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ASSESSMENT OF RISKS OF MONEY LAUNDERING AND TERRORIST FINANCING AND INFLUENCE ON FINANCIAL AUDIT OPINION

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The actuality of the subject

- 42% of Romanian companies have been victims of economic crime in the last two years (*PwC, 2018*)
- more than 50% of economic crimes committed globally were caused by the inefficiency of internal control mechanisms (*Cascarino, 2013*)
- economic entities must develop procedures to prevent, combat, but also report fraudulent behavior (*European and Romanian Regulations*)
- the financial auditor has an important role, both for the assessment of the risk of fraud (*Montesdeoca, et. al., 2019*), in general, and for the assessment of the risks of money laundering and terrorist financing, in particular (*Law no. 129 / 2019*)

The purpose of the research

1. Identification of *financial audit procedures for assessing the risks of money laundering and terrorist financing* in the audit missions of companies listed on the BSE on the Premium market
2. Testing the influence of *money laundering and terrorist financing risks on the reporting by financial auditors of suspicious transactions, but also on the audit opinion*

1. Obligations of financial auditors on preventing and combating money laundering and terrorist financing

- customer acceptance depending on the degree of risk
- establishing standard measures and additional measures to know the client
- identification of suspicious transactions
- preparation and archiving of documentation by the auditor on preventing and combating money laundering and terrorist financing

2. Customer acceptance policy and measures to prevent and combat money laundering and terrorist financing instituted by financial auditors

- Measures to prevent money laundering and terrorist financing: *standard measures, simplified measures and additional customer awareness measures*
- *Risk questionnaire* - a score or score will be awarded to the client, based on its characteristics, which will place it in the risk categories provided by law, respectively: *high, medium or medium riskc*

3. Procedures, tests and audit evidence on the assessment of the risks of money laundering and terrorist financing

- audit procedures related to mission planning
- audit procedures related to the control of accounts
- audit procedures related to the completion of the mission

4. Reporting by financial auditors of suspicious money laundering and terrorist financing transactions

- internal reporting between audit team members
- reporting to the Office of detected suspicious transactions
- reporting to the client significant deficiencies or deficiencies in internal control
- reporting to external users through the audit report

Research hypothesis

The audit opinion issued by the auditors is influenced by a certain type of risk of money laundering and terrorist financing.

Research methodology

Population: *Entities listed on the BSE*

Sample: *67 entities listed on the regulated market - for the period 2016-2018; 201 Audit reports*

Examples of Variables: *Audit Opinion, Money Laundering Risk ...*

Data source: *Published audit reports*

Data analysis methods: *Descriptive statistics, Associations, Regression models, SPSS 22.0*

Results and discussions

For the sampled entities, the risks of money laundering and terrorist financing are potentially reduced:

- **on entities**, *e.g: listed companies that are required to publish information of public interest, including the beneficial owner;*
- **on products, services, transactions or distribution channels**, *e.g: products where the risks of money laundering and terrorist financing are managed through transparency of ownership;*
- **geographically**, *e.g: customers operating in the Member States.*

Results and discussions

Assessing the risks of money laundering and terrorist financing as *potentially reduced* for the entities included in the sample

There is *no direct influence of such factors on the change of the audit opinion*, following the data processing.

Conclusions

1. Not all entities are aware of the risks of fraud they face and their consequences
2. The financial auditor also has an important role in preventing and combating acts of economic crime
3. Auditor's experience - an important component of placing clients in a certain risk category, in terms of money laundering and terrorist financing
4. Access to data on companies' involvement in money laundering and terrorist financing is very limited

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Thank you!

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