

Introduction

The Task Force was established by the INTOSAI Governing Board at its 50th Meeting (Vienna, October 2002) at the request of what is set out by XVII INCOSAI (Seoul, October 2001) and the results of the survey circulated by the General Secretariat, emphasizing that SAIs could play an important role in cooperation with INTOSAI to support efforts in combating international money laundering .

The group consists of SAIs representing each regional organization: Peru (OLACEFS), as Chair, Fiji (SPASAI), Lesotho (AFROSAI), Egypt (ARABOSAI), Papua New Guinea (ASOSAI), United Kingdom (EUROSAI), and Trinidad and Tobago (CAROSAI); as well as SAIs from the United States, Russian Federation, as sponsor of the initiative.

Change in Status:

During November 2007, in Mexico, The INCOSAI 19th took an agreement on modification about the status and extension of the Task Force changed for the Working Group “Fight against International Money Laundering & Anti Corruption”.

After that the new working group held its first meeting in Lima – Peru March 05, 2008.

However, during the Second meeting held in Cairo last July 30-31, 2008 , the members agreed to modify the title of the working group to be: " Fight against Corruption and Money Laundering" as money laundering becomes the final stage in the corruption process, by transforming the unlawfully obtained proceeds to lawful, and at the same time, becoming itself into a sophisticated act of corruption .

¹ Technical Unit of the SAI of Mexico (Direction of the National Anticorruption System).

Table of Contents

News in Brief 1

- WGFACML Chairman Participation in the 8th Session of the Conference of the States Parties.
- TCU audit in public contracts in the culture sector
- CAII Meeting in Peru
- Coordination meeting between the Integrity Commission and the Federal Financial Control Bureau (IRAQ)
- Oman experts review the report of the Cook Islands
- The 5th meeting of INTOSAI WGFACML Subgroup 2

Laws & Reports 4

- Federal Act on the Austrian Court of Audit

Articles

- SCOPE FOR SAI PAKISTAN IN MATTERS INVOLVING FIGHT AGAINST MONEY LAUNDERING
- What could be the role of a Supreme Audit Institution in the fight against corruption?

Contributions by SAIs:

- The Office of the Comptroller General of the Republic of Peru promotes an innovative system to guarantee objectivity and audit independence
- The National Anti-Corruption System of Mexico develops a digital platform against corruption¹
- Resume on Social Control (
By the SAI of Ecuador

Books related to Corruption & Money Laundering

List of WG members and Contacts

News in Brief:

Egypt



WGFACML Chairman Participation in the 8th Session of the conference of the States Parties to the United Nations Convention against Corruption in Abu Dhabi, United Arab Emirates, 14 - 15 December 2019.

Counselor / Hesham Badawy - (ASA President) & WGFACML Chairman participated in the 8th session of the Conference of the States Parties to the United Nations Convention against Corruption in Abu Dhabi, United Arab Emirates, on 16 - 20 December 2019.

He also participated in the meeting held on 14 and 15 December 2019, concerning the initiative of the SAI of the United Arab Emirates to establish permanent cooperation between SAIs and Anti-corruption authorities .

During this meeting, his excellency reviewed the achievements and contributions of the working group in the field of fighting corruption and money laundering.

His Excellency reviewed the efforts made by the WG to enhance the professional capabilities of WG member SAIs in the field of fighting corruption and money laundering through the guidelines issued by the working group, as well as the initiative under development between the WG Secretariat and IDI to study the training needs of

the WG member SAIs in the field of fighting corruption and money laundering , in addition to a number of training programs that will be developed in the light of analyzing these training needs.

He also reviewed the vision of the WG with regard to identifying the necessary needs for capacity building , exchanging knowledge and professional cooperation in the field of fighting fraud and corruption , besides establishing permanent cooperation between both anti-corruption authorities on the one hand and SAIs on the other hand in order to maximize the benefits that can be achieved from this cooperation and to announce long-term cooperation between SAIs and Anti-Corruption Authorities at the national , regional and global levels to support this initiative within the framework of the United Nations Convention against Corruption.



Brazil

TCU audit in public contracts in the culture sector supports Brazilian Federal Police operation to fight corruption

An analysis presented in a report prepared by the Federal Court of Accounts - Brazil (TCU) was used as a basis for an operation started on February 19 by the Brazilian Federal Police.

- The information was shared with the police authority in September 2017, authorized by Substitute Minister André Luís de Carvalho, rapporteur of the case that audit possible irregularities in contracts of the Industry Social Service (Sesi) with non-governmental organizations and civil society organizations of public interest, known as OSCIPS. The Minister also authorized the cooperation of court auditors with the investigations.

The request to share the case came from the TCU’s technical department, which saw signs of fraud in the contracts. On the other hand, the evidence obtained by the Federal Police investigation will be passed on to TCU for the instruction of the complaint case TC 042.852/2018-8, in which the matter is handled.

Auditors from the Department for Control Strategies on Fight Against Fraud and Corruption (SECCOR) and from TCU Departments in the states of Pernambuco, Alagoas, Paraíba, São Paulo and Mato Grosso do Sul participated in Operation “Fantoche” (Puppet). The integration of the auditors in the aforementioned proceedings was authorized by the Federal Court in Pernambuco.

corruption and integrity policy-making. This in order to assimilate the best experiences and create a space for the exchange of knowledge among the representatives of the academy, public officials, the media, the private sector, civil society, and experts in the field, with the ultimate goal of developing new and increasingly innovative strategies in the fight against corruption.

Coordination meeting between the Integrity Commission and the Federal Financial Control Bureau (IRAQ)



The Integrity Commission held a coordination meeting with the Office of Financial Supervision to address the topics of the Anti-Corruption Index and the preparation of the National Integrity Strategy for the years 2019-2020, at the Iraqi Academy for Combating Corruption.

The meeting, chaired by Judge Ezzat Tawfiq Jafar, Head of the Integrity Commission and Dr. Ala Hatem Kazim, Vice President of the Federal Audit Bureau, discussed the preparation of the national standard of fairness and the need to re-evaluate the performance in order to contribute to a qualitative shift in transparency and combating corruption. Of the directors-general of both sides.

It is noteworthy that the Integrity Commission continues its coordination meetings with the Federal Audit Office to discuss many issues related

CAII Meeting in Peru



The main purpose of the International Annual Conferences for Integrity is to stimulate debate through the creation of space for analysis on new approaches and practices that are being developed in the region and around the globe, in anti-

to combating corruption and the preparation of plans and strategies for them.

Sultanate Oman experts review the report of the Cook Islands on the United Nations Convention against Corruption



The visit of the country's experts on the implementation of the United Nations Convention against Corruption (UNCAC) will be concluded on Thursday, 28 March 2019. The experts from the Sultanate of Oman participated in the review of the Cook Islands State in cooperation with experts from the Maldives, in coordination with the United Nations Office on Drugs and Crime .

This review follows the implementation of the provisions of the United Nations Convention against Corruption, with the review, analysis and discussion of the report prepared by the Cook Islands State on the extent of its implementation of chapter II (Safeguards) and Chapter V (asset recovery) of the Convention, A report on his observations and recommendations on the report of the Cook Islands to the United Nations Office on Drugs and Crime. The present report reviews the observations and recommendations made in the report to arrive at a final report, S.

The delegation of the Sultanate's experts team consists of: Advisor Mohammed Bin Khamis Al Hajri, Director General of the General Directorate of Legal Affairs in the Financial and

Administrative Control Authority of the State, Dr. Ahmad bin Saeed bin Ahmed Al Shukaily, Director of the Office of the Attorney General, and Dr. Khalil bin Hamad bin Abdullah Al Busaidi, Judges of the Administrative Council of the Judiciary.

It is worth mentioning that the Sultanate recently hosted the visit of the delegation of the Sultanate's delegation to review the implementation of the second and fifth chapters referred to and concluded on 11/10/2018. The visiting delegation expressed their satisfaction with the legislative situation in terms of its compatibility with most of the requirements of the agreement.

The 5th meeting of INTOSAI WGFACML Subgroup 2 on “Audit of Corruption Prevention in public Procurement”



The 5th meeting of INTOSAI WGFACML subgroup 2 assigned to develop the guideline on “Audit of Corruption prevention in public procurement “ was held in Muscat – Oman during 5 & 6 March 2019 , with the attendance of subgroup member SAIs : Germany (chair) , Austria (Co-chair) , Poland , Czech Republic , Oman (the host) and the WG Secretariat (Egypt) , to discuss the final draft of the guideline.

Laws & Reports

Federal Act on the Austrian Court of Audit:

Federal Act on the Austrian Court of Audit
(Austrian Court of Audit Act 1948 – RHG)

[BGBl. Nr. 144/1948](#) last amendment by [Federal Law Gazette \(F. G. L.\) I No 98/2010](#)

Chapter I.

The duties of the Austrian Court of Audit with respect to the Federation's expenditure and revenue

A. Public administration, monopolies and federal enterprises.

1. Audit of accounting and financial management.

Section 1. (1) The Austrian Court of Audit shall audit the public accounts of the State. Subject to such audit are:

1. All expenditure and revenue of the Federation;
2. the full scope of the loan finance of the Federation;
3. the financial management of movable and immovable federal property.

To read more :

<http://www.rechnungshof.gv.at/en/aca/legal-provisions/federal-act-on-the-austrian-court-of-audit.html#c659>

ACA and Fighting Corruption

The best success in the fight against corruption is achieved when everyone working in this area in state organisations, such as auditing and investigating authorities and courts, but also legislative bodies, work together as partners. Combining the special knowledge in this field can

be a powerful and effective weapon in the battle against corruption. A networked and comprehensive way of operating provides the basis for ensuring the optimal use of public resources. Cooperation of everyone in the network while maintaining their respective independence and specific strengths and closing gaps in the auditing remit must therefore be the common concern of all state bodies in law-making, law enforcement and jurisdiction.

To read more

[:http://www.rechnungshof.gv.at/en/austrian-court-of-audit/fighting-corruption.html](http://www.rechnungshof.gv.at/en/austrian-court-of-audit/fighting-corruption.html)

Articles

Article by [Sammer Ahmad, Deputy
CAO/GB,
Railways HQ
Lahore,
Pakistan]



SCOPE FOR SAI PAKISTAN IN MATTERS INVOLVING FIGHT AGAINST MONEY LAUNDERING

Understanding the money laundering

The term money laundering (ML) was devised in 1920 but the idea of money laundering is about four thousand years old. It is the practice of converting the dirty money to legitimate money. More properly money laundering is defined as ‘the practice of integrating the proceeds of criminal enterprises into the legitimate mainstream of the financial community’.² The Palermo Convention defines ML as follows:

“The conversion or transfer of property, knowing it is derived from a criminal offense, for the purpose of concealing or disguising its illicit origin or of assisting any person who is involved in the commission of the crime to evade the legal consequences of his actions.”³

There are three stages of money laundering: placement, layering and integration. The first stage

of money laundering is called ‘**placement**’ and it is simply taking the proceeds of crime or any illegal activity to the financial institution for deposit or transfer. Placement could be done by simply depositing the illegal money in bank or transfer to another form e.g. bank cheque, money order or prepaid access card. Since substantial amount of cash may attract attention of bank authorities, so criminals usually use such businesses which deal with large amount of cash and those are generally hotels, bars, restaurants, casinos, vending machine companies and car washes. More often than not, these businesses have huge amount of cash but in small denominations. Now either this large amount of cash (in the form of small denominations) can be changed into smaller amounts of cash and then this each smaller amount is directly deposited into a bank account or criminals send the money into various accounts of various locations in the form of money orders and cheques. By adopting this process, the original cash has become changed now. ‘Placement’ is the most vulnerable phase of money laundering for detection by law enforcement agencies and it is sometimes called a ‘choke’ point. Law enforcement agencies pay much concentration on placement phase to make ‘money laundering’ difficult for launderers. For this purpose, many methods have been devised e.g. suspicious activity reports (SARs), currency transaction reports (CTRs) and cross border declaration rules and all these methods make somewhat easier for agencies to identify.⁴

Second stage of money laundering is called ‘**layering**’ and in this stage money launderers perform several transactions and probably including several entities and front companies. By performing this step, money launderers are trying to make a distance between the money and themselves so that to make tougher for the agencies to track the money trail. Usually these layers

² Kevin Sullivan, *Anti-Money Laundering in a Nutshell: Awareness and Compliance for Financial Personnel and Business Managers* (APress®: 2015).

³ www.undoc.org/pdf/crime/a_res_55/res5525e.pdf.

⁴ Sullivan, *Anti-Money Laundering in a Nutshell*.

include foreign countries that have well-founded bank secrecy rules, which make the money track harder to follow. It is advantageous to the launderers to make as many layers as possible by using numerous shell companies and moving many transactions through as many jurisdictions (particularly outside of Pakistan) as possible. Purchasing of big ticket items (e.g. boats, cars, planes or securities) is the other technique of layering. These big ticket items are generally registered in the nominee's name (anybody other than the money launderer); sometimes family members and sometimes friends.⁵

'**Integration**' is the third and final stage of money laundering process. This is the stage where the layered monies are merged into the legitimate financial system and integrated with the moneys of the legitimate system. As a final point, it is what the launderers have been waiting for: that is the ability to purchase anything or do new bad deeds due to the proceeds of their predicate crime. Now the launderers can easily inject their funds into the mainstream by using numerous methods e.g. putting the money into the business investments, buying big ticket luxury items and investing in the real estate etc.⁶

Methods of money laundering

When we concentrate on nitty-gritty of money laundering one fact catches our sight that there are only three methods to transfer and clean the criminal proceeds. (1) Money laundering by using the financial system e.g. transferring the money through banks and through money service businesses (MSB). (2) Physically transferring money e.g. transporting huge amount of cash using consignments across the border. (3) Physically pass on goods by using trade system. Money launderers use various techniques (techniques are increasing with the passage of time and countermeasures too) for laundering the money

keeping in view the above mentioned three broad methods and some of these are:

- **Structuring.** It is the most reported technique of money laundering. When a person performs several currency transactions in one or more days with the little denominations to avoid the threshold limit that could alert the authorities.
- **Bulk Cash Smuggling:** It involves smuggling of huge amount of cash concealed with a person, in suitcases, in cars, in boats or in cargo etc. Very recently, it came to knowledge of authorities that money is smuggled by concealing it in automobile transmissions, battery chargers, television sets, diaper boxes, grocery goods, and in electrical appliances. Hidden compartments of vehicles are not only used for smuggling of drugs but also for the money.
- **Gold:** It is also used for the transporting the drug proceeds. Launderers purchased bulk amount of gold and after melting they mold it into low value items like nuts, bolts, auto parts and other tools. Additionally they paint these low value items with silver or grey color to avoid detection by authorities. After reaching at the destination these low value items are again transformed into gold.
- **Money Order:** Traditionally this has been the safest method of money laundering and the advantage of money order is that it can be purchased in higher denominations. As compared to cash it has no weight and if it is lost it can be replaced too.
- **Wire Transfer:** It is the common system of transferring the money from one part of the world to another part. It is actually a part of

⁵ Ibid.

⁶ Ibid.

‘layering’ process. Money is already present in bank as a result of ‘placement’ process and now to deceive the law enforcement agencies this money is sent to several accounts around the globe to complete the layering process. Wire transfer in itself is legitimate but it is used by launderers too and around \$ 2 trillion is transferred around the globe daily.⁷

- **Trade-Based Money Laundering:** It is also known as alternate remittance system. Financial Action Task Force defined the trade based money laundering as:

“The process of disguising the proceeds of crime and moving value through the use of trade transactions is an attempt to legitimize their illicit origins. In practice, this can be achieved through the misrepresentation of the price, quantity, or quality of imports or exports. Moreover, trade-based money laundering techniques vary in complexity and are frequently used in combination with other money laundering techniques to further obscure the money trail.”⁸

- **Hawala/Hundi** (Underground Banking System): Launderers who don’t want to use the financial system to transfer the money around the globe use a parallel banking system which is also called underground banking system. This system has different names in the world but in Pakistan it is called ‘Hundi’ or ‘Hawala’. By using this technique, tracking the money trail is impossible;

however, it is possible only if there is a confidential informant.

- **Cyber Banking:** This new method is used for electronically transfer of value. This method has solved the major problem the launderers face i.e. physically transfer of cash from one region to another. Transfer of value, in cyber banking, is done by two methods and those are: pre-paid cards and internet.
- **Smart Cards:** The size of a smart card is like a credit card and it contains an electronic circuit fixed inside it and it is configured in such a way that it can store, accept and can send data. Money can be loaded inside the smart card through ATM easily and it can be used at any store for shopping and then it can be loaded with money again. It is imagined that a time will soon come when it will be an identifier of driving license, medical information and other personal information of the card holder.
- **Real Estate:** It is a quite popular technique of money laundering because by using this method money laundering can be done with ease without getting exposed to Government agencies. In this technique the appraiser significantly lowers the value of property and the buyer (who is actually a launderer) buys the property on lower rate by getting a loan from the bank. On documentation the buyer pays deflated price of the property from the money received from the bank and pays the remaining through

⁷ Ibid.

⁸FATF, www.fatf-gafi.org/topics/methodsandtrends/documents/trade-basedmoneylaundering.html.

dirty money. After sometime the launderer can sell the property on actual price which is far more than the price paid through bank loan and in this way he receives the money which has laundered from proceed now.⁹

Creating Anti-Money Laundering (AML) Program

Basically there are three institutions that are employed to fight against money laundering and those are:

1. Financial institutions (Financial institutions also include some selected non-financial institutions).
2. Regulators.
3. Law enforcement agencies.

In financial institutions, AML units are sometimes called ‘Compliance Unit’ or ‘Risk Unit’ or sometimes AML units works under the umbrella of Compliance Unit. The purpose of this unit is to prevent or to detect money laundering and to obtain these objective, policies and procedures are formulated to implement rules and regulations. In brief, financial institutions follow the established procedures so that regulators can maintain supervision. Sometimes financial institutions are of the view that there are many contradictory regulations from different regulatory bodies because many financial institutions are governed by more than one regulatory agency. On the other hand, sometimes regulatory agencies are of the view that there are not enough regulations. Financial institutions know that establishing compliance unit is just like establishing a cost center and not a profit center and so they are reluctant to invest in such matters because they know that no profit can be

obtained by investing in establishing AML or Compliance unit. Only due to the fear of heavy fines from the regulatory agencies in case of non-compliance, they establish AML units.¹⁰

Goals of AML Program

More or less there are three goals of AML program and those are:

1. To stop money laundering (which also implies to prevent terrorist financing).
2. To report doubtful/suspicious activity.
3. To impart training to all the staff on internal and legal procedures.

Four pillars of AML Compliance Program

Generally there are four pillars of AML compliance program:

1. Designated AML compliance officer
2. Internal policies and procedures
3. Independent audit function
4. Training¹¹

Know your customer (KYC)

There are two expressions that are common now-a-days. One is called ‘know your customer (KYC)’ and the other is called ‘customer identification program (CIP)’. It is worth mentioning here that both are one and the same thing and these expressions can be used interchangeably. The definition of the term ‘KYC’ is to recognize the customer, observe his/her transactions, and update his/her folder in accordance with the policy of the financial institution. Depending on specific information, customer’s data is re-read by various units in the same financial institution. Sometimes, by

⁹ AGP Audit Report 2015-16, Para No: 3.3.6 and DP No: 2655-ICT.

¹⁰ Dennis Cox, Handbook of Anti Money Laundering (Wiley 2014).

¹¹ Sullivan, Anti-Money Laundering in a Nutshell.

reviewing the data of the customer, financial institutions have to go deeper into the details of the customer and his transactions. And if something alerts them, they can generate a suspicious activity report (SAR) for law enforcement agencies or can terminate the relationship with the customer by closing his account.

Elements of KYC/CIP

There are three elements:

1. Customer identification (It starts with the day customer enters in the bank for opening his account)
2. Due diligence (It is actually a basic background check of the customer)
3. Enhanced due diligence (Just after opening an account of the customer, if compliance officer rates him as a 'high risk' obtained from the risk matrix, then enhance due diligence is necessary).

Suspicious activity report (SAR)

There are two expressions that have the same meaning. One is called 'suspicious activity report (SAR)' and it is mostly used in USA and the other is called 'suspicious transaction report (STR)' and it is mostly used outside the USA. When bank authorities smell a rat in the particular transaction, they fill a form (SAR) pertaining to that transaction and send it to law enforcement or other designated units or departments. Sometimes law enforcement agencies complaining of not obtaining sufficient information from the banks while, in turn, banks complain against regulators of not providing guidance in accordance with the requirements of the law enforcement agencies. ¹²SAR is

considered as the bane for AML process. It is the bridge between financial institutions (e.g. banks and others) and law enforcement agencies. Since SAR shows the intention of financial institutions for providing the timely information to law enforcement agencies, so completing the SAR thoroughly is the one of the essential functions that financial institutions perform. It should also be noted that SAR is a confidential document.

Money laundering red flags: There is a detailed list of red flags that indicates suspicious activities that may point out money laundering and crux of some are mentioned below.¹³

1. Clients who provide insufficient or suspicious information.
2. Efforts of customer to persuade bank staff to avoid reporting or record keeping requirement.
3. Funds transfer in huge amount.
4. Activity in-consistent with customer's business profile.
5. Fluctuations in bank to bank transactions.
6. Cross border financial institution transactions.
7. Currency shipment in bulks.
8. Trade finance e.g. items dispatched that are not consistent with the nature of the purchaser's business.
9. Shell company activity.
10. Official business of embassy is conducted through personal account of embassy staff.
11. Customer repeatedly exchanges small dollar moneys for large dollar denominations.

¹² Ibid.

¹³

www.ffiec.gov/bsa_aml_infobase/documents/BSA_AML_MAN_2014.pdf, (pages F-1 to F-9).

Keeping in view the whole discussion mentioned above, it is quite evident that KYC or CIP is the most important step in AML efforts because they provide the highest probability of detecting and deterring the threat by understanding who the client is and whether his/her transaction or activity makes any sense. Or in other words, detecting the money laundering is easy at its first step i.e. at 'Placement' level and if the 'Layering' and 'Integration' processes start then it will be very difficult to identify the traces of money laundering.

Fundamental reasons of money laundering in Pakistan

The provisions of the 'AML Act, 2010' have been hiding from view by **sections 5 and 9** of the 'Protection of Economic Reform Act, 1992' and section **111(4)** of 'Income Tax Ordinance, 2001' and these have been giving freedom to money launderers to do whatever they want. These provisions says that no questions would be asked if somebody brings illegal money from abroad to Pakistan by using the usual banking channel and gets Pak rupees as a replacement for foreign currency. Then this money can be used for any legal business in Pakistan (remember it is the integration phase of money laundering process). Moreover, Federal Board of Revenue (FBR) cannot hold an inquiry against foreign currency accounts in Pakistan so Pakistan has to face problem in countering ML due to some of conflicting laws and policies.¹⁴

Laws on money laundering in Pakistan

Money laundering is defined in section 3 of AML Act, 2010. The cases regarding money laundering can be scrutinized by FIA, NAB, ANF (Anti-Narcotic Force) or any other organization the Federal Government may

decides. In 2007, AML **Ordinance** was made public and under this ordinance Financial Monitoring Unit (FMU) was established to curb money laundering and terrorist financing. And FMU was made the in-charge of SAR or STR. In 2010, AML **Act** was introduced. In that act, FMU is meant to work with NAB, FIA, Custom Intelligence and ANF. For countering the matters of money laundering, human trafficking and cybercrimes, FIA is responsible. State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP) are responsible as main financial regulators. To increase the supervision on financial sector, however, SBP and SECP established AML units independently.¹⁵

SAI Pakistan's Role in Anti-money laundering

In Pakistan, SBP is the main player to issue regulations to banks and development finance institutions (DFIs) for curbing the money laundering. Updated version of AML Regulations issued on 14th November 2017 by the 'Banking Policy and Regulations Department' of SBP. There are six broad based regulations and those are briefly mentioned below:

- Regulation-1 pertains to customer due diligence (CDD). It deals with the measures to be taken by bank at the time of establishing a relationship with the customer. More specifically it proceeds with the identification and verification of the identity of the customer.
- Regulation-2 pertains to correspondent banking*. It deals with the assessment of suitability of respondent bank. KYC policy, major business activities and

¹⁴ Point 4 (Freedom to bring, hold, sell, and take out foreign currency) and Point 5 (Immunities to foreign currency accounts) of Protection of Economic Reform Act 1992.

¹⁵ AML Ordinance 2007; AML Act 2010

purpose of the account and many other factors fall under this regulation.

- Regulation-3 pertains to wire transfer/fund transfer. Under this regulation, responsibility of ordering institution, responsibility of beneficiary institution, and responsibility of intermediary institution are considered.
- Regulation-4 pertains to reporting of transactions (SAR/STR). It deals with the number of SAR reported to FMU¹⁶.
- Regulation-5 pertains to record keeping.
- Regulation-6 pertains to internal controls, policies, compliance, audit and training.

Internal audit activity for AML program is always recommended but external audit is also necessary to get the confidence that the AML program is adequately working. External audit should focus on policies and procedures that support the program. While conducting the audit, services of an expert can also be hired if need be. With the passage of time there has been an increase in regulations to deal with the complexity of transactions and so to get the assurance of effectiveness of AML program, at least compliance testing is necessary. If the results of compliance testing are not satisfactory, substantive testing may be performed to ascertain how much the AML program is effective.

Here question arises what is included in audit of AML program. SAI may look at issues during audit such as: if the AML program addresses the risk satisfactorily and provides the appropriate information to the decision makers to evaluate the effectiveness of the program; if

the risk-assessment is adequate and risk-profile is suitable; if the AML program can detect suspicious activity and reporting and record retention thereof; if the previously detected weaknesses during previous audits have been corrected; and to see whether there is adequate staff training in dealing with the matters of money laundering. In a nutshell, to watch assurance of compliance program, independent audit is much needed.

Conclusions and recommendations

Anti-money laundering program of AML units of such departments e.g. SBP, FMU, FIA and others should be audited. And audit will also check the actions taken by such units upon getting SARs. In short, SAI Pakistan may not take any action directly to curb the money laundering but it will audit the AML programs which have been devised after a thorough working of the departments mentioned above**. In other words, since there are a very large number of financial institutions and their branches (banks and others) operate in the country, so it is totally impossible to go to each branch and testing their AML efforts.

Moreover, financial institutions are informer of SAR to the FMU. And any action taken against ML will be taken by such FMU and law enforcement agencies. So, SAI may perform the audit of FMU and those units of law enforcement that deal with AML. Mostly, it would be a compliance audit and in case if substantive audit is required, SAI would perform the audit of whole trail of efforts made on specific transactions by FMU and in this way the level of accuracy and loopholes, if any, will be determined.

¹⁶ www.fmu.gov.pk

* Correspondent bank: means the bank in Pakistan which provides correspondent banking services to bank or financial institution situated abroad and vice versa.

**so such audits will be similar to the audit of environmental management systems.

Last but not the least, in broader terms, SAI will check the level of compliance of the instructions given in AML Act 2010. And for that purpose, more often than not, compliance audit is sufficient. One last point of consideration is that SAI Pakistan usually performs the audit of receipt and expenditure of the public money and performance thereof. So, money laundering is not the receipt or payment of public money in that sense. Apparently, it seems that there is no public money involved. However, it is well understood by the preceding discussion that in money laundering process, money may or may not pertain to the public. Yes, it has ultimate impact on public at large. So, SAI cannot curb the money laundering by directly auditing the financial institutions because it is not feasible and the only feasible and practical option is to perform the audit of AML efforts done by responsible institutions.

Bibliography

David Chaikin, J. C. Sharman. *Corruption and Money Laundering: A Symbiotic*

Relationship (Palgrave Series on Asian Governance, 2009).

Dennis Cox. *Handbook of Anti Money Laundering* (Publisher: John Wiley & Sons Ltd. 2014).

Doug Hopton. *Money laundering a concise for all business* (Gower Publishing Ltd. 2006).

Government of Pakistan, *Financial Monitoring Unit* (www.fmu.gov.pk)

Kevin Sullivan, *Anti-Money Laundering in a Nutshell: Awareness and Compliance for Financial Personnel and Business Managers* (APress®: 2015).

OECD, "Money laundering awareness handbook for tax examiners and tax auditors: 2009." <http://www.oecd.org/tax/exchange-of-tax-information/43841099.pdf>

State Bank of Pakistan (www.sbp.org.pk).

What could be the role of a Supreme Audit Institution in the fight against corruption?

By Ariane Holeczek

Ariane Holeczek is auditor in the Department for Anti-Corruption, Compliance and Risk Management at the Austrian Court of Audit. She holds a master decree in Law and a LL.M decree in International Legal Studies.

An Austrian example

The Austrian Court of Audit (ACA) has a very broad audit mandate, from federal and regional levels to local level with municipalities with more than 10,000 inhabitants, and to companies with more than 50% state ownership and state-owned enterprises such as the Austrian Federal Railways. Overall, the Austrian Court of Audit examines more than 6,500 auditees with around 310 members of staff.

The ACA is the most independent control organization, subordinate only to the Austrian Parliament and disposes of its own budget, selection of personnel and a profound legal basis on Constitutional level. For years people in Austria ranked the ACA the Number 1 institution which they trust most of all.

In the fight against corruption, the ACA relies upon a multi-pillar and comprehensive approach: Besides the "traditional pillar", repression by the law enforcement Agencies (Prosecutor's Office, Special Police Unit, Federal Bureau of Anti-Corruption), the "second pillar" prevention has the main priority in addition to the "third pillar" education, e.g. lectures or seminars.

The "fourth pillar", cooperation at national level with the regional Courts of Audit or the Parliament as well as the highly important international cooperation, e.g. within the INTOSAI Working Group on the Fight against

Corruption and Money Laundering, complements the holistic approach of the ACA.

In 2012 and before, Anti-Corruption aspects were occasionally considered in an audit depending on the audit team, but there was no comprehensive and systematic approach on how to audit Corruption Prevention Systems.

In 2013/14, the Guideline for Auditing Corruption Prevention Systems (CPS) based on the structure of Compliance Management Systems was developed to support the audit teams in their daily work to promote the systematic integration of an anti-corruption approach in the auditing process. It was very challenging to create one universal guideline for the broad audit mandate of the ACA. Also, the definition of corruption was challenging, so the well-known definition of Transparency International¹⁷ was used.

In 2015/16, the Guideline for Auditing Corruption Prevention Systems (CMS) was adopted in the audit of the Corruption Prevention-Systems within four Federal Ministries¹⁸. As an impact following this pilot audit, Minimum Standards for Compliance Management Systems were adopted in the Federal Ministries at Senior Management Level to improve the culture „tone from the top“ and Compliance/Integrity Officers were appointed. The Guideline for Auditing Corruption Prevention Systems was also published.

In 2018, the Department for Anti-Corruption, Compliance and Risk Management was established within the ACA with both internal and external tasks. The head of department is assigned as the Chief Compliance Officer and also data protection lies within the responsibility of the department. Currently, a Compliance Management System based on Risk Analysis is

being developed within the ACA and a new Guideline to audit Anti-Corruption Management Systems with more practical examples will be presented soon. This new competence center for Anti-Corruption is also developing Guidelines on Internal Control Systems and Risk Management. The department is also responsible for staff training in the field of Compliance and Integrity.

External Tasks are audits in the special mandate of the department, Anti-Corruption, Compliance and Risk Management. Besides, draft legislation has to be assessed and as a matter of course international cooperation and exchange of information play a decisive role. The department also acts as contact point to law enforcement agencies or public prosecutor`s offices.

¹⁷ Corruption is the abuse of entrusted power for private gain.

¹⁸ The Federal Chancellery, The Ministry of the Interior, The Ministry of Education and the Ministry of Agriculture and Environmental Issues

Contributions by SAIS:

The Office of the Comptroller General of the Republic of Peru promotes an innovative system to guarantee objectivity and audit independence



Since the enactment of the Law for the Strengthening of the Office of the Comptroller General of the Republic of Peru and the National Control System in March 2018, which marked a historic milestone in the fight against corruption in the Peruvian State, the Supreme Audit Institution of Peru has been implementing a series of measures to modernize and strengthen supervisory capacities on the use of public goods and resources, as well as to fight head-on against functional misconduct and corruption.

In this context, and as part of its strategy to promote transparency in public activity, SAI of Peru is promoting in the country the implementation of the filing of Sworn Statements for the Management of Conflicts of Interest. The goal of this is prevent that personal, family, work, economic and/or financial activities, relationships or situations from affecting the independence and objectivity in the work of control by the members of the National Control System.

This innovative good practice contributes to strengthening public integrity and the fight against corruption, by making the information of public officials and servants transparent. Its main value

lies in the possibility of crossing the declared information with the databases of other entities in real time, quickly and timely, which will allow us to avoid or detect cases of nepotism or irregular hiring motivated by interests outside the public function.

The filing of the Sworn Statements for the Management of Conflicts of Interest, which is done through a computer application, was carried out - for the first time in history- among the over 7 thousand people who work at the SAI of Peru and the National Control System, between officials and public servants. However, the goal is to extend it to the entire public sector, as a demonstration of the transparency and ethical conduct of the personnel that works in the State.

This very important initiative for the public sector has yielded its first results. To date, the SAI of Peru has gotten signed institutional commitments from the Regional Governments of Tumbes and Cajamarca, in the north of the country, to implement and apply this system in the current administrations.

Scope

In Peru, this scheme is projected to reach between 1.5 and 2 million civil servants and public officials, thus helping to avoid cases of corruption and functional misconduct in the framework of the work they perform.

The Sworn Statements for the Management of Conflicts of Interest contain both public and confidential information, so the SAI of Peru will comply with its obligation to protect the right to personal and family privacy, as well as confidential information and personal data of all public sector personnel.

Any information that is not protected under any legal provision will be considered public information and published on the web portal of the Supreme Audit Institution.

Infringements and sanctions

According to the regulations, failure to submit these Sworn Statements within the established deadlines, or providing false information, will be subject to administrative liability, according to the labor regime or the nature of the contractual link, without prejudice of criminal liability.

Who should submit it?

The personnel of the SAI of Peru and the Institutional Control Bodies (OCI) of the entities subject to the National Control System, regardless of their position, hierarchical level or function, must submit the Sworn Statements for the Management of Conflicts of Interest.

The format of the Sworn Statement is composed of two sections:

1. **The Sworn Statement of not having Conflict of Interest**, which includes the personal and labor data and the educational level of the declarant, as well as the manifestation of not having a conflict of interests.
2. **The Sworn Statement of Interests**, which includes information regarding any stocks or business participation; membership in any board of directors; administration or oversight councils; jobs or consultancies; membership in political parties, associations, guilds; etc. It also includes personal and work data of the spouse or partner, and all relatives up to the fourth degree of consanguinity and second degree of affinity, among other aspects.

When should it be submitted?

The Sworn Statement is submitted in the following opportunities:

- At the beginning of the employment or contractual relationship with the organs of the National Control System, within the following 15 working days.
- Periodically, within 15 working days after completing a year of employment or contractual relationship.
- Upon the termination or termination of the employment relationship or termination of the contract, as applicable, within the following 15 business days.

Regulations

The Sworn Statements for the Management of Conflicts of Interest are part of the provisions of Law No. 30742 - Law for the Strengthening of the Office General Comptroller of the Republic and the National Control System, which states that all civil servants and public officials of the SAI of Peru and of the Institutional Control Bodies must comply with the requirement to sign the Sworn Statement.

It is also based on the International Standards of the Supreme Audit Institutions (ISSAI 21), on principles of transparency, responsibility and good practices that indicates that these entities must avoid internal conflicts of interest and corruption, and guarantee the transparency and legality of their own operations.

In addition, the Code of Ethics (ISSAI 30) specifies the requirements of the personnel of the Supreme Audit Institutions to be free of impediments that affect their independence and objectivity; as well as verifying possible threats and situations in which said principles may be affected, reporting on the relevant pre-existing relationships and situations that may represent a risk.

Likewise, it is based on Law N ° 27815 - Law of the Code of Ethics of the Civil Service that requires officials and public servants to act with rectitude, trustworthiness and honesty, trying to satisfy the general interest and discarding personal gain or

advantage, being prohibited from maintaining relationships or accepting situations in which their personal, work, economic or financial interests could be in conflict with the fulfillment and duties of the functions under their charge.

The National Anti-Corruption System of Mexico develops a digital platform against corruption¹⁹



In May 2015, the National Anti-Corruption System (*SNA*, for its acronym in Spanish) was established in Mexico, as a result of a constitutional reform, in order to improve coordination among the institutions in Mexico, whose tasks are focused on accountability and the fight against corruption. The *SNA* operates through a Coordinating Committee, which is integrated by the authorities responsible for the internal control, transparency, auditing — through the representation of the Supreme Audit Institution (*SAI*) of Mexico—, as well as the prosecution authorities and the administrative court.

It is important to highlight that the *SNA* Coordinating Committee is chaired by a citizen elected through a public call²⁰, and ratified by the Senate.

As part of the *SNA*'s mandate, the National Anti-Corruption Platform is currently under development. This Platform represents the main institutional intelligence tool for the *SNA* since it will allow interconnecting the different databases throughout the country that contain relevant information for the fight against corruption, such as those related to the following topics:

- Civil servants' patrimonial statements;
- Information on civil servants responsible for public procurement;
- Information on sanctioned civil servants and private parties;
- System to receive citizens' reports on alleged corruption cases, and
- Single public procurement system.

Particularly, it is important to mention that the Platform will include a specific section for the coordination between auditing authorities among the country. This system will allow citizens to consult all the data referring to the audits carried out annually, the published reports, as well as the actions and observations issued, including administrative and criminal sanctions.

The National Anti-Corruption Platform is expected to be launched this year. For the *SAI* of Mexico, this tool represents one of the main goals of the Mexico's strategy to link fight against corruption and citizen participation.

Resume on Social Control By the *SAI* of Ecuador

Social Control is a mechanism that helps to make supervisory processes more transparent and generates a tendency of fighting against corruption, which has become part of modern societies. Therefore, is important to know and understand good practices and what happens to a State when its use is implemented.

The Social Control Guide focuses on three good practices: public hearings, citizen oversight and citizen complaints. Through these three tools, it is intended to capture the importance of citizen

¹⁹ Technical Unit of the *SAI* of Mexico (Direction of the National Anticorruption System).

²⁰ Carried out by a committee integrated for nine citizens representing universities and research centers.

participation in Supreme Audit Institutions (SAIs), and the benefits of projecting greater confidence from public control bodies towards citizens.

The Republic of Ecuador has taken the lead in the elaboration of the Social Control Guide after the WGFACML meeting held in Arusha, Tanzania in 2017; with the intention of demonstrate the importance of Social Control in SAIs. Therefore, the diagnosis of the implementation of the impact indicators of the good practices of Citizen Participation of the members of the CTPC (Technical Commission of Citizen Participation) of the OLACEFS (Latin American and Caribbean Organization of Supreme Audit Institutions), carried out by the Office of the Comptroller General of the Republic of Paraguay, has been taken as a basis for conceptual information; several sources of information have also been used, such as the Public Participative Hearings, conducted by the Office of the Comptroller General of the Republic of Colombia and Ecuador. These countries are considered as the best representatives of a good implementation of citizen participation in SAIs.

In conclusion, the Social Control Guide primarily seeks to introduce the most relevant terms to understand the good practices and the auditing processes, and as a second point, through the survey that will be answered by all WGFACML members, transform quantitative to qualitative results to compare the implementation of good practices in a SAI.

Books related to Corruption & Money Laundering

1- Fighting Corruption, Promoting Good Governance.



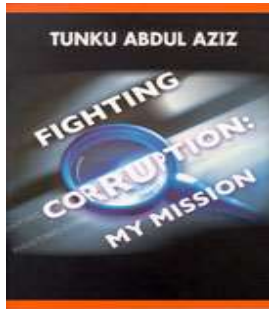
Abstract:

This publication presents a framework for Commonwealth Principles on Promoting Good Governance and Combating Corruption. It was endorsed by Heads of Government at their Summit in Durban in 1999 as the basis for pursuing concerted strategies based on ‘zero tolerance’ for all types of corruption at national and global levels. This publication includes the full report of the Expert Group. It examines the nature of corruption and its different dimensions as well as appropriate responses to the problems it poses. The book proposes actions at national and international levels which the Group sees as being necessary if countries are to successfully combat corruption and promote good governance.

Link:

http://www.oecd-ilibrary.org/commonwealth/governance/fighting-corruption-promoting-good-governance_9781848597228-en

2- Fighting Corruption: My Mission



Fighting Corruption: My Mission is a selection of speeches, articles and letters on issues of corruption, governance, transparency, accountability, integrity and basic ethical standards by former Vice-Chairman of Transparency International Tunku Abdul Aziz.

In addition, media profiles on the critical views of the outspoken author who is also a member of the World Bank High Level Advisory Group on Anti-Corruption in the East Asia and Pacific Region have been included in this very timely book.

Quotes from the book:

"Corruption is not just about money changing hands."

"At its most pervasive, corruption even compromises the sovereignty of nations."

"If we lack the political will or do not have the administrative stomach for strong, uncompromising enforcement of the laws of the land without fear or favour, then the fight against corrupt forces is already lost even before the battle lines are drawn."

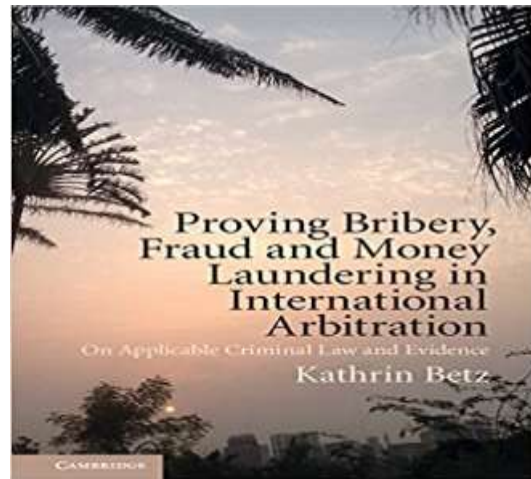
"The Anti-Corruption Agency must be revamped and made an Independent Commission Against Corruption on similar lines as the highly respected and effective ICAC of Hong Kong and New South Wales, Australia."

"At present Ministers declare their assets to the Prime Minister. To whom does the Prime Minister declare his? An interesting question."

Link:

<http://www.kas.de/malaysia/de/publications/6030/>

3- Proving Bribery, Fraud and Money Laundering in International Arbitration: On Applicable Criminal Law and Evidence



by [Kathrin Betz](#) (Author)

Publication Date: August 15, 2017

Abstract:

Over the past few decades, arbitration has become the number one mechanism to settle international investment and commercial disputes. As a parallel development, the international legal framework to combat economic crime became much stronger within the fields of foreign public bribery, private bribery, fraud and money laundering. With frequent allegations of criminal conduct arising in international arbitration proceedings, it is crucially important to consider how such claims can be proven. This book analyses relevant case law involving alleged criminal conduct within international arbitration and addresses the most pressing issues regarding applicable criminal law and evidence. It is an essential resource for practising lawyers and academics active in the field of international investment and commercial arbitration.

Link:

https://www.amazon.com/Proving-Bribery-Laundering-International-Arbitration-ebook/dp/B0744JVCCK/ref=sr_1_7?s=digital-text&ie=UTF8&qid=1505641454&sr=1-7&keywords=money+laundering

4- The Role of the Supreme Audit Office in tackling corruption and other types of organizational pathologies



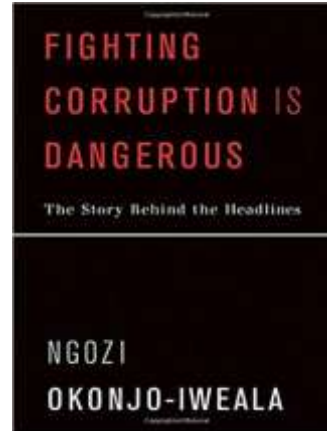
By: Dobrowolski Zbysław 

Date of publication:2013

Abstract:

Supreme Audit Institutions (SAI's) play an important role in ensuring sound public management. An important mission of SAI's is to reduce the level of threat of corruption and fraud in public life and to promote the concept of good governance. The realization of the mission of SAI's and the limitation in the fight against corruption are presented and discussed in this article. The author proposes a new definition of corruption - the abuse of stakeholder's trust for private gain.

5- Fighting Corruption Is Dangerous: The Story Behind the Headlines



By: by Ngozi Okonjo-Iweala

Abstract:

In *Fighting Corruption Is Dangerous*, Ngozi Okonjo-Iweala has written a primer for those working to root out corruption and disrupt vested interests. Drawing on her experience as Nigeria's finance minister and that of her team, she describes dangers, pitfalls, and successes in fighting corruption. She provides practical lessons learned and tells how anti-corruption advocates need to equip themselves. Okonjo-Iweala details the numerous ways in which corruption can divert resources away from development, rewarding the unscrupulous and depriving poor people of services.

Okonjo-Iweala discovered just how dangerous fighting corruption could be when her 83-year-old mother was kidnapped in 2012 by forces who objected to some of the government's efforts at reforms led by Okonjo-Iweala—in particular a crackdown on fraudulent claims for oil subsidy payments, a huge drain on the country's finances. The kidnappers' first demand was that Okonjo-Iweala resign from her position on live television and leave the country. Okonjo-Iweala did not resign, her mother escaped, and the program of economic reforms continued. “Telling my story is risky,” Okonjo-Iweala writes. “But not telling it is also dangerous.” Her book ultimately leaves us with hope, showing that victories are possible in the fight against corruption.

WG Members :

- 1- Accountability State Authority (ASA) of Egypt**
Email : wgfacml@asa.gov.eg
- 2- Österreichischen Rechnungshofes (Austria)**
Email : office@rechnungshof.gv.at
- 3- Brazil**
Email: presidente@tcu.gov.br
- 4- Contralor General de La Republica – Colombia**
Email: sandra.morelli@contraloria.gov.co
- 5- Contralor General de la República de Chile**
Email: contralorgeneral@contraloria.cl
- 6- National Audit Office of the People's Republic of China (CNAO)**
Email: cnao@audit.gov.cn
- 7- Czech Republic**
Email: barbora.zochova@nku.cz
- 8- Contralor General del Estado – Ecuador**
Email: coordinacion@contraloria.gob.ec
- 9- Auditor General's Office of Fiji**
Email: info@auditorgeneral.gov.fj
- 10- Federal Court of Audit of Germany**
Email: Poststelle@brh.bund.de
- 11- Audit Board of Republic of Indonesia**
Email: international@bpk.go.id
- 12- Board of Supreme Audit – Iraq**
Email: bsa@d-raqaba-m.iq
- 13- The Supreme Audit Court of IRAN**
Email: pria@dmk.ir
- 14- Office of the Auditor General of Lesotho**
Email: lucy.liphafa@gov.ls
- 15- Superior Audit Office of Mexico**
Email: bfuentes@asf.gob.mx
- 16- Office of the Auditor - General of Malaysia**
Email: ag@audit.gov.my
- 17- Moldova**
Email: int@ccrm.md
- 18- Namibia**
Email: jkandjeke@oag.gov.na
- 19- Oman**
Email: intr@sai.gov.om
- 20- Pakistan**
Email: agp@agp.gov.pk
- 21- Papua New Guinea**
E-mail: agopng@ago.gov.pg
- 22- Peru**
Email: cooperacion@contraloria.gob.pe
- 23- Poland**
Email: wsm@nik.gov.pl
- 24- Russian Federation**
Email: intrel@ach.gov.ru
- 25- Thailand**
Email: int_rela@oag.go.th
- 26- Trinidad and Tobago**
Email: agd.info@gov.tt
- 27- United Arab Emirates**
Email: president@saiuae.gov.ae
- 28- United Republic of Tanzania**
Email: ocag@nao.go.tz
- 29- United States of America**
Email: spel@gao.gov
- 30- Venezuela**
Email: contraloriavenezuela@gmail.com
- 31- Yemen**
Email: coca@coca.gov.ye
- 32- Zambia**
Email: auditorg@ago.gov.zm