



**Country Paper of Supreme Audit Court  
Islamic Republic of Iran**

**“The Measures of the Islamic Republic of Iran & Role of the  
Supreme Audit Court (SAC) in Combating Money Laundering”**

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## 1- Introduction

The phenomenon of globalization is an important issue of today's world. Global governance, electronic government, electronic commerce, electronic banking, and electronic training are the most important characteristics of globalization. Economic globalization is one of the most significant aspects of this phenomenon. The four major factors of the integration of financial institutions, globalization of banking and monetary operations, advance of new technologies, and expansion of banking operations necessitate the integrity of banking system in fight against money laundering, and challenge the correct enforcement of regulations and control of money laundering. The increasing integration of International Financial System along with the advance of technology, resulting in reduced number of capital transfer obstacles, has prompted criminal organizations, whose true nature is transnational, to take advantage of transnational facilities and launder their activities. For this reason, many governments and international organizations have decided to have close international cooperation on fight against money laundering.

Broadly speaking, *money laundering* is a process in which the illicit origin of funds obtained from illegal transactions such as drug trafficking, organized crime, and terrorism is turned into a legitimate form. According to Article 1 of EU Directives (1990, March), the phenomenon of money laundering is defined as such: "The transformation or transfer of an asset for the purpose of concealing its illicit source or to help any person who is involved in such offences."

Every country has its own definition of legal and illegal incomes based on its domestic rules and laws of the land. Therefore, terms such as "income", "wealth", and "illicit origin" might mean different things in different countries. It is to be noted that in some countries, it is possible to add other terms to the terminology of crime based on domestic laws. Here, we can mention the terms "gambling", "selling alcoholic beverages" and "usury" in Islamic countries.

Here is a history of money laundering: 1931- Al Capone; 1932- Meyer Lansky "Capital Flight"; 1934 Swiss Banking Act; 1973- The "Guardian" newspaper for the first time used the term "money laundering" to refer to the financial sources of the Republicans' presidential campaign during Watergate Scandal. In 1989, the Seven Industrialized Nations (G7) founded the anti-money laundering organization, "FATF" (Financial Action Task Force on Money Laundering.) In 2002, global measures were taken against money laundering.

The general characteristics of “money laundering” are as follows:

- 1- Money laundering is a second degree crime;
- 2- Money laundering is an organized crime;
- 3- Money laundering is a transnational crime; and
- 4- Money laundering is a white-collar crime.

Among jobs, the ones which are highly susceptible to money laundering are:

- 1) Banking system, especially correspondent banks, money orders, and banking transfers;
- 2) Money changing;
- 3) Notary public offices, especially involved in real estate transactions;
- 4) Travel agencies and transport companies;
- 5) Suppliers of expensive goods;
- 6) Building construction and housing investment companies;
- 7) Foundations;
- 8) Insurance companies; and
- 9) Trusts and hedge funds.

## **2- International laws and performed acts**

The most important approved international anti-money laundering laws can be summarized into the following:

- 1) Only drug deals and revenues obtained from them are considered as crime. (The Summit of Arch, Paris, July 1989)
- 2) The funds obtained from all illicit transactions or criminal activities are referred to as “dirty.” (1990)
- 3) The funds obtained from drug offences or serious crimes and all criminal activities are considered as “dirty.” (1995)
- 4) The Anti-Money Laundering and Counter-Terrorism Financing Act (2003).

Although the World Bank and the International Monetary Fund (IMF) are essentially different in nature, both follow certain objectives in combating money laundering and terrorism financing. In 2002, following the events of September 11, 2001, the Board of Directors of the World Bank and IMF decided to add 40 recommendations to the 9 recommendations of the Financial Action Task Force (FATF) as the International Anti-

Money Laundering and Terrorism Financing Standards, and started a global 12-month pilot program to assess the comprehensive methodology of fight against money laundering and terrorism financing as of November, 2002. The most important aspects of this program are:

- i) Raising awareness;
- ii) Developing the methodology of assessing the fight against money laundering & terrorism financing;
- iii) Creating organizational capacity;
- iv) Doing research and analysis (for example, money order system analysis, study of other money transfer systems, World Bank's website on fight against money laundering and terrorism financing, and manual of Financial Information Unit (FIU)).

Furthermore, international legal actions such as UN Drug Convention (1988) have been taken to prevent major transnational criminal organizations from obtaining interests. Other important measures which have played a crucial role in combating money laundering are:

- The formation of Financial Action Task Force (FATF) in 1989;
- 1990 Summit of the Industrialized Nations (G7);
- Measures of the European Council;
- 1988 UN Vienna Convention;
- UN International Drug Control Program;
- UN Convention against Transnational Organized Crime (Italy, Palermo, 2000);
- UN Global Program against Money Laundering (holding training programs for different jobs and legal experts);
- Second EU Directive on Anti-Money Laundering;
- Third EU Directive on Anti-Money Laundering;
- International Convention for the Suppression of the Financing of Terrorism (1999);
- UN Security Council Resolution 1373;
- UN Security Council Resolution 1267 and other resolutions; and
- Egmont Group.

### **3- The legal System of Iran**

Broadly speaking, two types of actions are being carried out at the moment by the Iranian government as to money laundering. The first type deals with the prevention of dirty money production, and the second with the prevention of dirty money penetration into the economic system. With the approval of Anti-Money Laundering Act (by the Islamic Consultative Assembly or Majlis in 2008), the Anti-Money Laundering Supreme Council, headed by the Minister of Economic Affairs and Finance, and the membership of the Ministry of Commerce, Ministry of Information, Ministry of Interior, and the Senior President of the Central Bank of Iran, was established. One of the most important tasks of this Council is to develop the anti-money laundering executive regulation which is now in progress. With the execution of regulations relating to Anti-Money Laundering Act, the transparency of financial and monetary system has increased, and the probability of dirty money entrance into the economic cycle has decreased.

According to Special Law of the Legal System of Iran, money laundering is considered as a “crime”, and punishment has been assigned for all involved parties. The Anti-Money Laundering Bill was approved by Parliament on January 22, 2008, and was later ratified by the Guardian Council on February 6, 2008. The Anti-Money Laundering Act which includes 12 Articles and 7 Notes was approved by Parliament on January 22, 2008, and was later ratified by the Guardian Council on February 6, 2008. Following this, according to Principle 138 of the Constitution, the executive regulation of Anti-Money Laundering Act was approved on February 11, 2009.

### **4- Acts of agencies as to money laundering**

#### **1) Central Insurance Company**

- **Directive on identifying the applicants of insurance services**

To combat money laundering, prevent terrorism financing, and make the necessary preparations for the execution of Paragraph (a), Article 7 of Money Laundering Act (approved by Parliament in 2008), and the second chapter of executive regulation of Money Laundering Act approved on December 5, 2009, “Directive on identifying the applicants of insurance Services” was approved and notified by Anti-Money Laundering Supreme Council in 21 Articles and 11 Notes on January 2<sup>nd</sup>, 2012.

- **Directive on how to detect suspicious insurance activities and be on alert for suspects in insurance companies**

To combat money laundering, prevent terrorism financing, and make the necessary preparations for the execution of Articles and executive regulation of Anti-Money Laundering Act, the “Directive on how to detect suspicious insurance activities and be on alert for suspects in insurance companies” was approved and notified by Anti-Money Laundering Supreme Council in 17 Articles and 4 Notes on January 2<sup>nd</sup>, 2012.

- **Directive on fight against money laundering in foreign reinsurance activities & extraterritorial transactions**

To combat money laundering, prevent terrorism financing, and make the necessary preparations for the execution of Articles 31 and 32 of executive regulation of Anti-Money Laundering Act, the "Directive on fight against money laundering in foreign reinsurance activities & extraterritorial transactions" was approved and notified by Anti-Money Laundering Supreme Council in 5 Articles on January 2<sup>nd</sup>, 2012.

- **Directive on fight against money laundering in electronic insurance service delivery**

To combat money laundering, prevent terrorism financing, and make the necessary preparations for the execution of the executive regulation of Anti-Money Laundering Act, the “Directive on fight against money laundering in electronic insurance service delivery” was approved and notified by Anti-Money Laundering Supreme Council in 12 Articles and 2 Notes on January 2<sup>nd</sup>, 2012.

- **Directive on the structure and tasks of Anti-Money Laundering Unit in insurance industry**

To combat money laundering, prevent terrorism financing, and make the necessary preparations for the execution of Articles 18 and 19 of the executive regulation of Anti-Money Laundering Act, the “Directive on the structure and tasks of Anti-Money Laundering Unit in insurance industry” was approved and notified by Anti-Money Laundering Supreme Council in 11 Articles and 5 Notes on January 2<sup>nd</sup>, 2012.

## **2) Stock Exchange Agency**

Following the notification of the anti-money laundering executive instruction approved by Anti-Money Laundering Supreme Council, the Stock Exchange Agency sent the most important duties and responsibilities of representatives and authorities of Anti-Money Laundering Unit to the people under control. As a result, the authorities of Anti-Money Laundering Unit shall send the report of suspicious transactions and activities, according to the instruction, to the secretariat of Anti-Money Laundering Committee of Stock Exchange Agency through office automation system (<http://docunet.seo.ir/docunet>).

According to the Provisions of Note 1, Article 2 of Directive on report of suspicious activities and transactions, managing director will be responsible for all mentioned duties.

## **3) Tax Affairs Organization**

Nowadays, the close relation between money laundering and tax evasion, both as obvious manifestations of financial corruption, has prompted statesmen to benefit from all legal mechanisms for combating these corruptions. The approval of Anti-Money Laundering Act is a significant action indicative of government's determination to combat financial corruption. As a result, the Anti-Money Laundering Office was established in Tax Affairs Organization in order to realize this objective, and it is a good indication of the start of the structural reforms in governmental agencies, especially the tax system, to combat this economic problem. Since tax is considered as an effective means of detecting hidden economy and making transparent the incomes of economic actors in the world, the Tax Affairs Organization, in an attempt to implement effective plans such as the "Comprehensive Tax Plan" and "Tax on Value Added System", has taken useful actions in combating financial corruption and earning income from real income owners.

## **4) Ministry of Commerce**

Ministry of Commerce is one of the organizations, which has important responsibilities in preventing dirty money from penetrating into the economic system. In practice, money laundering is done in the form of the manipulation of price, quality, and quantity of imported and exported goods. In many cases, the financial system is abused by wash transactions and money transfer through banking payment instruments such as money orders. The main methods of money laundering in international trade exchanges are as follows:



- Manipulation of price of goods or services (The basis of this method is to manipulate the price of goods or services in order to transfer the additional amount to the real price of goods or services);
- Issuing numerous invoices for the same goods or services (Money launderers can issue several invoices for only one transaction);
- False description of goods or services in trade documents (changing the description of traded goods or services to one's own benefit);
- Deficiency or excess in shipment or delivered services (In this case, an exporter, without doing any export and with the complicity of an importer, presents customs and transport documents which, in fact, don't exist in order to announce the quantity of a good or delivered service more or less than its actual amount);
- Of course, it is to be noted that money laundering, in its common sense, doesn't exist in Iran as in other countries. However, some manifestations of it such as padding expenses, issuing numerous invoices (for one transaction), and etc. exist in Iran's economy, but the aim of these actions is not money laundering but gaining personal and group interests, and derives from seeking bribe, loss of transparent policies, and inappropriate development of infrastructures such information technology and e-commerce.
- Numerous plans are on the agenda, of which the most important one is the reform of the distribution network infrastructures. Other plans are the projects of organizing the goods distribution system and establishing the system of the classification and product ID services (Iran code). For example, the system of coding products and product ID services is designed and implemented with the following objectives:
  - Creating a standard and inclusive model for identification of all goods and delivered services;
  - Standardization of basic information of goods and services;
  - Transparency and making the necessary preparations for tracking information of goods;
  - Creating electronic ports for introducing enterprises and their products;
  - Restricting illegal acts in goods distribution;
  - Lowering the costs of exchange in distribution network; and
  - Lowering the manufacturing costs of goods produced inside country.

With deployment of this system, one can expect that the volume of smuggled goods is reduced. Generally speaking, adopting the policy of increased transparency in the state's transactions is one of the most important policies of the Ministry of Commerce in line with fight against money laundering.

One important plan is about the unions. According to the executive instruction of Anti-Money Laundering Act, the guilds' board of directors shall introduce a person or committee to Anti-Money Laundering Supreme Council as an authority in charge of combat. This task is done in collaboration with the Ministry of Commerce and guilds, and is on the agenda of this Ministry.

Another plan of the Ministry of Commerce is its close cooperation with the Financial Information Unit (FIU). This cooperation is on the adaptation of software system with the information systems of FIU, including order registration system, real estate transactions system, guilds card system, and goods coding system, which are all in line with the execution of the anti-money laundering regulation.

Since internal transactions are regarded as a source of benefit to criminal bands, documentation and transparency of transactions, the necessity of issuing invoices, doing transactions with the help of banking system, transferring large amounts of money through banking system, and identifying people while using banking services are, at the moment, parts of the plan being carried out, and have been predicted in Anti-Money Laundering Act and its executive regulation:

First, the needed infrastructures of fight against money laundering are set up through the establishment of an inclusive, strict legal system.

Second, to assess the efficiency of relevant executive regulations and achieve predetermined goals, a coordinated evaluation system including qualitative and quantitative indexes shall be established.

Third, to realize the fight against money laundering, the way to do economic transactions shall be transparent, and controls shall be legalized.

To this end, the most important plans of the Ministry of Commerce are as follows:

- Transparency of information technology distribution system;

- Use of new technologies for accelerating business activities and expanding the application of e-commerce in line with trade facilitation and confidence-building;
- Organizing commercial websites and preparing lawful and integrated ground for government transactions;
- Setting up Foreign Trade Unit System;
- Using barcode; and
- Benefitting from Electronic Information Exchange Standards (doing transactions electronically without paper).

In addition, the website of unions has been set up, and all guilds possessing commercial permit have been identified and entered into this website. In order to be stricter on unauthorized unions and achieve more transparency, getting legal permit from Parliament is also on our agenda.

Manipulating the price of goods and import-export services, money launderers can also announce the quantity of a merchandise or delivered service more or less than its actual amount. To resolve this issue, the government has taken some actions of which the most important one is upgrading customs computerized system (both software and hardware). Computerizing customs processes, training customs personnel, and stepping up random inspections are some of the most significant actions taken by government. Other measures include:

- Electronic customs development plan;
- ASYCUDA system completion project;
- Goods valuation improvement plan;
- Value-based system set-up project;
- Value determination system review project;
- Customs organizational structure reform plan;
- Customs units planning project;
- Administrative health promotion plan;
- Work conscience and culture promotion project;
- Customs formalities facilitation plan; and
- Inter-organizational cooperation project to facilitate customs formalities.

With the implementation of these plans, the customs system is mechanized, the precision of customs evaluations is increased, and the possibility of customs misstatement is decreased.

Numerous measures have been taken for transparency of foreign trade. The Act of Import-Export Regulations has been reformed and is going to be ratified; multiple software systems have been set up to create an atmosphere of transparency, the possibility of data integration, import management, and electronic order registration.

#### **5) Performed acts to combat money laundering in Iran's capital market**

- Developing and notifying 6 executive instructions on “fight against money laundering in capital market”:
  - 1- Instruction on customer identification;
  - 2- Instruction on detection of suspicious transactions and activities and the reporting style in capital market;
  - 3- Instruction on document retention and destruction;
  - 4- Instruction on method of sending capital market documents to customers' addresses;
  - 5- Instruction on observance of anti-money laundering regulations in electronic services of capital market;
  - 6- Instruction on taking care of capital market suspects.

#### **6) Anti-money laundering instructions framework in stock exchange**

- General anti-money laundering policy in stock exchange:
  - Customer identification (primary identification);
  - Precise and continuous identification of customers;
  - Customer identification by financial intermediaries;
  - Records maintenance;
  - Suspicious transactions;
  - Control; and
  - Training.
- Formation of Anti-Money Laundering Committee;
- Formation of Anti-Money Laundering Unit;
- Setting up the customer identification system and periodic verification of information;

- Setting up a proper software system for extracting the report of suspicious transactions in stock market;
  - Preparing a report form of suspicious transactions and activities in capital market;
  - Software system of extracting the report of suspicious transactions.
- Creating and upgrading a safe and effective communication infrastructure in order to establish the connection of auditees with Anti-Money Laundering Unit and Council's secretariat.

The system of Anti-Money Laundering Unit pursues the following objectives:

- Training personnel;
- Holding training courses;
- Creating an archive of documentations and scientific articles;
- Distribution of newsletters for the purpose of culture-making;
- Declaring the annual supervisory action plans;
- Announcing the existing weak points to the secretariat for review and taking necessary actions;
- Recognizing the strong points of the ongoing process in Stock Exchange Organization for comparative use in other areas;
- Detecting the probable channels of money laundering in capital market;
- Preparing a supervisory checklist for the use of inspectors to express opinion and confirmation of Council secretariat;
- Organizing institutions and agencies under the supervision of Stock Exchange Organization to establish the Anti-Money Laundering Unit, executing operational processes and internal controls, and preventing the occurrence of money laundering offence;
- Reviewing all forms used by financial institutions of capital market and adapting their contents with the requirements of anti-money laundering institutions in capital market;
- Deploying and upgrading appropriate infrastructures in order to establish a good relation between institutions and agencies under supervision with the Anti-Money Laundering Unit of Stock Exchange Organization and the secretariat of Anti-Money Laundering Supreme Council.

## **5- S.A.C's status in combating money laundering**

In this section, the role and position of the Supreme Audit Court of Iran in combating money laundering will be studied in two parts: first, S.A.C's role and working procedure in combating money laundering and second, S.A.C's measures in fight against money laundering:

### **a) S.A.C's role in combating money laundering**

According to the Iranian Constitution, the Supreme Audit Court of Iran reviews and audits all accounts of ministries, institutions, state-owned enterprises, and other agencies which in one way or another benefit from state budget, as stipulated by law, so that no expense exceeds from its approved budget, and funds are spent in their proper place. The Supreme Audit Court collects accounts and related evidence and submits the budget liquidation report of each year along with its own comment to the Parliament. This report shall be made available to the public. The functions and duties of the Supreme Audit Court are explicitly expressed in Principles 54 and 55 of the Iranian Constitution. Regarding S.A.C's position, one can reach the following conclusions:

- 1) S.A.C's superior legal position to other regulatory bodies;
- 2) S.A.C's expertise in auditing and financial control of organizations;
- 3) It is the Parliament's supervisory arm, and is free to audit the financial statements and activities of different organizations;

Therefore, benefitting from legal and professional means, S.A.C can potentially be one of the most effective agencies in combating money laundering. Since the process of money laundering is somehow reflected in financial statements, S.A.C is considered as one of the major advisors in fight against money laundering given its legal powers and expertise in auditing. Furthermore, because S.A.C is the Parliament's supervisory arm, it is obliged to have additional supervision of the business atmosphere in order to support individuals' rights of citizenship. In recent years, adding economic analyses to audit reports and adopting preventive policies, S.A.C has shown its great resolution for fight against money laundering.

## **b) S.A.C's measures in combating money laundering**

Supervision of state total budget, fight against administrative and financial corruption, building financial discipline, reporting, and being accountable to the public are the most important functions of S.A.C. Therefore, the combat against money laundering can be included in these tasks.

- 1- After the execution of Targeted Subsidy Plan and prioritizing the reduction of budget dependency on oil, the issue of tax revenues is the focus of attention. Since Tax Affairs Organization as one of the sources of revenue for government is under the supervision of the Supreme Audit Court of Iran, the stability and increase of tax revenues is considered as one of the major goals of the state, and S.A.C is bound to monitor its realization. However, because money launderers try to conceal the source of their incomes and evade tax, S.A.C has put the pathology project of tax system on its agenda. In other words, building financial discipline, which requires the stability of revenues and expenditures in tax revenues sector, has drawn S.A.C's attention. As an example, we can refer to the increase in the number of tax returns in 2012.
- 2- One of the expectations of the actors of different economic sectors and even the masses is the existence of a healthy competitive atmosphere based on a healthy, lawful business. Regarding S.A.C's mission of reporting and being accountable to the public, adopting the policy of performance audit and infringement prevention, reviewing directives and developing audit instructions have caused decrease of corruption channels and possible fraud. As to money laundering, the existence of theoretical and practical economic reports based on developed standards has led to the decrease of corruption channels of money laundering.
- 3- Setting up SANA Project (Electronic Monitoring System)

The objective of SANA Project is the online control of all auditing and accounting activities. Undoubtedly, benefitting from S.A.C's potentials and new electronic advances, SANA Project shall have a great impact on time-saving and continuous supervision of financial operations of auditees.

#### 4- Giving consulting services

As it was mentioned earlier, due to S.A.C's expertise and experience in law and auditing, all organizations and agencies pay particular attention to S.A.C as an advisory body in developing their rules and directives. Moreover, because of S.A.C's active participation in policy-making sessions of Anti-Money Laundering Council and its staff's expertise in developing auditing and accounting standards, S.A.C is one of the producers of anti-money laundering roadmap.

#### 5- Holding anti-money laundering training courses

Given S.A.C's policy of infringement prevention in agencies under its control, one of the most important tools of the realization of this objective is training the personnel. To realize this aim, S.A.C has held training courses especially in the field of fight against money laundering. The staff of other Iranian provinces have also benefitted from these trainings through video conference. In addition, periodicals such as booklets and news bulletin have been used in training workshops on money laundering, its goals, and the way to fight it.

#### 6- Formation of anti-money laundering working group

S.A.C's Anti-Money Laundering Working Group consists of members of auditing boards, director generals, and deputy heads of relevant units. The mission of this working group is to make the necessary decisions on the actions of audit units in agencies and their auditing procedure.

#### 7- Preparing audit checklists

With the notification of Anti-Money Laundering Working Group approvals, checklists of measures of agencies charged with combating money laundering and monitoring the activities of auditees are prepared. So far, these checklists have been prepared for different organizations including customs organization, insurance companies, banking operations, capital market, finance and economic affairs, money changing, and so on.



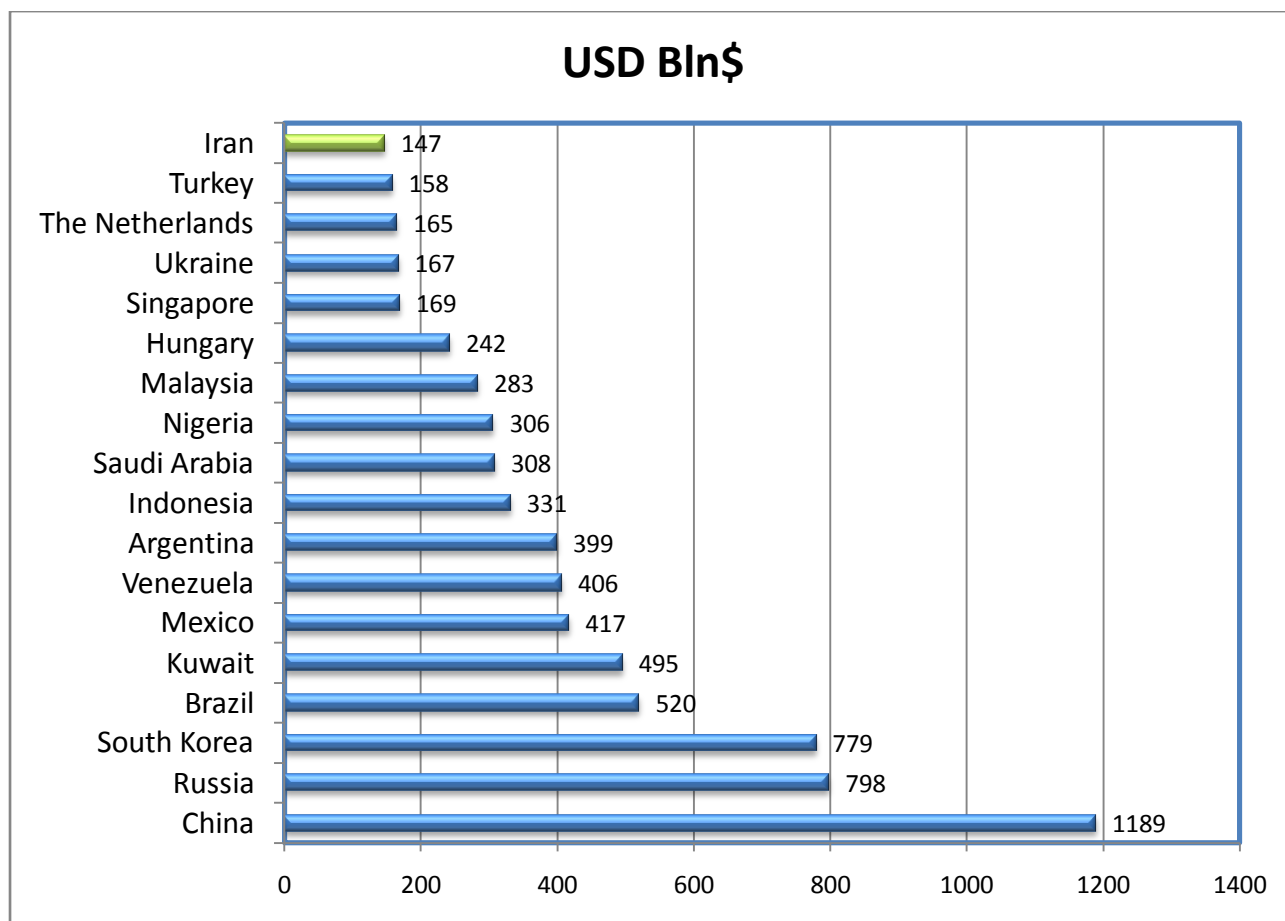
#### 8- Monitoring privatization transactions to prevent entrance of suspicious money into economy

Benefitting from the experience of other countries in money laundering, S.A.C is well aware of the privatization processes as a source of entrance of money launderers into world's economy. In fact, the richest people of the world act in countries which are in the process of privatization. For example, Mexico, India, Spain, Brazil, and Hong Kong are among the countries which have either finished the process of privatization or are in its process. Therefore, benefitting from its audit abilities and related tools, S.A.C continuously controls privatization activities and traces any suspicious transaction in collaboration with other related agencies.

#### 6- **Summary and Conclusion**

In fight against money laundering, we always come across big networks of the most talented and expert people in financial activities and the creativity of money launderers in applying different methods to conceal the origin of funds obtained from illicit activities. As a result, mentioning all needed solutions to combat money laundering is actually impossible, but the different ways of money laundering process can be reduced with the adoption of realistic policies.

The following figure presents the volume of money laundering in Iran in 2010 compared with other countries. As it is seen, it is much less than other nations. Considering the fact that Iran is the neighbor of one of the biggest producers of world's narcotics, and is also located on the way of drug transit to Europe, it has a high potential for money laundering. Therefore, what are the reasons for the low rate of money laundering in Iran? Here, we can mention five reasons:



- 1- The Islamic Republic of Iran is highly resolute to combat any violation of law and punish the people involved in economic corruption as in the recent big financial corruption case.
- 2- The Islamic Republic of Iran has benefitted from all existing potentials of the state to combat organized crime, especially money laundering. In addition, the cooperation of all related agencies is manifested in Anti-Money Laundering Supreme Council.
- 3- It is safe to say that in addition to the extant laws related to violations, the existence of strong cultural and religious principles among people is a preventive factor in the occurrence of many offences. In both religion and law, the status of illegitimate money is assigned.
- 4- The general policies of the Islamic Republic of Iran as to the promotion of a production-based economic culture have prompted the state to pay particular attention to the issue of production. Based on some theories, funds with uncertain origin can be used in the short-term development and progress of a nation.

However, since virtual production-based progress is unstable, policy makers have focused on the strategy of production-based progress, and therefore, the volume of the illegitimate wealth entry into our country is more restricted than other countries.

- 5- The extant comprehensive rules and regulations and the regulatory bodies' complete supervision of the proper enforcement of laws are among other factors which have reduced the causes of money-laundering offence.

In general, one can admit that the existence of religious beliefs and ban on many offences related to money laundering such as gambling, selling and buying alcoholic beverages, guns, human trafficking, and the crime of prostitution by Islam are enumerated as reasons for the low rate of money laundering in Iran. In fact, in today's world, no deterrent is more effective and forceful than morals, spirituality, inner controls, and self-restraint.