



Money laundering and the bookkeeper

Steven Ponsonby highlights the bookkeeper's role in identifying suspicious cash activities.

Every year, millions of dollars are generated from illegal activities such as drug trafficking, tax evasion and corrupt practices. The vast majority of these funds are in the form of cash that needs to be 'legitimised', that is, it needs to be brought into the financial system and converted into other forms so that the cash both becomes more useful and is made more difficult to trace, by placing distance between the criminal activities and the funds.

Making the proceeds derived from illegal activities appear to have been derived from a legitimate source is known as money laundering.

In a nutshell, money laundering is the process of disguising the:

- existence
- nature
- source
- control
- location
- beneficial ownership
- disposition

of property derived from criminal activity.

The motivation

There are many reasons why people money launder, including:

- concealing wealth – hiding illegally accumulated wealth to avoid seizure by authorities
- avoiding prosecution – criminals can distance themselves from the illegal monies
- tax evasion – criminals can evade taxes that would ordinarily have been imposed on the earnings derived from the illegal funds
- increasing profits – allows opportunities to further generate profits by investing illegal monies into legitimate businesses
- legitimisation – criminals 'wash' illegal funds through a legitimate business, thereby adding a further layer of legitimacy.

The impacts

The economic and social impacts of money laundering are significant. Firstly, it undermines the financial system by supporting the black market economy. Secondly, it supports crime and leads to an expansion of criminal activity by enabling criminals to reinvest illegal funds in legitimate businesses. Thirdly, it places an economic burden on the entire economy through foregone taxes and revenue, as well as weakening government control over the economy. Social impacts arise from the actions of those involved in money laundering, for example through identity fraud.

How it works

The money laundering process typically comprises three stages:

1. **Placement.** The launderer introduces the illegal funds into the financial system, for instance, through depositing cash into bank accounts or buying assets. This is the most vulnerable point of detection due to there being a direct link between the launderer and the funds.
2. **Layering.** This involves distancing the funds from their origin, moving the money around by using multiple layers of financial transactions to obscure the audit trail.
3. **Integration.** The launderer introduces the money back into the economy in a way that makes it appear legitimate.

Giving the game away

Typical warning signs of money laundering activities include:

- significant cash amounts 'washed', for instance, spent at a casino
- multiple deposits over time by a client into the trust account of a business, e.g. accountant or solicitor's trust account
- large/multiple transactions of monies via off shore bank accounts
- monies deposited and transferred via multiple bank accounts to avoid the AUSTRAC (see breakout box) reporting limits, known as 'smurfing'
- physical handling of large amounts of cash from unknown sources
- conversion of large sums of money into monetary instruments such as travellers or other deposit cheques
- in cash-based businesses, significant sums of money (in excess of the business turnover) being handled by the business
- large number of cash sales that appear outside the normal business operations
- people who appear to have little or no association with business being appointed as the company's directors.

The bookkeeper's role

A money-laundering scheme cannot be successful until the audit trail has been completely erased or is so complex that detection is unlikely.

Fast facts

AUSTRAC (Australian Transaction Reports and Analysis Centre) is Australia's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit. AUSTRAC works with law enforcement and other agencies to protect the integrity of the Australian financial system and fight serious crimes such as drug trafficking, tax evasion, fraud and people smuggling.

More than \$1.5 trillion of illegal funds is estimated to be laundered worldwide each year. Of this total, an estimated AUD200 billion is laundered in the Asia-Pacific region. (Source: AUSTRAC)

The object of money laundering is not only to disguise large amounts of cash, but also to convert this into other legitimate forms, such as personal assets, real property, cars. A bookkeeper to a business may see many of the warning signs listed and therefore can play an important role in assisting authorities with stopping the money laundering operation and bringing those responsible to justice. This can be done by reporting concerns to a relevant person. If you do have concerns, it is likely that the owner is involved so it may be appropriate to refer these concerns directly to the authorities.

You should keep copies of any relevant supporting documentation or a record of the suspicious transactions to assist authorities. If an investigation is warranted, you should cooperate fully with the authorities. Your knowledge of the business structure and affairs may be paramount to the investigation and successful prosecution.

It is advisable to seek out your own independent legal advice. Ensure that you don't end up being a party to the crime, for instance, by turning a blind eye. The short-term financial gains are never worth the ultimate financial and social consequences.

Resign or walk away from your role. Do not under any circumstances place yourself and/or your family in danger. If required to give evidence at trial, you should seek independent legal advice.

Summing up

The six steps bookkeepers should follow to avoid any involvement with money laundering are:

1. Be aware of the warning signs.
2. Keep a record of all transactions, that is, the money and asset trail.
3. Never accept a role as a 'dummy' director or end up being the front person for the operation. You'll end up taking the fall for illegal activities.
4. In any investigation, cooperate fully with the authorities.
5. Seek legal advice, where appropriate.
6. If required to give evidence, prepare notes, remain calm and answer the questions required. 

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