

This is an Open Access document downloaded from ORCA, Cardiff University's institutional repository: <https://orca.cardiff.ac.uk/id/eprint/137778/>

This is the author's version of a work that was submitted to / accepted for publication.

Citation for final published version:

Imeny, Vahid Molla, Norton, Simon D. , Salehi, Mahdi and Moredi, Mahdi 2021. The anti-money laundering expectations gap in Iran: auditor and judiciary perspectives. *Journal of Money Laundering Control* 24 (4) , pp. 681-692. 10.1108/JMLC-09-2020-0105

Publishers page: <http://dx.doi.org/10.1108/JMLC-09-2020-0105>

Please note:

Changes made as a result of publishing processes such as copy-editing, formatting and page numbers may not be reflected in this version. For the definitive version of this publication, please refer to the published source. You are advised to consult the publisher's version if you wish to cite this paper.

This version is being made available in accordance with publisher policies. See <http://orca.cf.ac.uk/policies.html> for usage policies. Copyright and moral rights for publications made available in ORCA are retained by the copyright holders.





**The anti-money laundering expectations gap in Iran:  
auditor and judiciary perspectives**

Journal:	<i>Journal of Money Laundering Control</i>
Manuscript ID	Draft
Manuscript Type:	Scholarly Article
Keywords:	Judiciary auditor expectations gap, Anti money laundering reporting, FATF blacklist, Iran, Snowballing technique, Forensic accounting

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60

# The anti-money laundering expectations gap in Iran: auditor and judiciary perspectives

## 1. Introduction

An expectations gap arises when one party has a view regarding its duties and responsibilities but a party to which it is accountable perceives these differently (Liggio, 1974; Jennings *et al.*, 1993; Esplin and Sunder, 2018). To date there has been limited research into a possible gap between auditors and the judiciary in the context of anti-money laundering (AML) reporting obligations. This may be attributable to the difficulty of obtaining data from judges, particularly through interviews or questionnaires, and general sensitivities, political and social, surrounding their role. The gap can arise because of divergent interpretations of the role of audit generally, and the obligations of auditors to report suspicious activity specifically (Ashton, 1986). Auditors may have statutorily defined AML reporting responsibilities. For example, anti-money laundering laws such as the Patriot Act 2001 in the United States and the Proceeds of Crime Act 2002 in the United Kingdom require them to be proactive in investigating and reporting suspicions of money laundering (Murray, 2010). This contrasts with auditors' traditional perception of their role, seeing it as limited to verifying the accuracy of financial statements (Mitchell *et al.*, 1998; Sikka *et al.*, 2009; Bigus, 2015; Kang *et al.*, 2019). Although auditors have limited their responsibilities via different standards which have evolved over time, society has come to expect that they will detect and report financial crime (Sherer and Turley, 1997; Ng *et al.*, 2001). Auditors are expected to play an active role in combatting money laundering, perceived by society as a first line of defence against this criminal activity (Mitchell *et al.*, 1998; Standing and Van Vuuren, 2003). This expectation has increased in recent years as money laundering has become associated with the financing of international terrorism (Cassella, 2003; De Koker, 2006). However, others view auditors as fulfilling a secondary role, subordinate to the obligation of front-line staff and management to remain vigilant for signs of money laundering within an organisation (Cox, 2014).

This paper addresses the following research questions. First, is there an expectations gap between auditors and judges in Iran regarding the former's duties and responsibilities in detecting and preventing money laundering? Second, if there is such a gap, what are the implications for the country in its efforts to establish compliance with international anti-money laundering standards through the provision of accurate data? The authors have obtained unique feedback from Iranian judges as to how they perceive the role of auditors in detecting and reporting financial crime. This was not an easy undertaking: political volatility in the country and the sanctions to which it is subject make day-to-day access to public servants such as judges highly problematic. Extensive data was also obtained from Iranian auditors via a questionnaire to identify the extent to which the profession's views coincide with and diverge from those of the judiciary. If Iran is to achieve removal from the Financial Action Task Force (FATF) blacklist of non-compliant countries it must first satisfy international requirements (Morse, 2019). The FATF has no audit function and 'in the field' investigations may be restricted due to political sensitivities. For this reason, independent data generated by auditors, and analysed in this paper, may provide an additional source of information upon which to base policy, particularly regarding blacklisting (Pacini *et al.*, 2002). The next section reviews the literature regarding the expectations gap, and its relevance to the auditor-judiciary dichotomy in Iran, addressed in the remainder of the paper. Section 3 briefly contrasts the characteristics of the gap in the contexts of the United States and Iran as a precursor to the empirical discussion which follows in Section 4. Section 5 provides the paper's conclusion and recommendations for narrowing the expectations gap.

## 2. Literature review

The concept of an expectations gap was described by Liggio in 1974 as being the difference between the level of performance expected by the audit profession of itself on the one hand, and users of financial statements on the other (Kelly and Mohrweis, 1989). The gap has been investigated in several countries, including Singapore (De Martinis *et*

1  
2  
3 *al.*, 2000; Best *et al.*, 2001), Australia (Monroe and Woodliff, 1994), Saudi Arabia (Haniffa  
4 and Hudaib, 2007) and Bangladesh (Siddiqui *et al.*, 2009). In countries such as Iran  
5 which are subject to sanctions because of association with money laundering and terrorist  
6 financing, data generated by auditors regarding domestic corporate structures, trusts, and  
7 charities, takes on a much greater geopolitical significance (Pacini *et al.*, 2002). The  
8 expectations gap as described in the literature has been approached mainly from a  
9 developed economy perspective: there has been very limited research undertaken in  
10 developing economies (Haniffa and Hudaib, 2007; Siddiqui *et al.*, 2009). Iran and North  
11 Korea are the only two countries on a blacklist maintained by the FATF, the international  
12 body established in 1989 by the G10 group of industrial countries tasked with the role of  
13 setting standards and making recommendations for the prevention of money laundering  
14 and terrorist financing. Iran has a pivotal geographical position in the 'Golden Crescent'  
15 of illicit narcotics production and transit, the other two countries being Afghanistan and  
16 Pakistan. It also has an association with money laundering of a magnitude which,  
17 according to a statement by the FATF in February 2020, poses a threat to the international  
18 financial system. The role of auditors in detecting and reporting financial crime is vital in  
19 generating data upon which national authorities can act in criminal prosecutions. It is also  
20 relevant to international bodies such as the FATF in providing evidence-based justification  
21 for the blacklisting policy (Johnson and Lim, 2003; Sharman, 2009; Hulsse, 2008).  
22 However, if a gap exists between how auditors perceive their role and the expectations  
23 of other parties which require reliable data, such as the judiciary or the FATF, then this  
24 could undermine efforts to stem the flow of laundered funds within the country and also  
25 out of it to overseas destinations (Lowe, 1994; Anderson *et al.*, 1998).

26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
Lowe (1994) described an expectations gap in the legal system as comprising differences  
of perception between auditors and judges regarding the role of audit and a wider duty to  
report suspicious activity. Lowe noted that although the gap had been considered against  
a backdrop of divergent perceptions amongst different groups, including financial  
analysts, bank loan officers, small business owners, and auditors, it had been neglected  
in terms of the perceptions of litigants. There was a significant divergence between  
auditors and judges regarding the responsibilities and obligations of the profession to  
clients. The expectations gap is therefore a consequence of different perceptions



between auditors on the one hand, and judges, investors, financial statements users, and wider society on the other (Humphrey *et al.*, 1993; Labuschagne and Els, 2006). Judges expect auditors to anticipate their clients' financial problems (Anderson *et al.*, 1993). Regulators expect auditors to prevent false statements by controllers of companies (Wiesen, 1978). In discharging statutory AML reporting obligations, such a gap may have adverse consequences if the judiciary expects the audit profession to be proactive but in contrast it sees its role as passive, limited to reporting crime if and when it arises but not actively looking for it or putting in place systems for its prevention. This dichotomy regarding the role of audit is considered next.

### 3. The auditor- judiciary anti-money laundering expectations gap

Anderson *et al.* (1993) surveyed attitudes of United States' (US) auditors and judges towards responsibility for detecting financial crime, and for statements made regarding going concerns. For fraud detection, the factors investigated were collusion and materiality, while those factors related to going concern predictability were evidence reliability and timing of unpredicted events (De Martinis and Burrows, 1996). They found that attribution of responsibility to auditors was significantly affected by the detectability and predictability of the variables examined. The effect of these factors upon judges' findings of auditor responsibility was moderated by their general attitudes towards the auditing profession. In the absence of mitigating factors, judges with unfavourable attitudes made greater responsibility assessments than those with favourable attitudes. But in the absence of mitigating factors such as collusion or when the period between the audit opinion date and bankruptcy was long, judges with unfavourable attitudes made significantly lower responsibility assessments. Although evidence reliability and materiality significantly affected auditors' responsibility, these did not play a role in judges' decisions regarding attribution of blame.

These findings are informative but the US is not subject to the same degree of political corruption and use of corporate structures to facilitate money laundering as is Iran:

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60

auditors are not encountering money laundering and wider financial criminality on the same scale as is their Iranian counterparts (Lord, 2018; Jeppesen, 2019). Also, the level of training in forensic accounting and money laundering detection is significantly higher for US auditors: judges can therefore have a more justifiable expectation of auditors given the greater knowledge which they are assumed to possess (Jennings *et al.*, 1993; Anderson *et al.*, 1998). Finally, the US has a suspicious activity auditing standard, US Auditing Standards Board Statement on Auditing Standard (SAS) No. 54, whereas Iran does not (McEnroe, 1990). The Iranian Anti-Money Laundering Implementing Regulations for Auditors (2012) require auditors to design and conduct reliable procedures to detect and report suspicious transactions. However, they also provide that auditors have no responsibility to plan and perform audit to detect illegal acts, particularly money laundering. Auditors are not required to be proactive in pursuing evidence of money laundering, but instead should put in place formal systems by which it may be detected. This approach coincides with an analogous finding by Johnson and Rudesill (2001) that the severity of a fraud problem in small businesses is a function of the effectiveness of the control system that management implements and the level of management monitoring. However, if money laundering becomes associated with more serious concerns such as terrorist financing, then auditors may be required to assume a more proactive role: the Iranian Anti-Money Laundering Implementing Regulations for Auditors do not encourage such proactivity (De Smet and Mention, 2011). Although auditors do not consider detection of illegal acts as their responsibility, regulators can impose significant penalties in respect of professional negligence (Napier, 1998; Schwartz, 1998). As a result, an expectations gap arises between auditors and judges about the former's AML responsibilities. The remainder of this paper explores the expectations gap between Iranian auditors and judges regarding the scope of AML responsibilities, and its implications for the country's future compliance with FATF expectations.

#### 4. Empirical investigation, and discussion of findings

The research methodology used in this paper is a survey (Haniffa and Hudaib, 2007). This is a widely used method in social science research, and the questionnaire is the traditional instrument of enquiry (Rowley, 2014). This research used a questionnaire administered to two statistical populations: judges, and audit partners in accountancy firms. The statistical population for the former comprised Iranian judges who have overseen trials involving financial crimes in courts in Tehran, the capital of Iran. We used snowball sampling to generate the group. In using this technique, we identified one judge who had expertise in delivering judgments in this field. We invited him (all the judges were male) to participate in the research, and then asked if he was willing to introduce it to other judges. In turn we also asked those judges to pass on details of the research project to other judges. Through this method our questionnaire was brought to the attention of 17 judges who were experienced in dealing with cases involving financial crimes. Of these judges, 13 (76.5% the of research sample) were willing to complete the questionnaire. The statistical population for auditors comprised audit partners in Tehran. In 2019, 253 audit firms with 1,008 partners were operating in Iran (available at <http://en.iacpa.ir/Membership>). The total number of audit firms in Tehran is 210 (83% of audit firms in Iran) with 865 partners (85.8% of audit partners in Iran). We used purposive sampling and convenient sampling as a method for selection of audit partners. We selected 46 audit firms (21.9% of the statistical population) with 219 partners (23.3% of audit partners in the statistical population) as the research sample. Finally, 82 completed questionnaires (37.4% of questionnaires issued) were received from 29 audit firms (63% of the sample audit firms).

Traditionally the role of auditors has been one of investigation of figures, independent preparation and verification of financial data in the form of balance sheets for the use of stakeholders such as shareholders and lenders, and compliance with taxation obligations. The role has not been qualitative or investigative: in the absence of patent criminality, auditors have not been required to apply subjective criteria, or to 'follow their nose' in



looking for misconduct on the part of a client. Forensic accounting has been the exception to this general form of objective behaviour (Murray, 2010). However, and given the propensity of criminal organisations to use complex corporate structures to launder money, this detached, objective approach has now become the subject of scrutiny and political and judicial challenge (Simser, 2008). It no longer suffices for an auditor to argue that, since a client's figures were in order and complied with accounting conventions, there was no need for further enquiry; now there is an additional requirement for skeptical engagement with such figures, particularly in terms of origin and destination of payments when transmitted, via the balance sheet, to third parties. Figure 1 shows a significant divergence between auditors and judges as to the nature and extent of auditors' duties. Regarding an investigative role and the detection of money laundering, nearly all the judges to respond believed this to be an auditor's duty. In contrast, some of the auditors did not perceive this to be among their duties. The difference between the two positions results in an expectations gap.

Figure 1

Perceptions of auditors' duties

	Surely yes		Yes		Maybe		No		Surely no		Mean	Mdn	SD
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%			
Ensure compliance with laws and regulations													
Auditors	33	40.2	39	47.6	0	0.0	10	12.2	0	0.0	1.84	2.00	0.94
Judges	9	69.2	4	30.8	0	0.0	0	0.0	0	0.0	1.31	1.00	0.48
Report tax law deviations to the tax agencies													
Auditors	14	17.1	28	34.1	15	18.3	22	26.8	3	3.7	2.66	2.00	1.16
Judges	7	53.8	2	15.4	4	30.8	0	0.0	0	0.0	1.77	1.00	0.93
Detect intentional deviations in financial information													
Auditors	40	48.8	28	34.1	4	4.9	9	11.0	1	1.2	1.82	2.00	1.03
Judges	11	84.6	1	7.7	0	0.0	1	7.7	0	0.0	1.31	1.00	0.85

**Report intentional deviations in financial information to the relevant authorities**

Auditors	16	19.5	26	31.7	20	24.4	16	19.5	4	4.9	2.58	2.00	1.15
Judges	5	38.4	4	30.8	2	15.4	2	15.4	0	0.0	2.08	2.00	1.11

**Detect illegal acts by client which directly affect its accounts**

Auditors	33	40.2	33	40.2	8	9.8	8	9.8	0	0.0	1.89	2.00	0.94
Judges	10	76.9	3	23.1	0	0.0	0	0.0	0	0.0	1.23	1.00	0.44

**Detect illegal acts by client which do not directly affect its accounts**

Auditors	7	8.5	32	39.0	19	23.2	23	28.1	1	1.2	2.74	3.00	1.00
Judges	2	15.4	4	30.8	4	30.8	2	15.4	1	7.6	2.69	3.00	1.18

**Reporting illegal acts by a client which directly affect its accounts to the relevant authorities**

Auditors	13	15.9	31	37.8	18	21.9	17	20.7	3	3.7	2.59	2.00	1.10
Judges	5	38.4	4	30.8	2	15.4	2	15.4	0	0.0	2.08	2.00	1.11

**Detect money laundering activities committed by client**

Auditors	25	30.5	28	34.1	9	11.0	15	18.3	5	6.1	2.35	2.00	1.26
Judges	7	53.9	5	38.4	0	0.0	1	7.7	0	0.0	1.61	1.00	0.87

**Report money laundering activities discovered during the audit project to the relevant authorities**

Auditors	19	23.2	26	31.7	20	24.4	13	15.8	4	4.9	2.48	2.00	1.16
Judges	5	38.4	7	53.9	0	0.0	1	7.7	0	0.0	1.77	2.00	0.83

**Report suspicions on money laundering to the relevant authorities**

Auditors	10	12.2	27	32.9	25	30.5	15	18.3	5	6.1	2.73	3.00	1.09
Judges	4	30.8	6	46.1	1	7.7	1	7.7	1	7.7	2.15	2.00	1.21

---

Mdn is the abbreviation of median and SD is the abbreviation of standard deviation.

Figure 2 shows auditors’ and judges’ responses to seven questions relating to money laundering. Significant divergence emerged between the responses of auditors and judges, clearly evidencing an expectations gap. For example, regarding the question, ‘Is it possible to detect money laundering activities during an audit?’, judges and auditors agreed that it was. However, the mean of responses for the judiciary was 1.77 but for auditors, 2.29, indicating that the former was more convinced that it was possible than was the latter. Judges therefore expect a higher detection rate than auditors perceive as being their role. In other words, judges expect auditors to be more proactive in detecting crime: the difficulty for the state when passing future legislation is the extent to which this enhanced judicial expectation should be manifested in codes of conduct as well as obligatory professional training in forensic accounting.

Figure 2

Auditor reporting duties, and money laundering

	Surely yes		Yes		Maybe		No		Surely no		Mean	Mdn	SD
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%			
Is it possible to detect money laundering activities during an audit?													
Auditors	15	18.3	44	53.7	8	9.7	14	17.1	1	1.2	2.29	2.00	1.00
Judges	5	38.5	7	53.8	0	0.0	1	7.7	0	0.0	1.77	2.00	0.83
Is the detection and reporting of money laundering an auditor's professional duty?													
Auditors	12	14.6	25	30.5	15	18.3	23	28.1	7	8.5	2.85	3.00	1.23
Judges	2	15.4	5	38.5	4	30.7	2	15.4	0	0.0	2.46	2.00	0.97
Do auditors know how to react following detection of money laundering during an audit?													
Auditors	13	15.9	37	45.1	18	21.9	11	13.4	3	3.7	2.44	2.00	1.03
Judges	1	7.7	1	7.7	8	61.5	2	15.4	1	7.7	3.08	3.00	0.95
Are auditors sufficiently informed about legal and regulatory requirements in the context of money laundering?													

Auditors	9	11.0	38	46.3	14	17.1	16	19.5	5	6.1	2.63	2.00	1.11
Judges	1	7.6	4	30.8	4	30.8	4	30.8	0	0.0	2.85	3.00	0.99
<b>Do auditors comply with customer due diligence requirements in every audit?</b>													
Auditors	17	20.7	39	47.6	9	11.0	12	14.6	5	6.1	2.38	2.00	1.15
Judges	1	7.7	1	7.7	5	38.5	6	46.1	0	0.0	3.23	3.00	0.93
<b>Are the expectations of the audit profession regarding the detection of money laundering reasonable?</b>													
Auditors	7	8.5	21	25.6	15	18.3	25	30.5	14	17.1	3.22	3.00	1.25
Judges	3	23.1	8	61.5	1	7.7	1	7.7	0	0.0	2.00	2.00	0.82
<b>Do auditors keep up to date regarding changes in laws and regulations?</b>													
Auditors	9	11.0	35	42.7	13	15.9	18	21.9	7	8.5	2.74	2.00	1.17
Judges	1	7.7	4	30.8	2	15.4	6	46.1	0	0.0	3.00	3.00	1.08

---

Mdn is the abbreviation of median and SD is the abbreviation of standard deviation.

Panel A of Figure 3 shows that most auditors and judges believe that auditors should find specific evidence of money laundering by a client as a prerequisite to filing a Suspicious Activity Report. For this reason, auditors may not have considered reporting suspicious activities falling short of this evidential standard to the relevant state authorities as being a main duty when compared to others set out in Figure 2. However, panel B of Figure 3 also indicates a significant AML expectations gap between auditors and judges regarding the degree of suspicion which should be present before a transaction should be reported as possibly being associated with money laundering. The responses indicate that auditors were of the view that there should be reporting of suspicion of money laundering, but only when the evidence was convincing and robust. In contrast, judges were of the view that a transaction should be reported as being suspicious when evidence was less persuasive, less overwhelming. This would point towards judges requiring auditors to rely more upon instinct- to report suspicion when perhaps something 'did not feel right' - rather than waiting for more convincing evidence which may not materialise, particularly when the launderers are sophisticated in the techniques deployed.

Figure 3

Divergent interpretations of the level of proof required before a transaction should be reported as suspicious

	Auditors		Judges	
	Freq.	%	Freq.	%
Panel A: Frequency and percentage of responses				
What level of proof is required before an auditor should report a suspicion of money laundering to the related authorities?				
Money laundering by the client is probable	2	2.4	1	7.7
Auditor should have reasonable suspicion, but specific evidence of money laundering is not required	4	4.9	3	23.1
Auditor should have general evidence, but specific and actual proof of money laundering is not required	10	12.2	4	30.7
Auditor should demonstrate committing money laundering by client	66	80.5	5	38.5
Panel B: Statistics for the responses				
	Auditors		Judges	
Mean	3.71		3.00	
Median	4.00		3.00	
Standard deviation	0.68		1.00	

One of the central objectives of this paper was a comparison between auditors' and judges' perceptions of the role of audit in the detection of money laundering. As a starting point and to evaluate any deviation between the two, we assumed that the mean and median of auditors' responses are equal to the mean and median of those of judges. There are different types of statistical tests available to test the equality of mean and median for two independent groups: we chose Satterthwaite-Welch t-test and Anova F-test for mean and Mann-Whitney test and Kruskal-Wallis test for median. The results are presented in Figure 4.

Figure 4

## Consolidation of findings

	$H_0: \mu_{Auditors} = \mu_{Judges}$		$H_0: MD_{Auditors} = MD_{Judges}$	
	Satterthwaite- Welch t-test	Anova F- test	Mann- Whitney test	Kruskal- Wallis test
<b>Panel A: Expectations gap regarding auditors' duties</b>				
Ensure compliance with laws and regulations	3.17***	4.03**	2.08**	4.36**
Report tax law infringements to the tax agencies	3.10***	6.95***	2.57**	6.62**
Detect intentional infringements of standards in financial information	1.94*	2.85*	2.18**	4.79**
Report intentional infringements of financial information standards to the relevant authorities	1.52	2.20	1.48	2.21
Detect illegal acts by a client which directly affect the accuracy or integrity of accounts	4.12***	6.11***	2.57**	6.63**
Detect illegal acts by client which do not directly affect its accounts	0.15	0.03	0.22	0.05
Report illegal acts by client which directly affect its accounts to the relevant authorities	1.53	2.39	1.56	2.46
Detect money laundering activities committed by a client	2.65**	4.13**	2.04**	4.20**
Report money laundering activities discovered during an audit to the relevant authorities	2.68**	4.46**	2.13**	4.55**
Report suspicions on money laundering to the relevant authorities	1.62	3.06*	1.94*	3.80*
<b>Panel B: Expectations gap regarding money laundering</b>				
Detecting money laundering activities during an audit is possible.	2.05*	3.20*	1.92*	3.72*
Detecting and reporting money laundering activities are within an auditor's professional duties.	1.30	1.20	1.04	1.09
Auditors know how to react following detection of money laundering during an audit.	-2.21**	4.37**	2.32**	5.39**
Auditors are well informed about the requirements of auditors under laws and regulations.	-0.71	0.42	0.86	0.75
Auditors comply with customer due diligence requirements in every audit.	-2.97***	6.45**	2.73***	7.46***
Expectations of the audit profession regarding detection of money laundering are reasonable.	4.60***	11.58***	3.25***	10.58***
Auditors keep up to date regarding changes in laws and regulations.	-0.78	0.54	0.84	0.72
<b>Panel C: Expectations gap regarding the level of proof an auditor should have before reporting a suspicion of money laundering to the relevant authorities</b>				
	2.46**	10.66***	3.28***	10.81***

The value of each test is presented in this figure:

\* significant at 10%

\*\* significant at 5%

\*\*\* significant at 1% or less



5. Conclusion and recommendations

Society has come to expect auditors to play an active role in the fight against fraud, corruption, and money laundering (Morales *et al.*, 2014). Auditors are now required to know the *bona fides* identity of clients (the ‘Know your Client’ rules), keep records for a certain period of time, and report suspicious transactions to the competent authorities in FATF Recommendations 22 and 23. According to the Iranian Anti-Money Laundering Implementing Regulations for Auditors (2012), auditors are required to design reliable procedures to detect instances of money laundering and other suspicious transactions. This paper investigated the expectations gap between Iranian auditors and judges in terms of its causes and implications. The findings show that the expectations gap regarding the AML responsibilities of auditors derives from significant disagreement as to the nature and extent of the profession’s duties and reporting responsibilities (Humphrey *et al.*, 1992; Lowe, 1994). Iran is presently on a FATF blacklist and is also ranked 138 out of 180 on a Corruption Index maintained by Transparency International, as of January 2020. If Iran is to leave the blacklist in the future it will be essential that auditors, as well as the judiciary, align their practices and perceptions with those of the FATF. The expectations gap between auditors and judges suggests that achieving such alignment will not be an easy task. The gap may be reduced in the following ways. First, there should be a specific AML standard for auditors. Detection of financial crime should be accepted by auditors as one of their functions, even though this may go beyond what they have traditionally perceived their role to be (Larsson, 2005). Second, there should be greater training in forensic accounting for auditors and for judges tasked with hearing cases involving financial crime (Amernic and Craig, 2004). Third, auditors and judges should be trained to be more aware of the requirements of international organisations, principally the FATF, regarding the use of corporate structures, charities, and trusts to move money between payers and beneficiaries when identities cannot be accurately verified. Iranian judges must also instill in the auditing profession, through rulings and observations in cases involving money laundering and other financial crimes, the need to be proactive in identifying and making more difficult activities intended to launder money. This is particularly the case when auditing opaque corporate structures, as well as being aware

of the potential for money laundering when there has been a change of names of parties to bank transfers: two reasons why Iran remains on the FATF blacklist. In narrowing the expectations gap both domestically between auditors and judges, and internationally with regard to compliance with international standards, Iran will reap benefits in terms of increased international trade and access to foreign capital as and when political and military tensions in the region reduce in the future.

### References

- AICPA. (1989), '*Statement on Auditing Standard No.54: Illegal Acts by Clients*', American Institute of Certified Public Accountants.
- Amernic, J. and Craig, R. (2004), "Reform of accounting education in the post-Enron era: moving accounting 'out of the shadows'", *Abacus*, Vol. 40 No. 3, pp. 342-378.
- Anderson, J. C., Lowe, D. J., and Reckers, P. M. (1993), "Evaluation of auditor decisions: Hindsight bias effects and the expectations gap", *Journal of Economic Psychology*, Vol. 14, No. 4, pp. 711-737.
- Anderson, B., Maletta, M. and Wright, A. (1998), "Perceptions of auditor responsibility: views of the judiciary and the profession", *International Journal of Auditing*, Vol. 2 No. 3, pp. 215-232.
- Best, P.J., Buckby, S., and Tan, C. (2001), "Evidence of the audit expectation gap in Singapore", *Managerial Auditing Journal*, Vol. 16 No. 3, pp. 134-144.
- Bigus, J. (2015), "Auditor reputation under different negligence regimes", *Abacus*, Vol. 51 No 3, pp. 356-378.
- Cassella, S.D. (2003), "Money laundering, terrorism, regulation, laws and legislation. *Journal of Money Laundering Control*, Vol. 7 No. 1, 92-94.
- Cox, D. (2014). *Handbook of anti-money laundering*. John Wiley and Sons. London.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60

De Koker, L. (2006), "Money laundering control and supression of financing of terrorism: some thoughts on the impact of due diligence measures on financial exclusion", *Journal of Financial Crime*, Vol. 13 No.1, pp. 26-50.

De Martinis, M., Aw, A. and Meng Kim, E. (2000), "An Examination of the Audit Expectations Gap in Singapore", *Asian Review of Accounting*, Vol. 8 No. 1, pp. 59-82.

De Martinis, M. R. and Burrowes, A. W. (1996), "Materiality and risk judgements: A review of users' expectations", *Managerial Finance*, Vol. 22 No. 9, pp. 16-34.

De Smet, D. and Mention, A. (2011), "Improving auditor effectiveness in assessing KYC/AML practices: case study in a Luxembourgish context", *Managerial Auditing Journal*, Vol. 26 No. 2, pp. 182-203.

Haniffa, R. and Hudaib, M. (2007), "Locating audit expectations gap within a cultural context: The case of Saudi Arabia", *Journal of International Accounting, Auditing and Taxation*, Vol. 16 No. 2, pp. 179-206.

Hulsse, R. (2008), "Even clubs can't do without legitimacy: why the anti-money laundering blacklist was suspended", *Regulation and Governance*, Vol. 2 No. 4, pp. 459-479.

Humphrey, C., Moizer, P. and Turley, S. (1993), "The audit expectations gap in Britain: An empirical investigation", *Accounting and Business Research*, Vol. 23, pp. 395-411.

Jennings, M., Kneer, D. C., and Reckers, P. M. (1993), "The significance of audit decision aids and precase jurists' attitudes on perceptions of audit firm culpability and liability", *Contemporary Accounting Research*, Vol. 9 No. 2, pp. 489-507.

Jeppesen, K. K. (2019), "The role of auditing in the fight against corruption", *British Accounting Review*, Vol. 51 No. 5, pp. 1-11.

Johnson, J., and Lim, Y. C. D. (2003), "Money laundering: has the Financial Action Task Force made a difference?", *Journal of Financial Crime*, Vol. 10 No. 1, pp. 7-22.

Johnson, G.G. and Rudesill, C.L. (2001), "An investigation into fraud prevention and detection of small businesses in the United States: responsibiities of auditors, managers, and business owners", *Accounting Forum*, Vol. 25 No. 1, pp. 56-78.

Kang, M., Lee, H. Y., Mande, V., and Woo, Y.S. (2019), "Audit firm attributes and auditor litigation risk", *Abacus*, Vol. 55 No. 4, pp. 639-675.

Kelly, A.S. and Mohrweis, L.C. (1989), "Bankers' and investors' perceptions of the auditor's role in financial statement reporting: the impact of SAS No. 58", *Auditing: A Journal of Practice and Theory*, Vol. 9 No. 1, pp. 87-97.

Labuschagne, H. and Els, G. (2006), "Corruption and fraud: any lessons for the auditor?", *Meditari Accountancy Research*, Vol. 14 No. 1, pp. 29-47.

Larsson, B. (2005), "Patrolling the corporation- the auditors' duty to report crime in Sweden", *International Journal of the Sociology of Law*, Vol. 33 No. 1, pp. 53-70.

Liggio, C. D. (1974), "Expectations gap: the accountants' Waterloo", *Journal of Contemporary Business*, Vol. 3 No. 3, pp.27-44.

Lord, N., Van Wingerde, K., and Campbell, L. (2018), "Organising the monies of corporate financial crimes via organisational structures: ostensible legitimacy, effective anonymity, and third-party facilitation", *Administrative Sciences*, Vol. 8 No. 2, pp. 1-17.

Lowe, J. (1994), "The expectations gap in the legal system: perception differences between auditors and judges", *Journal of Applied Business Research*, Vol. 10 No. 3, pp. 39-44.

McEnroe, J.E. (1990), "Auditors' reaction to the exposure draft of SAS No. 54", *Managerial Auditing Journal*, Vol. 5 No. 4, pp. 25-40.

Mitchell, A., Sikka, P., and Willmott, H. (1998), "Sweeping it under the carpet: The role of accountancy firms in money laundering", *Accounting, Organizations and Society*, Vol. 23 Nos. 5-6, pp. 589-607.

Monroe, G. S. and Woodliff, D. R. (1994), "An empirical investigation of the audit expectations gap: Australian evidence", *Accounting and Finance*, Vol. 34 No. 1, pp. 47-74.

Morales, J., Gendron, Y. and Henri, G. P. (2014), "The construction of the risky individual and vigilant organization: a genealogy of the fraud triangle", *Accounting, Organizations and Society*, Vol. 39 No. 3, pp. 170-194.

Morse, J.C. (2019), "Blacklists, market enforcement, and the global regime to combat terrorist financing", *International Organization*, Vol. 73 No. 3, pp. 511-545.

Murray, K. (2010), "Dismantling organised crime groups through enforcement of the POCA offences", *Journal of Money Laundering Control*, Vol. 13 No. 1, pp. 7-14.

Napier, C.J. (1998), "Intersections of law and accountancy: unlimited auditor liability in the United Kingdom", *Accounting, Organizations and Society*, Vol. 23 No. 1, pp. 105-128.

Ng, T. B. , Green, W., and Simnett, R. (2001), "The effects of fraud risk and management representation on auditors' hypothesis generation", *Abacus*, Vol. 37 No. 3, pp. 352-368.

Pacini, C., Rogers, H., and Swingen, J. (2002), "The OECD convention on combatting bribery of foreign public officials in international business transactions: a new tool to promote transparency in financial reporting", *Advances in International Accounting*, Vol. 15, pp. 121-153.

Rowley, J. (2014), "Designing and using research questionnaires", *Management Research Review*, Vol. 37 No. 3, pp. 308-330.

Schwartz, R. (1998), "Auditors' liability, vague due care, and auditing standards", *Review of Quantitative Finance and Accounting*, Vol. 11, pp. 183-207.

Sharman, J.C. (2009), "The bark is the bite: international organizations and blacklisting", *Review of International Political Economy*, Vol. 16 No. 4, pp. 573-596.

Sherer, M., and Turley, S. (1997), *Current Issues in Auditing*. SAGE Publications, London.

Siddiqui, J., Nasreen, T. and Choudhury-Lema, A. (2009), "The audit expectations gap and the role of audit education: the case of an emerging economy", *Managerial Auditing journal*, Vol. 24 No. 6, pp. 564-583.

1  
2  
3 Sikka, P., Filling, S. and Liew, P. (2009), "The audit crunch: reforming auditing",  
4 *Managerial Auditing Journal*, Vol. 24 No. 2, pp. 135-155.

5  
6 Simser, J. (2008), "Money laundering and asset cloaking techniques", *Journal of Money*  
7 *Laundering Control*, Vol. 11 No. 1, pp. 15-24.

8  
9  
10  
11 Standing, A. and Van Vuuren, H. (2003), "The role of auditors: Research into organised  
12 crime and money laundering", *Institute for Security Studies Papers*, Vol. 73, pp. 1-14.

13  
14  
15  
16 United States Auditing Standards Board Statement on Auditing Standards (SAS) No. 54  
17 concerning Illegal Acts by Clients.

18  
19  
20 Wiesen, J. L. (1978), "*Securities acts and independent auditors: what did Congress*  
21 *intend? A research study*", American Institute of Certified Public Accountants.