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### The Role of Internal Auditor in Limiting the Money Laundering in the Jordanian Commercial Banks

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#### ABSTRACT

This research aimed at investigating the Role of Internal Accounts Auditor in Limiting the Money Laundering in the Jordanian Commercial Banks, in order to achieve the research objectives, the researchers used the descriptive analytical research method. The simple random sample consisted of (165) male and female employees occupying the positions (Executive director, department director, division director) since they are very close to the field money laundering, the study reached a set of results, the most important are: The role of the Jordanian internal auditor in limiting money laundering in the Jordanian commercial banks was at medium degree, because of the sufficient the lack of commitment to the internal standards in the Jordanian commercial banks. And there are differences with statistically significance at sig level ( $\alpha \leq 0.05$ ) in the role of the Jordanian internal auditor in limiting money laundering in the Jordanian commercial banks because of the auditing different works performed by the auditor, since the personal variables differ which influence the nature of the work in the commercial banks.

In light of the results the researchers recommended necessity for the presence of a convention for the auditing committees explicitly includes the tasks, responsibilities and authorities of the Jordanian internal auditors to a source of authority and power for this committee to perform its role effectively in the commercial banks. There should be a convention for the auditing committee in harmony with these bank's laws and legislations.

**Keywords:** Internal Accounts Auditor, Money Laundering, Jordanian Commercial Bank.

#### 1. INTRODUCTION

The increasing crime of money laundering in the present time in the Middle East region to give the legitimacy to these money with illegal source has led to increasing interest by the researchers to study this issue being one of the most dangerous international crimes.

Auditing units are considered one of the most important departments in the organizational structure, since they perform to make sure that the organizations are executed according to consistent and appropriate principles with the legal, accounting and financial regulations that should be followed to lead the organizations to accomplish their works effectively, efficiency and economic productivity.

Internal auditing aims to secure the soundness of the financial and operational information and reports, to evaluate the risks related to the establishment's governance, and the operation and information systems related to: effectiveness of the operations and the programs efficacy, protecting the assets commitment to the laws, policies, procedures and contracts, measuring the relevance of the policies and the procedures to the unit.

Internal auditors are not responsible for implementing the firm's activities rather they provide the advice to the management regarding the best way to execute the responsibilities internal auditors possess high professional experiences and background (Rahahleh, 2010).

Internal auditing is defined as: "All the means and procedures used by the establishment to protect its assets and confirm the validity and the accuracy of the accounting and statistical data, and to rise the productivity efficiency. (Al-Wardat, 2014: 123).

### **Money Laundry**

The Jordanian Law for money laundering (number 46 year 2007) has determined the parties that are subject to money laundering combating which are (Al-Raqad, 2014):

- (a) Financial sides: including the banks exchange companies, money transfer companies or the companies that are subject to the monitoring from the authority, or to the monitoring from the insurance commission or the parties that provide the credit, providing the pay and collection services, issuing the payment instruments, and that which provide the postal services, according to the existing legislations rules.
- (b) The non financial sides including the persons, or the parties working in the trade of the real estate.
- (c) The parties or the professions that the council of ministers determines applying the provisions of this law to them based on the committee's recommendation (Article 13 from money laundering combating and terrorism financing law recommended by the committee, No. 46 year 2007).

The law imposes on these parties a set of obligations focusing on the process competing money, they should know the identity of the client, their legal situations and the purpose of the work and the real beneficiary from the existing relation between these sides and the client. And not to deal with unknown persons, or these with fake names, or with the illusive banks and companies.

To achieve that, those sides should pay special attention to the client's categories or to work relations or to the high risky processes and setting the special procedures (Yousef, 2010: 32) they present in the following:

1. Special risks management systems in money laundering and financing terrorism should include classifying the clients to categories according to risks degree, and setting the required procedures to deal with these risks relative to these degree.

2. Policies and arrangements preventing the exploitation of the modern technology in money laundering and financing terrorism.
3. Having records and documents to register the local international transactions, including the sufficient data to know the nature of these transactions.

### **Significance of the Study**

Significance of the study emerges from addressing the role of the Jordanian internal auditor in limiting the money laundering crimes in the Jordanian commercial banks.

Also, the importance of the study come from influence of money laundering on the Jordanian local economy an the international economy.

The banking sector may benefit from the result of this study in limiting the effects of money laundry crimes.

### **Study Problem**

Money laundry crimes have increased recently by different parties, and because the scarcity of the studies that have addressed the effect of the Jordanian internal auditor in limiting the money laundry in the Jordanian commercial banks, this justifies conducting this study and to discover the Jordanian internal auditor important role in limiting this problem.

### **Objective PF the Study**

This study aims to achieve the following objectives:

1. Determining the problem of money laundry in the Jordanian commercial banks.
2. Determining the role of the Jordanian internal auditor in limiting the money laundering in the commercial banks.
3. Providing the solutions and the recommendations which might limit the money laundering in the Jordanian commercial banks, and their negative influences on the local and international society.

### **Study Questions**

The study try to answer the following question:

1. What is the role of the Jordanian internal auditor in limiting the money laundering in the Jordanian commercial banks?
2. Are there differences with statistically significance at significance level ( $\alpha \leq 0.05$ ) in the role of the Jordanian internal auditor in limiting qualified the money laundry in the Jordanian commercial banks.

### **Hypotheses of the Study**

This study aims at testing the following hypotheses:

**H<sub>01</sub>:** There are no differences with statistically significance at significance level ( $\alpha \leq 0.05$ ) in the role of the Jordanian internal auditor in limiting the money laundry crimes in the Jordanian commercial banks

**H<sub>2</sub>:** There are no differences with statistically significance at significance level ( $\alpha \leq 0.05$ ) in the role of the Jordanian internal auditor in limiting the money laundry in the Jordanian commercial banks attribute to the demographic variables (Scientific qualification, major, experience job, and the professional certificates).

## 2. LITERATURE REVIEW

Oqab (2012) study the role of the audit committee in raising the efficiency of the internal control system in the Jordanian banks. A questionnaire is developed and distributed to the study sample which consisted of (13) Jordanian banks.

Results showed that the auditing committees contribute highly to prevent money laundering transactions through the activities in evaluating the internal auditing system.

The objective of Hussdein Study (2013) was to know the factors influencing this discovery of money laundering transactions by the internal auditor. The descriptive analytical method is used, and the questionnaire as the instrument for data collection.

Study population consisted of (487) auditors, after conducting the statistical analysis process, the study reached that the Jordanian internal auditor has the knowledge about the importance of the accounts auditing processes toward the money laundering phenomenon.

Also, the study reached that lack of detecting the money laundry transactions attributes to a number of factors related to the professional skills, companies, management, and factors related to the internal auditor himself.

Zhang (2013) study aimed to know the nature of the relationship between auditing committee quality and weakness of the internal auditing system, and the auditor's independence.

Study sample consisted of (208) company suffering from financial biases in the internal auditing system. The results of the study showed the presence of a relationship between the auditing quality, internal auditing system weakness and the auditor independence.

The study recommended the importance for the auditor to perform the planned organizational procedures and the required steps and methods to reach an opinion about the extent of the financial statement fairness, and the extent of the internal auditing system effectiveness and efficacy.

Saqr (2013) study aimed to evaluate the effectiveness of the auditing committees in the Iraq banks, through measuring the extent of the sufficient independence that the committees are enjoying, and the sufficient experience and knowledge and the compensation of the auditing committees member and their commitment to the meetings.

Results showed that there is an weakness in the committee's members independence.

Al-Kabj (2015) study aimed to show the extent of the auditing committees in fighting the money laundering transactions in the operating banks in Palestine.

The study used the questionnaire as the instrument for data collection, it is distributed to internal and external auditor in the (17) banks. After conducting the analysis processes, results showed that the auditing

committees apply their tasks and responsibility with the required authorities to practice their role in an effective form in combating money laundering, also, revealed that the auditing committees' role contributes to evaluating the internal auditing systems, and supports the Jordanian internal audit's job in fighting the money laundering transactions.

George et al. (2015) study the factors associated with internal audit effectiveness in Greece. The findings from the statistical analysis process showed that the main factors influencing the effectiveness of the accounts internal auditing represent in the auditing quality, the availability of a specialized team work in the internal auditing works.

The study recommended the necessity for providing the internal auditor with the sufficient independence for the internal auditing to achieve the internal auditing effectiveness.

### 3. METHOD AND PROCEDURES

- **Methodology of the study:** The descriptive analytical method is used through the questionnaire.
- **Study population:** Study population consisted of Jordanian commercial banks, (16) bank according to Jordanian central bank's statistics year 2017-2018.
- **Study Sample:** The researcher used the simple random sample of (165) male and female employees occupying the positions (Executive director, department director, division director).

#### Study Instrument

The study's questionnaire is developed related to the topic role of the internal auditor in limiting money laundering in the Jordanian commercial banks, its validity and stability were confirmed.

### 4. RESULTS OF THE STUDY

#### Analyzing the Questionnaire

- **Internal Auditing:** Means of the respondents' answers were calculated for the internal auditing field. Table 1 illustrate that.

**Table 1**  
**Means and standard deviations of the study sample individuals answer to clause internal auditing field**

<i>S.No.</i>	<i>The clause</i>	<i>Means</i>	<i>S.D</i>	<i>Evaluation Degree</i>	<i>The rank</i>
1.	There are work evidence include procedures for implementing the tasks without commuting errors or inadequate accounting treatments.	3.89	0.89	High	1
2.	Internal auditors specialties are considered relevant to the nature and the type of the auditing tasks they practice	3.79	1.21	High	2
3.	Internal auditing activities are characterized by inclusiveness and cover al the department and the process related to money laundering	3.78	1.07	High	3

*(Contd..)*

<i>S.No.</i>	<i>The clause</i>	<i>Means</i>	<i>S.D</i>	<i>Evaluation Degree</i>	<i>The rank</i>
4.	Making sure that the employee perform their work carefully by following the instructions that should be committed to, to limit the money laundering.	3.74	1.24	High	4
5.	Considering setting auditing procedure include the fulfillment of the responsibilities of accounting obligations at work especially money laundering transactions	3.74	1.20	High	4
6.	Making sure that the financial and accounting reports include high reliable information enables depending on it to limit the money laundering.	3.68	1.05	High	6

It is clear from the table above that clause (1) came at the first rank, with means (3.89) S.D = 0.89, and at the last rank came clause (6) with mean = (3.68), S.D = 1.05.

- **Money Laundering:** Means of the respondents' answers were calculated for the Money laundering field. Table 2 illustrate that.

**Table 2**

**Means and standard deviations of the study sample individuals answer to clause Money laundering field**

<i>S.No.</i>	<i>The clause</i>	<i>Means</i>	<i>S.D</i>	<i>Evaluation Degree</i>	<i>The rank</i>
1.	Procedures and policies are followed to prevent exploiting the modern technology to deceive the money laundering monitoring systems and financing terror by the internal auditor.	4.02	0.86	High	1
2.	Susceptible transactions recorded in special records by the internal auditor to refer to them when required	3.64	1.08	High	2
3.	Internal auditor updates the clients data when there is a need for that.	3.63	1.08	High	3
4.	Internal auditing department in the Jordanian commercial banks is committed to apply the laws, legislation and instruction issued by the auditing sides in the country	3.61	1.23	High	4
5.	Internal auditing department in the Jordanian commercial banks is committed to apply the laws, legislations and instructions issued by the auditing sides in the country	3.55	1.20	High	4
6.	Commitment to the internal standard that obligations on the Jordanian	3.51	1.11	High	6

It is clear from the table above that clause (2) came at the first rank, with means (4.02) S.D = 0.86, and at the last rank came clause (6) with mean = (3.51), S.D = 1.11.

## 5. TESTING HYPOTHESES

### Results of Testing the First Hypotheses

There are no differences with statistically significance at significance level ( $\alpha \leq 0.05$ ) in the role of the Jordanian internal auditor in limiting the money laundry crimes in the Jordanian commercial banks.

Table 3 shows the presence of effect with statistically significance at sig level ( $\alpha \leq 0.05$ ) applying the multiple regression equation to study the role of Jordanian internal auditor in limiting money Jordanian.

Laundering in the Jordanian commercial banks.

The correlation coefficient (R) is 0.72, which is a value with statistically significance, and indicates at correlation degree statistically between the independent variables and the dependent variable.

**Table 3**  
Results of applying the multiple regression equation to study

<i>Dimension</i>	<i>B</i>	<i>T</i>	<i>Sig</i>	<i>R</i>	<i>R<sup>2</sup></i>	<i>Adjusted R Square</i>	<i>F</i>	<i>sig</i>
Internal Auditing	0.23	2.95	0.00	0.72	0.52	0.50	43.69	0.00
Money laundering	0.68	8.82	0.00					

R<sup>2</sup> value reached (0.52) which is a value with statistically significance explaining the independent variables ability in influencing the dependent variable, which means that internal auditing explains (52%) of the Jordanian commercial banks role in limiting the money laundry. (F) vale reached (43.69) with statistically significance (0.00), which means accepting the alternative hypotheses so There are differences with statistically significance in the role of the Jordanian internal auditor in limiting the money laundry crimes in the Jordanian commercial banks.

Results of testing the second hypotheses: There are no differences with statistically significance at significance level ( $\alpha \leq 0.05$ ) in the role of the Jordanian internal auditor in limiting the money laundry in the Jordanian commercial banks attribute to the demographic variables (Scientific qualification, major, experience job, and the professional certificates).

**Table 4**  
Results of applying (independent sample T-test) to now the differences between the sample individuals' opinions about the role of the Jordanian internal auditor in limiting money laundering in the Jordanian commercial banks according to Gender variable

<i>The field</i>	<i>Gender</i>	<i>Means</i>	<i>S.D</i>	<i>T</i>	<i>sig</i>
Internal Auditing	Meal	3.27	0.57	0.001	0.98
	Female	3.27	0.54		
Money laundering	Meal	3.37	0.63	1.31	0.19
	Female	3.19	0.64		

Table 4 shows the absence of differences with satirically significance at significances level ( $\alpha \leq 0.05$ ) between the means of the sample individuals responses regarding the role of the Jordanian internal auditor in limiting money laundering in the Jordanian commercial banks attribute the gender variable since (T) values were without statistical significances.

**Table 5**  
**Results of applying (ANOVA) analysis to know the difference between the opinions of study sample individuals according to the variables (scientific qualification, major, experience, job title and the professional certificate)**

<i>The variable</i>	<i>Internal auditing</i>		<i>Limiting money laundering</i>	
	<i>F</i>	<i>Sig</i>	<i>F</i>	<i>Sig</i>
Scientific qualification	0.94	0.43	1.51	0.22
Major	0.427	0.44	1.91	0.13
Experience	12.808	0.31	0.71	0.22
Job title	11.850	0.13	1.54	0.22
Professional certificate	19.119	0.45	1.28	0.37

Table 5 shows the presence of differences with statistically significance at sig level ( $\alpha \leq 0.05$ ) between the means of the sample individuals means about the role of the Jordanian internal auditor in limiting money laundering in the Jordanian commercial banks attribute the variables (scientific qualification, major, experience, job title and the professional certificate) since (F) values were with statistically significance at sig level ( $\alpha \leq 0.05$ ) between the means of the sample individuals answer regarding the role of the Jordanian internal auditor role in limiting money laundering in the Jordanian commercial banks attribute to the scientific qualification.

## 6. RESULTS

The following results were reached from data analysis:

1. Role of the Jordanian internal auditor in limiting money laundering in the Jordanian commercial banks was at medium degree, because of the sufficient the lack of commitment to the internal standards in the Jordanian commercial banks.
2. There are differences with statistically significance at significant level ( $\alpha \leq 0.05$ ) in the role of the Jordanian internal auditor in limiting money laundering in the Jordanian commercial banks because of the auditing different works performed by the auditor, since the personal variables differ which influence the nature of the work in the commercial banks.
3. The presence of differences with statistically significance at sig level ( $\alpha \leq 0.05$ ) in the role of the Jordanian internal auditor in limiting money laundering in the Jordanian commercial banks at attribute the demographic variables (scientific qualification, major, experience, job title and the professional certificate) because these variables have great role in limiting money laundering in the Jordanian commercial banks when performing the internal auditing process with full knowledge of the internal auditors about what they are performing of internal auditing works in the commercial banks to combat the money laundering in the banks.
4. Encouraging the Jordanian internal auditors to join special programs to receive the certificate for the professional practice, especially the internal auditor certificate because of its great benefit to them from the cognitive and administrative.



## 7. RECOMMENDATIONS

In light of the results, the researchers recommend the following:

1. Necessity for the presence of a convention for the auditing committees explicitly includes the tasks, responsibilities and authorities of the Jordanian internal auditors to the source of authority and power for this committee to perform its role effectively in the commercial banks.
2. Necessity for activating the work of the Jordanian internal auditors in evaluating the internal auditing systems, and the commercial banks should include in their final report published financial statement at the end of the financial period showing the tasks accomplished and the extent of the Jordanian internal auditors' follow-up the internal auditors' works in the banks.
3. Coordination is needed between the internal auditors and the external auditors.
4. The necessity for the presence of cooperation between Jordanian internal auditors in the commercial banks with the management of these banks, and assuring the direct relationship between the internal auditing and the auditing committees to guarantee independence and neutrality in performing the tasks.

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