

Working Paper on

"Money laundering and the Role of

Supreme Audit Institutions in

Combating It"

2025



INTOSAI

Goal Chairs
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**Quality Assurance Certificate of the Chair of the
Working on Fight Against Corruption and Money Laundering**

This is to certify that the **working paper on "Money Laundering and the Role of Supreme Audit Institutions in Combating it"** which is placed at level **QA 3** of Quality Assurance as defined in the paper on "Quality Assurance on Public goods developed outside Due Process" approved by the INTOSAI Governing Board in November 2017 has been developed by following the Quality Assurance processes as detailed below:

- **The exposure draft was circulated to all the members of the Working Group for a sufficient period of time for review and comments.**
- **The exposure draft was recirculated again to all the members of the Working Group after considering the comments received.**
- **The Working Group member SAIs opinions and comments were duly considered by the Project team while finalizing the document.**

The product developed is consistent with relevant INTOSAI Principles and Standards. The structure of the product is in line with the drafting convention of non-IFPP documents.

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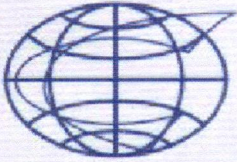
Cairo , September 2025.

President of the Accountability State Authority of Egypt

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**Chair of the Working Group on Fight Against Corruption and Money
Laundering**

(WGFACML)



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Quality Assurance Certificate of the Goal Chair

Based on the assurance provided by the **INTOSAI Working group on Fight Against Corruption and Money Laundering (WGFACML)** and the assessment by the Goal Chair, it is certified that the Working paper on “**Money Laundering and the Role of Supreme Audit Institutions in Combating it**”, which is placed at level **3 (three)** of Quality Assurance as defined in the paper on “Quality Assurance on Public goods developed outside Due Process” approved by the INTOSAI Governing Board in November 2017 has been developed by following the Quality Assurance processes as detailed in the quality Assurance Certificate given by the Working Group Chair.

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K. Sanjay Murthy
Chair of INTOSAI Knowledge Sharing and
Knowledge Service Committee



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Introduction

Money laundering is the process of disguising illegally obtained funds to make them appear legitimate, which undermines financial integrity and enables crimes such as corruption and terrorism financing. Combating money laundering is essential for safeguarding economic stability, protecting financial institutions, and maintaining public trust. Auditors play a key role in detecting suspicious activities and ensuring compliance with anti-money laundering (AML) regulations, while enforcement agencies lead investigations, apply sanctions, and dismantle criminal networks. Policymakers, on the other hand, are responsible for establishing strong legal frameworks and fostering international cooperation. Coordinated efforts among these stakeholders are crucial to effectively fight money laundering and strengthen governance and financial integrity.

This research paper examines the phenomenon of money laundering as one of the most prominent challenges facing financial and economic systems ,which is considered a strong threat for economic and social stability in various countries. This paper shades on the nature of money laundering operations, their characteristics , stages , risks and methods of such operations, as well as international efforts to combat money laundering and reviews the role of Supreme Audit Institutions in fighting this crime.



First: Definition of money laundering

An illegal process that aims to gather funds generated from prohibited criminal activities, such as drug trafficking or supporting terrorist organizations, in a way making them appear to have come from legitimate sources. This process is described as such because funds obtained from illegal operations are considered dirty money, and money laundering makes them appear clean.

Money laundering destroys a country's financial system, devalues the currency and increases inflation. It also impacts economic growth, hinders real investment in the country, and leads to a deterioration in the financial and economic situation.

Money laundering is a major problem facing the global economy. According to the International Monetary Fund, 2-5% of the world's gross domestic product is linked to money laundering.

Second: Sources of illicit funds

There are many sources of illicit funds, the most important of which are drug trafficking, human trafficking, terrorism, corruption and bribery, currency counterfeiting, property theft, tax evasion, and cybercrime.



Third: Characteristics of money laundering crimes

1- subsequent crime to a predicate crime

Money laundering does not occur unless a previous crime has been committed, such as drug trafficking or financial or administrative corruption. The absence of the original crime that generated the illegal funds leads to the absence of the crime of money laundering. Therefore, the most successful way to combat money laundering is to address the original crime.

2- organized crime

Money laundering crimes require an interconnected network of individuals and organizations that engage in a series of actions that transform illegal funds obtained from criminal activities into legal funds by injecting, transferring, and integrating them into economic activities.

3- international crime

It is an international process, meaning that its constituents may be in more than one country.

4- Technically and technologically advanced crime

The technical and technological nature of money laundering operations is constantly evolving. The emergence of digital currencies and the development of electronic money transfer systems are leading to increased use of the internet in money laundering operations, which means carrying out these operations in the shortest possible time.



Fourth: Stages of Money Laundering

1- Input stage:

At this stage, the illegal funds are deposited or introduced into the banking or financial system. This is the most dangerous and difficult stage for money launderers, given the possibility of detection because they have not yet undergone complex operations.

Examples:

- Depositing a large number of small amounts of money into multiple bank accounts.
- Setting up high-yield projects to conceal illegal funds and disguise them as legitimate income.

2- Conversion stage:

Money is transferred through a wide range of transactions, making it difficult to identify its original source.

Examples:

- Transfer money through multiple bank accounts.
- Buy and sell many investments.
- Conducting fictitious sales among several companies.



3- Integration stage:

Integrating money into the legitimate economy after it has become clean so that it can be spent or invested, which is the least risky, safest, and hardest to detect stage.

Fifth: Money Laundering Risks

❖ Economic results

- 1- Money laundering results in a decline in the use of legal capital and its replacement with illegal funds, which leads to a decline in economic development and financial investments, which negatively impacts the value of local currencies compared to foreign currencies.
- 2- The negative impact on the country's reputation will result in reputational risks that affect the flow of foreign investments to this country, as well as negative repercussions on the dealings of foreign financial institutions with local financial and banking institutions in implementing financial operations, which affects financial stability on the one hand, as well as the economy's ability to finance development needs on the other hand.

❖ Political results

Threatening the political stability of countries due to the use of laundered money to finance illegal and criminal operations may lead to a security and national threat.



❖ **Social results**

They are the consequences that impact the entire societal environment, as money launderers seek to spread all types of trade that best assist them in laundering their money easily. For example, they are keen to spread drugs among young people as one of the means to increase laundered funds, resulting in significant destruction of society's infrastructure

Sixth: Money laundering methods

Money laundering methods are the techniques criminals use to disguise the origins of illegally obtained money and make it appear legitimate. They generally follow the three aforementioned stages , here are the main methods commonly used:

- 1- Through banking activities.
- 2- Through corporate activities.
- 3- Through online activities.

1- Banking activities:

Examples:

- Open multiple accounts in more than one bank and then transfer the balances of those accounts to one account.
- Transferring money to people in countries with a bank account confidentiality system, making it difficult to trace those funds.



- Depositing money in a bank and obtaining a loan from another bank in another country with the guarantee of this money, which is then used for legitimate activities to make the money appear legal.

2- Corporate activities:

Examples:

- Establishing and financing companies with illegal funds and exploiting the legal existence of these companies to open bank accounts and transfer funds to and from them, subsequently, carry out various operations, including entering contracts for goods, services and work with the State.
- Purchasing stocks, bonds and other securities traded on the stock exchange using illegal funds through a financial intermediary, then selling them after a while and the funds resulting from the sale become as if they were legitimate funds.
- Exploiting the activities of insurance companies because there are large cash flows in these activities among various parties. For example, insurance policies are purchased with money from illegal sources, then the value of the policy is recovered after a while, and then the money appears as if it is legitimate.

3- Internet activities

▪ e-commerce

A business activity carried out using advanced technological methods related to the buying and selling of products. E-commerce websites are used for online



shopping, online purchases, payment for purchases, and transferring money from one party to another.

- **Crypto currencies**

It is a digital representation of a value that can be transferred, stored, or traded electronically, and it is secured by cryptography. It is not issued by a central bank or public authority and is not necessarily related to paper currencies. People use it as a means of payment. The user does not own the Crypto currency, but he has the right to spend several of it. The most popular Crypto currency currently is Bitcoin.

- **Precious digital metals**

Precious metals are purchased in digital form according to the price of the metal in the global commodities market, and then the customer can transfer an amount of it to other people or merchants in exchange for goods or services.



Seventh: Factors leading to the spread of money laundering

1. If there is a defect in the banking system, this contributes significantly to the spread of this crime, through banking transactions, foreign exchange trading, loans, and buying and selling operations in securities.
2. Openness of financial markets and free movement of capital among countries.
3. The major transformation in the world of digital technology has caused the emergence of electronic financial transfers between local and international banks, as well as digital currencies, in the absence of effective oversight to monitor these activities.
4. Weak oversight and insufficient legislation in some countries make it difficult to detect illegal activities.

Eighth: International efforts to combat money laundering

❖ United Nations efforts

Many international agreements have been issued to limit the spread of money laundering crimes, Including:

- 1- United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention of 1988).**

The Agreement obligated the signatory states to criminalize money laundering operations and take all necessary measures to issue legal legislation to criminalize such operations.



It imposed a set of obligations on the member states, the most important of which are:

- The obligation to exchange information among member states on money laundering crimes.
- Concluding bilateral or multilateral agreements to prevent criminals from exploiting any shortcomings in laws in some countries.
- Obliging the States Parties to cooperate in this regard.

2- United Nations Convention against Transnational Organized Crime (Palermo Convention 2000).

There are three protocols to this Agreement (the Palermo Protocols):

- 1- Protocol to Prevent, Suppress and Punish Trafficking in Persons, especially Women and Children.
- 2- Protocol Against the Smuggling of Migrants by Land, Sea and Air.
- 3- Protocol Against the Illicit Manufacturing of and Trafficking in Firearms.

3- United Nations Convention Against Corruption (2003).

It is the only legally binding global instrument to combat corruption, it covers next main five areas:

- 1) Preventive measures.
- 2) Criminalization and Law Enforcement.
- 3) International cooperation.



- 4) Asset recovery.
- 5) Technical assistance and information exchange.

The Convention covers many different forms of corruption, such as bribery, influence peddling, abuse of functions, and various acts of corruption. Most of the UN Member States are parties to this Convention.

❖ **The Basel Declaration of 1988**

The 1988 Basel Statement on Preventing the Criminal Use of the Banking System for Money Laundering Purposes is the first international initiative that includes a set of principles and rules to combat money laundering crimes, which use banks as a means or conduit for facilitating their commission.

❖ **Financial Action Task Force on Money Laundering “FATF”**

Founded in 1989, it is considered the most important and prominent anti-money laundering initiative, and the recommendations issued by the FATF provide a comprehensive framework for measures to help countries address illicit financial flows. These measures include a strong framework of laws, regulations and operational measures to ensure that national authorities can take effective action to detect financial flows that fuel crime and terrorism, and to punish those responsible for illicit activities.



The number of these recommendations is 40 and they are divided into seven separate areas:

- 1) Risk assessment and application of a risk-based approach.
- 2) Legal and institutional frameworks.
- 3) Measures to prevent the misuse of financial institutions, designated non-financial businesses and professions, and non-profit organizations.
- 4) Preventive measures for financial institutions and other designated sectors.
- 5) Transparency and beneficial ownership of legal persons and arrangements.
- 6) Powers and responsibilities of competent authorities.
- 7) International cooperation.

Ninth: Actions that can be taken by Supreme Audit Institutions in combating money laundering

- 1- Allocating specialized departments within the Supreme Audit Institution to supervise banks, as they are considered entities highly prone to money laundering risks.
- 2- Review samples of deposits, bank transfers, and other banking services to ensure compliance with anti-money laundering requirements and to detect layering and structuring of the illicit funds – if any.



- 3- Review samples of granted credit facilities to ensure the soundness of credit granting decisions.
- 4- Recommending the necessity of digital identification for bank customers, as the digital identification process requires verification and authentication with a high degree of confirmation using digital channels, which cannot be imitated or forged. Therefore, identifying it enhances the fight against money laundering and leads to the protection of personal data by taking the customer's prior consent before using his data, considering strengthening the information protection and security system.
- 5- Evaluation of the internal system of the auditees.
- 6- Auditing auditees' compliance with governance requirements and anti-money laundering controls.
- 7- Negotiations with other entities in charge of confidential information such as personal, family, and financial data, among others, for the purpose of accessing confidential data and identifying organizations and links between audited parties and related individuals and/or legal entities, especially in the case of contracts or services provided to the State.
- 8- Establish deliberate mechanisms to build the capacity of all auditors in the area of money laundering.
- 9- Enhancing the SAI's information infrastructure by promoting the digital transformation system and developing electronic audit applications to enable electronic connectivity with the auditees.
- 10- Engage with Parliaments to support coordinated oversight.



- 11- Cooperation between SAIs and anti-corruption bodies and the exchange of information in this regard.
- 12- Each SAI shall establish a communication channel with the public, whether through a hotline or electronic websites and applications, to receive complaints and reports of corruption.

Tenth: Cooperation among Supreme Audit Institutions in the field of combating money laundering

- 1- Sharing SAIs best practices to build collective capacity in tackling money laundering , especially through WGFACML as each SAI shall prepare its best practices in the field of combating money laundering, share them with WGFACML member SAIs and publish them on the Working Group's official website.
- 2- Promote learning among SAIs through webinars, training programs, workshops and conferences.



Conclusion

The paper emphasizes that combating money laundering requires concerted national and international efforts, and that SAIs have the capabilities to contribute effectively to this fight as they are considered the cornerstone for ensuring integrity, transparency and accountability. These SAIs must be empowered and equipped with the appropriate jurisdictions and instruments to enhance their oversight role, especially in the field of combating money laundering.



References

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