

BENCHMARKS AS REGARDS THE FINANCIAL AUDITOR'S ROLE IN THE CURRENT ECONOMIC CONTEXT

Ramona LAPTEŞ¹

Abstract: *From the moment of the first financial audit practices, initiated since Antiquity, and so far, the financial auditor's role has become ever more nuanced and has acquired new valences throughout the evolution of society. Society's current challenges, in the "era of the global village", require the extension of the financial auditor's role and responsibility, from the increased credibility of the financial information, to its direct involvement in the process of preventing and combating money laundering and terrorist financing. The latest legislative modifications, adopted in 2018, increase the financial auditors' professional obligations, especially in the area of the detailed knowledge of audit clients, by means of the risk analysis of the clientele.*

Key words: *the financial auditor's role, money laundering, the European Directive no. 2015/849, The Good Practice Guideline of C.F.A.R.*

1. Introduction

The apparition and development of financial audit is closely related to the apparition and evolution of accountancy. Accountancy and audit are among the oldest professions in the world (Neamţu, Roman and Roman, 2012).

Since Antiquity, when the foundations of accountancy were set in its incipient form, there was a general need to identify frauds and to punish the authors. The evolution of the financial audit, from its origin and so far, has been gradual.

Until the 18th century, there was a rudimentary form of the financial audit, its objective being to prevent and discover the frauds and to punish the authors.

Until the 16th century, auditing practices aimed at testing the honesty of the people with financial responsibilities. The audit was not based on internal control and did not have the purpose of verifying how the transactions or economic-financial events were accounted for (Dobroţeanu and Dobroţeanu, 2002).

Moreover, until the 18th century, the auditing proceedings were carried out by priests and accountants, renowned for their moral qualities, as they were solicited by kings,

¹ *Transilvania* University of Braşov, ramona.laptesh@unitbv.ro

emperors, church and state (Stoian and Țurlea, 2001). Starting with the 18th century, the auditing proceedings were exclusively performed by the best accountants, upon the request of the state, shareholders and banks, with the aim of identifying the most adequate solutions in order to preserve patrimonial integrity.

The recognition of the profession of financial auditor occurred only in the early 19th century, along with the apparition in Great Britain of the first financial audit office, when the controllers or revisers received the title of financial auditors. The main objective of the financial auditors' activity in that epoch was: to avoid frauds and errors, to confirm the compliance with the accounting rules, as well as to present the auditor's observations in the audit report (Morariu and Țurlea, 2008).

The profession of financial auditor acquired new valences in 1933, when the New York Stock Exchange imposed upon the important companies to present their financial statements, represented at that time exclusively by the balance sheet and the profit and loss account, certified by an independent accountant, and to append the audit report (Stoian and Țurlea, 2001).

In other words, from that moment, the audit report became a compulsory element of the financial statements for the publicly traded companies.

In the past century, due to the financial scandals which arose between the producers and users of financial information, the development of the audit was conditioned on the mitigation of the conflict of interests between companies and users of accounting information: shareholders, banks, state, employees and public.

In the 21st century, the main objective of the financial auditors' activity is to restore the reasonable confidence between the producers and the users of the financial information published in the financial statements. Basically, the financial auditors contribute to protecting the interests of the different categories of beneficiaries of the financial information in the process of adopting economic decisions.

Not in the least, due to this century's challenges, mainly related to the globalization of the economies and to the development of the informational technologies, the financial auditors have a decisive role in the protection against national and international frauds.

Today, at the European Union level, the war against money laundering and terrorist financing has intensified, through the 4th Directive no. 2015/849/EU of the European Parliament and of the Council *on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing*. The financial auditors, along with other entities and professionals, are called to become part of this process.

This European directive was implemented starting with 2018 also in the national legislation, as the Government of Romania approved the law for the prevention and fight against money laundering and terrorist financing.

2. Research Methodology

This study has as a fundamental objective to analyse the approach initiated by the European Union and subsequently adopted by Romania, for the prevention and fight against money laundering and terrorist financing, an approach in which, alongside other entities and professionals, financial auditors are involved as well.

In order to attain this objective, a fundamental research, of normative type, was achieved, which implies the study and the analysis of the content of the 4th Directive no. 2015/849/EU of the European Parliament *on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing* and also of the Guide of good practices for the reporting by the financial auditors of the transactions of money laundering and terrorist financing, which was elaborated in 2016 by the Chamber of Financial Auditors of Romania (C.F.A.R.).

By the content of this study, answers will be formulated to questions such as:

- What is the legislative approach at the level of the European Union (EU), which aims at preventing and combating money laundering or terrorist financing?
- What are the stakes of the new measures and procedures adopted at the EU level, which aim at reducing the actions of money laundering or terrorist financing?
- Which are the entities and professionals that EU employs in the fight against money laundering or terrorist financing?
- What was Romania's answer to the legislative initiative of the EU, which pursues the prevention and fight against money laundering or terrorist financing?
- Which are the new responsibilities of the financial auditors, in their position of professionals involved in the process of preventing the combating of money laundering or terrorist financing?

3. The Fight of the European Union against Money Laundering and Terrorist Financing

The actions which target the phenomena of tax evasion, money laundering and terrorist financing became a challenge and a priority for the European Union. A report published in 2017, following the investigation launched at the EU level, on money laundering, tax avoidance and tax evasion, quoting Zucman (2015) revealed alarming figures, as follows:

- in 2014, out of the total private wealth in the world, amounting to 95.5 thousands of billions USD, at least 7.6 thousands of billions USD were not documented, respectively 7,96%;
- 8% of the total private financial wealth at worldwide level are held in offshore areas, which determines global tax-revenue losses estimated at 190 billion USD;
- according to the estimates, 2.6 thousands of billions USD of the private financial wealth across Europe are held in offshore areas, which leads to annual tax-revenue losses amounting to 78 billion USD.

Furthermore, the terrorist attacks which have been hitting Europe starting with 2015 have demonstrated the need to urgently implement at the EU level further measures for the prevention and fight against money laundering and terrorist financing. In June 2016, the European Commission published the proposal to amend the fourth directive on money laundering (2015/849).

On May 14th 2018, the European Council adopted the 4th EU Directive no. 2015/849 *on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing*, the main objectives of the new norms being:

- preventing the use of the financial system for the funding of criminal activities;

- strengthening transparency rules to prevent the large-scale concealment of funds.

The new legislative measures stipulate:

- enhanced access to beneficial ownership registers, so as to improve transparency in the ownership of companies and trusts. The registers will also be interconnected to facilitate cooperation between member states. Access to information on beneficial ownership is foreseen as follows:
 - ✓ public access to beneficial ownership information on companies;
 - ✓ access on the basis of 'legitimate interest' to beneficial ownership information on trusts and similar legal arrangements;
 - ✓ public access upon written request to beneficial ownership information on trusts that own a company that is not incorporated in the EU;
- addressing risks linked to prepaid cards and virtual currencies. The threshold for identifying the holders of prepaid cards is lowered from €250 to €150, and customer verification requirements are extended. Virtual currency exchange platforms and custodian wallet providers will have to apply customer due diligence controls, ending the anonymity associated with such exchanges;
- improving cooperation between the member states' financial intelligence units (FIU). FIU will have access to information in centralised bank and payment account registers, enabling them to identify account holders;
- improved checks on risky third countries: the Commission has established and regularly updates a harmonised list of non-EU countries with deficiencies in their anti-money laundering prevention regimes. Additional due diligence measures will be required for financial flows from these countries.

The directive no. 2015/849/EU defines the facts which constitute money-laundering actions as follows:

- the exchange or the transfer of assets, knowing that the goods come from a criminal activity or from an act of participation in such an activity, with the intention to hide or dissimulate the illicit origin of the goods;
- hiding or dissimulating the real nature, the source, the location, the circulation or the ownership of the assets or the rights upon these assets, knowing that the assets come from a criminal activity;
- acquiring, holding or using assets, knowing, upon receiving them, that they come from a criminal activity.

The entities obliged to apply this European directive are:

- credit institutions;
- financial institutions;
- auditors, external accountants, tax advisors and notaries and other persons who exercise liberal legal professions;
- real estate agents;
- other persons who market goods, only to the extent that the payments are made or received in cash and have a value of at least 10,000 EUR, whether the transaction is being executed by a single operation or by several operations which seem to be linked together;
- the suppliers of gambling services.

The EU Directive no. 2015/849 obliges the entities which are under the incidence to apply prevention measures concerning the clientele, both to existing clients and to the potential clients. Moreover, this European directive emphasizes the internal procedures of the reporting entities, as regards knowing the real beneficiary of the transactions, the risk analysis applied to the clients and the activities carried out, as well as the measures applied by the auditor in his relation with the clientele.

4. Role of the Financial Auditors of Romania in Preventing and Combating Money Laundering and Terrorist Financing

In Romania, contrary to the situations of other countries, the definition of audit activity and accountancy profession recognition occurred later, in 1999, when the Romanian Government issued GO no. 75/1999 on the financial audit.

In Romania, the professional body that brings together all auditors is the Chamber of Financial Auditors of Romania (C.F.A.R.), which was founded in 2000 by GD no. 91/2000. As pointed out by Dănescu (2007), in Romania, financial audit is:

- recognized as a separate part within the accounting profession;
- a result of international trends and regulations imposed by the country's integration into the European Union;
- an express requirement of the World Bank, based on the increase in the credibility and attractiveness of the business environment and, thus, stimulating foreign and domestic investments.

Given that the financial auditors' activity is conditioned by the compliance with the provisions of the EU Directive no. 2015/849, in Romania, the Chamber of Financial Auditors of Romania (C.F.A.R.) issued in 2016 a Guide of good practices for the reporting by the financial auditors of the suspicious transactions of money laundering and terrorist financing.

This Guide brings together the measures for preventing and combating money laundering and terrorist financing, which must be applied by all financial auditors in Romania, members of the C.F.A.R., as well as the general framework for knowing clients, for identifying potential risks in customer relationship management and for achieving an efficient internal-control system, with a view to eliminating these risks.

According to this Guide and in compliance with the Law for the prevention and fight against money laundering and terrorist financing, adopted in Romania in 2018, which transposes the EU Directive no. 2015/849, all financial auditors in Romania acquire the quality of reporting entities, having two reporting responsibilities:

- as a person who conducts on his own account cash transactions, in RON or in foreign currency, the minimal limit of which is the equivalent in RON of 15.000 Euro, whether the transaction is being executed by a single operation or by several operations which appear to be linked (for instance: cash receipts from the same client or withdrawal of cash dividends);
- as a reporting entity, the financial auditor is in the position of the one who provides audit services, who provides financial, accounting or fiscal advice or who provides other services to his clients and who has withal the responsibility to report the suspicious transactions observed in the framework of the services granted to the National Office for Preventing and Combating Money Laundering.

The National Office for Preventing and Combating Money Laundering is Romania's Unit of Financial Information, of administrative type, with a leading role in elaborating, coordinating and implementing the national system for combating money laundering and terrorist financing.

The third chapter of the Guide published by C.F.A.R. presents a series of internal procedures and policies specific to the financial auditor, as a reporting entity.

Any type of financial audit mission is based on the collaboration with the client of audit services. In preventing money laundering, the financial auditors must comply with client knowledge procedures and client acceptance procedures.

According to the Guide of good practices adopted by C.F.A.R, the client knowledge procedures, based on the previously conducted risk analysis, imply three types of measures, which must be adopted by the financial auditors (C.F.A.R., 2016):

- ✓ standard measures;
- ✓ simplified measures;
- ✓ additional client knowledge measures.

The risk analysis of the clientele is based on the concept "KYC" ("Know your client"), which is the principle underlying the EU debates as regards the measures which should be implemented internationally in the field of combating money laundering.

The national and international legislation requires the financial auditors to estimate, based on the professional skepticism and reasoning a certain risk level afferent to the potential clients and to those in the portfolio, related to the risk of money laundering and terrorist financing.

Although the legislation does not promote a certain calculation model, the international practices in the field recommend the elaboration of a risk matrix or of a specific risk questionnaire, based on the client-specific features, leading to a score that assigns each client in the risk categories provided by law: low, medium or high (C.F.A.R., 2016).

In order to minimize the risk of money laundering and terrorist financing, the financial auditors shall revise the risk categories corresponding to the clients in the portfolio, at least once a year.

In the client acceptance phase, the practices recommend to make a Check List, in order to obtain the information meant to ensure the assessment of the possible risk to identify aspects on combating money laundering and terrorist financing, before contracting the audit mission.

Among the clients with a high-risk level, there are:

- companies registered in off-shore financial areas;
- companies which have politically exposed persons as shareholders or administrators;
- entities which have persons with a dubious reputation (natural persons or legal entities under investigation, involved in acts of corruption, tax evasion, money laundering or deception) as shareholders or administrators.

A general conclusion upon accepting an audit mission is that, in case the financial auditors cannot apply the adequate clientele knowledge measures, the national

legislation stipulates the obligation of cessation, non-commencement or termination of the business relationship in question.

In the event the termination of the existing relation is due to dubious transactions or reasonable suspicions, the decision of withdrawal from the audit commitment shall be followed by signalling this aspect to the National Office for Preventing and Combating Money Laundering, along with the reasons for terminating the business relationship.

The theme of preventing and combating money laundering and terrorist financing is nowadays so important that, within the companies which provide audit services, employee training programmes must be implemented.

The Guide of good practices elaborated by C.F.A.R. (2016) recommends the financial auditors to keep a clear record of the training carried out internally, which must be properly archived at least five years after the departure of the employees from the audit company.

Furthermore, the good practices recommend periodically testing the employees, in order to make sure of their degree of knowledge and understanding of the prevention and fight against money laundering and terrorist financing.

5. Conclusions

The current economic model, built in a world without barriers, brings humankind in front of an unprecedented challenge. The free movement, the increased capital flows and the new information technologies make it increasingly difficult to control the activities of tax evasion, money laundering or terrorist financing.

The approach initiated by the European Union through the Directive no. 2015/849 on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing increased the role and responsibility of the financial auditor, as well as of other entities and professionals who became, starting with 2018, an important part in the process of prevention and fight against money laundering or terrorist financing.

Starting with 2018, in the financial-audit missions, regardless of their nature, as an effect of the Directive no. 2015/849/EU, the financial auditor has additional professional responsibilities which involve, in the first place, the implementation of specific measures that ensure detailed knowledge of the clientele.

The good practices in the field recommend a risk analysis of the clientele, which is based on the concept "KYC" ("Know your client"), which is the basic principle in the EU debates on the measures to be implemented internationally in the field of prevention and fight against money laundering or terrorist financing.

For Romania, it is worth noting the collaboration, which has become compulsory, between the financial auditors, members of the C.F.A.R., and the National Office for Preventing and Combating Money Laundering. Starting with 2018, according to the law, any dubious transaction of a client of audit services or the apparition of a reasonable suspicion in the business relationship with a client of audit services, in the field of money laundering or terrorist financing, compel the financial auditor to terminate the collaboration with the client and report all details to the National Office for Preventing and Combating Money Laundering.

The new norms, internationally and nationally adopted, definitely increase the financial auditors' responsibilities, especially in the field of the detailed knowledge of the activities of the clients and potential clients.

References

- Dănescu, T., 2007. *Financial audit: convergences between theory and practice*. Bucharest: Irecson Printing House.
- Dobroţeanu, L., Dobroţeanu, C.L., 2002. *Audit – concepts and practicies. A national and international approach*. Bucharest: Economica Printing House.
- Morariu, A., Ţurlea, E., 2008. *Financial – accounting audit*. 2nd ed. Bucharest: Economica Printing House.
- Neamţu, H., Roman, A.G., Ţurlea, E., 2012. *Financial audit. Insurance missions and related services*. Bucharest: Economica Printing House.
- Stoian, A. and Ţurlea, E., 2001. *Financial – accounting audit*. Bucharest: Economica Printing House.
- Zucman, G., 2015. *The Hidden Wealth of Nations – The Scourge of Tax Havens*: University of California.
- *** C.F.A.R., 2016. *Good Practice Guideline for Reporting by Financial Auditors of Suspected Money Laundering and Terrorist Financing Transactions*, Official Gazette no. 1007 bis of December 15, 2016.
- *** *Directive 2015/849/EU on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing*, Official Journal of the European Union, L 141, 05.06.2015.
- *** Website of the National Office for the Prevention and Control of Money Laundering: <http://www.onpcsb.ro>
- <http://www.europarl.europa.eu>

© 2018. This work is published under NOCC (the “License”). Notwithstanding the ProQuest Terms and Conditions, you may use this content in accordance with the terms of the License.