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The propensity for money laundering amongst accountants in Malaysia

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ABSTRACT

Based on the International Narcotics Control Strategy Report, Malaysia is used as a transit country to move drugs globally. Launderers continuously update their new routes for laundering their illegal funds. Accountants are vulnerable to involvement in money laundering as they are the gatekeepers and the bridge to committing money-laundering activities. This paper conceptualises the relationship between the propensity for money laundering amongst accountants in Malaysia, with their familiarity with the Financial Action Task Force (FATF), the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities (AMLATFAPUAA) Act 2001, and the Anti-Money Laundering (AML) Requirements.

INTRODUCTION

Money laundering activity in Malaysia has become much more advanced with the emergence of the information and communication technology revolution (Shanmugam & Thanasegaran, 2008). This leads to difficulty for the Malaysian police force to capture the real culprits as anyone with computer knowledge could indulge in such crimes. This is aligned with Gilmour (2014), who suggested that money launderers have empowered themselves with knowledge of sophisticated technology which tends to make money laundering quicker to facilitate, but harder to detect and prosecute. Malaysians face threats from international criminal organisations, which abuse the internet for activities such as drugs, human trafficking, financial fraud, and money laundering (The Star, 2014).

Malaysia is vulnerable to money laundering due to its geographical factor, which has a porous border that leads to easy movement for drug smuggling (FATF, 2015). Smuggling and trespassing activities are

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continuing at the Bukit Kayu Hitam, Kedah border with Thailand (The Malay Mail 2016). Based on the International Narcotics Control Strategy Report (INL, 2018), Malaysia is used as a transit country to move drugs globally. Malaysia is the transit hub for drug smuggling, and it is known as the hot spot of this illegal activity, which carries the death penalty in the country (Ismail & Jaafar, 2015).

Money laundering involves three-stage processes, i.e., placement, layering, and integration (World Bank, 2009). This is aligned with the Financial Action Task Force (FATF) (2012), as it mentioned that placement is the initial stage of money laundering. The money launderer places his illegal proceeds into the financial system. The second stage is layering, where the launderer engages in a series of conversions of the illegal funds with the motive to distance them from the sources (FATF, 2012). Finally, the final stage is integration, where the money launderer ensures that the funds reappear in the legitimate economy in the form of purchasing real estate, luxury assets, or business ventures (FATF, 2012). Malaysia is used as a transit country to move drugs globally (INL, 2018). The Malaysian authorities emphasized that drug trafficking is the core source of illegal funds in Malaysia, apart from the illegal funds derived from corruption (APG Mutual Evaluation Report on Malaysia, 2007). There is some evidence indicating that the Northern Region of Malaysia, especially Kedah and Perlis, is directly exposed to drug trafficking activities due to the cross border between Kedah-Thailand and Perlis-Thailand. According to The News Straits Times (2018), the Kedah Customs Department seized 70kg of suspected methamphetamine equivalent to RM3.85 million from a car at the Immigration, Customs, Quarantine and Security (ICQS) Complex. Those drugs were found hidden in the modified rear boot of the locally registered Mercedes Benz car. The Customs Director-General, Datuk Seri Subromaniam Tholasy announced that the seizure of methamphetamine was the biggest caught by the Customs Department in Kedah. According to Ismail and Jaafar (2015), one of the most efficient ways of transporting drugs between Malaysia and Thailand is by using a personal automobile as it is easily accessible across the border.

In another case reported in The News Straits Times (2017), Kedah Police arrested 95 drug traffickers within eight months in 2017, which was an increase of 126 percent compared to the same period the previous year. The police have also seized a total of 299kg of drugs and 4.6 tonnes of ketum leaves. According to Kedah State Police Chief Datuk Asri Yusof, as reported in The News Straits Times (2017), the largest seizure involved 122kg of syabu, followed by 121kg of cannabis and 56kg of heroin. The operation was at KM1.3 of the North-South Expressway near the Bukit Kayu Hitam border entrance (The News Straits Times, 2017). The normal modus operandi of money launderers in Malaysia to conceal their illegal proceeds of crime is by placing the money into the mainstream banking system and by setting up front companies (Omar, et al., 2015).

PROBLEM STATEMENT

During the past decade, the issue of accountants involved in money laundering activities seemed to be one of the hottest topics raised by regulators and enforcement agencies globally (Omar et al., 2015). This is because money launderers always keep on upgrading their skills and finding new routes to hide their 'dirty money' to avoid being caught by the authorities, especially the competent authority such as Bank Negara Malaysia (Omar et al., 2015). One of the alternatives applicable to them is by using the services and consultancy from the Designated Non-Financial Business and Professions (DNFBPs) especially those in accounting, company secretarial, and legal professions (Omar et al, 2015).

Money launderers are likely to deal with accountants to set up a complex structure of legal companies to launder proceeds as they think that Accountants can be the gatekeeper and the bridge to commit money laundering activities (Omar et al, 2015). This is aligned with Muhammadun and Ahmad (2012) that one of the typical methods of money laundering used by launderers is through professionals such as lawyers or accountants. There are many functions performed by accountants which are vulnerable to money laundering, such as providing financial and tax advice, company and trust formation, buying or selling property, performing financial transactions, and gaining introductions to financial institutions. (FATF,

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2019). Accountant Daily (2017) reported that accountants are involved in money laundering by performing high-value financial transactions for clients with no clear business rationale. This allows criminals to transfer funds through bank accounts with little scrutiny as a means to complicate the audit trail (Accountant Daily, 2017). The main objective of engaging with the accountant is to conceal or disguise the 'dirty money' to distance it from its criminal origin.

Choo (2014) argued that although the majority of DNFBPs do not abuse their position, they are vulnerable to becoming conduit for the movement of illicit money due to many reasons, including the services they offer. Accountants were identified as a few of the professions most commonly used by criminals in money laundering and terrorism financing offenses.

As mentioned by the Director-General of the Swedish National Economic Crimes Bureau, Ms. Gudrun Antemar, in her keynote speech at the 2005 United Nations Congress on Crime Prevention and Criminal Justice, the tracing and return of the proceeds of crime have become more difficult due to the occurrence of shell corporations and offshore financial centres as safe havens for illegal funds (Choo, 2014). Therefore, it becomes a great concern when it involves professionals such as lawyers and accountants acting as advisers and facilitators.

Bank Negara Malaysia, which is the central bank of Malaysia, has obtained six court orders and prosecuted over 182 criminal offences regarding financial illegal activities. In addition, two Islamic banks in Malaysia have been compounded for RM1.05 million as the banks neglected to agree with AMLA orders. Huge amounts of cash have kept on being spent on improving anti-money laundering (AML) action. By 2017, worldwide spending on AML compliance had reached more than $8 billion and is set to increase in the future. However, money laundering activities are still rising in Malaysia, and bankers, lawyers, accountants, and non-profit organisations have been affected most directly by FATF's activities to combat money laundering. Accountants are vulnerable to involvement in money laundering as they are the gatekeepers and the bridge to committing money laundering activities (Omar & Johari, 2015). From a theoretical perspective, accountants should be aware of the standards for curbing money laundering activities. However, as can be expected, practice and theory are not always similar. Therefore, the purpose of the research is to examine factors influencing the propensity for money laundering amongst Accountants in the Northern Region of Malaysia.

The study proposes to investigate the relationship between accountants' familiarity with FATF Recommendations and their perceived propensity for money laundering; to examine the relationship between accountants' familiarity with the AMLATFAPUAA 2001 Act and their perceived propensity for money laundering; and examine the relationship between accountants' familiarity with AML Requirements and their perceived propensity for money laundering.

These objectives have been developed to answer the research question of the study, which is "Does accountants' familiarity with FATF Recommendations, AMLATFAPUAA 2001 Act Recommendations, and AML Requirements influence their perceived propensity for money laundering?"

THE PROPENSITY FOR MONEY LAUNDERING AMONGST ACCOUNTANTS

According to the Bank Negara Malaysia (2017), the role of accountants in 'high-end' money laundering brings more exposure to criminality in many other countries. High-end money laundering refers to major frauds and overseas corruption work where the raw material of the crime is electronic and cash is only used further down the laundering process to overshadow audit trails or extract illegal profits (National Crime Agency, 2014). In addition, accounting services are identified as one of the sectors that have the highest vulnerability to involvement in money laundering, higher than banks and legal service providers, and estate agents (Bank Negara Malaysia, 2017). This indicates that accounting services are a high-risk business when it comes to exposure to money laundering, either wittingly or unwittingly.

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Money laundering aims to conceal and give illegal funds accumulated from unlawful means a more 'legal' appearance. The unlawful money is passed through complex transactions, usually through a series of business transactions, until the money is defined as cleaned of its illegitimate origins. Then the money is made to look as if it is from legal business revenue (Peterdy, 2022). Accountants and auditors have a great role in combating economic crimes, particularly money laundering. This is aligned with Cox's (2014) argument, that auditors are the third line of defence after front-office staff and senior management in the battle against money laundering. However, Mitchell et al. (1998) disagreed and considered that auditors should be the first line of defence in fighting money laundering.

One of the roles and responsibilities is monitoring and detecting money laundering, including the investigation of Politically Exposed Persons (PEPs), fraud, and other financial crimes. Another role is to establish and strengthen controls and safeguard against money laundering. Besides that, accountants have a role in reporting illegal activities, taking steps to identify clients, and conducting customer due diligence by reference to independent and reliable resources which aligns with FATF Recommendations.

According to Norton (2018), the propensity for money laundering by an accountant is high as the accountant may witness or be a party to a series of purported innocent transactions by a client. This is aligned with Lehman and Okcabol's (2005) statement that social crime can be constructed through the "management" of white-collar crime with the participation of accounting firms. According to Levi (2015), the legal responsibility of professionals, which is the identification of 'suspiciousness' to combat money laundering, is often neglected because of the sort of accounts they have and the people they pretend to be.

Bankers, lawyers, accountants, and non-profit organisations have been affected most directly by FATF's activities to combat money laundering. Based on the study conducted by Omar and Johari (2015), an estimated 500 billion money is laundered through the financial market each year. Most of the high-value amounts have been laundered with the involvement of a third party, such as accountants or other professionals who exploit their expertise by creating complex transactions to overshadow illegal activity (Mitchell et al., 1998). Accountants can act as intermediaries by using their skills, knowledge, and abilities to draft documentation, disseminate funds, and allow highly complex structures to be created. Therefore, it results in moving and storing large amounts of criminal money and effectively concealing ownership.

ANTI-MONEY LAUNDERING, ANTI-TERRORISM FINANCING, AND PROCEEDS OF UNLAWFUL ACTIVITIES (AMLATFAPUAA) ACT 2001

Malaysia became one of the FATF members in 2016 and is currently adapting the FATF 40 Recommendations into The Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities (AMLATFAPUAA) Act 2001. This Act is the primary statute governing the AML/CFT regime in Malaysia. Malaysia enacted the AMLA in 2001, effective January 15, 2002, to curb money laundering activities.

In 2003, the Act was revised to become the AMLATFA 2001, which provides preventive measures against money laundering and includes terrorism financing, forfeiture of terrorist property and property involved in, or derived from, money laundering, and terrorist financing offenses (Hamin et al., 2016). A 2004 amendment to the Anti-Money Laundering and Anti-Terrorism Financing Act (AMLATFA) 2001 has redefined "Reporting Institutions" (RIs) to include accountants, auditors, lawyers, and other selected professionals (Omar et al., 2015).

The Malaysian Government has seriously put efforts into combating terrorism financing and money laundering by enhancing punishment for money laundering under the new AMLATFAPUAA 2001 Act. The punishment is raised from an imprisoned term of a maximum of five years or a fine up to RM5 million or both to 15 years of imprisonment and up to the maximum fines of five times the size and value of the proceeds of unlawful activity or instrumentalities of an offence at the time of an offence, or RM5 million, whichever is higher (AMLATFAPUAA Act 2001). It is a great legal leap. The change in imprisonment penalty is now almost at par with those in other jurisdictions, such as the UK (14 years), Hong Kong (14

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years), Indonesia (5–15 years), the Philippines (7–14 years), Brunei (14 years), Australia (5–25 years) and also the USA (20 years).

ANTI-MONEY LAUNDERING (AML) REQUIREMENTS

As part of the Malaysian Government's efforts in combating terrorism financing and money laundering, Bank Negara Malaysia has stated in its AML requirement that the DNFBPs especially the accountants need to conduct due diligence (CDD) on their clients, which is Know Your Client before proceeding with any transactions or providing professional services (Bank Negara Malaysia, 2018). For example, an accountant must perform the CDD requirements on an individual customer by at least knowing his/her full name, National Registration Identity Card (NRIC) number, residential or mailing address, date of birth, nationality, and the purpose of the transaction (Bank Negara Malaysia, 2018). As for companies, the CDD requirements are knowing the name and address of the registered office, verifying the legal form, and providing proof of existence, such as SSM Corporate Information, Form 24, Form 49, and Memorandum of Association (Bank Negara Malaysia, 2018).

Besides that, AML requirements state that the accountant must maintain proper records and documentation of related transactions for at least six years. This is because record-keeping is a crucial part of the audit trail for the detection, investigation, and confiscation of criminal or terrorist property or funds (Bank Negara Malaysia, 2018). This requirement facilitates the investigating authorities' ability to identify the financial profile of a suspect and detect criminal or terrorist property or funds. As the documents are kept inadmissible in court, they will assist the Court in examining all relevant past transactions to assess whether the property or funds are the proceeds of or relate to criminal or terrorist offences.

Another AML Requirement is the accountant must submit any suspicious transaction report (STR) to Bank Negara Malaysia when having a suspicion that a customer is involved in money laundering or terrorism financing. The STR form can be obtained at the Bank Negara Malaysia's website, which is amlcft.bnm.gov.my, and submitted via email (Omar et al., 2015). Although suspicion occurs while providing the services, the accountant may continue doing business with the client even after the submission of an STR when he/she reasonably believes that it would tip off the client if the service provided is stopped (Bank Negara Malaysia, 2018). This will make the criminal realise the things going on, and probably push them away, and diminish the chance for Enforcement Agency to investigate them.

RATIONAL CHOICE THEORY

Based on the rational choice theory, money launderers like to collaborate with professional advisers, especially accountants to conceal the proceeds of crime (Choo, 2014). It is believed that the 'skilful use' of accounting practices and the social interactions around those practices enabled corruption to occur, which can be interpreted as the misappropriation of public office for personal gain (Neu et al., 2013). In addition, Norton (2018) emphasized that accounting specialists can find suitable fronts to overcome national regulations and technical rules. From a theoretical perspective, accountants should be aware of the standards for curbing money laundering activities. Therefore, the study suggests that accountants' familiarity with FATF, AMLATFAPUAA 2001 Act Recommendations, and AML Requirements will influence their perceived propensity for money laundering.

CONCEPTUAL FRAMEWORK

Figure 1 represents the conceptual framework for the current study based on the Rational Choice Theory, which embodies the whole picture of this study. In Figure 1, familiarity with FATF Recommendations, familiarity with AMLATFAPUAA Act 2001, and familiarity with AML Requirements are the factors

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(independent variables) that influence the propensity for money laundering amongst accountants (dependent variables).

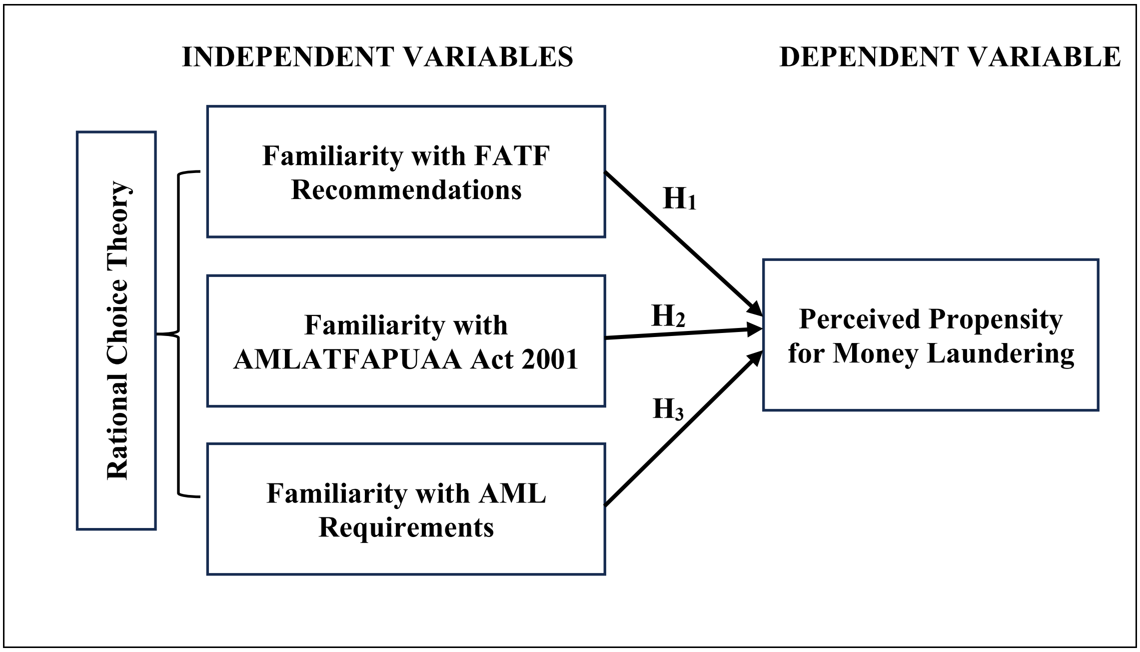

Fig. 1. Conceptual framework

Source of Figure 1: Choo (2014), and Huang et al. (2013)

Figure 1 indicates that the independent variables, which are familiarity with FATF Recommendations, familiarity with AMLATFAPUAA Act 2001, and familiarity with AML Requirements will have a relationship with the dependent variable, which is a propensity for money laundering.

This study predicts that familiarity with Anti-Money Laundering (AML) Requirements has a relationship with the propensity for money laundering amongst accountants. Money launderers always take advantage in every situation to launder their illegal proceeds of crime, even with the presence of anti-money laundering regulations (Huang et al., 2013). According to Choo (2014), money launderers like to collaborate with professional advisers, especially accountants in concealing the proceeds of the crime. Based on the rational choice theory, the money launderer perceived an accountant as one who can create and manipulate complex transactions to make it difficult to identify and trace the origins and the final destiny of the ill-gotten gain (Mitchell et al., 1998). It is believed that the 'skilful use' of accounting practices and the social interactions around those practices enabled corruption to occur or can be interpreted as the misappropriation of public office for personal gain (Neu et al., 2013). Norton (2018) believed that the tendency for accountants to be involved in money laundering activities is high as the accountant may witness or be a party to a series of purported innocent transactions by a client. Therefore, based on the discussion above, the current study suggests that there is a significant negative relationship between accountants' familiarity with AMLATFAPUAA Act 2001 and their propensity for money laundering.

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CONCLUSION

The accounting service is a high-risk business that is exposed to money laundering activities. Money launderers are likely to deal with accountants as Accountants can be the gatekeeper and the bridge to committing money laundering activities. This research is very significant to the accounting profession and competent authorities especially Bank Negara Malaysia as accountants are very vulnerable to money laundering activities committed by money launderers. The study predicts that accountants' familiarity with FATF Recommendations, AMLATFAPUAA Act 2001, and AML Requirements has a significant negative relationship with their propensity for money laundering.

LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

The conceptual study is limited to only practicing Accountants in the Northern Region of Malaysia, which could result in a small sample size for analysis. It would be meaningful if future research extended the sample to a wider range of practicing accountants all over Malaysia with empirical evidence.

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CONFLICTS OF INTEREST STATEMENT

The authors agree that this research was conducted in the absence of any self-benefits, commercial or financial conflicts and declare the absence of conflicting interests with the funders.

AUTHORS' CONTRIBUTIONS

Nur Hanie Johari conducted and wrote the research under Wan Nailah Abdullah's supervision. The latter wrote this article, while Hasnisah Hassan worked on the formatting and proofreading of this article.

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