

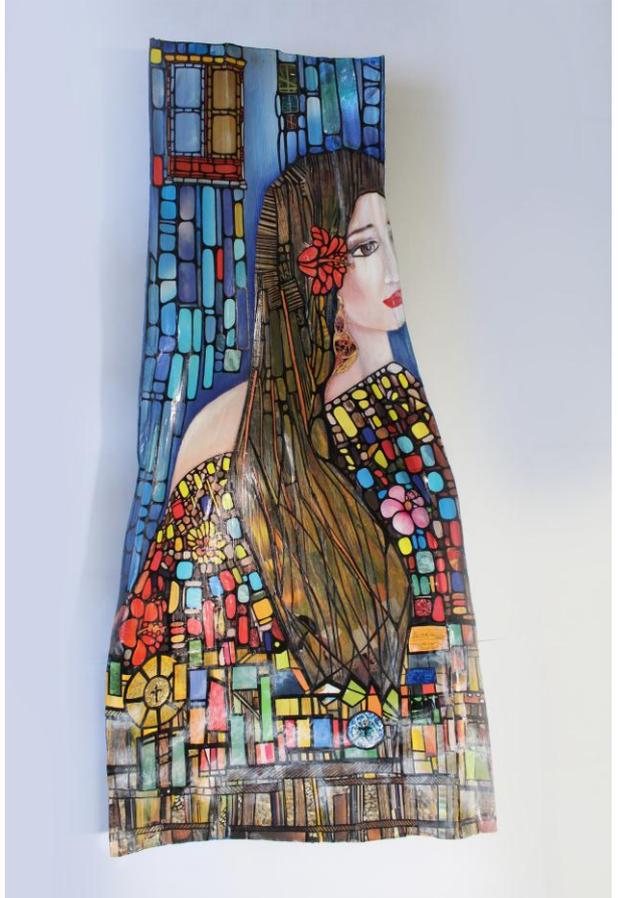
# opción

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## **Analysis of affecting factors in detection the external auditor for money laundering**

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### **Abstract**

The study aimed to know affecting factors in detection and reporting of the external auditor for money laundering operations. For the purpose of testing hypotheses, researcher used both inductive and practical methods in order to collect the data and review the previous scientific research related to the subject. Study showed that Iraq's external financial auditor has knowledge of the importance of auditing the direction of money laundering, and lack of detection of money laundering operations. In conclusion, lack of detection of money-laundering operations that threaten businesses in the eyes of the Iraqi external auditor is indicative of business administration factors.

**Key words:** External Audit, Money laundering, companies.

## **Análisis de factores afectivos en la detección del auditor externo para lavado de dinero**

### **Resumen**

El objetivo del estudio fue conocer los factores que afectan la detección y el informe del auditor externo para las operaciones de lavado de dinero. Con el fin de probar hipótesis, el investigador utilizó

métodos tanto inductivos como prácticos para recopilar los datos y revisar la investigación científica previa relacionada con el tema. Un estudio mostró que el auditor financiero externo de Iraq tiene conocimiento de la importancia de auditar la dirección del lavado de dinero y la falta de detección de las operaciones de lavado de dinero. En conclusión, la falta de detección de operaciones de lavado de dinero que amenazan a las empresas a los ojos del auditor externo iraquí es indicativa de los factores de la administración de empresas.

**Palabras clave:** Auditoría Externa, Lavado de Dinero, empresas.

## 1. INTRODUCTION

The anti-money laundering operations are gaining the attention of the monetary and banking authorities and the supervisory bodies at the local and international levels, which is due to the seriousness of the risks resulting from money laundering operations which have negative repercussions on the security of the national and international economy and safety. The interest in money laundering has increased following its association with the financing of terrorism, which has stimulated global regulatory and supervisory bodies to enact legislation to fortify its economy, its banking and financial markets, and professionals against suspicious transactions. As a result of that, financial auditor faces new responsibilities and a challenge related to detecting money laundering. Because of controversy about the rule of the auditor in detecting laundering operations and its responsibility about that, so this study tries to show many factors may impact on auditor detection for money laundering operations, study and report it. That factors

classified into three groups (factors related to the auditor, factors related to management of Audit Company and factors related to professional issues).

### **1.1. Study Problem**

Study problem is about lack of clarity of finance auditor's role and his responsibility of money laundering operations, which leading to weak investigation to discovered money laundering operations in business facilities records, that leads to a defect in audit procedures and results, and possibility of exposure the company to money laundering operations risks involving legal accountability, denigration and activity stopped (non-continuity), so this study seeks to answer the following questions:

- Does the external finance auditor in Iraq have knowledge of the importance of the audit operations towards the money laundering phenomenon?
- Is the lack of detection of external finance auditor in Iraq for money laundering operations having reasons related to the auditor?

- Is the lack of detection of external finance auditor in Iraq for money laundering operations linked to factors related to business facilities?
- Is the lack of detection of external finance auditor in Iraq for money laundering operations linked to factors related to professional guidance and issues?

## **1.2. Study Hypotheses**

This study seeks to test the following hypotheses:

H<sup>1</sup>: External finance auditor in Iraq has no knowledge on the importance of finance audit operations to the money laundering phenomenon.

H<sup>2</sup>: Lack of detection of money laundering operations that threatening business facilities according to Iraqi external finance auditor's point of view due to factors related to finance auditor.

H<sup>3</sup>: Lack of detection of money laundering operations that threatening business facilities according to Iraqi external finance auditor's point of view due to factors related to business facilities management.

H<sup>4</sup>: Lack of detection of money laundering operations that threatening business facilities according to Iraqi external finance auditor's point of view due to factors related to professional guidelines and issues.

### **1.3. Study importance**

This study acquires its importance at scientific and practical level by covering the following aspects:

- Study the role of external finance auditor in anti-money laundering operation, where it weakness dealt with in research and accounting studies (especially Iraq), and the limited research that dealt with laundering on the economic, social and political aspects.
- Represent auditor role in money laundering operations according to professional requirements and guidance and the laws and regulations that organized the audit profession.
- Represent affecting factors in detection of finance auditor for money laundering operations related to auditor.
- Represent affecting factors in detection of finance auditor for money laundering operations related to professional issues.

- Represent the position of professional organizations and associations in the field of finance audit toward money laundering operations.

#### **1.4. Study objectives**

This study aims to achieve the following:

- Review the relationship between money laundering operations on the one hand and financial statements and internal control systems on the other.
- Represent affecting factors in detection of external finance auditor for money laundering operations, which related to auditor.
- Represent affecting factors in detection of external finance auditor for money laundering operations, which related to business facilities administration.
- Represent affecting factors in detection of external finance auditor for money laundering operations, which related to professional issues.
- Develop proposals and recommendations to contribute in developing finance auditing profession against money laundering phenomenon.

### **1.5. Study methodology**

For the purpose of testing hypotheses, researcher used the both inductive and practical methods in order to collect the data and review the previous scientific research that related to the subject. Inductive method: that depends on studying and analysis previous studies, in addition to Study accounting literature, and legal and professional issues, in order to know the role of finance auditor and his responsibility toward money laundering operations and trying to determine affecting factors in detection of money laundering operations that related to auditor, facility administration and legal and professional issues. Practical method: the researcher designed a questionnaire based on the theoretical framework, and he arbitrated by a group of colleagues of faculty members and professionals and takes their observations to conduct the study and distributed it to the study population.

## **2. THEORETICAL FRAMEWORK AND PREVIOUS STUDIES**

### **2.1. Theoretical framework**

Money laundering is a new phenomenon faces the finance auditor requires study and analysis. So, in this part of study we try to study and analysis that phenomenon, and represent its relationship with financial statements, in order to make analytical framework for the role of finance auditor in the detection and reporting of money laundering operations, and the affecting factors on detection it, where finance

auditor must understand the legal and practical definition of money laundering operations and the circumstances in which they occur, especially that the governments expand the scope of cases to be reported by auditors. This part of the study includes the concept of money laundering operations, its methods and phases, the relationship between money laundering operations and fraud, and legal and illegal actions leading thereto. Study also shows the importance of finance audit and the role of auditor toward these operations.

## **2.2. Money laundering concept**

There are many concepts related to money laundering operations in the international legal codes in the last two decades of the last century, where the United Nations Convention against Corruption in 2003 defined it as The transfer of property knowing that it is the proceeds of a criminal act for the purpose of concealing or disguising the illicit origin of such property or assisting any person involved in the commission of the original offense to evade the consequences of his conduct and conceal or disguise the true nature, Movement or ownership, knowing that such property is the proceeds of a criminal act, the discovery, possession or use of the property knowing that it is the proceeds of a criminal act at the time it was received.

Study of Schroeder (2009) indicated that the development of the legal and financial aspects of the money laundering concept has not been characterized by a degree of evaporation with the money-

laundering development practices and ways of disposing of its illegitimate mechanisms, which are accelerating parallel with increasing scientific and technological progress, which has made it impossible to formulate a uniform and unified definition of this concept. The researcher defined money laundering as: The creation of a variety of methods and methods by which funds collected illegally are combined with the funds generated by the physical activity (commercial and industrial) to conceal their original sources and to be re-expended and invested for legitimate purposes. This process is carried out in the presence of a financial and commercial intermediary. The following can also be summarized in the following sentence: Money laundering is the legitimization of funds derived from an illegal source.

### **2.3. Money laundering methods and phases**

Money laundering is one of the importance issues during the past years globally in general and third world countries in particular, where the legislation of states has not abandoned this issue as a result of the availability of the targeted environment by the financial launderer to legitimize funds received from non-traditional and illegal activities to hide their source through a series of multiple and constantly evolving banking processes as the best ways to conceal the legitimate source of money before even though there are other means, such as purchasing real estate, precious assets, and so forth (FBA, 2002: 87). The phases of the laundry process vary according to the

method used by the money launderer. It may be limited to two phases if the money launcher follows the method of smuggling money through the border between countries or free trade zones. It may consist of three phases (Which is the most common in the countries of the world), where it was done by banking institutions which considered as the primary objective by money launderers which makes it difficult to trace the source of illegal funds and the ease of transferring money from one place to another in case they are mixed with legitimate funds under the bank secrecy (FATF, 2012).

If we follow the three main phases of laundering operations, it will be: First phase, Deposit or replacement: this phase is considered as the most important and difficult for money launderers, since it requires available money in cash to enter it into existing bank accounts (natural people) as a small or medium amount. So, if the Bank accepts these amounts and deposits them in the relevant accounts, this is considered as a declaration of commencement. Second phase, Camouflage or dispersion: This phase is based on the basic objective of concealing the legitimate source of funds so that the process of linking funds and their sources is very difficult through the practice of a set of banking transactions for remittances between different banks inside or outside the country whether for the same account or sent to other parties in such a way that makes knowledge. Its source is very difficult. Third phase, consolidation: The final phase of the money laundering process, in which the legitimate cover of money laundering is available as a result of merging it with the money derived from legitimate

transactions and in such a way that the process of differentiation between them becomes very difficult (Sheikh, 2003).

#### **2.4. Negative effects on the individual and society**

The success of money laundering operations and the completion of various stages with the inability of the authorities concerned to intercept or stop, arrest the perpetrators and confiscation of seizures means enabling criminals harvest the fruits of their crimes. Which mean continuing the crime in various forms and increasing steadily in deviation from the law and values and ideals, resulting in repercussions and comprehensive damage to the national and global economies, and a range of negative effects that affect the individual and society most important is:

- Leading to the spread of corruption and crimes of various kinds.
- Drain state resources in tackling crime and tracking criminals.
- Stimulate the establishment of fictitious businesses that do not engage in a real activity, but exploits their moral entity in opening bank accounts and managing them to carry out many transactions (commercial and banking) fake.

- To discredit the banking sector and the countries through which money laundering operations are conducted.
- Leads to the turmoil of financial markets and exchange rates and the prices of stocks and bonds, because the transactions that take place (the sale and purchase) have nothing to do with the principle of supply and demand or economic feasibility or the real value of shares and bonds, but are merely futile operations are useless but camouflage the criminal origin.
- Money laundering threatens international and domestic transparency in financial markets, threatens the reputation in financial markets, and teaches employees corruption, creating a climate favorable to the existence of markets that are notorious and have little credibility.

## **2.5. Money laundering relationship with auditing accounts**

### **2.5.1. External audit concept**

An external audit is an organized examination of the company's accounts and financial statements by a person (natural or auditing office) who is scientifically qualified and authorized by a competent professional body in the country. This person enjoys full independence from all parties, whether they are internal (management and

shareholders) or externals (governmental and non-governmental organizations), and this independence enables him to be neutral. As for the limitations of the responsibility of the auditor is subject to debate and controversy in the accounting thought, there is the old trend, which is to detect fraud and embezzlement and manipulation within the responsibility of the auditor, while the modern trend is to take care of the crisis or adequate is the end of the responsibility of the auditor (Lyakhova et al., 2018).

There are countries (including Iraq) that have not issued any government law or professional guidance to make disclosure of money laundering operations within the responsibility of the auditor, and there are countries (including the British) provided for the disclosure of money laundering operations and the extent of their consideration within the responsibility of the external auditor. Its laws are expressly stated that the disclosure of laundry operations if any is within the responsibility of the auditor. We see that the crime of money laundering and its connection to terrorism financing often, and its adverse effects on the economy and society. All of this cannot be considered or considered secondary, so we see that the auditor's responsibility is clearly better for the community.

### **2.5.2. External audit Importance in detection of money laundering operations**

External audit importance in this issue is of being neutral, which independent of the company parties, that gives it a position of confidence and distinction. External audit has a pivotal role to ensure a

safe regulatory environment for the economic unit and to increase the financial evidence reliability degree. That is why financial statements users difficult faces in assess the quality of information provided to them and determine the reliance degree on it for many reasons, such as separation between information user and the person who prepares it. Recent years faced an extensive international effort and trend to reduce the money laundering phenomenon by the enactment of laws and legislation criminal, or by professional organizations efforts for external audit IFAC (2004), which obligates the auditor to comply with the ten standards that reflect the extent of the External Auditor's commitment to professional care towards an accounting information users' direction on the other hand. In the banks, external auditor should ensure that: who make the money laundering? Are they parties from outside of the bank without bank's management knowing? Or are suspicious transactions carried out by the bank's management? External audit can separation between both, by determining the strength of the entity that performs the task of regular examination and audit for the financial and accounting transactions of the bank, and ensures the strength of the internal control system.

The auditor should also ensure the following:

- The detailed procedures clarity to anti money laundering operations.
- The clear policies availability approved by senior management to anti money laundering operations.

- Check compliance with internal control mechanisms by the bank's staff.
- The extent to which the internal system is capable of detecting unusual processes, or that done by suspected clients in money laundering.

Researcher thinks that there is another benefit to external audit, which represent in possibility to benefit from finance auditor experience in developing programs to anti laundering operations through observation advice provided by company auditor. So, success external audit operation can contribute in reduce Company's exposure to non-compliance risks. It also contributes in reducing the Company's exposure to reputational risks.

### **2.5.3. Laundering operations affecting on internal control systems**

The internal control system is the first defiance line against money laundering operations, so, various international bodies called to anti money laundering. Legal, local and international bodies also called facilities to improve the internal control system to contribute in anti-money laundering within programs called anti money laundering programs, which include many Procedures approved by the Board of Directors showed management policy in anti-money laundering that

will reduce the laundering operations. The most important of these procedures is applied (know your customer) principle, also reliance on independent function supervises the entity's compliance with the laws and regulations related to money laundering called compliance unit.

Iraqi anti-money laundering law obligate banks to evaluate the bank's anti money laundering procedures, in addition to instruct the external auditor to study and evaluate the extent to which business organizations comply with the requirements of the money laundering law and report thereon, and inform the competent authorities about any violation by the Bank of the law and regulations of anti-money laundering and non-compliance with legal requirements. On this, money laundering operations affected on internal control systems, where business organizations have been obliged to develop internal control controls as a means of anti-laundering operations, and in this way monitoring activities are strong defense lines towards such operations.

#### **2.5.4. Challenges between auditor and money laundering:**

Now we will take the reasons that limit the detection of the external auditor to money laundering operations, which can be placed in 3 levels:

- **Factors related to external finance auditor:**

This level include that the auditor should have a clear understanding of auditor role and responsibility in disclosing the laundry operations, have knowledge of laundry operations impact on the financial statements and on the continuity of the company, as well as an internal control system role in stopping or limiting the laundry operations.

Also that the external auditor should have good knowledge of anti-money laundering laws and the legal controls that companies should adhere to.

**- Factors related to company management:**

Anti-money laundering is primarily under the responsibility of the management of the company, which should:

- Provide a range of controls.
- Commitment to anti-money laundering program.
- Support the Internal Audit Department.
- Cooperate with the external auditor and facilitate his work in evaluating the company's policies related to anti money laundering, activating the role of the audit committee in providing internal controls related to anti money laundering, and

supporting the performance of internal audit and external auditor.

**- Factors related to legal and professional issues organizing the auditing profession:**

Finance auditing profession organized by many legal legislations that show finance auditor responsibilities and duty. Money laundering laws differ in determined auditor responsibility toward this phenomenon, but that some legislation, such as UK legislation, has obliged audit offices to develop programs to anti money-laundering, and obligate the auditor to inform or suspect any laundry within the client's facility. In Iraq, there is no law obligate external auditor to disclosure about the Company's compliance with anti-money laundering rules, as well as professional issues and guidelines, it did not provide Professional manual or I standard determines the auditor's responsibility for money laundering operations, and sets out guidelines to assist the auditor in the detection and reporting of money laundering operations.

### **3. PREVIOUS STUDIES**

Importance of finance auditing topic toward money laundering operations, its responsibility and factors affecting on detect money

laundering operations are important and modern topics relative. Therefore, by reviewing previous studies and research on this topic, we find that there is scarcity in the Arab world and in Iraq in particular, where previous studies aimed to identifying money laundering concept and potential risks that may face and threatening facilities and economy. Also, study the phenomenon from legal and economic perspective, and some theoretical Accounting studies without field extrapolation. So, the most important studies in this field are: Study of the International Federation of Accountants, this report highlights the position of the accountant's profession towards money laundering through a description of the similarities between the crimes of money laundering and fraud. The report considers that both have a direct or indirect effect on the financial statements. The report also pointed out that there are certain conditions and weaknesses in the internal control system that allow the possibility of fraud, which itself allows the occurrence of crimes of money laundering, and the report the basic rules in the fight against money laundering and the rule of identification of the client, the basis of analysis of factors affecting the discovery of the external auditor of the laundering and reporting, and the disclosure of suspicious transactions. The report recommended that the profession should play an active role in anti-money laundering by focusing on the examination and disclosure of individuals involved in money laundering.

Study of Mention (2010) aimed to report on the appropriateness of the ISO standard for the establishment of a model for the evaluation of internal controls related to the prevention and detection of money

laundering operations, which effectively serves as an element in evaluating the effectiveness of internal control systems and helps to assess the compliance of enterprises to implement know your customer (KYC), and anti-money laundering (AML) according to the requirements of banking organizations in Luxembourg. The researcher used case study methodology in his study to test the effectiveness and efficiency of internal control systems. The study showed that the proposed model facilitates the evaluation process through the structure of the proposed matrix, and this test helps to ascertain the effectiveness of the controls, and to indicate whether the structure of the internal control system includes areas that allow money laundering operations or not? As well as to show the areas in which KYC operations risks anti money laundering are located, this model can be used to combine various internal reporting formats.

Study of Khalawi (2007) in Iraq, (The responsibility of the auditor in the money laundering phenomenon), which is a theoretical study on the Iraqi reality. The study assumed (The auditor is fully responsible in the money laundering phenomenon, and the lack of detection of the phenomenon evidence on lack of professional care required). The study showed that theoretically the detection of laundry operations at the company subject to audit related to the care provided by the external auditor, so the lack of detection of the phenomenon carries the external auditor responsible for the suspicious business in the company. This is based, therefore, on some of the judgments of the British judiciary in the case of (Leads Estate building and investment Co), and the case of (London Oil Storage Sear Hasenek Co), which

was referred by the British judiciary to (The responsibility of the auditor is not limited to the mere realization of the balance sheet calculation, but his duty is to ensure that its representation is correct for the business of the company).

Study of Obaid (2014) in Iraq, (The role of the external auditor in contemporary challenges in reducing the money laundering phenomenon), the study aimed to show the role of the external auditor in reducing the money-laundering practices of banks in Iraq. The study showed that the banks are the main target in the money laundering operations and the external auditor has increased his interest in and knowledge of the information technology that has begun to form the bulk of the banking operations. The study also showed that the researcher did not find a close link between study objective and its conclusions.

Study of Alsaffar (2006), (Money-laundering operations and the responsibility of the auditor to disclose them), the study aimed to know the limits of the external auditor's responsibility in disclosing the source of the corporate funds' legitimacy (auditing customer), and the extent to which disclosure of such funds contradicts with the principle of secrecy that the external auditor has the responsibility to respect the confidentiality of the information obtained during the performance of his professional services to his clients and what measures should be taken by him to accept and to take responsibility for it. The main results of the study were:

- Correlation of money laundering phenomenon on banking activities in term of exploiting the confidentiality of accounts.
- The phenomenon is vast in terms of size, variety and renewing sources of nutrition.

The researcher notes that the objective of study is (Limitations of the Auditor's Responsibility for Laundry Operations...), while the research conclusion showed (laundering phenomenon related to banks, and the phenomenon is on expansion). So, we did not find what determines the responsibility of the auditor and his responsibility clearly in this research. With regard to previous Iraqi studies, in general, we find that they have been examined in the theoretical framework of money laundering, and have been subjected to scrutiny and a cycle in general. The closest study to the topic of this research was Mention (2010) study, which focused on affecting factors in detection of the auditor for money laundering operations and report them. In Iraq -according to researcher knowledge- we did not find a study to indicate that clearly.

#### **4. PRACTICAL SIDE (APPLICATION)**

##### **4.1. Methodology applied**

Researcher relied on collecting data for this study and analyzing it in two ways: Inductive approach: that based on the study and analysis

of previous operations, in addition to accounting literature study and professional and legal issues, to know the auditor role and responsibility toward money laundering operations and to try to identify affecting factors to detection of money laundering operations which related to auditor, facility management and professional and legal issues. Practical approach: researcher designed a questionnaire based on the theoretical framework, and he arbitrated it by a group of colleagues and faculty members and professionals and takes their comments to enrich the study and distributed to the study community (Okab, 2012).

Study society and sample: Study society consists of Iraqi legal finance auditors who are Practitioners of the profession and registered with the Iraqi Association of Accountants and Auditors, and who work in audit offices licensed by the association. According to the records of the association, the number of these offices is (430) in which there are (1920) audited offices, and the number of licensed (after the CPA or its equivalent) exceeds (400) members who are professionally associated with the association. A random sample was selected. (230) samples were distributed and (221) were retrieved. (21) Were excluded from the analysis because of the lack of answers seriousness to their questions. So, the number of questionnaires analyzed is (200).

#### **4.2. Stability of study tool**

To make sure of stability of study tools, Coherence coefficient (Cronbach Alpha) was calculated, where it was between (0.79-0.93),

and table (1) showed this transaction. These percentages were considered appropriate and appropriate for the purposes of this study.

Table 1. Coefficient of internal consistency

Field	
The importance of auditing the direction of the phenomenon of money laundering	0.76
Factors influencing the detection of money laundering operations related to the auditor	0.76
Factors influencing the detection of money laundering operations related to the management of an entity	0.84
Factors influencing the detection of money laundering operations related to professional issues	0.83
The tool as a whole	0.93

### 4.3. Statistical Analysis

The data collected (which study sample answered) were analyzed by SPSS. For the purpose of knowing study sample opinions on each paragraph (each question), the answers were designed according to the Tri-Lycert classification, as follows: code (1) Customized to answer (disagree), Cod (2) customized to (agree) and cod (3) customized to (totally agree). So, the arithmetic mean is between (0-0.99) indicates the approval of the study sample on this factor at a low level. Also, if the mean is between (1-1.99) indicates the approval of the sample of this factor to a medium degree. And if mean is between 2 and 3 indicates the approval of the study sample on this factor to a high degree.

#### 4.4. Study sample characteristic

To determine study sample characteristics, the questionnaire list contains a set of inquiries that represent general information about study sample. They are the auditors who obtained a license to practice the profession in Iraq (granted by the Association of Iraqi Certified Accountants). Table (2) shows the demographics of respondent.

Table 2. Duplicates and percentages Demographic factors of the study sample

	Categories	Repetition	Ratio
Age	< 30	60	30
	30 < 40	60	30
	> 40	80	40
Qualification	Bachelor	70	35
	Master	50	25
	CPA	80	40
Practical experience	5 < 10	90	45
	10 < 15	75	37.5
	> 15	35	
Courses related to money laundering	Yes	126	63
	No	74	37
Total		200	100

Table (2) shows the demographic characteristics of the study sample and we note the following:

70% of the persons interviewed are over the age of 30, meaning that the sample of the study has the knowledge and experience in answering the questionnaire. 65% of the sample are holders of higher degrees (Master and above), which means that study sample are those

who possess the knowledge that enables them to answer the questionnaire. More than half of the sample (55%) has more than 10 years of experience, which means that sufficient experience is available for the sample. Training courses in anti-money laundering field in which the percentage of respondents who attended training courses related to money laundering operations was 63% of the respondents, which indicates that the majority of respondents have the knowledge of the subject of the study.

#### **4.5. Data Analysis and Testing of Hypotheses:**

H<sup>1</sup>: External finance auditor in Iraq has no knowledge on the importance of finance audit operations toward money laundering phenomenon.

To validate this hypothesis, the arithmetical averages and standard deviations of the answers extracted the questions related to this hypothesis, and the results were as shown in Table (3).

Table 3. The statistical averages and standard deviations of the responses of the sample of the study on the importance of the auditor's knowledge of money laundering phenomenon

Paragraphs	Arithmetic mean	Standard deviation	Guide answer
1) The audit team contributes to the implementation of legal requirements Independent testing of anti-money laundering programs And internal control systems	2.83	0.49	High

2) The Audit Department contributes to the provision of oversight advice To help businesses meet their requirements Some governments have anti-money laundering programs	2.83	0.51	High
3) The Audit Department contributes to the assistance of the Development Department in identifying the weaknesses in the money laundering and treatment program and reporting to management	2.75	0.48	High
4) The audit may contribute to the possibility of exposure Businesses for money laundering activities and reputational risk Continue	2.74	0.58	High
5) The audit may contribute to reducing the exposure of businesses Liability risk	2.79	0.56	High
6) The audit may contribute to the discovery of money laundering operations in businesses	1.36	0.79	Medium
Total	2.55	0.28	High

A study of the results summarized in table (3) indicates that there is a high level of respondents' attitude towards the extent to which auditors know the Iraqis and their awareness of the importance of the external audit process towards the money laundering operations. The table also shows the approval of the sample of the study that the audit process is a major role in the phenomenon Laundering by examining the implementation of the legal requirements of the law against money laundering, where the mean of 2.83. As to the extent to which the external audit was able to detect money-laundering operations, the response was medium, as its impact on the financial statements is indirect and cannot be measured. It can be said that the overall trend of the respondents indicates that there is a high level of

orientation of the external auditor in Iraq on their understanding of audit process importance towards the money laundering phenomenon. Arithmetic mean of the paragraphs forming the first hypothesis was compared with the standard (1.5) (acceptance criterion) using the T test as shown in Table (4).

Table 4. The arithmetical averages, standard deviations and test (T) of the paragraphs forming the first hypothesis

	NO	Arithmetic mean	Standard deviation	T value	degrees of freedom	Statistical significance
The importance of auditing in phenomenon of money laundering	20 0	2.78	0.30 3	67.65 6	149	0.00 0

Table (4) shows statistically significant differences ( $\alpha = 0.05$ ) between the arithmetic average and the standard score (1.5). The table T value was 52,656, with a statistical significance of 0.000. Since the calculated T is greater than the T, the negativity hypothesis should be rejected and the same hypothesis should be adopted in the form of proof. We conclude that (Iraqi auditor has knowledge of audits importance towards money laundering practices).

H<sup>2</sup>: Lack of detection of money laundering operations that threatening business facilities, according to Iraqi external

finance auditor's point of view due to factors related to finance auditor.

To validate this hypothesis, the arithmetical averages and standard deviations were extracted to identify the auditor's views on the reasons for the non-disclosure of money laundering transactions relating to the auditor. Table 5 below shows that.

Table 5. The statistical averages and the standard deviations of the views of the sample of the study on the reasons for not detecting operations, money Laundering for reasons related to auditors is arranged in descending order according to the arithmetical averages

Paragraphs	arithmetic mean	Guide answer	Standard deviation
1) Lack of knowledge of the auditor's duties and responsibilities towards the disclosure of transactions money laundering	3.01	0.70	High
2) The auditor does not know the objectives of auditing the direction of money laundering	3.01	0.69	High
3) The auditor does not know the direction of money laundering	2.59	0.69	High
4) The auditor does not understand the risk of money laundering on continuing The establishment	2.65	0.68	High
5) The auditor does not understand the impact of money laundering on the financial statements of the entity	2.59	0.81	High
6) The auditor's inability to do sufficient work during the compliance audit	2.60	0.88	High
7) The auditor understands the areas of planning and monitoring that contribute to the detection of Money laundering	2.47	0.69	High
8) Study and internal audit of the control of money laundering	2.80	0.82	High
9) The independence, impartiality and integrity of the auditor	2.77	0.74	High
10) Knowledge of aspects of money	2.68	0.78	High

laundering and professional experience Money laundering			
11) Knowledge of aspects of money laundering and professional experience Money laundering	2.66	0.81	High
12) To exercise an appropriate degree of suspicion for the existence of money laundering During the inspection tasks	2.71	0.82	High
13) Loading to the checker is more responsible when money laundering is not detected	2.78	0.91	High
14) The size and nature of audit tests for related internal control areas Against money laundering and construction activities	2.51	0.86	High
15) Use information technology to check and detect the work of washing Money	2.46	0.41	High
Total	2.91	0.41	High

There is an agreed approach in the study sample on all paragraphs related to the reasons for the auditor's failure to detect money laundering operations. These reasons are related to the auditor (and arranged according to importance), and note their compatibility with the theoretical framework which indicated the lack of legislation and professional issues that define the responsibilities of the auditor Audit and means by which audit tasks can be performed to detect laundry operations.

Through the auditor's role and responsibilities, the impact of money laundering operations on the financial statements, and the risks of such transactions. The computational mean of the paragraphs dealing with these topics ranged from 2.59 to 3.01. As for the implementation of the audit process, the auditors agreed that the

absence of any guidance that guides the auditor to implement the audit process and contributes to its proper implementation is one of the main factors Disclosure of Money Laundering, where the mathematical mean of the academic subjects ranged from (2.46 to 2.60). The overall percentage of respondents also showed the approval of the study sample and to a high degree on the range of factors related to the auditor, and thus can be considered as factors influencing the detection of money laundering operations.

Table 6. The arithmetical averages, the standard deviations and the test (T) of the paragraphs forming the second hypothesis

	NO	Arithmetic mean	Standard deviation	T value	degrees of freedom	Statistical significance
The reasons for the non-discovery of the money laundering work are due to Factors relating to the auditor	200	2.82	0.44	61.223	14	0.0

The table above shows statistically significant differences ( $\alpha = 0.05$ ) between the arithmetic average and the standard mark (1.5). The table value of T is 52.656 and the statistical significance is 0.000. Since calculated T (61.223), we should accept the hypothesis the second (due to the lack of detection of money-laundering operations that threaten business enterprises from the point of view of the external auditor of Iraq to factors related to the auditor).

H<sup>3</sup>: Lack of detection of money laundering operations that threatening business facilities, according to Iraqi external finance auditor's point of view due to factors related to business facilities management.

To verify the validity of this hypothesis, the arithmetical averages and standard deviations were extracted to identify the reasons for the non-discovery of money laundering operations related to the management of the enterprise and Table 7 shows that.

Table 7. The arithmetical averages and standard deviations of the views of the sample of the study on the causes of non-discovery, money laundering operations related to the management of the enterprise are arranged in descending order according to the accounting averages

Paragraphs	arithmetic mean	Guide answer	Standard deviation
1) Availability of an internal control system to combat money laundering.	3.04	0.62	High
2) Internal audit management tasks in implementing the legal requirements to combat money laundering.	3.08	0.62	High
3) Management cooperation with the auditor in the implementation and evaluation of anti-money laundering programs.	3.03	0.64	High
4) Audit committees and their role in evaluating the internal control system for washing Funds, and support internal and external audit function	3.11	0.65	High
5) Size of the establishment and the diversity of its branches and the diversity of its activities.	3.44	0.79	High
6) The financial position of the establishment and the impact of its money laundering operations.	2.80	0.78	High
7) The existence of a Compliance and Anti-Money Laundering Unit	2.92	0.75	High
8) The efficiency of its management and secretariat and its commitment to provide internal controls.	2.02	0.79	High
Total	3.85	0.601	High

It is clear from table (7) that there is a positive trend in the study sample on all the paragraphs related to the management of the establishment. The factors related to establishment management, which include the internal control system, were determined. To carry out money laundering operations, in addition to the existence of audit committees that contribute to the evaluation of the internal control system related to anti money laundering and supporting the function of the internal and external auditor in the evaluation of internal control systems, and the establishment of an appropriate mechanism for the work of the audit department to contribute to the discovery Weakness or lack of compliance with anti-money laundering program in addition to the existence of cooperation with the external auditor and the compliance unit. Their responses ranged from 2.80 to 3.44 with a high answer. The arithmetic mean of the paragraphs forming the third hypothesis was compared with the standard criterion (acceptance criterion of the hypothesis) using the T test as shown in Table (8).

Table 8. Arithmetical averages, standard deviations and test (T) for the paragraphs forming the third hypothesis

	NO	Arithmetic mean	Standard deviation	T value	degrees of freedom	Statistical significance
Reasons why money laundering has not been detected Factors related to the management of the establishment	22	2.35	0.455	62.739	149	0.000

Table (8) shows statistically significant differences ( $\alpha = 0.05$ ) between the arithmetic average and the standard mark (1.5). The value of T is 52.656 and the statistical value is 0.000. Since the calculated T value is 62,739, this suggests acceptance of this hypothesis: the lack of detection of money-laundering operations that threaten business from the point of view of the external auditor is due to factors related to business facilities management.

H<sup>4</sup>: Lack of detection of money laundering operations that threatening business facilities, according to Iraqi external finance auditor's point of view due to factors related to professional guidelines and issues.

To validate this hypothesis, the arithmetical averages and standard deviations were extracted to identify the reasons for the non-discovery of money laundering due to reasons related to professional issues and the table (9) shows that.

Table 9. The arithmetical averages and standard deviations of the views of the sample of the study on the causes of non-discovery Money laundering transactions related to professional issuances are arranged in descending order by arithmetical averages

Paragraphs	arithmetic mean	Guide answer	Standard deviation
1) Factors associated with professional releases related to the phenomenon of money laundering.			
2) Lack of audit criteria determines the responsibility of the direction checker Money laundering and reporting.	2.94	0.65	High
3) There are no guidelines to help the auditor evaluate the possibility of washing Money.	3.01	0.70	High
4) There is no guidance to assist the auditor in	3.01	0.72	High

assessing money laundering risks.			
5) There are no guidelines that include sufficient explanation to discover the auditor for money laundering and reporting.	2.95	0.73	High
6) There is no clear guidance on the auditor's responsibility for the discovery of transactions money laundering.	2.95	0.72	High
7) Effectiveness of the Code of Professional Conduct and Ethics.	2.96	0.65	High
Total	2.97	0.399	High

Table (9) shows that there is a positive trend in the study sample on all the paragraphs related to the professional publications as they prepare the guide and the manual to measure the efficiency of the audit and identify the issues that the auditor can cite to perform the audit tasks. Therefore, the lack of issues contributes to the auditor's inability to identify operations. Laundering, and that the audit gap will widen because of the unclear responsibility of the auditor and his duties and audit areas to anti money laundering. The computational average of the paragraphs forming the fourth hypothesis with the benchmark (3) was compared with the criterion of acceptance of the hypothesis using test (T) as shown in Table (10):

Table 10. The arithmetical averages, standard deviations and test (T) of the paragraphs forming the fourth hypothesis

	NO	Arithmetic mean	Standard deviation	T value	degrees of freedom	Statistical significance
The reasons for the lack of detection of money-laundering are explained reasons for professional releases	22	2.61	0.372	66.750	149	0.000

Table (10) shows statistically significant differences ( $\alpha = 0.05$ ) between the arithmetic average and the standard mark (1.05) where the value of (t) was 52.656 and the statistical significance was 0.000. Since the calculated T (66.750) is greater than the calculated T value (52,656) indicating the acceptance of this hypothesis: the lack of detection of money-laundering operations that threaten enterprises from the point of view of the external auditor is due to factors related to professional issues.

## **5. CONCLUSIONS AND RECOMMENDATIONS**

### **5.1. Conclusions**

The study concluded:

1. External Auditor of Iraq has knowledge of audit process importance towards the money laundering phenomenon, as the audit may contribute to helping businesses implement the legal requirements for compliance audits, and identify weaknesses and strengths in anti-money laundering programs.
2. Lack of detection of money-laundering operations that threaten business from the point of view of Iraqi External Auditor is due to factors related to the auditor, including the auditor's lack of knowledge of his duties and responsibilities towards the detection of money laundering operations and his

knowledge of the audit objectives and areas. Money laundering operations on an entity continuity and its impact on the entity's financial statements, in addition to auditor's lack of knowledge of good planning areas of the audit process, which contribute to the detection of money laundering operations, scientific knowledge about money laundering phenomenon and its stages and methods and provide the professional auditor experience in relation to money laundering operations and not allocate part of the continuing education programs to the auditor on money laundering operations, and to exercise appropriate degree of professional suspicion of money laundering operations existence during audit tasks implementation, and to determine audit tests size and nature for the areas of evaluation of internal control related to the fight against money laundering and establishment activities.

3. Lack of detection of money-laundering operations that threaten businesses in the eyes of the Iraqi external auditor is indicative of business administration factors, including the strength and internal control system effectiveness to anti money-laundering, the presence of a compliance unit to anti money laundering, Internal in the implementation of legal requirements to anti money laundering, in addition to management cooperation with the auditor in the implementation of the evaluation of anti-money laundering programs, the contribution of the audit committees through its role in evaluating the internal control system to anti money laundering, supporting the

internal and external audit function, the size of the institution being audited in terms of the number of branches, the diversity of its activities, Money-laundering operations, the efficiency of the management and secretariat of the establishment and its commitment to provide internal controls.

4. Lack of detection of money-laundering operations that threaten enterprises from the external auditor's point of view is due to factors related to professional issuances, which include professional standards and legal provisions that determine the responsibilities of the auditor and the nature of the tests to be performed by the auditor.

## **6. RECOMMENDATIONS**

1. According to lack of a standard, statement or guidance for the investigation of the crime of money laundering, the researcher recommends specialized entities to integrate their efforts to formulate and establish a standard to guide the auditors in the performance of their tasks.

2. Urging businesses to ensure that adequate internal controls are in place to prevent and detect money laundering and to keep abreast of advances in information and communications technology, to enable money launderers to use these new technologies, and to learn about modern methods and ways that money launderers can exploit them.

3. The need to activate the role of the Audit Committee to support the external audit function to perform compliance audit tasks and report on the compliance of business organizations with legal and anti-money laundering requirements through compliance programs.

4. Activate the role of the Audit Committee to support the external audit function to perform compliance audit tasks and report on the compliance of business organizations with legal and anti-money laundering requirements through compliance programs.

5. The need for Continuing Education programs include training courses related to money-laundering operations, methods and risks, and amendments to the Anti-Money Laundering Law.

6. We call on researchers to look into money laundering and accounting field as a phenomenon that is very widespread and risks to the national economy.

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