THE ROLE OF THE FINANCIAL AUDIT IN PREVENTING AND COMBATING MONEY LAUNDERING

Emilia VASILE, PhD Professor
Athenaeum University of Bucharest
E-mail: rector@univath.ro

Nelu BURCEA, PhD Lecturer
Athenaeum University of Bucharest
E-mail: burcean@gc.adventist.org

Abstract

The role of the financial audit in preventing and combating money laundering is to enhance the information credibility from the financial statement. Among the most important laws in defining and explaining the legal obligations on prevention of money laundering is the FATF guide on measures of risk, published in 2008.

The legal framework in Romania in this field was established by the Law no.656 / 2002. In Romania, the structure of the profession representation with its obligations established by the Law 656/2002 is the Body of Accountants Expert and the Chamber of Financial Auditors.

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Introduction

According to the specialized literature, the audit is the process carried out by individuals / legal entities, legally authorized, called auditors, which analyzes and evaluates the professional information related to a particular entity, using techniques and specific procedures to obtain evidence intended as audit evidence on which they make the audit report and develop a responsible and independent opinion. This involves calling the assessment criteria which results from the regulations unanimously recognized in the audited entity.

The accounting information system is the main source of information for auditors. Regardless of the methods and techniques used for data processing, the audit shall be directed to:

1. The reality, honesty and integrity of the information provided by accounting;
2. The legality, necessity and efficiency of the economic and financial recorded operations as well as the integrity of the institutions patrimony.

Watching these two elements, the auditor may face the following situations:

- The documents and accounting records are properly prepared and comply with the legal framework and contain only legal, real and accurate operations.
- Irregularity in the management and organization of the determined accounting by favoring the cases of bad management, tax evasion, embezzlement, distorting the results.
- Irregularity in drawing up the movement and processing of the accounting documents contain inadmissible characters, the records are not kept up to date and does not ensure compliances between accounts.

By checking the documents, one shall determine the nature of the deficiencies (shape, background) and shall impose measures to prevent and eliminate them or the punishment of those responsible.

To be able to express their views on ensuring accurate image by interpreting financial statements, the auditor must ensure that the following criteria and objectives have been met:

- <u>The criterion of completeness</u> and integrity of the records.

This criterion says that all operations taking place in an entity should be reflected in adequate supporting documentation and should also be recorded in accountancy without omissions and without some of them being recorded several times.

<u>- The criterion of the records reality</u>.

All information contained in the annual accounts must be justifiable and verifiable. All elements of patrimony should be reflected in the accounts in accordance with the physical identifiable and the revenues and expenses and also the assets and liabilities shown in the annual accounts to be real.

All the economic and financial transactions must be recorded in the corresponding accounts with respect for the correspondence of accounts established by the rules of the accounts plans. The failure of this correspondence can contribute to mask the fraud, to the distortion of the balance sheet or some of the items or indicators, such as property, stocks, expenses, results of the exercise, turnover, and tax liabilities.

Risks, frauds and possible errors specific to the financial audit

The literature reveals that always the quantity of audit evidence needed to prove a given evaluation compliance criterion is directly proportional to the risk that the auditor will issue opinions on the compliance criterion, but in reality there is a deviation from that criterion, which will be covered by the importance to users of the audit report. This risk is named the overall audit risk.

Therefore, the audit cannot provide an absolute certainty but it must be limited to an acceptably low level of overall audit risk, which means the possibility of the auditor to issue an inaccurate opinion in an audit report. In this sense, it shall be noticed the fact that the auditor's opinion will be inaccurate and may mislead its users.

As it is not practical to restore all the operations from a set of the financial statements, the auditor must accept a certain level of overall risk auditing. An audit report is misleading if: it is mistakenly said in the report that there was a lack of conformity in the assessment criteria.

For example, it is stated that the financial statements are misleading when in reality it is not such a case or it states that the leadership of the entity have not made every effort for achieving the objectives when in reality, the objectives were achieved, it is omitted the report the indication of the stretching limits of the audit and that can influence the interpretation of results.

The audit risk components

1. The inherent or essential risk represents the risk of a (significant) material deviation. The inherent risk is equivalent, in fact with the possibility that a balance or a class of financial operations could contain inaccurate information from other balances or financial transactions, with consequences of the lack of effective domestic contracts.

The inherent risk depends on the nature of the audited entity and the activity that it carries.

2. The control risk is the system of accounting and internal control risk of the audited subject, to detect shortly a deviation or untrue assertion that could be significant, either individually or when aggregated with other misstatements from other categories of operations, since the risk exists permanently due to inherent limitations of the accounting and internal control of the entity on the prevention and detection of significant errors.

The risk control errors are performed in depth at each category from the balance control or financial transaction and can record two situations:

- The auditor ascertains that the accounting and internal control system is not working effectively and efficiently, in which case the control risk is at a control level;

- The auditor identifies the accounting and the internal control system as able to effectively prevent, detect and control significant incorrect information, in which case the control risk is at a lower level.

In order to understand and assess the risk control, the auditors conduct a research on the accounting and internal control, in a form and extent that depends on the size and complexity of topics audited and the nature and structure of the accounting and internal control. Some of the procedures used for the understanding of the accounting and internal control functions directly with audit evidence for the effectiveness of the internal control, which can be considered control tests.

For example, in the business analysis of the accounting and internal control process regarding the collection of the issued invoices, the auditor obtains audit evidence about the effectiveness and efficiency of cashless settlements through investigation and observation.

The control tests include:

- the control of the documents underlying economic and financial operations, in order to obtain audit evidence regarding the compliance with the internal control evidences.

- Investigating and obtaining internal controls, where, as a result of their exercise, were not found deficiencies

- Restoring internal controls.

The non detection risk

There is the risk that a significant material deviation which is not corrected by the internal control is not detected by the auditor. It is the risk that the background procedures used by the auditor will not detect any incorrect information existing in the balances or in a financial transaction that can be materialized either individually or when aggregated with other erroneous information from other accounts or transactions.

The more the auditor makes several substantive procedures, the greater the probability for him to detect any (significant) mistake or irregularities in the audited financial statements, so the risk of non-detection is lower.

Performing the risk analysis is important because according to the audit risks, there are selected the working procedures, it can be established the extent of the procedures, tests and surveys, as well as the date of the applications succession.

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