which is laundered inside a certain country.

4. External Money Laundering: This consists of dirty money earned from the conducted criminal activities in other countries which is laundered outside Iran.

Methods of Money Laundering

1. Money Laundering through banking systems and credit institutions

The most common ways of money laundering through banking systems and credit institutions are as follows:

-To deposit remarkable sums and to transfer deposits.

-To use electronic accounts and internet banking.

-To use banking deposits to obtain loans.

-To use financial and banking institutions outside Iran.

2. Money laundering through non-banking financial organizations

Money laundering forms through non-banking financial organizations are as follows:

-To purchase and sell in stock exchange market.

-To use underground and illegal banks: These institutions often provide the immigrants with transfer services of the illegal currencies.

3. Money laundering through non-financial institutions or economic activities including:

-To use the services of lawyers to the Department of Justice, accountants, financial consultants, official notary public offices, to issue superficial purchase and sale invoices, to conduct superficial transactions through Faramarzi superficial companies, to prepare superficial declarations for imports and exports of the goods and services and commercial transactions through foreign-based companies.

Table 1: Stages of money laundering

1. Posting stage	2. Layering stage	3. Merging stage
Cash is paid to the bank (using the cooperation of the bank employees or merger with legal incomes).	Electronic transfer to outside the country (it is often done using paper or superficial companies that had been established as legal activities).	Superficial reimbursement of the loans using forged invoices that were used as a cover over money laundered funds.
Cash is exported physically to outside Iran.	Cash is deposited in several accounts and different banking systems outside Iran.	The complicated network of transfers (either locally or internationally) so that follow up of the actual source of the money will be eventually impossible.
Cash is used to buy expensive objects, properties and working tools.	Assets or purchased goods will turn to money again.	Income from sale of expensive objects or working tools seems quite 'clean' and is merged as the money from sale of goods in the financial list.

Negative impacts of Money Laundering

The most important economic consequences of money laundering are as follows:

1. To weaken the private sector-Money launderers aim to hide the revenues from their illegal activities using forerunning companies and mixing those revenues with legal ones. Since these companies have access to considerable illegal monies to help them present their goods and services with prices lower than the actual price level of the market, this issue has made competition for legal companies very difficult and they have been forced out of market by criminal companies and organizations; therefore, they have weakened the economic activity of the legal private sector.

2. To weaken the integrity and totality of the financial markets-Financial institutes, relying on the revenues from criminal activities face more problems and challenges in order to manage the properties properly and to make their commitments and operations in a timely manner.

3. To reduce the government's control over economic policies- These illegal revenues may overshadow the government's budget in some of the developing countries; therefore, reduce the government's control over economic policy-makings. In fact, the high volume of accumulated assets dependent on revenues from money laundering will put the markets or even small economies in restrictions.

4. Disorder and instability in economy-The people who deal with money laundering are not after the profits from their illegal investments in economic activities, but their objective is to maintain the principal of these amounts and revenues.

International Grounds to Combat Money Laundering

Many different actions have been taken to combat money laundering at international level and some are referred to as follows:

Financial Action Task Force on Money Laundering (FATF): FATF is an organization which was established on 7 February 1990 to encourage cooperation among governments in order to combat money laundering. The main objective of this international organization is to combat different manifestations of illegal activities that have affected the economic sectors of the country. At present FATF have 29 member states and two member international organizations and the member states of this organization are the countries that are deemed as the important financial centers of the world. FATF has a 40-article instructional protocol that includes all aspects to combat money laundering. The main objectives of this instructional protocol is to prevent laundering dirty money from purchase and sale of narcotic drugs, weapons smuggling and revenues from committing crimes, hiding the criminal origin of gaining this money and transferring it freely to/from the banking network inside and outside the country. These operations are subject to penal prosecution as criminal actions.

The UN drug convention against trafficking narcotic and psychotropic drugs: One of the other international attempts to combat narcotics smuggling and its actual consequences, i.e., money laundering crime from sale of narcotic drugs is the above-mentioned convention which is known as 'the UN Drug Convention' and was concluded in Vienna in December 1988. This Convention became binding since 11 November 1990. It has defined money laundering in article 3 as follows: 'To turn or transfer properties, knowing that such properties are from criminal actions as per clause (a) is the illegal trafficking of narcotic and psychotropic drugs or is the result of contribution to such a crime'. In order to hide or cover the disclosure of illegal property to assist the individual who had a role in committing this crime and to be released from the legal consequences of committing such crimes. To hide or cover the actual nature, location, transfer, movement, assigned rights or ownership of properties knowing that such properties are from committing the said crime in clause (a) of this article or result from contribution to such a crime. The above-mentioned convention was approved by the Islamic Consultative Assembly of Iran on 24 November 1991.

-Palermo Convention: The international Convention on organized crime was signed by 147 countries and approved by 28 governments in Palermo, Italy in December 2000. The bill to join Palermo Convention is studied by the government in Iran. This Convention is one of the most comprehensive and latest international documents. This Convention was drawn up in 41 articles and 6 protocols and has defined 'the criminal nature of laundering the profits from crimes' in article 6 under the title of money laundering. Furthermore, the signatories to the above-mentioned Convention are committed:

-To mechanize and put their national organizations in order and register them to be regularly supervised.

-To strengthen the principles of banking secrecy in order to prevent money laundering and to run investigations about it.

-Not to support bank accounts that is hidden or holds forged and artificial names.

-To establish financial units in order to collect, analyze and distribute information regarding possible money laundering and other possible financial crimes (Pour Qahremani, 2009).

Solutions to Combat Money Launderings for Economy

-To draw up accounting system and suitable standards in financial management.

-Since the banks and financial institutions play a remarkable role in seizing and combating money laundering, training bank staff and revising banking rules is effective in developing combat against money laundering and implementing the relevant instructions in banks more effectively and quickly.

-To correct tax system as far as tax evasion is concerned.

-To establish laws and proper penal reactions regarding money launderers.

-Not to sell foreign currency, negotiable documents, travelers' cheese, etc. to the customers that are not known to the banks.

-To inspect, control and supervise the state financial system and currency exchangers regularly.

-To open accounts and locate the complete identity of the senders of bank transfers in the banking system to different destinations.

-To prevent the activities of the credit institutions and interest-free funds that conducts financial activities without the CBI's authorization and consequently disturbs the state monetary and financial policies.

-To establish internal reporting methods for suspicious trade and methods to verify the customers' identities.

-To report transactions that is worth higher than a certain ceiling.

-Not to open an account or present banking services to unauthorized institutions and organizations.

-To keep identification, transaction and operation records precisely and not to open an account and present any banking services to unauthorized credit organizations and institutions.

Accountants' Role to Combat Money Laundering

The accountants should discuss their anti-money laundering responsibilities with the directors of the financial organizations. Many suspicious activities regarding depositing institutes, commercial activities of monetary services and insurance industry, future negotiating documents and transactions, precious metals and jewelries could be given as an example. For instance, immense cash depositing to one customer from one of the countries supporting terrorism without any distinct commercial reason is considered as the specific example of a suspicious case. The accountants should know that a merger, purchase and even re-structuring could change the company's legal situation and change its anti-money laundering responsibilities. They should also know the scope of the anti-money laundering structure of their organization. Money launderers often need the assistance of professional people like accountants and lawyers. Money launderers often use the assistance of accountants without the accountants' awareness of their actual objectives. If the government cannot prove that the accountants were aware of their employers' criminal activities, they might use the reasoning used by the prosecutors based on 'intentional imprudence'. This reasoning method is used to associate criminal intention and awareness to the claim that the individual is pretending knowingly and intentionally and has not asked questions about such events. Thus, knowing about money laundering crime is vital for the accountants and it requires them to consult with a competent lawyer whenever they face suspicious situations with regard to money laundering activities and try to prevent the materialization of the potential issue.

Accountants' Future Role

Accountants are aware of the companies' operations and financial documents. On the other hand, they are skillful to design, maintain and conduct internal controlling operations. This issue leaves accounting in addition to other factors of accounting on the top of the list of professions that could determine and report money laundering activates successfully. It is generally expected that there are considerable increase in anti-money laundering responsibilities of the accountants and this has taken different forms. The least is for the government to possibly ask the accountants to create anti-money laundering infra-structures in the accounting institutions and then ask them to train their staff regarding the issues related to money laundering and to employ the necessary technologies and actions to confront money laundering. Eventually the companies might be asked to appoint senior staff to supervise the anti-money laundering activities and report suspicious cases of money laundering (Deilamipour, 2004).

Conclusion

Money laundering has been under focus of the western countries as a crime in 1980s, particularly when it came to the revenues from narcotic and psychotropic drugs trafficking. This issue created the incentive for the governments to combat sellers of narcotic drugs and money launderers through passing rules based on knowing the countries that make huge profits out of criminal activities. The governments were also concerned about the increased consumption of narcotic drugs in the western societies. The most important system where this dirty money enter into are the banking systems, the credit institutions and the interest-free funds where the directors are not inclined to find out the main origin of this money due to their internal regulations as well as policies to attract more customers. Money laundering causes instability in the financial market as money laundering operation receives monetary resources which are not controllable. These uncontrollable movements by the money launderers reduce the efficiency of the financial market and create problems as far as the liquidity and executive affairs are concerned and destroy the confidence of the owners of the financial resources in these markets by creating instability in the financial market and subsequently weaken financial investment and attraction of financial resources to the financial market. Money launderers create exclusive financial markets by intensifying their illegal activities in the financial market and change the direction of the market in their own favor. Thus, government's control over economic policies is reduced and since the money launderers perform out of the government's control, they will also create problems for the governments to earn tax revenues. Since accountants are aware of the financial operations and documents of the companies and in addition are aware that a merger of purchase orders and even a re-structuring could change the legal status of the company and its anti-money laundering responsibilities, knowledge of the money-laundering crime is vital for the accountants and requires them to prevent happening of a potential issue in the first place. They have to discuss with the directors of the financial institutions about their anti-money laundering responsibilities, to consult with a competent lawyer when facing suspicious situations with regard to money laundering activities and to know the anti-money laundering scope and structure of their organizations. Hence professional care in this regard is essential for the accountants.

Suggestions from the Study

-Considering the fact that accounting is enumerated in the list of professions that could determine and report money laundering activities successfully, the staff should be trained regarding money laundering and actions taken to confront money laundering.

-To combat financial corruption that requires the contribution of the government and different financial, political and legal institutions due to its widespread and complicated aspects.

-To modify the state tax structure and to prevent tax evasion of money launderers that could be an effective action to prevent money laundering.

-To pay more attention to electronic transfer of money and electronic payment systems.

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