

Auditing of Financial Statements and Money Laundering in Ambush of Auditors

Mojtaba Mahmoodi and Mojtaba Ebrahimi
Young Research and Elites Club, Islamic Azad University, Birjand Branch, Birjand, Iran

Abstract: Organizations do a range of financial crimes due to easy access to most parts of the world. Today, money laundering, financial crimes is one of these organizations is considered. Money laundering is an illegal activity in which income and gains arising from acts contrary to the global economy and finds legitimacy. The major responsibilities of the auditor's uncovered money laundering operations in the country are responsible. The one of the things the auditors during the audit process may be facing and will result in money laundering operations, procurement of goods, services and stock prices higher than the market price and sell it at prices after the price. Results from 44 independent auditor comments, using random sampling and one-sided t-student test shows tracking purchases of goods, services and stock prices higher than the market price and sell it at prices lower than the market price of the company will lead the auditor to detect money laundering.

Key words: Money laundering, financial crimes, fraud, audit of financial statements, auditor

INTRODUCTION

Today, due to increasing attention to globalization of the economy and booming financial markets. The European union and European Monetary Unification trade through the easy transportation of goods, services and capital between countries with organized crime has been greatly expanded. The crimes are composed, such as fraud at the international drugs, kidnapping, bribery and other acts in the covers.

The term money laundering is used to explain and define process in which black money, illegal or dirty money from criminal activities such as drug trafficking, arms smuggling, human trafficking, bribery and extortion, fraud and corruption there will be any engaging in professional activities and transactions in one or more phases are washed and become clean and legal money.

Functional responsibilities of auditors in the field of corruption in general and specifically in the context of professional responsibilities contains errors, irregularities, commitment, negligence and fraud on behalf of a range of statutory responsibilities within the framework of commercial law, capital market law, the public audit act and other rules of statutory social welfare, as well as social responsibility and transparency of transactions is located.

Studies show that developing countries are more vulnerable to money laundering activities because in these countries due to lack of proper supervision, use of illegal methods easier.

Research's theoretical bases: Financial crimes are a form of economic crime that involves the use of tools and financial institutions to obtain financial benefits to the cost of entering other markets. Such activities are illegal because they are confident that the foundations of a free market economy are being questioned. And each of these activities must be laws, whether approved or not executable have to be observed. The criminals often led to little economic transactions, not their priority is to maximize profits. The laws of the free market with the introduction of an unpredictable market and consequently has increased the investment risk. Money laundering is one of the types of economic crimes that is strictly related to the operations of organized groups (Drezewski *et al.*, 2012).

Today, money laundering is one of the world's major financial crimes is that is the conversion or transfer of a property with the intention of hiding illicit origin of the property to help anyone who is dealing with such crimes. In its most general definition of money laundering is defined as: Any act or attempted act to conceal or change the appearance of the illicit proceeds derived from criminal activity, so that it can be assumed that these revenues are derived from legitimate sources.

Jeffrey Robinson, the offense of money laundering is a blush: This place is like a stone thrown into a pond when a stone into the water the moment it is submitted: Because water was rocking at that point when the rock sinks while water waves appear and you can find a spot

that has been a rock in the water but most of the size of the stone sinks, pleat the water will disappear until the stone reaches the dock floor and other signs of it remains and perhaps find a rock. This is exactly the situation that has been done with money laundering (Robinson, 2002).

Wash all like juggling and sleight of money for acquiring wealth is wonderful; may be this is the way that the person closest approach to dealing with alchemy. The term refers to blood, drug dealers, fraudsters, drug traffickers, kidnappers, arms dealers, terrorists, tax collectors and tax fugitives has been developed from al capone first. Like his famous rival George Moran washing centers across Chicago had created a chain with coin worked. To do this in order to hide income from the gambling, prostitution and drug dealing and breach of supply liquor obtained was doing. An interesting rumor but true. Added the name of Meyer Lansky's story is more interesting. He offenders such as Capone, Luciano and Frank Costello later using force in this way have varied over the world (Robinson, 2002). Money laundering took place around the world, there are different types:

Internal money laundering: This includes dirty money obtained from criminal activities carried out within the country in which the country is washed.

External laundering: It involves dirty money obtained from criminal activities carried out other countries that are washed out of the country.

Money laundering issued subject: It contains dirty money obtained from criminal activities carried out inside a country that is washed out of the country.

External laundering: This involves dirty money obtained from criminal activities carried out in other countries within a country is washed (Bahramzadeh and Shariati, 2004). In order for someone to be convicted of the cleanup money, material and spiritual elements must be present.

Components of the material element of the offense are:

- There are certain illegal activities: Theoretical activities, kidnapping, hostage-taking and fraud
- Conduct a financial transaction: Activities such as shopping, sale, mortgage, gift, withdrawal, transfer between accounts, borrowing, bonds, certificates of deposit or other financial instrument or any other payment, transfer or delivery of a financial institution by any means possible. There revenue includes cash and assets

Components of the material element of the offense are

science: Science is a prerequisite for all crimes in accordance with the law, control of funds have been cleared. The only knowledge required is the knowledge that money is the result of a criminal act.

Intent: In fulfillment of the condition of the money going to clean up the crime element is required. Intention, closely associated with the provision of secondary science.

The most common methods of money laundering is money laundering large amounts of cash into a small amount of cash and are deposited directly into a bank or certain monetary instruments such as, czech, notes, etc. Are buying and depositing them elsewhere. The banks launder money deposited in foreign banks that have supported. L demand their loans and provide them with the possibility of acquiring money is clean. Money laundering are beginning through commercial operations, export and import of certain business activities in the country that have received dirty money and parallel to it, similar research in the country where they have invested their money will follow and the buying and selling of goods and services transactions are fictitious. That's dirty money laundered goods from companies that want to deliver it, purchase it for non-real bills to be passed.

And a higher price than the price on the invoice to arrive, so researchers raised the price difference between the actual price and the money will be cleaned (Robinson, 2002). Money laundering by investing and creating front companies and shell companies or temporary investments in the manufacturing sector-commercial, legal and establish charitable organizations and trade, money laundering are dirty (Robinson, 2002). To better understand the potential misuse of financial systems and the practice of money laundering.

Money laundering, money laundering operations are divided into 3 main stages

Location: At this stage, the physical form of cash (notes and coins) into the financial system. The location of the illegal funds deposited in financial institutions happens.

Classification or status change: Incremental step that eliminates the traces of dirty money. At this stage, the main sources of their illicit earnings with financial operations are separated. In this case, a series of exchange activities in order to switch between funds and illegal sources comes into force.

Integration: This stage is the last stage of money laundering, illegal funds with a range of business and legal the way into the main body of economic integration

is the institutional and legal aspects of the business plan, investment is. At this time, it is very difficult to detect trace illicit funds (Robinson, 2002). Today, it has been proven that the negative effects of money laundering, economic, political, legal and moral. Money laundering charges move to including bribery money and misrepresenting the law to hide, its processes to ensure that the perspective of criminal law enforcement, the various, theft and terrorism are. In the first decade of the third millennium, the fight against money laundering and international aspects of the various countries of the world has become a very important issue and money laundering. This is, especially indebted to 3 decades of activity in the late 20th century. In this regard, many organizations, international, national, regional and help prevent money laundering, anti-money laundering organizations formed.

History of international efforts to combat money laundering phenomenon and develop a global strategy to deal with this problem goes back to the mid-1980s. At the end of this decade, the global commitment to develop treaties, treaties and international conventions in this field was formed. Following the establishment of the anti-money laundering FATF in 1989, regional groups such as the European Union, council of Europe and the organization of American States, rules and measures to combat money laundering in member states have developed (Bahramzadeh and Shariati, 2004). In Iran, laundering legislation in the fight against money laundering offense in the ninth article was submitted to Parliament. After passage in open session on Tuesday 2 October, 2007 and approved by the council of guardians respected, On 24 October, 2007 was notified by the president of parliament. And the president to enforce the law equally on 7 Persian date November, 2007 communicated to the ministry of economy and finance said (Maham, 2009). Auditing standards, the auditor is required to audit with an attitude of professional skepticism and implement planning, the auditor should not pre-judge. In fact, optimism and pessimism has no place in the audit. Therefore, the auditor general and generally assumed not to trade authenticity is not the lack of authenticity that (Maham, 2009). Review of statutory auditing standards in show that the employer's actions illegal practice of auditors from the audit, as a trustee in the accounting and auditing standards and the standard is not binding. Clearly, standardization in this area of programming must standardized auditing organization in the current stage. International auditing standard No. 9 of auditing standard No. 54 United States of America is overseeing the illegal acts of employers. Today, some Iranian auditors to meet their professional needs and action and unlawful acts in the standard vacuum

proprietors assuming the dual responsibility of their statutory audit and inspection that are interested in the suspected money laundering regulations and other legal requirements to report. But in many cases, the auditor cannot assume legal responsibility for the inspector. There is, also the standard auditor suspected money laundering activities impact on the financial statements determined on the basis of their professional judgment or rejection will issue a qualified report. Today, the auditor's responsibility in tackling money laundering is greater than ever the United States of America terrorist attacks led to some government measures aimed at preventing terrorism and associated money laundering activities is. PATRIOT Act United States is the latest example of the government's decision in the fight against money laundering.

The law authorizes the treasury department to America that the former rules, a new set of anti-money laundering laws for various professions including accountants may impose. America the positive anti-money laundering responsibilities over certain financial institutions, including banks, companies seized by banks, brokers, casinos and money services business activity has imposed. Under the law secretary bank financial institutions are required, >10,000 dollars in customer funds trading report. The government has required financial institutions about customers suspected of involvement in money laundering activities, the suspicious activity reports to the government report.

Common examples of money laundering in the economy are given after

Fictitious real estate deals: It can deposit money in an offshore account, transfer a life insurance coverage amount, czech, beneficiary of a close relative, a close relative of obtaining a loan to cover life insurance, visit the offices official documents confirming the purchase, payment of bribes to the seller pay the commission to the kin and the resale of property.

A banker's draft: This technology would be to mock the parent company and subsidiaries. Thus, the seller needs to wash x million Euros in France. He is the third person in a money laundering network members will contact a sales contract with a Japanese company will pay the cost of operations through a Japanese bank.

Loans with collateral: Is the money laundering by transferring funds to an overseas bank and pay money to an account in another country that can be easily carried out money laundering. These funds in a bank account to be blocked when the loan application is in another country and use it as collateral.

Blocking funds: When a loan or loan guarantee can be used for money laundering or money back will not have to pay the bank in this case is entitled to the collateral reverse money laundering: The money laundering of dirty money are closely related because depositors funds are used for criminal activities.

Money laundering conducted in a financial market: Money laundering by banks reflects the order in which the organization is not responsible identifiable. Empties the content of financial markets and exchanges will play.

Bought the company in exchange for a loan: Is buying a company with borrowed funds, then repay the loan from cash flow from acquisition or dividend payments to the holding company (Compin, 2008). Money laundering is usually no direct impact on the financial statements and the indirect effect through increased contingent liabilities arising from litigation and claims are related to money laundering. Standard 54 auditing America on employers of illegal activities, does not require the auditors to their audit procedures aimed at detecting illegal employers that have a direct impact on the financial statements and to design. It is enough that the possibility of illegal activities carried out by the auditors tire indirectly aware of it. If the auditor believes should be attributed to the occurrence of money laundering, money laundering activities with a significant impact on the financial statements have been properly explained or not disclosed in the financial statements in accordance with accounting standard 54, should be rejected or subject to issue opinions on financial statements. It also prevents, the client from studying the evidence sufficient to support, the auditor in evaluating the significance of illegal activities led to the financial statements that are usually the auditor's statement reported not to.

If the employer refuses to accept the revised audit report from the auditor resigned and illegal activities will lead to more writing and stating the reasons for the resignation of the audit committee or board report.

Circumstances where the auditor during the audit process may be facing and are believed to be laundering include:

- The purchase of goods and services to market and sell goods and services cost more than the price for just the price after the market price for just
- Buy stocks with higher price and a little distance away, sell it to a lower price
- Functional responsibilities of auditors in the area of money laundering, fraud and corruption in general and in particular in the context of professional responsibilities including

Errors, irregularities, commitment, negligence and fraud on the one hand and legal responsibilities within the framework of the commercial code, Articles 144-156 and 117-129 of the capital markets law, Article 132 of the public audit act and other laws, as well as the area of social responsibility as well there are clear social exchanges.

Research objectives: Launderers often need the help of professionals, such as accountants and lawyers. Launderers often without knowing their true purpose of helping accountants, accountant's benefit.

Mr. Galin, technical director of the America society of CPAs says: If auditing, fraud detection as the core of their services do not just risk the loss of credibility will face but their survival will be compromised.

In fact, since one of the main features of the auditing profession, like many professions, service to the community and its survival depends on his ability to meet the demands of the community expect.

Therefore, changes in expectations or their importance, the auditing profession as well as coordinate with them.

Today auditors are expected to clean up their communities from the scourge of money laundering and accountants to help meet the social demands of the professional standards of success are.

Audit firm are bound by using appropriate methods, its partners and employees of the relevant provisions of the criminal code, as well as requirements related to combating money laundering laws to make.

And training necessary to recognize and how to deal with money laundering related activities that can be provided.

In this context, the formulation of instructional guidelines can be beneficial. Training should be tailored to each individual's level of risk of money laundering and the role of the individual and the institution he is a professional level. However, the audit firm managers regardless of their role in the organization are responsible for the recognition of professional requirements and have money laundering regulations (Maham, 2009).

According to these investigations earlier main goal of research awareness auditors perform their obligations and responsibilities. Because this study is to examine some of the things that may be laundered them for their own criminal acts. In this study, the auditors are aware of that you can launder their criminal acts in the shadows of legal trading stocks, commodities and services to hide. Therefore, this research seeks to increase knowledge and awareness accountant's auditors in connection with money laundering and dealing with it.

Cases in this study are among the activities that may be suspected of money laundering, the auditors have to deal with these cases carefully and pay special interest to investigate the transactions and financial statements.

Research questions: This study sought to answer the following questions:

- Do check to buy goods and services at prices higher than the price for just market and sell goods and services at prices lower than the price for just the market, the company leads the auditor to detect money laundering? Does the review buy shares at a higher price than the market price for just
- The price for just and immediately a few years away, sell it to a lower price than the market, the company leads the auditor to detect money laundering?

Research hypotheses

Based on the research questions, the following hypotheses are proposed:

- Purchase goods and services at prices higher than the price for just market and sell goods and services at prices lower than the price for just the market, the company leads the auditor to detect money laundering
- Check the stock with a price higher than the price for just a few minutes away from the market and immediately selling it for just a lower price than the market price, the company will lead the auditor to detect money laundering

MATERIALS AND METHODS

As this research method is descriptive-survey as the target application. In this research, collect data and theoretical literature, library resources, articles, books and related rules have been applied. Also, data collection and data analysis and hypothesis testing was conducted through a questionnaire. The questionnaire consisted of 2 parts: The first part, general questions relating to respondents in the second test of hypotheses have been proposed. In this study, the views of 44 independent auditors employed by audit firms are used to test the hypotheses. Through continuous refinement of the questionnaire survey of accounting professors' standard and implemented using the Delphi method has been verified.

To validate the reliability of the questionnaire, Cronbach's alpha coefficient was used to calculate the coefficient of component compatibility is 96%. The statistical population and sampling method are:

The statistical population included all the independent auditors employed by audit firms across the country. In this survey to collect feedback from the auditor's random sampling method was used. The 60 questionnaires were distributed randomly among the independent auditors, so the 44 questions selected for statistical analysis.

Test hypotheses and analyze data: To analyze the data, descriptive statistics and inferential statistics and spss software used. In this research, methods for testing hypotheses using t-student are one-sided. Indeed, this is part of the parametric methods. One of the features of parametric methods is that the data collected to test, should be normal. The data in this study was to assess the normality of Shapiro-Willkie used.

Testing hypotheses and analyzing results

Hypothesis 1: Review the purchase of goods and services to market and sell goods and services at a price higher than the price for just a lower price for just the price of the market, the company leads the auditor to detect money laundering. Table 1 frequency, mean and standard deviation earlier hypothesis shows. As can be seen, the mean and standard deviation, respectively are 4.09 and 1.05.

Student t-test was used to test the earlier hypothesis. Table 2 skewness and elongation, respectively 1.06 and 0.53 is earlier hypothesis. After normalizing the data, the 1st hypothesis can be hoped.

Using the Shapiro-Wilkie data normality was tested. The results of these tests are shown in Table 3: Sig. = 0.000 is given and then researchers can conclude that the data are normalized to the 1st hypothesis. So, researchers can use the student t-test, the 1st hypothesis to be tested. Therefore, assumed to H_0 and H_1 be expressed as follows:

H_0 : Investigating the purchase of goods and services to market and sell goods and services at a price higher than the price for just the price lower than the price for just the market, the company does not guide the auditor to detect money laundering.

H_1 : Investigating the purchase of goods and services to market and sell goods and services at a price higher than the price for just the price lower than the price for just the market, the company leads the auditor to detect money laundering. Student t-test results in Table 4 are as follows; as can be seen, $p = 0.000$ is assumed that due to the significant level of 5% will be accepted with 95% confidence researchers can say that: Check price higher

Table 1: Data related to the 1st hypothesis

Index	Values
Very little	1.00
Little	3.00
Middle	7.00
High	13.00
Very high	20.00
Average	4.09
SD	1.05

Table 2: Skewness and elongation 1st hypothesis

Statistic method	Values
Skewness	-1.06
Kurtosis	0.53

Table 3: Shapiro-Wilkie data

Hypothesis 1	Values
Statistic	0.806
df	44.000
Sig.	0.000

Table 4: The student t-test the 1st hypothesis

t	df	Sig. (2-tailed)	Mean difference
25.782	43	0.000	4.09

Table 5: Data related to the 2nd hypothesis

Index	Values
Very little	2.00
little	2.00
Middle	9.00
High	12.00
Very high	19.00
Average	4.00
SD	1.12

than the price for just the market to buy goods and services and sales of goods and services at prices lower than the price for just the market, the company leads the auditor to detect money laundering.

Hypothesis 2: Check the stock with a price higher than the price for just a few minutes away from the market and immediately selling it for just a lower price than the market price, the company will lead the auditor to detect money laundering. Table 5, frequency, means and standard deviation of the earlier hypothesis suggests. As can be seen, the mean and standard deviation, respectively and 4 is 1.12.

As can be seen in Table 6, skewness and elongation, respectively 1.03 and 0.543 is earlier hypothesis. Therefore, the 2nd hypothesis was hoping normal data. Shapiro test results-Wilkie in the 2nd hypothesis of normal distribution of data is presented in Table 7.

As can be seen, Sig. = 0.000 is given, then researchers can conclude that the hypothesis that the tail of the data is normal. Therefore, using the student t-test to test the hypothesis that the tail. Therefore, assumed to be H_0 and H_1 , expressed as follows:

H_0 : Investigating buying shares at prices higher than, the market price for just a short time interval immediately sell

Table 6: Skewness and elongation 2nd hypothesis

Statistic methods	Values
Skewness	-1.06
Kurtosis	0.53

Table 7: Normality test the 2nd hypothesis

Hypothesis 2	Values
Statistic	0.806
df	44.000
Sig.	0.000

Table 8: The student t-test of the 2nd hypothesis

t	df	Sig. (2-tailed)	Mean difference
23.677	43	0.000	4

it for just a lower price than the market price; the company does not guide the auditor to detect money laundering.

H_1 : Investigating buying shares at prices higher than the market price for just a short time interval immediately sell it for just a lower price than the market price; the company will lead the auditor to detect money laundering.

Student t-test results in Table 8 are as follows: As can be seen, $p = 0.000$ which is acceptable given the significant level of 5% is assumed with 95% confidence researchers can say that: Check to buy shares at prices higher than the market price for just a little time away immediately. Sell it to a lower price for just the price of the market, the company leads the auditor to detect money laundering.

RESULTS AND DISCUSSION

Dealing with fraud is not new auditors and auditing standards have also clearly indicated. America's number 1 audited standards, the auditor must be reasonable assurance that the financial statements are free of material misstatement due to error or fraud will achieve.

The results of the 1st hypothesis is confirmed, it means that auditors should review cases involving the purchase of goods and services to pay a higher price and sell it at lower price. And it is likely that this research is done by the managers of the companies for money laundering and money laundering investigation, they can create companies seeking to take them.

Also, according to the results of the 2nd hypothesis is confirmed, it means that auditors should review cases involving the purchase of shares at a higher price and sell it to pay a lower price. And it is likely that this is done intentionally to money laundering and money laundering investigation into the company realized it could.

CONCLUSION

Now, according to the auditor's responsibility for the detection of money laundering with regard to anti-money

laundering law in terms of audited financial statements, the auditor shall disclose the existence of the audit report suspicious transactions, as well as transactions and operations suspicious to authorities the supreme council for combating money laundering is determined to report.

RECOMMENDATIONS

Suggested the following possible cases of illegal and criminal acts to hide themselves in the shadows are examined:

- Check the non-real bills and withdraw funds from the company and ran with the sellers of the authorities is effective in detecting money laundering
- Evaluation of the tenders without due process of law and unlike conventional methods or tenders with set-nets will lead the auditor to detect money laundering
- Check the adjusted contract amount adjusted so that the amount of the original contract amount, the auditor will lead to the discovery of money laundering operations

- Evaluation of the transactions is difficult to identify the transaction will lead the auditor to detect money laundering. Evaluation of high volume trading, in the exotic, the auditor will lead to the discovery of money laundering operations

REFERENCES

- Bahramzadeh, H. and H. Shariati, 2004. Anti-money laundering procedures. *Compass Magazine*, Issue 149, October, 2004.
- Compin, F., 2008. The role of accounting in money laundering and money dirtying. *Crit. Perspect. Account.*, 19: 591-602.
- Drezewski, R., J. Sepielak and W. Filipkowski, 2012. System supporting money laundering detection. *Digital Invest.*, 9: 8-21.
- Maham, K., 2009. Anti-money laundering act from the audited financial statements. *Address Auditor*, No. 215, February 2009.
- Robinson, G., 2002. *Wash Dirty Money*. Kelk Publishing, Azadegan, Iran.