



DOI: 10.26417/ejes.v4i1.p17-29

 Open Access. © 2018 Nertila Cika et al..

 This is an open access article licensed under the  
Creative Commons Attribution-NonCommercial-NoDerivs 4.0 License

## The Role of Auditors against Money Laundering - Albania Case

**Nertila Cika**

PhD Cand., Faculty of Economy, University of Tirana, Albania

**Sotirag Dhamo**

Prof. Dr. , Faculty of Economy, University of Tirana, Albania

**Igli Tola**

Faculty of Economy, University of Tirana, Albania

### Abstract

In the process of the globalization of the economy one of the biggest challenges is combating and preventing criminal activities such as the money laundering. This phenomenon affects the failure of many sectors, such as monetary and banking system, the loss of public confidence in the financial system, the problem in calculating GDP in the affected countries. Albania has been considered a 'paradise' for investing and money laundering from suspicious or illegal activities, for more than 20 years. To prevent Money Laundering is necessary to make proper legislation and the involvement of several parties, including also the accounting professionals. The purpose of this paper is to estimate the role and function performed by Albanian Chartered Auditors (CAA – EKR) and auditors of State High Control Institution against Money Laundering. We try to give answer to the main research questions as: Are the Albanian auditors involved in fighting Money Laundering? Which is the level of legislation of Albania regulated against Money Laundering? What is the role of professional body of the auditors in preventing Money Laundering? The conclusions of this paper are based on literature review and data analysis through the independent test, Chi-Square test, gathered from questionnaires designed and intended for Albanian auditors to understand practically how they face this phenomenon in Albania. We find out a negligence of the auditors in reporting ML. Typically the construction companies with Albanian capital are involved in the money laundry transactions and further research studies are recommended to be made.

**Keywords:** money laundering, auditors, accounting professionals, procedure, financial statements

### Introduction

For many years the world faces a very delicate and negative phenomenon that is money laundering. With the development of the world's economies, with the increase of controls over the use of money and their source, the efforts of certain persons or groups have been increased to "clean" their money earned by criminal activity, corruption and tax evasion. Globalization of the economy has caused this phenomenon from a national phenomenon to become an international phenomenon because the efforts of criminal groups to "clean" money actually extend to other countries where the opportunities evaluated by them are greater. According to INCSR (2017, Volume 2, March 2017, pg 6) as in past years, money laundering continues to be a serious global threat. As transnational criminal organizations, terrorist groups, and other bad actors increasingly draw upon new technologies and criminal techniques to fund their illegal activities and generate and launder their considerable proceeds, the challenges faced by the financial, law enforcement, supervisory, legal, and intelligence communities are exacerbated. Jurisdictions flooded with illicit funds remain vulnerable to the breakdown of the rule of law, the corruption of public officials, and destabilization of their economies.

Money laundering (ML) is the process of concealing the criminal origin of activities and investments or the unlawful nature of financial transactions. Money laundering (World Bank Guide to AML 2011) is: "Concealing or disguising the true nature, source, location, disposition, movement, real rights in relation to property, knowing that such property is derived from a criminal offense ..." It is a criminal activity through which crime proceeds integrate into legitimate activities, making it easier to use them further. Paul Byron (2005), the representative of the United States Department of Justice, states that: "Money laundering has to do with gaining wealth from illegal activities and efforts to put these benefits into banking systems in such a way as to erase origin of money or even continue criminal activity, using the financial system". Actually money laundering activity has moved beyond traditional financial institutions to other non-financial businesses and professions and alternative money value transfer systems

The phenomenon of ML becomes a problem even for Albania after years 90' when the market economy has been placed in Albania. For more than 20 years Albania has been considered a 'paradise' for investing and clearing money from suspicious or illegal activities. The general belief of experts is that this phenomenon finds 'free land' in our country as a result of many economic, historical and cultural factors. Among them, we can mention: the culture of 'cash' transfers; According to IFM (2011) cash-based informal economy (which facilitates the laundering and integration of proceeds of crime, especially in the real estate sector and in commercial undertakings) and the cross border transportation of cash and its further assimilation into the economy and Albania's financial system; the lack of a financial and tax system for more than 45 years; the unstable economic situation, characterized by the 'boom' of the construction industry; high level of corruption and of informal economy, non-complete legal framework and administrative structures non fully functional up to year 2000, for preventing and combating this phenomenon, etc. Albania (USA State Department, March 2017) remains at significant risk for money laundering due to rampant corruption and weak legal and government institutions. Albania has a large cash economy and informal sector, with significant money inflows from abroad in the form of remittances. Major proceeds-generating crimes in Albania include drug trafficking, tax evasion, smuggling, and human trafficking. Albania has a substantial black market for smuggled goods, and smuggling is facilitated by weak border controls and customs enforcement. According to the Basel Anti-Money Laundering (AML) Index 2017, Albania is the top of high-risk risk countries in Europe and Central Asia. Albanian scored 5.75 points in the index, and is ranked 85th out of 146 or is the 10-th within European countries. The methods actually used by criminal organizations for ML, as revealed by investigations are: transactions within the financial sector; Opening of bank accounts in the name of social and family ties; Purchasing or entering into partnerships in legal businesses (commercial companies, construction, services, transportation etc); Opening of offshore companies; Purchasing immovable properties (land, apartments, hotels, restaurants, gas stations etc); Commission of criminal activity outside of the territory of Albania, and laundering some of the proceeds obtained from this activity in Albania (IFM 2011)

Actually the ML now is a global 'gangrene' it is not any more a national phenomenon. Referring to United Nations Office on Drugs and Crimes's report of 2014, money laundering turnover in the world can reach up to \$ 2 trillion, or about 2.5-5% of the global GDP. In the process of ML are involved several parties such as lawyers, bankers, financial organizations, accountants, tax employees, ecct. Various important national and international organizations such as Financial Action Task Force (FATF), OECD, UN, IMF, EU, etc have devised different arrangements or guidelines to combat and prevention money laundering. The governments have prepared the legislation against ML. Professional organizations, including those of accountants; have also devised different guidelines for their actions in the fight against Money Laundering.

The objective of this paper is to highlight the factors and actors that play a role in promoting and preventing the phenomenon of money laundering in the world and in Albania, and the role that the Albanian Registered Auditors (ARA –EKR) and auditors of State High Control Institution have in particular in this regard. The research questions of this paper are: which is the regulation level of legislation in Albania against Money Laundering? What is the role of professional body of the auditors in preventing Money Laundering? : Are the Albanian auditors involved in fighting Money Laundering? Do Albanian auditors the proper qualification and action to combat money laundering? Which is the role of professional bodies of auditors? To give answers to these questions has been done an international and Albanian literature review. To understand practically how they face this phenomenon in Albania we have use and the data analyses based on the questionnaires prepared and sent to Chartered Auditors (CAA –EKR) and auditors of State High Control Institution. Based on the results of the study of the legislation regulation in Albania against ML and the role of the auditors in combating and preventing this phenomenon we have draw some conclusion and some recommendations.

## Methodology

The main purpose of this paper is to estimate the role and function performed by Albanian Registered Auditors (ARA – EKR) and auditors of State High Control Institution against Money Laundering.

To achieve the objective of the paper, the methodology used is a combination of primary and secondary data. The primary method used is the survey (questionnaire), which enables quantification because it measures the facts objectively. This method enables many cases to be studied with many subjects, and this gives us the ability to use statistical analysis and is more reliable than quality research. Questionnaires were addressed to 212 members of the Institute of Chartered Auditors of Albania (ICAA -IEKA) and to 20 auditors of the Supreme Audit Institute (SAI-KLSH). The survey was conducted in Albanian language and the questionnaires are distributed during 2017 by e-mail using Google form. In total we get 46 responses. At first glance, this seems a small number of responses, but knowing that our target population was no more than 232 individuals, we can say that we have reached about 20 percent. So, this is a good percentage to take survey for this population.

In the survey, most of the questions (9) are closed because they are easier to get an answer from the auditor, and it's easier to make their encryption because they are converted more quickly into statistical data. Only one question of the questionnaire was open questions so that respondents were free to express their opinion regarding the improvement of the procedures against ML. Searching was designed in such a way as to facilitate data collection and at the same time to achieve satisfactory results that would draw conclusions as close to reality

Among the secondary data used, an important place has had the literature on the ML in Albanian and foreign language, especially the Albanian legislation on ML, reports published by specialized national and international institutions, the various guide of international organization on ML and other studies and materials published in this field. It helps to present a view on the ML as a phenomenon and its effects in economy and the necessity to combat it by all the parties involved, to analyze the level of legislation on AML and the relative institutions in Albania, particularly the requirements for companies and auditors and for comparison with international practice.

### **Review of Literature and Theoretical framework**

There is important to understand what ML is, what is the role and the consequences in the national and global economy, why the parties are involved in this phenomenon and the role of the governments and various professional bodies.

#### **3.1 Money laundering as phenomenon**

Any amount of money that is either directly or indirectly circulated, re-translated or transferred; transformed or allied to products and property derived from criminal or illegal activities and criminal offenses constitutes "dirty" (Bank Of Albania 2017) ". Money Laundering is the process used to hide the source of money or assets arising from the activity criminal. Crime is motivated by profits and involves a variety of illegal activities from drug trafficking and smuggling to fraud, robbery and corruption. (GDPML 2015) Money laundering (Duhaime. C. 2014) is a process whereby the proceeds of crime are transformed into apparently legitimate money or other assets. It is said that the term 'money laundering' was coined from the practice of the American mafia who, at one time, channelled the cash proceeds of crime through laundrettes to legitimize the cash. Whether this is true or not, the term 'money laundering' is now widely used. According to wikipedia definition Money laundering is the process of transforming the profits of crime and corruption into ostensibly "legitimate" assets ([https://en.wikipedia.org/wiki/Money\\_laundering-30.01.2018](https://en.wikipedia.org/wiki/Money_laundering-30.01.2018)). Anti-money laundering (AML) is a term mainly used in the financial and legal industries to describe the legal controls that require financial institutions and other regulated entities to prevent, detect, and report money laundering activities. Many countries have drafted their legislation to combat and prevent money laundering. Many international organizations have also been set up to combat money laundering. Anti-money laundering guidelines came into prominence globally as a result of the formation of the Financial Action Task Force (FATF) and the promulgation of an international framework of anti-money laundering standards. An effective AML program (AMF/CFT 2017) requires a jurisdiction to criminalise money laundering, giving the relevant regulators and police the powers and tools to investigate; be able to share information with other countries as appropriate; and require financial institutions to identify their customers, establish risk-based controls, keep records, and report suspicious activities. Money laundering (IFAC 2004) is the funneling of cash or other funds generated from illegal activities through legitimate financial institutions and businesses to conceal the source of the fund. Money laundering involves the manipulation of large quantities of illicit funds to distance them from their source quickly and in as undetectable a manner as possible. Because money-laundering activities may, however, have indirect effects on an entity's financial statements, they are of concern to external auditors

#### **3.2. Albanian regulation AML**

The regulation on AML in Albania has been started to prepare from the year 1995 and after. Albanian regulation and the relevant institution on AML is based on the international and European standards and legislation. Clearing money by

investing personally or through third parties is considered a criminal offense, sanctioned by Law: No. 9086, dated 19.06.2003 "On some amendments to Law no. 7895, dated 27.01.1995 "Penal Code of the Republic of Albania"; Law: No. 9085, dated 19.06.2003 "On some additions and amendments to Law no. 7905, dated 21.03.1995 "The Criminal Procedure Code of the Republic of Albania"; Law: No. 9084, dated 19.06.2003 "On some additions and amendments to Law no. 8610, dated May 17, 2000 "On the prevention of money laundering". As explained above, the provision of direct or indirect assistance, criminal or even extrajudicial activities deriving from good, movable or non-property and income, is also punishable. This is because you qualify as a Participant in this process.

Albanian AML legislation (Law No.9917, dated 19.5.2008/2011 Article no 3) define and the subjects involved in Money Laundering Prevention and legal obligation. Law no. 9084, dated 19.06.2003 states that subjects that should be vigilant and active participants in preventing and combating this phenomenon are besides the Banks and entities performing banking and financial activities, licensed by the Bank of Albania, other institutions or entities such Notaries, Lawyers, Registered Auditors, Consultancy Offices and Certified Chartered Accountants. This AML legislation considers as very important institution on fighting and prevention ML the Bank of Albania (BOA) and other commercial banks. The Bank of Albania, as well as its other counterparty banks in other countries, exercises a supervisory and controlling role over the entities licensed by it (Second Level Banks, Currency Exchange Points, etc). In exercising this function, it creates legal obligations for the prevention of the money laundering phenomenon.. In addition to the rigorous control of these units, the BOA also compiles mandatory enforceable regulatory policies for these vulnerable entities (Law No.9917, dated 19.5.2008 article 3). The law requires that any suspicious cases evidencing during the oversight exercise be reported to the GDPML. In the event of confirmation of its suspicions, the BOA continues with monetary sanctions, the removal or suspension of licenses of the entities involved in the ML until the criminal offense of the responsible persons.

The main structure monitoring and directing the AML in Albania is General Directory for Prevention of Money Laundering (GDPML). The law no. 8610, dated 17.05.2000 establishment of the Albanian Financial Intelligence Unit (FIU). The unit was then baptized under the designation of the GDPML. This structure is empowered by the AML legislation (against money laundering and the fight against terrorism financing) to collect, manage and analyze reports submitted by enforcers to prevent and combat money laundering and terrorist financing. Apart from supplying data to the prosecution and court, GDPML cooperates closely with other Financial Intelligence Units around the world. This is because nowadays money can be invested anywhere within a few minutes.

### **3.3 The AML regulation for Auditors and Accountants.**

Albanian AML regulation involve in the fighting ML and the accounting profession and professional bodies which are e very important part of the entities and their business transaction. In particular it involve the registered auditors member of AIRA – IEKA) and the auditors of Supreme Audit Institution (High State Control). In order to assess whether the company has maintained an effective and AML compliance framework, the Inspection Procedure guided by the GDPML advises also to follow the Independent Testing of the Unit. The main purpose of independent testing is usually to determine the adequacy of the company's AML program, including whether it operates in accordance with the requirements of the AML Law and the policies pursued by society itself. Beside that in Albania GDPML has not the direct oversight on the professional auditors and accountants bodies, the legislation require from the company accountants to deal with the Internal Control System and their viability to provide links to: Care should be shown to the documentation needed to identify the customer and his / her background; Categorize the risk from customers and the transactions carried out with them to identify customers potentially involved in local or international Money Laundering Schemes and to these clients should be shown Growth Care, not allowing to be overlooked without any transaction being scanned with them; As soon as their doubts come to their attention, public or anti criminal authorities should be contacted to report the case. Reporting also implies the filing of all the proofs we have available; The data they have available should not be deleted after reporting them to the relevant instances but should be kept to prevent this client or other related natural or legal persons from resuming the trade co-operation with auditors and accountants; Lastly, these accounting or auditing specialists need to periodically train relevant personnel training to be updated with the latest techniques and schemes that are used within this criminal record.

On other hand the professional bodies of Registered Auditors in Albania (IEKA-ICAA), based on Albanian regulation requirements on ML and the international standards of auditing has adopted some regulation regarding to the ML. One document used by ICAA for the rules on AML is Code of Ethics for Albanian registered Auditors (ARA). In Section 21 of the Code of Ethics (IEKA(2014) that each Registered Auditor should apply to best practice his duty, the procedure is followed up before accepting a business client.

Before accepting an engagement with a client, an ARA should assess whether this accession would create any threat to respect for fundamental principles. Potential threats to integrity or professional conduct may arise, for example, from controversial issues related to the client (owners, direction and activities). One case may be the taking of a potential client with unlawful activities such as money laundering, which makes them dishonest and manipulative about the proper reporting of the financial situation. The threat posed by each client needs to be assessed and protective measures are taken to eliminate or reduce threats to an acceptable level. Among these measures ARA should obtain the necessary warranty from the client that he will improve the governance practices of the company and will strengthen the internal control system in the framework of the ML fight or other illegal activities. Where there is no possibility and no optimism is seen to minimize the threats to a level acceptable by legislation, an ARA should not accept engagement with the client, as it is in violation of the basic principles of the profession to exercise by ARA. In article 27 of Code of Ethics is clarified when ARA is permitted and advisable to take into custody of Customer Assets. In this case ARA is legally required to seek information on the source of these assets and assess their legal and regulatory obligations. Only after this bureaucratic procedure has been carried out the EKR can demonstrate readiness to perform this service.

There is also the Law No. 10 091, dated 5.3.2009 for the Legal audit and professional organization of auditors and chartered accountant in Albania, which have some more requirements on AML for auditors. Article 45 of this law requires to the registered auditors or auditing companies that are engaged in the statutory audit of private entities for which there is a public interest are obliged to publish annually within the first three months of the year reports of transparency giving all the necessary information regarding to the company and its engagements. All this procedural obligation arises to eliminate the possibility for these companies to have associates, joint executives or to be related parties to the entities to which they have performed the external audit service. Since, in cases of breach of the principle of related parties, the auditor may not perform his / her duties in accordance with the law, and consequently, he / she may not record cases of criminal offenses, such as Money Laundering.

The Law No. 10 091, amended, in Article 3 "Public oversight" regulate the role of Public Oversight Board to oversee audit professionals. The mission of ARA is for auditing to be carried out in the context of a transparent, controlled and prudent environment and in the service of public interest. This is because, as controlled as the environment, the easier it is to identify cases of legal violations such as money laundering. This is a rule of nature, because the jolts love darkness. Thus, enlightenment 'enlightenment' not only facilitates the detection of money laundering schemes, but it also helps prevent the phenomenon, as discouraged parties are involved. This is based on the principle of the Sample Force.

At the article 11 of Law No.9917 For ML prevention, dated 19.5.2008 amended and updated later, it is advised that the entity is obliged to apply a policy for the implementation of procedures for enhanced vigilance in the case of clients and transactions of high risk categories. This procedure advises that the entity minimally employs a Responsible Person and a Vice-Responsible for Preventing Money Laundering at administration / management levels at the head office and at any branch office, subsidiary or agency.

The normative acts and other provisions based on this law state that at least the responsible person or deputy responsible for AMLs have been professionally established in the accounting field and have been provided with the necessary information on audit legal practices. This is because only an accountant or auditor is able to identify, analyze or prevent ML transactions. This accumulated ability from education and experience to read the accounting records and to deepen the analysis of transactions or backlogs that are hidden behind dubious accounting records. The law states the obligation for the private or public entities to keep accounting and other regular and transparent records and books, to conserve the documentations for each transaction with or on behalf of clients form at least 5 years, and to facilitate the GDPL for the possible controls. There is clear here the very important role of the accountants and auditors. The companies and accountants and auditors are obligated to report to the GDPML for all the transaction done in cash for an amount on 1 million ALL (around 7.5 thousand Euro).

If we compare the regulation in Albania and its requirement for auditors, accountants and companies for AML there are similarities. In general all the AML regulation require the companies to apply a policy for the implementation of procedures for AML, to have a person responsible for Preventing Money Laundering at administration / management levels, require from auditors and accountants serving to their clients to apply certain procedures and vigilance to prevent the engagement with suspicious clients and to inform to proper AML authorities when during their engagement they have reasonable doubts that clients is carry on ML transactions.

## The results of AML regulation over the years

During the recent years Albania has done a significant progress in improving its AML regulation and has established the legal and regulatory framework. In 2016, the Albanian parliament passed several significant constitutional and legal reforms aimed at tackling corruption and organized crime. The reforms, if implemented properly, will result in better enforcement of money laundering and other financial crime laws. Albania has made technical improvements to its AML regime. These include increasing predicate crimes covered by the AML law, establishing Customer Due Diligence (CDD) measures for financial institutions, and improving the powers and processes used by authorities

In recent years GDPML has had good results on AML. As it shown in report of GDPML before the Co-ordination Committee of the Fight against Money Laundering on 15.02.2017, during 2016 approximately € 29 million was blocked through 61 administrative orders from the GDPML, which marked a significant increase compared to the previous year (2015) when about € 16 million were blocked through 47 orders. Over the last three years 56 million Euros have been blocked in the bank accounts of suspected persons (8 million for total years from 2000-2013)

In this report mention above, GDPML was concerned on the level that of accounting professionals involved in reporting and recording cases of suspected of money laundering.

Table 1- cases of suspected of money laundering reported by Reporting Subjects

Reporting Subjects	Year 2013	Year 2014	Year 2015	Year 2016
Banks	420	822	585	619
Transfers company	45	74	79	209
Notary	15	122	303	205
Audit firm	1	0	0	1
Accounting experts	1	4	1	0
Motor vehicle trading company	0	9	36	35
CIPRO	20	64	210	134
DPD	36	48	45	47

Source: Annual Report 2016. GDPML (General Directory for Prevention of Money Laundering). Pg.17 SARs reported by entities over the years.

As is clear from the table outlined in this report, the compilation of SARs (Suspicious activity report) by the accounting and accounting firms' offices is year after year in negligible figures. This situation becomes even more alarming when we think that it is precisely these professionals who can have full access to the activity and reports of each economic entity, being contracted by these units to keep their accounting or to carry out control in cases suspicion from the steering group for problems in different units of the unit.

As it is shown on the table 2 below, during these years is noted that the training on AML regulation attended by auditors was very low.

Table 2: Number of trained professionals to AML

Subjects	Year 2014	Year 2015	Year 2016
Banks	120	285	108
Notary	237	73	127
EKA	1	0	1
Construction company	38	0	8
OJF	0	45	0
Insurance company	0	35	1
Supervisory authorities and Institutions	139	58	108
Motor vehicle trading company	14	0	3
Foreign exchange points.	70	73	77

Source: Annual Report 2016. GDPML (General Directory for Prevention of Money Laundering). Pg. 12

Here we can perhaps get an explanation of why the number of accounting professionals reporting to the Compensation Offices in the GDPML is so low, with regard to suspected money laundering cases. One of the underlying reasons is the training of accounting experts on AML regulation and procedures. As an integral part of the fulfillment of the obligation deriving from the law, the GDPML has probably been shown to be less active in raising awareness, training or sensitizing



the subjects of accounting activity, or the accounting experts themselves have shown negligence by not taking part in meetings or seminars with this framework.

Money Laundering effects on the economy.

Money Laundering is a phenomenon that has several effects on the economy in national and international level. ML effect on microeconomics, and on macroeconomics

### **5.1 Effect on microeconomics.**

One of the most serious microeconomic effects of money laundering is the large number of bankruptcies in the private sector. Money launderers often use the first companies (market leader), which associate the proceeds of illegal activity with legitimate funds to hide the wrong profits. In some cases, the first companies are able to offer priced products under what the manufacturers are costing to produce. Therefore, first companies have a competitive edge over legitimate firms that attract capital funds from financial markets. This makes it difficult, let's not say that it is impossible, for a lawful business to compete against big companies with subsidized funds, a situation that could result in private business -management by criminal organizations. The management principles of these criminal enterprises are not in line with the traditional principles of a free legal business market, resulting in further negative macroeconomic effects

#### *Effect on macroeconomics*

On point of macroeconomic view the ML effect financial, fiscal and banking system

#### *Monetary and Budgetary Effects*

In some developing countries, illegal revenue may lead to government budget shrinking, resulting in a loss of control over economy by governments. Indeed, in some cases, the size of the accumulated wealth pooled money laundering can be used to strike markets or even small economies

Money laundering can also adversely affect currency exchange rates or interest rates as money launderers reinvest funds where their schemes are less likely to be disclosed, rather than where the return rates are higher. Similarly, money laundering can increase the threat of monetary instability due to the misappropriation of resources from artificial distortions in asset and commodity prices. The unpredictable nature of money laundering, coupled with the loss of policy control, can make sound economic policy difficult to achieve, causing galloping distortions in the market.

Money launderers are not interested in generating profits from their investments but in protecting their income. They therefore invest their funds in activities that are not necessarily economically useful for the country where the funds are placed. Moreover, as long as money laundering and financial crime convey funds from sound investments in low-quality investments that hide their income, economic growth may suffer. In some countries, for example, all industries, such as hotels and construction, have not been funded due to current demand, but due to the short-term interests of money launderers. When these industries do not fit the money launderers, they abandon them, causing a drop in these sectors and major damage to these economies.

#### *Fiscal effect*

Money laundering reduces government tax revenue and hence indirectly damages the honest taxpayers. It also makes government tax collection more difficult. This revenue loss generally means higher tax rates than would normally be the case if unpaid crime proceeds were legitimate.

It also threatens the efforts of many states to introduce reforms to their economies through privatization. Criminal organizations have the financial capacity to surpass legitimate buyers for previous state-owned enterprises. Moreover, while privatization initiatives are often beneficial, they can also serve as a means of fundraising. In the past, criminals have been able to buy marinas, resorts, casinos and banks to hide their illegal income and further their criminal activities

#### *Effect on the Banking System.*

Countries cannot allow reputation and financial institutions to be harmed by money laundering, especially in today's world economy. Consumer confidence in the markets and in the signaling role of profits has weakened and eroded by money laundering. The negative reputation derived from these activities reduces the opportunities for sustainable growth by attracting international criminal organizations with undesirable reputation and short-term goals. This may lead to slower economic growth and economic growth at minimum levels. Moreover, once a country's financial reputation has been

damaged, its resurgence is very difficult and requires significant government resources to correct a problem that could be prevented by proper anti-money laundering controls. It would not be difficult to imagine the fall or the failure of a reputable financial center if it would become synonymous with the purification of criminal assets. This is because we consider the importance of 'good name' and reputation in attracting and retaining business in the financial industry. Therefore, the importance of confidence and the need for transparency in the financial system cannot be underestimated, especially as it is known that it makes a significant contribution to the GDP.

*Analysis of results and research findings*

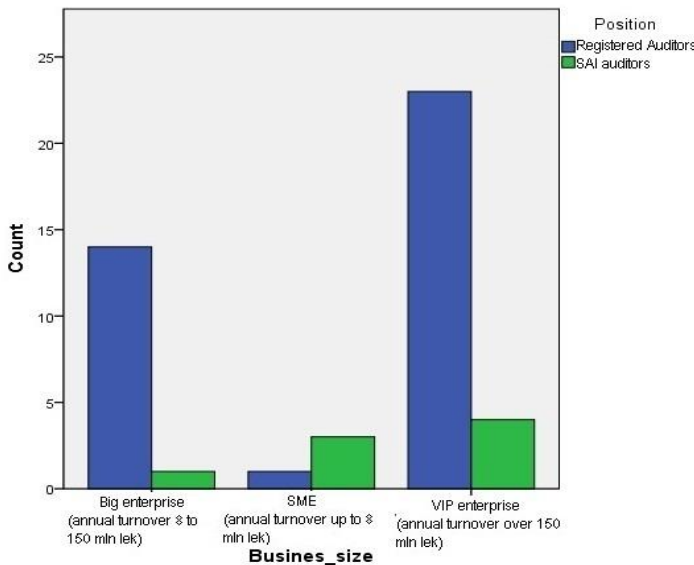
The questionnaire answered 46 registered auditors and SAI auditors, of whom 46.7% were female and 53.3% male. 38 (83%) respondes are registered auditors and 8 (17%) are SAI auditors. According to the survey data, majority of all respondets are over 50 years. This is not a strange think, because to be an accounting porffesional to need to have lots of work experineces, so it is difficult to find an accounting expert who is younger than 30 years.

The majority (60.5 %) of registered auditors answered that they Never encountered the ML phenomenon within a year meanwhile the SAI's auditors mostly (62.5 %) respond to face this phenomenon in few cases within a year.

Almost all the respondents answered that are mostly informed on the ML and AML regulation by the professional bodies they adhere to. We expected this answer because, the professional bodies in Albania, are organized according to EU regulations and are also positively assessed by internationals institutions.

We included in the questionnaire some questions about the size, ownership, industry etc of the enterprises, which are more inclined to undertake Money Laundering, to take the information if the ML phenomenon is depended by this factors. As we expected the Registered Auditors responds that it is VIP Business with annual turnover over 150 million lek which are more included in Money Laundering, while 58% of SAI's auditors respond that are VIP Business and 48% respond that are SME. The answers for this question are presented in the table.

Table 3: The effect of the company size on the ML

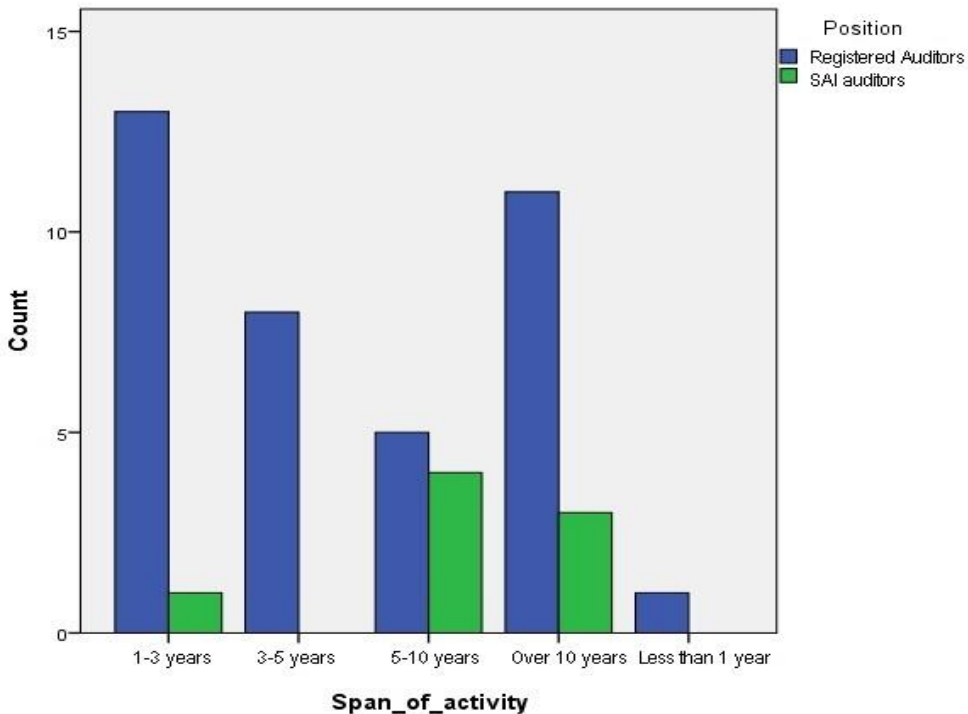


Source: Authors own work

The question on the impact of the lifespan of the business on the ML of activity most of Registered auditors are doubled between categories '1 – 3 years' and 'over 10 years'. However, prevails the idea that they have '1 to 3 year' in activity. While SAI's auditors support categories: '5 to 10 years' and 'over 10 years', and with a light majority wins idea '5 to 10 years'. So in conclusion in ML activities are involved more the young and old businesses.



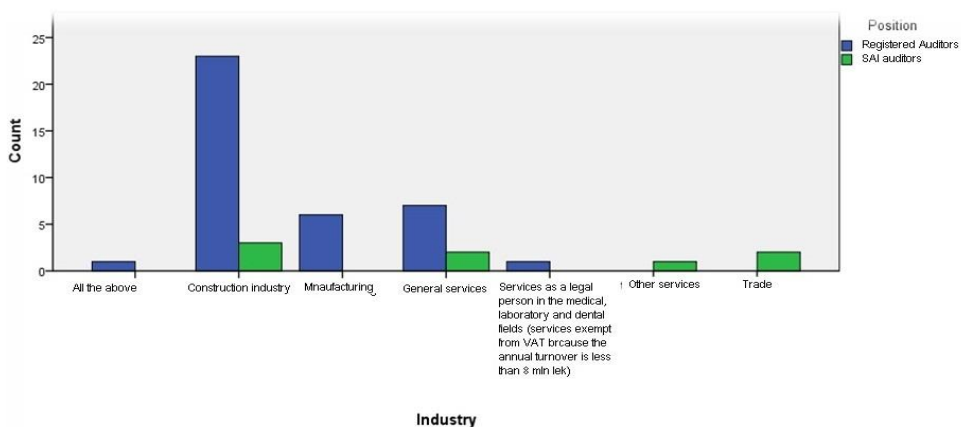
Table 4: The effect of the lifespan of the business on the ML



Source: Authors own work

Registered auditors clearly think that *Construction Industry* deals mostly with Money Laundering. We expected this answer because this industry has high profit rates and the companies which operate in that industry in Albania, generally prefer to make the transactions with buyers in cash. While the responses of SAI auditors are divided between 3 categories, construction, other services and retail industry, where construction Industry is a little bit more advantageous

Table 5: The effect of the nature of the business on the ML



Source: Authors own work

To the question if companies owned by Albanian capital or foreign capital, both categories have responded in majority that, companies with owned by Albanian capital are mostly involved in this illegal activity. This was a response we expected, because it is much easier to create ghost companies with a Albanian partner.

Regarding to the level of collaboration between auditors and other accountants with state institutions such GDPML and Central Bank, in relative to ML, registered auditors respond something in the midst of 'Weak' and ' Good'. While SAI's auditors seem to have a more fruitful collaboration with these institutions as they are between 'Good ' and ' Very good'. Probably because they are employed in the state institution as SAI is. This is not a good sign of the fighting of this phenomenon, as it requires inter-disciplinary collaboration to achieve the expected results. However, this non-coordination between the institutions and accounting professionals was noted, even in the GDPML report for the year 2017 where it was evidenced that during one year were trained only one accounting expert and one auditor

### Independence test

To prove the independence of the data received from the survey we used Chi-Square test. According to this test method should be calculate the index 'p'. To be independence between data tested this 'p' should be lower than 0.5 and to be depended the 'p' should be greater than 0.5.

#### 6.1.a. Chi-Square test for the influence or not in the answers given by respondents of their position, age and gender.

To prove the independence between the position of the auditors and the source that they use for information based on Chi-Square test, we find out that the 'p' value is  $0.37 > 0.05$ , so the variables are independent. So the information given by the auditors are not depended by their position.

Testing the relationship between age and source of information the result is that 'p' value is  $0.048 < 0.05$ , so the variables are dependent. So, we can say that source of information that the auditors use, depend just by their age. Younger experts use more technology and international updates, than the older who less flexible and use just info, provided by professional bodies.

Table 6

Chi-Square Tests –position-source of information			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	6.499 <sup>a</sup>	6	.370
Likelihood Ratio	6.455	6	.374
N of Valid Cases	46		
Chi-Square Tests age-source of information			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	29.013 <sup>a</sup>	18	.048
Likelihood Ratio	28.943	18	.049
N of Valid Cases	46		

Source: Authors own work

The 'p' value calculated for testing of relationship between Gender – Source of information result to be  $0.58 > 0.05$ , so the the variables are independent. That mean that the gender do not has influence on source on the information used by auditors

Table 7

Chi-Square Tests –gender –source of inforamtion			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	4.721 <sup>a</sup>	6	.580
Likelihood Ratio	6.237	6	.397
N of Valid Cases	46		

Source: Authors own work

### 6.1.b. Chi-Square test the relationship that exists between business size and other business characteristics

We have tested the relationship between the business size on duration of activities, industry and ownership.

Testing the relationship between business size and Duration of activity the 'p' value result to be  $0.027 < 0.05$ , so it is lower than 0.05 ( $0.027 < 0.05$ ) what means that these variables are dependent. That mean that bigger businesses longer their business life.

Chi-Square Tests - business size - industry			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	31.794 <sup>a</sup>	12	.010
Likelihood Ratio	22.557	12	.032
N of Valid Cases	46		

The 'p' value calculated by Chi-Square test for relationship business size with industry is  $0.01 < 0.05$ , so the variables are dependent.

Table 8

Chi-Square Tests – business size-duration of activity			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	17.299 <sup>a</sup>	8	.027
Likelihood Ratio	22.102	8	.005
N of Valid Cases	46		

Source: Authors own work

The Chi-Square Independence test has given us a 'p' value  $0.348 > 0.05$  for the relationship of business size with ownership of business which proves a independence relation between these variables..That means the ownership do not efect the size of the companies.

Table 9

Chi-Square Tests - business size with ownership			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	4.452 <sup>a</sup>	4	.348
Likelihood Ratio	5.660	4	.226
N of Valid Cases	46		

Source: Authors own work

### Conclusions

Money laundering is considered by the international institutions and the researches as an illegal activity. It is a criminal activity through which crime proceeds integrate into legitimate activities, making it easier to use them further. It involves the

manipulation of large quantities of illicit funds to distance them from their source quickly and in as undetectable a manner as possible.

Globalization of the economy has caused the ML from a national phenomenon to become an international phenomenon because the efforts of criminal groups to "clean" money actually extend to other countries where the opportunities evaluated by them are great. The increase of illegal activities on drugs, human traffics, corruptions are factors in the increase of the amounts of money which "need" to be clean by them owners. To combat and prevent ML several organization national and international has draw the rules, standards and legislation for AML, such Financial Action Task Force which has issue International standards on combating money laundering and the financing of terrorism.

Albania has been considered as a country with high activity on money laundering as a result of many economic, historical and cultural factors such: cash-based informal economy, the cross border transportation of cash and its further assimilation into the economy and Albania's financial system; the lack of a financial and tax system for more than 45 years; the unstable economic situation, characterized by the 'boom' of the construction industry; high level of corruption and of informal economy, non-complete legal framework and administrative structures non fully functional up to year 2000, for preventing and combating this phenomenon; the existence of a substantial black market for smuggled goods, and smuggling is facilitated by weak border controls and customs enforcement, etc.

ML activities has negative impact in the economy, it avoids the honest competition on the market, it has monetary, budgetary and fiscal effect, in the banking and financial system

Money laundering activities may, however, have indirect effects on an entity's financial statements and direct effect on the operating, financing and investing activity of the companies. Because the auditors and accountants are offering services to the companies they can encounter ML activities. So the legislation AML requires from them to attend some procedures in relationships with clients and with doubtful ML transactions encounter during their engagement. Register Auditors Professional bodies in Albania (IRA-IEKA) in its Code of Ethic require to them members to attend the right procedures again ML. Several regulation such Civil Code, AML law, Law for registered Auditors, Bank law states several requirement for companies, registered auditor and accountants.

From the literature review and questionnaire we find out that there is e proper AML legislation in Albania and in coherence with international AML regulations and standards but it need to be implemented. Actually there is e positive progress in Albania against ML. From the survey was found out that there is e negligence of the auditors in the training on AML regulations.

The survey finds out that the construction industry, the big companies and the very yang and old companies are more affected by ML transactions. More affected by ML transaction are also the companies owned by Albanian capital

There is e lack of inter-disciplinary collaboration between auditors and other accountants with state institutions such GDPML and Central Bank, in relative to ML.

There is a need from Professional Bodies of Auditors and SAI for much more training on AML. There is necessary that the auditors to have much more in their sight during the engagement the ML transactions.

To achieve the expected results on AML there should be done much more to improve inter-disciplinary collaboration between auditors and other accountants with state institutions charged on AML.

To have e better and more information on the AML situation in Albaia and the beter invelment of auditors and accountants ti si recommended further research to be made including in the sampla more audoras and the chartered accountants.

To have e better and more information on the AML situation in Albania and the better involvement of auditors and accountants it is recommended further research to be made including in the sample more auditors and the chartered accountants.

## Literature

- [1] ACCA. (2013)-Accountants and Money Laundering, Brief Guide for UK Practising Firms. 29 Lincoln's Inn Fields
- [2] Arunajith, U. (2015)-Effects of money laundering on economic progress. The Sunday Times. South Africa
- [3] Bank of Albania. 2016- *Brochure for ML*. Pg 6. Tirana.
- [4] Bank of Albania.2016- *Statistical report 2016*. Tirana
- [5] Basel AML Index, 2017- Published by Basel Institute on Governance, pg 3, 2017

- [6] Bartlett, B.L (2002). "The negative effects of Money Laundering on economic development". *International Economics Group and Dewey Ballantine LLP*. USA
- [7] Byron, P.2005 -*US Department of Justice Report against ML*. Pg 9,
- [8] Duhaime, C. 2014- "What is Laundering? Duhaime's Financial Crime and Anti-Money Laundering Law". Duhaime Law -7 March 2014, <http://www.antimoneylaunderinglaw.com/aml-law-in-canada/what-is-money-laundering> accessed 30.01.2018
- [9] Elezi, I. (2012). *Commentary on Amendments and Amendments to the Criminal Code, with Law No.23 dated 01.03.2012*. Publishing house "Erik". Tirana.
- [10] GDPML, 2015- *Annual report*. Pg 3
- [11] GDPML 2017 - *Report at the Co-ordination Committee of the Fight Against Money Laundering, 15.02.2017* (<http://www1.fint.gov.al/allajme/263-mblidhet-komiteti-i-bashkerendimit-te-luftes-kunder-pastrimit-te-parave..> Pg 1)
- [12] IEKA, 2014-*Ethic code*. EKR. Pg 24
- [13] ICAEW. (2012) *Anti-Money Laundering Guidance For the Accountancy Sector. England and Wales*.
- [14] IMF Country Report No. 11/187, July 2011.- *Albania: Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism* - pg 18
- [15] International Narcotics Control Strategy Report (INCSR) 2017 - Volume II Money Laundering and Financial Crimes, March 2017, pg 6.,28
- [16] Internationa Federatoion of Accountants (IFAC).2004- *Anti-Money Laundering, 2nd Edition*, pg 4,6 March 2004
- [17] JXlow, 2017- "6 Elements of an Effective AML/CFT Compliance Programme — AML-CFT". Published by JXLow. 03.09.2017. <https://aml-cft.net/6-elements-effective-amlcft-compliance-programme/>, accessed 31.01.2018
- [18] Financial Action Task Force 2017- *International standards on combating money laundering and the financing of terrorism & proliferation – the FATF recommendations-updated 09.2017*.
- [19] Law No.9917, dated 19.5.2008/2011 Article no 3
- [20] Law No. 10 091, dated 5.3.2009, Article 45
- [21] Muller, W.H.; Kalin, C.H and Goldsworthy J.G. (2007) "*Anti-Money Laundering: International Law and Practice*". John Wiley & Sons Ltd. England
- [22] Mecalla, N. (2012). *Doctoration paper. Publishing house of the university book*. Tirana
- [23] UNODC.- 2014 *United Nations Office on Drugs and Crimes's report on the International Classification of Crime for Statistical Purposes*, December 2014. Pg 4
- [24] Mc. Dowell. 2001 -*Money laundering and the national economy*. New York. Pg 19
- [25] World Bank Group, 2011-*Guide to AML*.,Pg 18
- [26] [https://en.wikipedia.org/wiki/Money\\_laundering-](https://en.wikipedia.org/wiki/Money_laundering-) accessed 30.01.2018
- [27] [https://www.google.al/url?sa=t&rct=j&q=&esrc=s&source=web&cd=8&cad=rja&uact=8&ved=0ahUKEwi8sMifz8DWAhWB0hokKHUz8AzYQFghUMAc&url=https%3A%2F%2Fwww.bankofalbania.org%2Fweb%2Fpub%2Fbroshura\\_pastrimi\\_parave\\_1017\\_1.pdf&usq=AFQjCNGxdkqec5wawo23MFVro9Q3J6j6ng](https://www.google.al/url?sa=t&rct=j&q=&esrc=s&source=web&cd=8&cad=rja&uact=8&ved=0ahUKEwi8sMifz8DWAhWB0hokKHUz8AzYQFghUMAc&url=https%3A%2F%2Fwww.bankofalbania.org%2Fweb%2Fpub%2Fbroshura_pastrimi_parave_1017_1.pdf&usq=AFQjCNGxdkqec5wawo23MFVro9Q3J6j6ng), accessed 17.12.2017