Recognising Cases of Money Laundering and Financial Crime from the Perspective of Accounting Firms. Case Company X and Company Y

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Abstract

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The topic of this Bachelor's thesis is the recognition of cases of money laundering and financial crime from the perspective of accounting firms. The research was performed in two big Finnish accounting firms at the end of the winter and beginning of the spring of 2020. The thesis aims to research indicators which alarm accountants about criminal and money laundering activities in companies and methods accountants use to discover these activities. The thesis gives recommendations to accountants who work in outsourced accounting.

The thesis involves theoretical and empirical parts. The theoretical part discusses different types and signs of financial fraud in accounting, how it appears in accounting documents and what preventive measures Finnish legislation currently has towards criminal activities in business. The theoretical part discusses Finnish accounting standards.

The empirical part of the thesis uses qualitative research methods. In order to complete the empirical part of the thesis, a series of interviews was performed with accountants in companies X and Y. The interviews helped to identify practices companies use in order to discover and prevent criminal and money laundering activities.

Results in the empirical part revealed the red flags of criminal and money laundering activities that accountants in case companies get while doing accounting for their clients. Knowledge about criminal and money laundering activities recognition methods was gained. Case companies provided information on how they spot and deal with criminal and money laundering activities in spring 2020 and their future vision about the topic. The research question was answered, and based on the gained results, recommendations to accountants were given.

Keywords
Money laundering, financial crime, fraud auditing, outsourced accounting

Contents

1 Introduction

This thesis researches cases of money laundering and financial crime in accounting and how accountants recognize them.

Chapter 1 presents to a reader the research question and investigative questions that support the research question. Thesis background, demarcation, benefits of the topic, its internationalism and risks are presented in chapter 1. Finally, case companies are presented at the end of chapter 1. After familiarizing himself or herself with chapter 1, the reader understands the background of the thesis.

1.1 Background

The evolution of the financial economy gives space for new techniques that would exploit it. Financial crime used to affect only financial services in the past. Today, rapid development of technology, online banking, internet, flexible payment channels, and cryptocurrencies opened doors for criminals to create new abusive methods. Financial crime affects all organizations in different industries. (Deloitte 2019.) Money laundering is linked to other forms of serious and organized crimes and financing of terrorism (Europol 2020).

The ideas of money laundering existed already 4000 years ago in China and other Asian countries. Back then, merchants were getting more funds for ruling parties by moving money, guns, or drugs around without being suspected. *Mules* were used in the Roman Empire for message transportation. Coded messages were tattooed on the heads of mules. The term *money laundering* appeared in the 20s during the gangster era in US. Gangsters gained money from gambling, prostitution, and sales of prohibited alcohol. As there was lots of money from these operations, gangsters had to develop methods to prevent the government from understanding the true nature of their funds. Money was in the form of cash currency – in small denomination bills or coins and could not be put into the bank. Therefore, gangsters created slot machines and laundromats. Coins gained from criminal operations were used to gamble and to wash clothes. In practice, it appeared that more money was stored in the slot machine than it was gambled, and more clothes were washed than there actually were. (Sullivan 2015.)

Criminal activities bring profits, often in the form of cash. After profits are gained, criminals launder them through various channels. (Europol 2020.) In the 21st century, there are three ways of moving and cleaning dirty money. The first approach is using a legitimate financial system. In this approach legal entity or a person move money through banks, money services business, etc. The second approach is physically moving the money. In this approach legal entity or a person or a person transfer bulk cash via shipment across the border. The third approach is moving goods through the trade system. (Sullivan 2015.)

Companies that are linked to money laundering and financial crime have unusual transactions. One example of an unusual transaction is asset sales, but assets cannot be substantiated. Another example of an unusual transaction is transactions without an evident commercial basis. Companies that are linked to money laundering and financial crime have unusual money flows, e.g. denominations and currency not the norm in the industry, bank deposits not declared as turnover or sales and money flows without apparent economic reason or supporting documentation. Finally, companies that are linked to money laundering and financial crime have unusual turnover, e.g. large cash payments received for goods never delivered, as there is a fictitious buyer, transactions with suspected criminals or their partners, and the significant increase in cash turnover. (OECD 2009, 27–28.) Professional money launderers provide money laundry services for others as their core operations (Europol 2020).

AML enforcement in the European Union member states is arranged in different ways. It is extremely heterogeneous. Data about AML fines has been completely anonymized or not published in Denmark, Germany, and Spain. Information about AML fines is published in France and Sweden. However, it is still not understandable for a reader what is the real nature of violations and how serious they were. FATF and MONEYVAL publish mutual evaluation reports, but they lack a comprehensive comparison of AML enforcement and its effectiveness in EU/EEA member states. (Kirschenbaum, Veron 2018, 10–11.)

It is complicated to assess the scale of money laundering in the world. However, its size is significant. The United Nations Office on Drugs and Crime estimates that between 2% and 5% of global GDP is laundered yearly which is between 715 billion euros and 1.87 trillion euros. (Europol 2020.)

The thesis investigates how money laundering cases and financial crime appear in accounting documents, how accountants recognize these cases, and what further actions they take. The study is performed by conducting a series of interviews with accountants that work in company X and company Y. The author of the thesis has personal interest in the topic, as she comes from a country where one bank is in voluntary liquidation since 2018 because of money laundering activities.

1.2 Research Question

The thesis aims to research cases of money laundering and financial crime in companies, and how they are recognized and handled by accountants in companies X and Y that provide outsourced accounting services. The outcomes of the thesis can serve as a help for accountants, who might encounter money laundering cases and financial crime, while doing accounting for regular companies that outsourced their accounting department.

The research question of the thesis is how to recognize cases of money laundering and financial crime and how to deal with them from an accounting perspective.

The thesis researches 4 investigative questions:

IQ1. What are the practices accountants use to discover criminal activities in accounting of companies?
IQ 2. What aspects of bank statements or any other document alarm accountants about criminal accounting practices?
IQ 3. How cases of money laundering and financial crime appear in financial statements of companies that have criminal activities?
IQ 4. How do accountants deal with criminal accounting practices they encounter?

Table 1 below presents the theoretical framework and the research methods for each investigative question.

Table 1. The overlay matrix

Investigative Question	**Theoretical Framework***	**Research Methods**	**Results (chapter)**
IQ1. What are the practices accountants use to discover criminal activities in accounting of companies?	FAS, theoretical knowledge about money laundering and other financial crime	Desktop research, interview	Theoretical background, methods accountants use to discover criminal accounting in financial statements Theory: 2.1, 2.2, 2.3, 2.4, 2.6 Results: 4.1

IQ2. What aspects of bank statements or any other document alarm accountants about criminal accounting practices?	Red flags about money laundering and other financial crime, FAS	Desktop research, interview	Theoretical background, criminal accounting practices in financial statements according to accountants Theory: 2.2, 2.3, 2.4, 2.6 Results: 4.2
IQ3. How cases of money laundering and financial crime appear in financial statements of companies that have criminal activities?	Red flags about money laundering and other financial crime, FAS	Desctop research, interview	Money laundering and financial crime exposure in financial statements Theory: 2.2, 2.4, 2.6 Results: 4.3
IQ4. How do accountants deal with criminal accounting practices they encounter?	Laws and regulations, governmental programs	Desktop research, interview	Money laundering and financial crime in financial statements Theory: 2.5 Results: 4.4

1.3 Demarcation

First of all, money laundering and financial crime are wide topics. Therefore, it is defined in the thesis what is considered as money laundering and financial crime in literature and Finnish legislation.

Second, Finnish Accounting Standards, or FAS are researched. These accounting standards explain how accounting should be done in Finland. It is researched how theoretical resources suggest recognizing and dealing with cases of money laundering and financial crime. When literature is researched, the author of the thesis designs interview questions basing on it and compares practices described in theoretical material to the practices used by accountants in companies X and Y that help them to recognize money laundering and financial crime while doing accounting for their customers.

Research is limited to two companies – company X and company Y. Accountants in companies X and Y provide accounting and auditing services for regular not listed companies that outsourced their accounting. These companies are SMEs and microenterprises.

1.4 Risks

The author of the thesis is going to perform a series of interviews in order to information about the topic. Therefore, a problem with interpreting answers may arise. Another risk is that interviews are going to be performed in the Finnish language, because the working process in both companies happens only in this language. This might lead to misunderstanding from the author of the thesis side, while analysing gained answers. Finally, the answers of informants might be non-objective, what is the greatest risk.

In order of minimising the risk of misunderstanding, answers of informants are going to be recorded. The thesis is confidential, no name of any respondent is mentioned. Therefore, informants should not have motives for providing non-objective information. It is easier for them to talk about sensitive information openly. The author of the thesis has the opportunity to consult with accountants after the interview is done in case the gained information is not clear.

1.5 International Aspect

The chosen topic fulfills the requirements for the international aspect through the fact that there is a concept of international money laundering, where two or more countries are involved in the conflict.

The thesis is going to review money laundering and financial crime cases in accounting in Finland. According to news agency News Now Finland, international money laundering is on the rise in Finland since 2018, when plenty of criminals with foreign backgrounds arrived in Finland and started to open bank accounts in order to transfer money. Finnish police expect the cases of international money laundering to increase. (News Now Staff 2019.)

1.6 Benefits

The thesis summarises information about how to recognise and deal with cases of money laundering and financial crime from the perspective of accounting. It benefits accountants in accounting companies and consultancies that provide outsourced accounting or auditing services. The thesis helps accountants and consultancies to recognise cases of money laundering and financial crime in financial statements, to recognise companies that break Finnish law and to take further actions.

1.7 Key concepts

Key concepts are identified for this thesis: FAS, financial crime, financial statements, going concern principle, reconciliation of accounts, materiality, and money laundering.

FAS.
FAS or Finnish Accounting Standards, are practices used in good accounting in Finland (Directors' Institute Finland 2018).

Financial crime.
Financial crime is a form of theft, when an entity or a person illegally uses property or money and benefits from this usage. Types of financial crimes are forgery, credit card fraud, embezzlement, and money laundering. Financial crimes involve deceit, abuse of trust between parties, or subterfuge. (FindLaw 2020.)

Financial statements.
Financial statements are summary-level reports about a company's financial results, financial position, and cash flows. Financial statements are set of balance sheet, income statement, statement of cash flows, and supplementary notes. Balance sheet shows a company's assets, liabilities, and equity as of the report date. Income statement shows the results of a company's operations and financial activities for the reporting period. It includes revenues, expenses, gains, and losses. Statement of cash flows shows changes in a company's cash flows during the reporting period. Supplementary notes include explanations of various activities, additional detail on accounts. (Accounting Tools 2018a.)

Going concern principle.

The going concern principle is “the assumption that an entity will remain in business for the foreseeable future” (Accounting Tools 2018b). It means that an entity will not stop own operations and liquidate its own assets in the nearest future.

Reconciliation of accounts.
Reconciliation of accounts means provision of documentation, e.g. bank statements that would prove that accounting balance is correct. Before preparing financial statements for the new month, an accountant should reconcile every account in a balance sheet by collecting and analyzing documentation that supports accounts’ ending balances. (AC 2020.)

Materiality concept.

Materiality Concept means that all-important financial information must be included in the financial statements (My Accounting Course 2020).

Money laundering.
Money laundering refers to the approach of integrating money gained from criminal enterprises into legitimate financial projects. Money laundering happens by depositing big amounts of money into a company’s bank account. (Sullivan 2015.)

Outsourced accounting.
Outsourced accounting is a service purchased by a company, when the outsourced accounting department handles accounts payable, accounts receivable, payroll, and management financial reporting (Basis365 2020).

1.8 Case Companies

Company X
Company X is a Finnish financial admin outsourcing and software company. The company was established in the 1940s. Company’s headquarters are located in Helsinki, Finland. Company X operates in seven European countries and recruits more than 2500 people. In 2018 the company made revenue of about 250 million euros.

The company provides software solutions for book-keeping, payroll, consulting, etc. It is an expert in financial, HR business and ICT fields. Company X is one of the biggest companies in Northern Europe in the fields of financial management payroll processing services.

Company Y

Company Y is a Finnish company that provides digital accounting services, payroll, and consultancy in matters of controllership, analysis, and HR to the companies. Company's headquarters are in Helsinki, Finland and it operates in Finland. Company Y was established in 2010s when several accounting companies were merged. The revenue of the company was almost 20 million euros in 2019 and it serves as a working place for almost 250 people.

2 Recognition Methods of Money Laundering and Financial Crime from The Perspective of Accounting

Chapter 2 is the theoretical chapter. It explains theory concerning recognition techniques of money laundering and financial crime in accounting. Basing on the theoretical chapter 2, practical chapter 3 is built. After familiarizing himself or herself with chapter 2, the reader understands the theoretical framework of the thesis and it is easier for him or for her to understand chapter 3.

First, the author of the thesis needs to discuss, what is considered as financial crime, particularly money laundering, embezzlement, and tax offense in accounting according to theoretical books about the subject. Author of the thesis researches what are the red flags of financial crime, how it appears in accounting documents, and how accountants must deal with it according to Finnish legislation.

The next step is to analyse legislation. How it defines money laundering and financial crimes in accounting. Finnish legislation is chosen because this thesis is done basing on Finnish accounting principles.

Finally, Finnish accounting standards are reviewed to define what is considered as healthy accounting in Finland.

Figure 1 describes the construction of the theoretical part of the thesis.

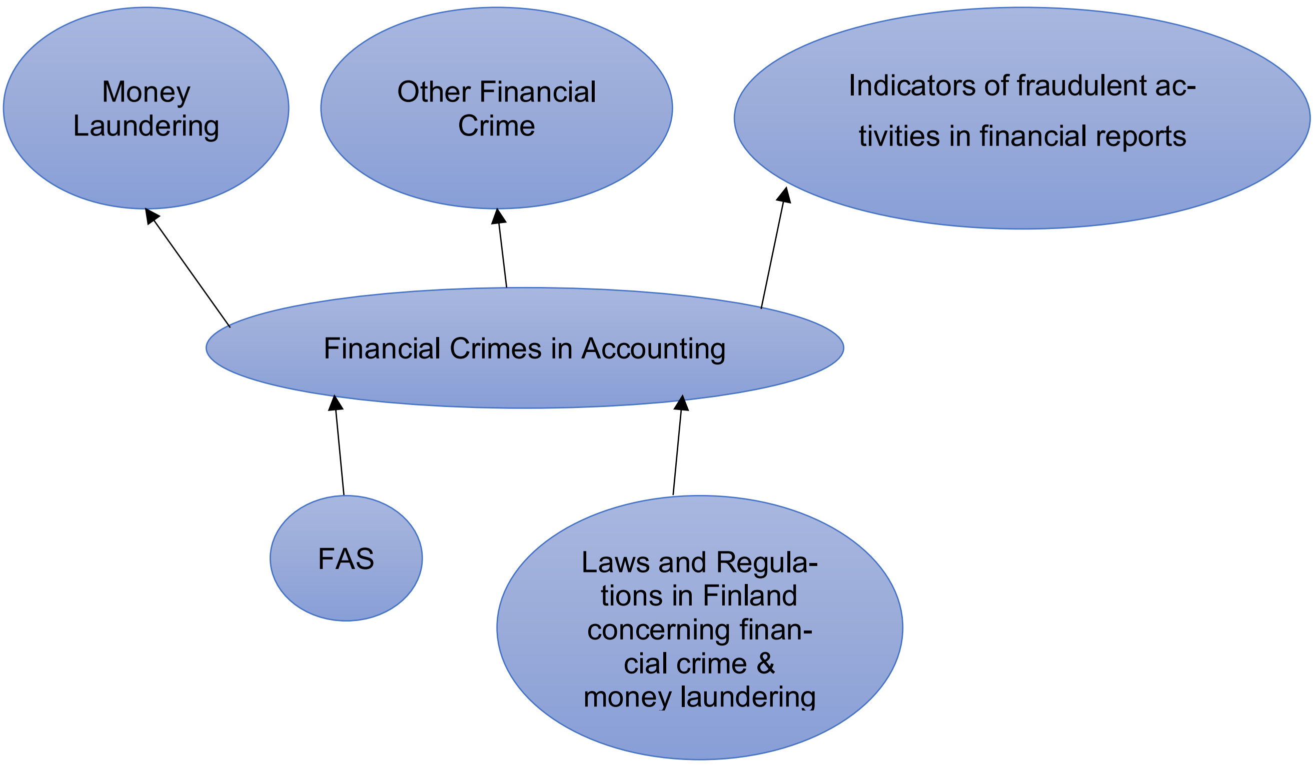

Figure 1. The construction of the theoretical part of the thesis

2.1 Financial Fraud in Accounting

The European Court of Auditors determines fraud as an intentional act or omission that is developed to provide false materials or knowledge to the other person. The result of the fraud is that the victim suffers a loss and the offender is getting profit. (European Court of Auditors 2019.) Pasco (2019, 26) determines fraud as “an intentional misinterpretation of materials”, when a company states false or untrue information as facts. Fraud schemes are created to maximize a company’s profits (Pasco 2019, 19). According to Deloitte (2019), financial crimes are bribery, corruption, money laundering, handling the proceeds of crime, cybercrime, accounting and tax fraud, and financial market abuse. Types of financial crimes are constantly changing. Laws that deal with financial crime are subject of changes: they can become more liberal or stricter (Pasco 2012, 19.)

Financial fraud is not only about whether reported results are correct or incorrect. There is a difference between the term *errors* and the term *irregularities* in financial reporting. The term *errors* means inadvertent misstatement of performance in financial statements. Errors occur because of the accounting data that was gathered and processed in a wrong manner or accounting principles that were applied mistakenly. If a company tries to pull the wrong numbers together and fix them, then it is not a fraudulent activity. The term *irregularities* means deliberate misstatement of performance in financial statements. *Irregularities* appear as falsification and manipulation of accounting records or supporting documents that form financial statements and deliberate misapplication of accounting principles that affect figures in financial statements. (Young 2013, 4–5.)

Pasco (2012, 19) defines that the detection of financial fraud takes longer time. To commit financial crime, a criminal has to do planning. He or she needs to have business acumen and skill of deceit. Financial fraud starts as an insignificant crime and then develops into a bigger crime throughout the period. Victim of financial fraud should not have any idea that he or she is in the middle of it. Effects of the financial crime become greater when offender’s earnings will appear bigger than his or her legitimate earnings. At this stage, the victim will suspect the offender.

According to the ACFE, 80% of victims of fraud reported following red flags in business activities of an offender: an offender has close relationships with a vendor or customer. Fraudulent business has missing documents, items in accounting reconciliations, disclosures, and loans without logical explanation. Such business has notable changes in assets or liabilities. Fraudulent business has high revenues during a period when competitors have a recession in their business operations. (Hubler 2016.)

To investigate financial fraud and its proceeds, it is needed to analyze documents and all financial transactions of the suspect company (Pasco 2012, 19).

2.2 Money Laundering

Article 3, paragraph 1b of United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) defines term *money laundering* as “The conversion or transfer of property, knowing it is derived from a criminal offense, to conceal or disguise its illicit origin or of assisting any person who is involved in the commission of the crime to evade the legal consequences of his actions.” Sullivan (2015) describes money laundering as putting money that was gained during criminal activities into legitimate activities. An offender shows that illegally gained money is legal and he or she has the right to spend it. Criminal performs numerous transactions to hide financial assets gained through criminal activities.

According to Sullivan, an offender needs to launder, or make money legitimate for 3 reasons. The first reason is that the legitimate financial system is the most secure way of storing gained money, so it would not be stolen by another criminal. The second reason is that *dirty money* needs to be moved around the globe quickly to hide criminal activities. The quickest and the most legitimate way of moving money around the globe is putting it into the bank or money service businesses. The third reason is that the offender cannot start spending non-legitimate money openly, as it would bring suspicion from the government’s side. (Sullivan 2015.)

There are three stages of laundering money: *placement*, *layering,* and *integration*. *Placement* is the first stage of the money laundering process. In this stage, the bulk of cash gained via criminal activities is brought to the financial institution where it is deposited or transferred. In the placement stage offender first needs to make the bulk of cash less suspicious. Therefore, he or she opens businesses that deal with substantial amounts of cash. Bars, restaurants, casinos, car washes, and hotels are cash-intensive businesses. These businesses deal with big amounts of small-denomination bills. After that offender deposits small amounts of cash into the bank account. The second stage is the *layering*. During this stage, an offender makes numerous transactions to different entities. Usually entities are located in foreign countries that have strong bank secrecy rules and different jurisdictions. In the layering stage, the offender alienates himself or herself from the money. In this stage, it is hard for the government to track the money. The third stage of money laundering is the *integration*. In this stage layered money is assimilated with the assets in the legitimate financial system. In the integration stage, the offender would invest money into the business, or purchase big-ticket luxury items and real estate. (Sullivan 2015.) Experts identify money laundering in business operations through the detection of individual transactions in one of the three stages of money laundering. It is easy to detect transactions in the placement stage. Transactions in the layering and integration stage are more challenging to detect due to different implementation of business activities. (Moneyval 2015, 61.)

Sullivan described methods that are used by the offender in the stages of money laundering. An offender can have cash-intense business to launder money. Cash-intense businesses are companies that are cash-based. Examples of cash-intense businesses are bars, pizza shops, car wash, etc. (Sullivan 2015.) Byrnes and Munro emphasized other cash-intensive types of business that might have money laundering activities in their operations. These businesses are travel agencies that have tour operations and companies that have commission trade of articles of art and antiquities. (Byrnes, Munro 2019.) Companies that have money laundering activities, may be registered to another person's name who has a clean track record and who would not arouse suspicion. Under this method the offender deposits dirty money with the legitimate money gained through the sales. Therefore, it is hard to analyze the size of the real revenue the business made. (Sullivan 2015)

According to Sullivan (2015), usage of money service businesses is another method of money laundering is. Offender can use national postal services or Western Union-style money transmitters to transfer money. The same method to launder money are wire transfers, when an offender can relocate a big amount of money. Wire transfers are used in the layering stage with the help of shell companies.

Life insurance products are used by an offender to launder money. Offender purchases life insurance with money gained via criminal activities and then cashes out insurance products. An offender can insure goods that are high in value and make fraudulent claims. In both cases, an offender receives legitimate cash.

Gold is used by the offender as the method of money laundering. Gold is purchased with the money gained via criminal activities. After that gold is melted down and transformed into low-value items, such as bolts, nuts, auto parts, tools, etc. These items are sold afterward when the price of gold is satisfactory.

In the integration phase of money laundering, an offender can purchase or lease a vehicle for own business. This vehicle can be sold overseas for a double price. In the integration phase, a launderer can purchase real estate as well. Real estate is purchased via a bank loan for the deflated price. Offender pays the loan back by using dirty money and then sells it for the actual value of the property. (Sullivan 2015.)

2.2.1 Signs of Money Laundering in Business Operations of Companies

Experts have defined signs of money laundering. Byrnes and Munro tell that sign of possible money laundering is that suspect transfers money from or to anonymous accounts abroad, when international transactions are not common for his or her business operations. The receiver of the money is a non-resident person from the offshore territories. Suspect transfers money to the bank account of a legal entity that had no significant transactions in the past 6 months. Suspect has an increasing amount of cash-payments. Regarding the business operations, suspect supplies goods or services to the person, who is not stated in the contract. (Byrnes, Munro 2019.)

Sullivan (2015) classified signs of money laundering into *trade-based money laundering*, *customers*, *funds transfers*, *activities not related to business operations*, *lending activities*, *trade finance*, *insurance*, and *shell company activities*. Red flags of a *trade-based money laundering* are transactions from unrelated third parties, fake documentation, transactions where the same product is imported and exported several times, operations that are not linked to business and incoordination between the price, and the value of the product.

Red flags of a *customer* are that he or she uses suspicious identification documents that cannot be verified, a customer makes big transactions often and has no information about past or present employment. When a business establishes a new bank account, it does not want to reveal information about own nature and location and relationships with former bank.

Funds transfers include transfers in large round currency. Funds are transferred to or from financial secrecy haven. Transfer activity lacks explanation, there is no information about the receiving party.

Red flags of *activities not related to business operations* are a big amount of cashier's checks, unusual transfer of funds to related accounts and goods or services purchased by the business do not match it.

Red flags of *lending activity* are loans that are secured by pledged assets that belong to the third parties. Third parties do not relate to the borrower. Loans can be secured by marketable assets which are held by unrelated third parties. Marketable assets are an example of securities. An offender that exploits lending activity has loans that are paid on a behalf of third party without an explanation. Offender holds loans that lack a legitimate business purpose.

The red flag of *trade finance* is that an offender ships product that are not related to his or her business operations. IT company starts sending pharmaceutic products in large amounts to own customers. According to trade finance red flags, offender overprices or underprices own goods or services.

Red flags of *insurance* are that offender uses single, large premium payment to buy insurance products. Currency or currency equivalents are examples of these payments. Purchased insurance is not consistent with an offender's financial wealth or estate planning needs.

Red flags of *shell company activity* are situations, when the purpose of a shell company is unclear. Bank cannot identify beneficiaries of bank accounts. Payments to or from business entities lack stated purpose. A company sends funds transfers to a large number of beneficiaries. Beneficiaries are located in higher-risk offshore financial areas. There are several high-value transfers between shell companies. These transfers lack legitimate business purpose. (Sullivan 2015.)

2.2.2 Preventive Measures of Money Laundering

Experts suggest that the most important step in preventing money laundering is knowing own customer, which means companies need to identify clients and verify the information they provide (Accountancy Age 2016). KYC, what means knowing your customer, is the program of identifying and verifying the identity of the client when opening an account for him or her. Banks must make sure that their clients are real, risks must be assessed and monitored. (Gemalto 2020.)

KYC program has 3 elements. The first element is customer identification. At this stage financial institutions must verify the identity of a person, who decided to open an account. In case a financial institution cannot verify a potential customer, it should ask him or her for additional information for verification. After that, the financial institution must verify if a potential customer appears on any government list as a suspected terrorist or member of terrorist organizations. The second element of the KYC program is due diligence. At this stage, financial institution does basic background checks of the customer, client, entity or subject by monitoring transactions. Banks need to identify unusual activities related to customer activity. The third element of the KYC program is enhanced due diligence if the risk requires it. Enhanced due diligence means a deeper investigation of the customer's background if there is a higher risk of money laundering. (Sullivan 2015.)

Ministry of Finance develops anti-money laundering legislation in Finland (FIN-FSA 2020a). Finnish Law requires banks to follow KYC. Finnish banks must identify customer's identity from an official identity document. Official identity documents are passport, ID card, driving license, etc., and check customer's activities, banking practices, and financial position. If a corporate customer wants to open a bank account, it must provide exact from the trade register, and information about own business, turnover, corporate structures, and shareholders. (Finanssialan Keskusliitto 2020.)

Financial Supervisory Authority obligates all its supervised entities to know about their clients' business and evaluate suspicious transactions (FIN-FSA 2020). Entity's management is responsible for risk management. It should appoint a person, who receives reports on bizarre transactions and who has the right to report to the Financial Intelligence Unit. In the customer due diligence process, supervised entities must apply the risk-basis approach. Supervised entities must consider the risks of money laundering about new and existing customers (FIN-FSA 2018a). Therefore, an entity must do customer, beneficial owner, or customer's representative identification. It should follow its own customers' activities, nature of their businesses, and usage of the services supervised entity provides. (FIN-FSA 2018b.) If the supervised entity suspects that its customer practice money laundering, it must immediately report about suspicious or unusual transactions to the Financial Intelligence Unit. In Finland, unusual transactions are those, which are different in terms of amount or structure. Those transactions do not have financial purpose and they conflict with customer's business activities. (FIN-FSA 2018c.)

According to Chapter 6, Section 34 of Act on Detecting and Preventing Money Laundering and Terrorist Financing (327/2013), parties that have an obligation to report about money laundering, must arrange training to their employees and make sure that they can act according to this Act. The same parties shall protect own employees who dealt with reporting about money laundering. Parties that are linked to reporting about money laundering, should have instructions about customer due diligence procedures.

2.3 Other Types of Financial Crime in Business Operations of Companies

Apart from money laundering, bribery, embezzlement, extortion, forgery, wire fraud, securities fraud, and tax evasion are considered as fraudulent crimes by financial institutions (Sullivan 2015). Finnish Ministry of the Interior names tax offenses, accounting offenses, offenses by a debtor, and offences when holding office as economic crime (Ministry of the Interior 2020).

Accounting fraud relates to the intentional misrepresentation or change of accounting documents or records that relate to revenues and expenses. Examples of accounting fraud are over-recording revenue, not separating long-term debts and short-term debts, so the liquidity would look better, under-recording depreciation expenses and intentions misinterpretation of accounting standards. When employees take away funds from business receipts without recording the revenue, it is an accounting fraud. Because of the manipulation of accounting or financial records, the financial performance of the entity looks better, and offenders get income. (Williams 2020.)

Embezzlement is an internal crime when accounting records are manipulated to steal business funds. Embezzlement can be detected if a company changes accounting practices, internal and external audits, and coworker concerns. Because of the theft of funds, profit is reduced, therefore profit margin and stock value is affected. (Encyclopedia.com 2020.) Red flags of embezzlement are unexplained variances and a high number of adjustments, when fraudulent activity is hidden with assorted general ledger accounts. These variances lack explanation. Payments to unknown vendors or employees are the red flag of embezzlement. In this scenario organization makes payment to non-existent vendors and employees. The red flag of embezzlement are gaps in check numbers and receipts. If any receipt is missing, it could mean that the employee is stealing cash. There is a mismatch between the money that was deposited and recorded in the company's general ledger. Changes in employee behavior is a red flag of embezzlement. Employee, especially the one who is responsible for accounting, is involved in the embezzlement when he or she has spending habits beyond the salary level, does not want to receive help in accounting from colleagues, and does not do reconciliation. (Nathan 2020.)

According to the Finnish Ministry of the Interior, tax offences were the most common economic crime in Finland in 2017. An increased number of tax offenses is linked to the higher number of audits that have been performed by the Finnish tax authorities. (Ministry of the Interior 2020.) According to Sullivan, tax offenders launder money. A tax offender makes money legitimately but does not want tax authorities to know about financial gains and avoid paying taxes. (Sullivan 2015.) Tax evasion involves misrepresentation of revenue and over-reporting of deductions through false invoicing, which results in a smaller size of taxable income (OECD 2017, 6).

2.4 How Money Laundering and Financial Crime Appear in Financial Statements

Business activities of a company are presented in accounting records. Financial statements are formed based on accounting records at the end of 12 months, usually on 31st December. Financiers and investors analyze financial reports and make financial decisions based on presented financial reports. (Cindori, Slovic 2017.) Accounting rules help the reader of financial statements to understand the results of a company (Chew 2020). Therefore, financial statements must present accurate and reliable information about a company's activities (Remenaric, et al. 2018, 193). Companies are interested in preparing appealing financial statements. If a company has fraudulent activities, it will modify the information contained in financial statements and present fraudulent ones. (Cindori, Slovic 2017.) Accounting can be used by companies to falsify the true outcome of their own performance (Chew 2020).

Accounting professionals define that financial statement offense is linked to financial fraud. According to Young (2013, 296), financial fraud starts with unclear areas of financial reporting. In cases of financial statement fraud, employees misstate material information in a company's financial statements on purpose (Mohlenhoff, Uhl 2013, 46–47).

Financial reporting offenders use ambiguities in IFRS or GAAP to mock financial reporting. Rules of revenue recognition, reserves adjustment, expenses delay, or areas, to which accounting standards do not provide rules are being exploit by offenders. (Young 2013, 296.) Chew describes revenue recognition as a method of financial statement offense. Under this offense, false sales are booked at the end of a financial year and canceled that sale in the next financial year. (Chew 2020.) Mohlenhoff and Uhl (2013, 46–47) define the recording of fake revenue, artificial inflation of reported assets, and understatement of expenses as ways of financial reporting offense.

Another way of misstating financial reports is the defalcation of assets, or theft of a company's assets. Therefore, financial statements are not presented fairly. Assets are misappropriated by the theft of assets, embezzlement of receipts, and by false or misleading documents or records. False documents and records were created to circumvent auditors. (Gottlieb 2016.)

Let us describe potential indicators of fraud in the balance sheet and income statement. In the assets side of the balance sheet, cash and cash equivalents declined compared to total assets. Inventory increases faster than sales, cost of sales, or accounts payable. There is a decline in inventory reserves compared to inventory. Account receivables are growing at a high rate. Goodwill lacks corresponding business purchase transactions and increases fast compared to the total assets. There are rapid fluctuations in the amount of property, plant, and equipment compared to total assets. In the liabilities side of the balance sheet there is a considerable growth in accounts payable and total debt. Indicators linked to cash and cash equivalents, accounts receivables and payables, inventories, property, plant and equipment, and total debt point at potential current or future issues with liquidity. (Decker, Kizirian 2017, 110.)

Company changes accounting principles, estimations, or classifications what results in changes in revenue recognition. In the income statement, there is a noticeable positive or negative change in revenue from the prior year. There is a considerable decline in deferred revenue as a percentage of revenue. Cost of sales fluctuates dramatically compared to sales. These indicators point at that there was a potentially early recognition of revenue or change in accounting methods. The percentage of the cost of goods sold increased compared the sales due to potential prior period manipulation of cost of goods sold. Administrative expenses and other income dramatically increase due to potential prior-year manipulation in these accounts. There are dramatic fluctuations in depreciation, amortization, and interest expenses due to potential prior period improper capitalization. (Decker, Kizirian 2017, 111–113.)

Fraudulent activities result in the loss and disappearance of revenue or assets in financial statements, misstatement of assets, liabilities, or expenses (Skalak, et al. 2015, 520). It is complicated for auditors to track every source of revenue stream, verify all existing and reported assets, and find potentially missed expenses (Gottlieb 2016). Financial statements are offended in order to hide financial problems in the company and provide misleading information to stockholders, authorities, and the general public (Truell, Milbier 2020).

Money laundering rarely has a direct impact on financial statements. When doing a financial statement audit, it is harder to recognise it. The reason for that is that money launderers use a business entity as a channel. Offenders tend to distance large amounts of illegal revenues quickly and without drawing attention. (Skalak, et al. 2015, 520.)

2.5 Laws and Regulations in Finland Concerning Money Laundering and Financial Crime

In Finland, the Ministry of Justice develops laws regarding the accounting offense and financial crime. Tax fraud and money laundering are accounting offence and financial crime. Laws about accounting offense and financial crime are under The Penal Code of Finland.

According to Chapter 32, Sections 9, 9a, and 10 of The Penal Code of Finland (39/1889), there are three types of accounting offense: *accounting offense*, *aggravated accounting offense,* and *negligent accounting offense*. According to The Penalty Code of Finland, if a person, who must keep accounts, writes false or misleading data in the accounts, damages or destroys account documentation or does not record any business transaction, is considered as an accounting offender.

Aggravated accounting offense is a situation, when an offender neglects to record business transactions or the closing of the books in full degree, destroys or hides accounts to an essential degree, or constantly provides false information, which results in large amounts.

The Penal Code of Finland describes *negligent accounting offense* is a situation, when a person, who is in charge of keeping accounts, completely or partly ignores the recording of business transactions and the closing of the books and damages or destroys accounting documents.

Every type of accounting offense provides false information about a company's financial performance.

The Penal Code of Finland divides tax fraud into tax fraud itself, aggravated tax fraud, petty tax fraud, and tax violation in Chapter 29, Sections 1, 2, 3, and 4 (39/1889). The Penal Code describes tax fraud as a situation, when a person provides false information about tax amount to authorities or ignores filing a tax return or other notice to avoid paying taxes. *Aggravated tax fraud* is a situation, when tax offender seeks financial benefits in tax avoidance and commits tax fraud constantly. *Petty tax fraud* is a situation, when the financial benefit gained from tax offense is considered as small.

The Penal Code of Finland describes *tax violation* as a situation, when a person withholds tax or tax-at-source, calculates VAT in a wrong manner, and fails to pay an employer's social security contribution.

In Chapter 32, Sections 1,7, 8, 9, and 10 of The Penal Code of Finland (39/1889) there are definitions of *money laundering* and *aggravated money laundering*. A person is a money launderer if he or she receives, uses, converts, or transfers property that was received because of an offense; he or she receives proceeds from replacing such property. In both scenarios the offender conceals nature, location or disposition, of property or proceeds. He or she is seen as a money launderer if assisting the real offender to hide criminal proceeds. The money launderer should be imprisoned for two years or fined.

Under the *aggravated money laundering*, the Penal Code of Finland defines situations, when the property that was acquired because of offense is very valuable, and when money-laundering scheme was performed by offenders consciously and intentionally. If the launderer committed aggravated money laundering, he or she should be sentenced up to six years. A person, who conceals a money launderer by accepting a bribe, is sentenced for conspiracy for the commission of aggravated money laundering.

2.6 Finnish Accounting Standards

Basic accounting practices are used in recording financial transactions and prepare financial records. Financial investigator should understand the basic reasoning that is used in accounting. (Pasco 2012, 12.) The research topic of the thesis is linked to the accounting companies that work under Finnish accounting standards; therefore, this subchapter will focus on Finnish accounting legislation and how it defines healthy accounting practices.

Finnish accounting standards are stated in the Accounting Act and Accounting Decree. Accounting Act and Accounting Decree are developed by the Ministry of Economic Affairs and Employment of Finland. The Accounting Act is based on the Accounts Directive of the EU.

According to Finnish legislation, corporations, foundations, and natural persons, who are involved in businesses or professional activities, must record accounting transactions daily and provide financial statements (Ministry of Economic Affairs and Employment 2020). By recording accounting transactions, an entity must be able to retrieve the number of trade debtors and creditors, and information about tax obligations (Ministry of Economic Affairs and Employment 2017). Financial statements must provide a fair picture of business activities and performance (Ministry of Economic Affairs and Employment 2020). The accounting period is 12 months and it must be the same in all branches. The accounting period can be extended or shortened, when business operations started or terminated. The accounting period cannot last longer than 18 months. (Ministry of Economic Affairs and Employment 2017.)

The transactions should be entered chronologically as revenue, expenditure, financial transactions, and related adjustments and transfers. To verify and record transactions, an entity must provide a proving document. A revenue document must contain date and information about the delivered products or services. An expenditure document must contain date and information about the received products or services. Transaction proving document, ledger, or other accounting material can not be edited after the preparation of financial statements.

Entity must prepare balance sheet, profit and loss statement, cash flow statement and notes to the balance sheet. These financial statements must provide the real picture of the reporting entity's result following the principle of materiality and going concern. Entity must follow the same principles and methods every year when preparing financial statements. The opening balance sheet must be based on the closing balance sheet for the past year. Assets and liabilities on the balance sheet at the profit and loss account must be presented at their full amount. If an entity has receivables, liabilities, or accounting transactions in foreign currency, they should be translated into Finnish currency using the exchange rate at the balance sheet date.

Account receivables and liabilities must be measured at face value in the balance sheet. Only those profits that were made during the accounting period, must be included in the financial statements. Financial assets must be measured at the lower of acquisition cost. Securities are financial assets. Investment properties may be recognized at fair value.

Tangible asset that is estimated to generate income is capitalized and recorded in assets at the acquisition cost. Tangible asset must be depreciated every financial year during its useful life. Intangible assets, which are patents, trademarks and licenses, and long-term expenditures, are capitalized. Capitalized long-term expenditures must be amortized during their useful lifetime as it is defined in the predetermined plan. Capital loan is recognized as a separate account under capital and reserves in the equity. Quantity and sum of raw materials and consumables that are constantly being purchased by the reporting entity, can be shown at a fixed value every financial year.

Revenue that is gained from a contract with a long production period can be recognized by using the percentage of completion method. The same revenue recognition method should be used to record all revenue. Expenditure, which occurs because of forming an undertaking, is expensed in the financial year in which it happened. If there is any uncertainty in the amount of an expenditure or a date when it is going to occur, it should be recorded as a liability in the balance sheet. Deferred tax liabilities and deferred tax assets can be recorded to the balance sheet and income statement on a prudent basis. Deferred tax liabilities are difference between depreciation expense treatment by tax laws. Deferred tax assets are items that appear because of overpayments or advanced payments of taxes. (Ministry of Economic Affairs and Employment 2017.)

3 Research Methods

Chapter 3 is an empirical part of the thesis. It explains the objectives of research and tools that were used in this research. After familiarizing himself or herself with this chapter, the reader understands the research process and can read research results.

3.1 Data Collection Process

Qualitative research methods are used in this thesis. In qualitative research, the text is used instead of figures as empirical material. Qualitative research is interested to know about participants' experiences related to the issue under study. Qualitative researchers analyze data in its natural light. Researchers interpret data in terms of how people see it. (Flick 2007.)

First, the author of the thesis conducted desktop research to understand the theory of money laundering, financial crimes, criminal accounting documents, and gain knowledge about the Penal Code of Finland.

After theory was researched, interview questions are designed based on the theoretical material. Interview questions based on desktop research support author of the thesis to collect data and answer investigative question 1 "What are the practices accountants use to discover criminal activities in the accounting of companies?", investigative question 2 "What aspects of bank statements or any other document alarm accountants about criminal activities?", investigative question 3 "How cases of money laundering and financial crime appear in financial statements of companies that have criminal operations?" and investigative question 4 "How do accountants deal with criminal accounting practices they encounter?". Details of the interview pattern are presented in 3.1.1.

Series of interviews were performed with accountants from case companies X and Y. Both companies do outsourced accounting. The accountants dealt or have been dealing with cases that fall under the research topic of this thesis. The thesis gives recommendations to consultancies and accountants, informants understand that by participating in interviews, they contribute to improve aspects of recognizing money laundering and financial crime in accounting.

Figure 1 presents the research methods in this thesis.

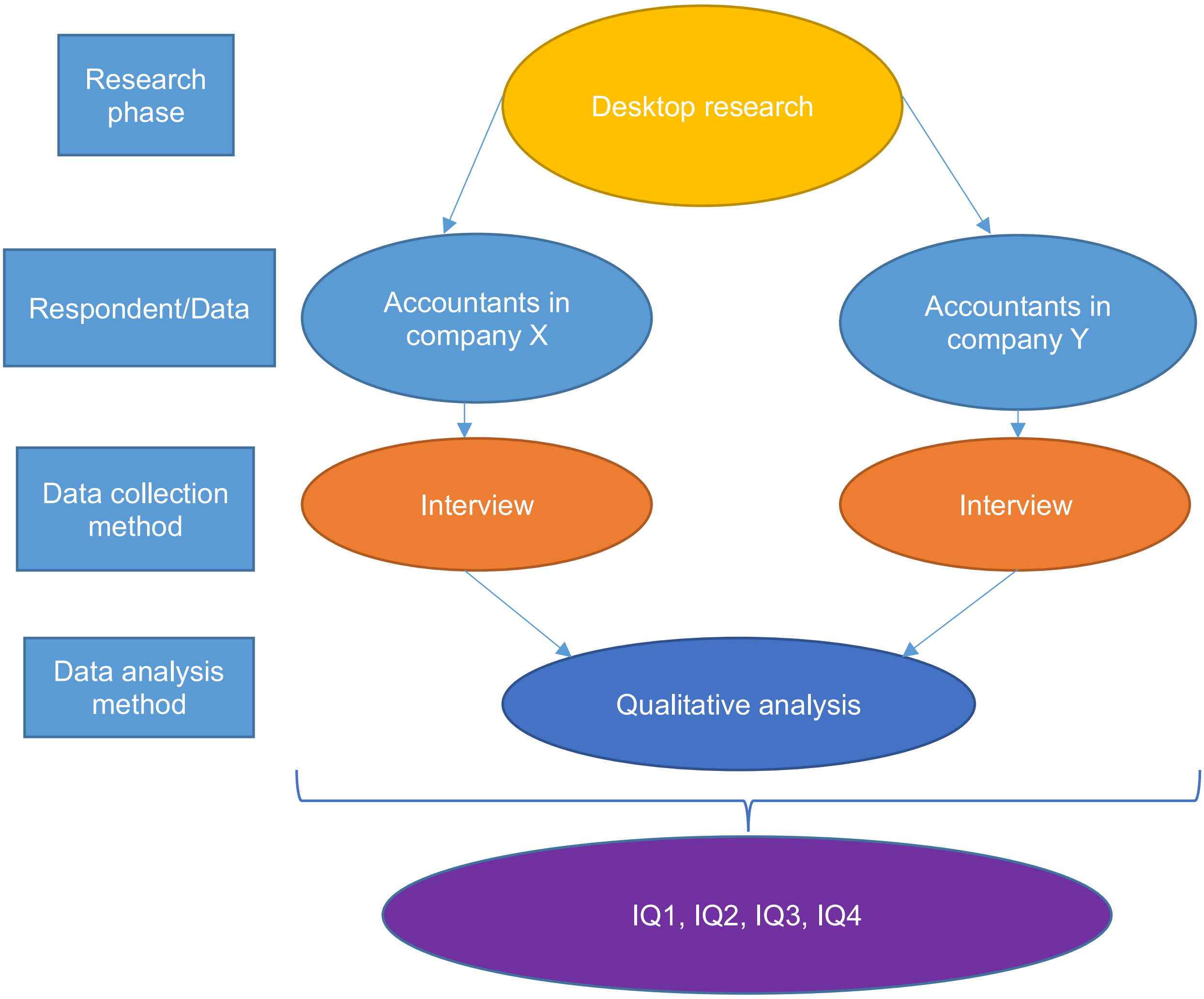

Figure 1. The research methods

The interview was chosen as a tool for collecting data. Interviews are one of the fundamental tools of data collection in qualitative research (Flick 2007). Interviews are used to gain an understanding of underlying reasons, opinions, and motivations. Interviews help to analyse data to get answers to the research questions. According to Alshenqeeti (2014, 39), they "build a holistic snapshot, analyse words, report detailed views of informants and enable interviewees to speak in their voice and express their thoughts and feelings". Interviews are social encounters, where speakers present their vision on events in the past or the future, share their thoughts, feelings, and experiences (Seale, et. al. 2004).

In this thesis, desktop research worked as a basis for constructing interview questions. According to Seale, et. al. (2004), contents of the questions in the interview are constructed basing on academic and non-academic literature, an interviewee's thoughts and anticipations about specific data that might be important to cover in the interview. In interviews, interviewees ask questions from interviewers about their experiences and opinions about general issues about social problems, political changes, historical events by asking "what" and "how" questions. In a narrative interview, an interviewee can ask "when" questions. (Flick 2007.)

Author of this thesis designed open-ended questions for the interview. Open-ended questions allow interviewers to express himself or herself about the interview subject (Fauvelle 2019). Given (2008) describes an open-ended question as a type of question, where interviewers or researchers what to know how interviewees or research participants react to the research topic. Participants of research interviews have an opportunity to choose the terms with which they describe and highlight the topics that are meaningful for them. Interview questions are presented in *Appendix 1* in Attachments.

First, the author of the thesis contacted 30 different size accounting firms in the Helsinki area by asking if accountants had experience with spotting criminal or money laundering activities while doing accounting for their clients and if they would like to participate in the interview. Two companies gave a positive answer and were ready to share their experience about the recognition of money laundering and criminal activities. Other companies claimed that they lacked the experience that fell under the research topic. When the author of the thesis got a positive answer, she sent interview questions to accountants for prior acquaintance. Interviews were conducted in the offices of the case companies when accountants were prepared for the interview. According to Flick (2007), sampling in interviews aims to find the right people who have the needed experience for the research. Meeting with the participant happens usually once, after contacting the potential interviewee and agreeing with him or her about the interview schedule. The face-to-face interview enables lived experience (Seale, et. al. 2004).

4 Results

Chapter 4 describes the results of the conducted research. Section 4.1 provides information regarding the first investigative question on the practices accountants use to discover criminal activities in accounting of companies. Section 4.2 provides information regarding the second investigative question about aspects of bank statements or any other documents that alarm accountants about criminal accounting practices. Section 4.3 provides information regarding how money laundering and financial crime appear in financial statements of companies that are linked to criminal activities. Section 4.4 provides information regarding how accountants deal with criminal accounting practices they encounter. After familiarizing himself or herself with this chapter, the reader will understand how accountants in accounting firms recognize cases of money laundering and financial crime while doing accounting for companies in Finland.

The findings of this thesis are based on the answers gained from two case companies. During the research phase, the author of the thesis received information that recognition of money laundering activities is a new aspect for accountants as for spring 2020. The majority of respondents have not encountered it. On the other hand, recognition of tax evasion or embezzlement in accounting records is a known topic for accountants in both case companies. Accountants encounter other criminal activities more often. Respondents in two case companies based their answers on wide professional experience and theoretical knowledge particularly about money laundering affairs. Knowledge about money laundering was gained from courses or projects arranged by the case companies. Answers of accountants from different accounting firms may differ.

4.1 Practices Accountants Use to Discover Criminal Activities in Accounting of Companies

4.1.1 Company X

Before signing a contract with a potential client, managers from company X perform basic research about the management of that company. Company X researches who is the decision-maker or the business owner there. To do this research, managers need a valid passport, ID card or a driving license of a potential client. Company X receives information about a potential client from the Finnish Trade Register. When company X signs a contract with a new client, it has full access to the data of that client. In this stage, company X has detailed knowledge about the business operations of a new client. In contract with the customer it is stated that he or she is responsible about the content of documents that are delivered to accounting. Accountants in company X do not know anything about their new client before starting to do accounting for his or her company.

Accountants do not have information on how the risk evaluation process of clients takes place. One part of respondents answered that it is the duty of management and another part assumed that company X does not evaluate potential clients for risks.

Accountants in company X encounter clients with criminal activities in their businesses rarely. Respondents suspect particular companies to have criminal and money laundering activities in their business operations, but they cannot give a straight answer that these kinds of practices take place. Accountants revealed that currently they suspect several clients to practice criminal or possible money laundering operations. Accountants highlight that the accounting process happens for them differently, compared to regular companies with transparent business operations. One accountant believes that nowadays it is harder for companies to have criminal activities if it uses bank transfers as a method of payments. Business operations of companies have become more transparent for accountants. Accountants see all money transfers that have happened from the company's official bank statement. Sales reports are sent on a monthly basis. Accountants can compare amounts of sales reports to money inflows in the bank statement. Therefore, it is easier for an accountant to follow money operations while doing accounting for a client.

Accountants in company X have noticed tax evasion while doing accounting for their clients. According to respondents, entrepreneurs tend to put invoices that are linked to their private life. The invoices contain purchase of kitchen equipment, casual clothes, alcohol, visit to the neighbouring countries on weekends, taxi travels outside of working hours, eating in restaurants, into the accounting of their company. Personal purchases were paid with the company's money. Entrepreneurs would like these invoices to be classified as business expenses and receive VAT deduction with the help of these expenses and decrease EBIT, which would minimise the amount of income tax. Another criminal activity that accountants in company X have noticed is embezzlement. According to respondents, entrepreneurs tend to withdraw money from the corporate bank account on a personal bank account and do not return withdrawn money back in the same amount. One accountant suspects a client to be involved in money laundering activities. The company simultaneously transfers money to another bank accounts and receives money on its own corporate bank account. The client cannot provide explanations about the nature of all transfers.

It is noticed by accountants that limited liability companies, or *Oy* in Finnish legislation, practice criminal activities in their own operations more often compared to other business organization forms. There were few occasions in company X, when accountants encountered criminal activities in accounting materials of limited partnership business entities, or *Ky* in Finnish legislation. From experience of accountants in company X, sole traders would not practice criminal activities, as they bare risk of losing personal assets. According to one respondent, criminal activity might occur in all business structures. It is more important for accountants to detect in which business fields criminal activities happen more often and be more careful while doing monthly accounting for companies that operate in those fields.

Companies in the construction field and restaurants practice criminal activities more often compared to companies in other fields. One company that might be linked to money laundering, operates as a used cars seller. It was assumed by an accountant that companies which work as consultancies, might practice money laundering or criminal activities. Such companies have a wide range of services that are offered to their clients. Therefore, they might present criminal activity under different names as a service for their client.

According to the respondents, the red flag for money laundering is a situation, when an owner of a company constantly transfers money from a corporate bank account to another account and never pays it back to the company. Company that is linked to money laundering, has money inflows and outflows in big amounts. Money flows are not linked to business operations of a company and lack any logical explanation and from the management's side and a document that proves the legitimacy of a transaction. The red flag for money laundering is a situation, when the owner withdraws the big amount of cash from the corporate bank account. According to one respondent, companies that use only cash and do not have a corporate bank account can practice money laundering and hide it from an accountant. It is easier for such companies to mock sales reports and provide false ones to accountants. The Red flag is a situation when the entrepreneur has several companies and there are constant money transfers between these companies without reasoning. Entrepreneur has different accountants in every company. Red flag is a situation, when information in invoices mismatches contents of transaction. Accountants ask a company for additional information if they notice that according to the bank statement, money was transferred to a person with name A, but the client provided a document which states that the same money was transferred to a person with a different name.

It was not noticed by accountants that companies which are linked to criminal activities, would have more than one bank account. Usually they have only one bank account or they have not informed accountants and management of company X that they would have another bank account.

Accountant could not answer how often companies with criminal activities usually change accountants. From their professional experience, companies that practise criminal activities, are clients of company X for maximum of 1.5 years. Companies with criminal activities can change accounting firms at least twice a year, which minimises control in the accounting of such companies. In one case, the company, which is possibly linked to money laundering, started business operations in spring 2019. The company started to purchase accounting services of company X and has been a client for almost a year.

One part of respondents in company X, who has experienced criminal entities, has noticed that number of clients with criminal activities has slightly increased during their work in company X. Another part of the respondents has an opposite opinion and has not noticed that the number of companies with criminal activities would increase during their work in company X.

4.1.2 Company Y

Before signing a contract with a potential client, management of company Y checks its credit rating and status of a person, who contacted them regarding customership. During the process of signing a contract, company Y researches the identification of decision-maker or a business owner of a company. To perform the research of a business owner, company Y needs official documents. Official documents are passport, ID card or driving license.

Currently there is no unified process of doing risk analysis for a potential client in company Y. However, company Y performs case-by-case risk analysis for potential clients if it sees a need for that. Risk analysis happens before signing a contract with a new client.

Accountants in company Y have not encountered clients who would practice money laundering activities in their business operations in the past twelve months. According to the respondents, they encounter criminal activities rarely and tend to identify such activities as soon as they start to occur in their clients' business operations. However, company Y constantly monitors more closely own clients, who have bank transfers to third countries or to the countries that have been involved in money laundering for the past years, or clients that have a significant amount of cash operations.

Accountants in company Y have encountered tax evasion and accounting offense while doing accounting for their clients. Accountants in company Y have experienced different types of accounting offense while doing accounting for clients that have been involved in criminal processes. One type of accounting offense is the situation, when client transfers money from a corporate bank account to a personal bank account or another bank account without any explanation and reasons behind that transfer. Accountants named cash handling as a type of accounting offense that they have experienced. There is no clarity for accountants in situations with cash handling offense. Finally, accountants have encountered situations, when the client has several companies and there are constant money transfers between these companies without any explanation and reasons behind those transfers.

From experience of accountants in company Y, companies that are partnerships, or *henkilöyritykset* in Finnish legislation, by legal form of business, have been suspected in practicing criminal activities more often compared to companies with other legal forms of business. Respondents noticed that a criminal would establish a limited liability company for criminal activities more rarely, as he or she would be suspected by an accountant as soon as possible. Limited liability company is entitled to present annual reporting to the Finnish authorities. Therefore, if a limited liability company is involved in criminal activities, Finnish authorities will detect it in the outcomes of annual reporting. Limited company would not be established either if a criminal has been already suspected of criminal activities in the past. On the other hand, if a criminal would like to practice criminal activities, he or she can purchase an already established bogus company that is a limited liability company by legal form.

Respondents in company Y noticed that companies which operate in the construction field or restaurant business have been practicing accounting offense more often compared to companies from other fields. Even though accountants in company Y have not encountered money laundering yet, they assume that companies in any field can practice it.

The red flag for money laundering for accountants in company Y is a situation, when a company constantly practices suspicious transfers from the corporate bank account. A company that has suspicious transfers from own corporate bank account neither presents receipts for such transfers, nor provides logical explanations and reasons for those transfers.

According to respondents in company Y, it is typical for companies with criminal activities to have several corporate bank accounts. It is complicated for an accountant to track all the transactions on those bank accounts.

From the experience of accountants in company Y, it is a typical situation, when a company with criminal activities changes accountants as soon as they reveal criminal activities in that company. Usually customership for companies with criminal activities lasts maximum for one year. The latest moment for an accountant to reveal criminal activities is an annual audit for that company.

Accountants in company Y have noticed that cases, where their clients practice criminal activities, have decreased in past years. The reason for that is that cash operations in companies have decreased in the past years. Cash does not move as much as it used to. Often accountants do no need to analyse cash transactions in companies. Accountants in company Y have noticed that nowadays their clients have more bank transfers, which are easy to track. On the other hand, accountants in company Y realise that there are special applications for money transfers without involving banks into them. By using those applications for money transfers, clients might hide the true reason behind them.

4.2 Aspects of Bank Statements or any Other Documents that Alarm Accountants about Criminal Accounting Practices

4.2.1 Company X

When analyzing bank statements of companies with criminal and money laundering activities, accountants see a significant amount of cash withdrawals, which is different compared to companies with healthy business operations. Companies cannot provide any logical explanation about occurred cash withdrawals. Owners of these companies tend to say that he or she does not know why cash was withdrawn in the past. They might give a reason that cash served as a payment method for purchase invoices, but he or she has difficulties saying, which purchase invoice it was. In one case, the company constantly withdraws cash from its own corporate bank account. It uses only cash to purchase used products from the domestic market and EU countries. Cash is withdrawn for some time before purchase happens. Sales of that company occur only in cash. If a company has a distraint account in its own accounting, accountants in company X have a closer look at it.

When accountants ask for missing documents from companies with criminal activities, they provide invoices and receipts that were written by hand. Companies send vague and not official invoices that are not linked to the activities of such companies. Accountants face difficulties in reading and understanding such invoices compared to ordinary ones. Companies with criminal activities might send asked invoices in other languages that are not Finnish, Swedish, or English.

Companies with criminal activities have loans from financial institutions. In some cases, accountants in company X have noticed that companies with criminal activities and money laundering receive financing from a shareholder. However, after a while the same shareholder transfers financed amount back to his or her bank account in the form of salary. Therefore, accountants have questions about the meaning and motives behind that financing. Company with potential money laundering activities receives loans from third parties and withdraws that loan in the form of cash from a corporate bank account.

Part of respondents have not noticed if companies with criminal activities and money laundering receive any fund apart from those given by shareholders. According to one respondent, a company that is possibly involved in money laundering activities, received a loan from a registered financial institution that is located in Finland. Accountants do not think that a company with criminal activities would receive loans from abroad, as it needs to be declared. Companies with criminal activities receive funds in big cash amounts rarely and funds in small cash amounts often. Common fund is in one thousand or two thousand euros. One respondent answered that a company with potential money laundering activities receives funds from third parties in the amount of a couple of thousand euros on a monthly basis. Funds are received in euro currency.

After the annual audit and tax reporting, financial statements of all limited liability companies that are clients of company X, are sent automatically to the Finnish Trade Register without asking for permission from these companies. Therefore, accountants from company X do not know of how companies with criminal activities would act in the alternative situation if permission to publish their financial statements in the Finnish Trade Register was asked from them.

4.2.2 Company Y

Accountants in company Y have noticed that companies with criminal activities have a significant amount of cash withdrawals and cash payments in their bank statements. From an accounting perspective, there is no reason behind withdrawing cash or making payments with cash. Moreover, companies do not provide any information about occurred cash operations. Another aspect of bank statements that draws accountants' attention is the multiple amounts of internal transfers. Companies with criminal activities would transfer money to associated companies or other parties without clear reasons.

If companies with criminal activities are being asked to provide more information about occurred money transfer, they cannot provide any logical explanation to an accountant. If accountants in company Y ask companies with criminal activities to send missing invoices or receipts, such companies claim that the invoice is missing, give other reasons or send a copy of an invoice that is not related to money transfer. Companies with criminal activities have provided false documents or bad quality documents. There have been cases in company Y, when a client sent a document that was too small in size to be readable by an accountant. Another case in company Y was a situation, when the client sent self-made invoices. Invoices were made in Microsoft Word and they did not match business operations of a company.

In most of the cases, companies with criminal activities receive funds from a private person and sometimes from other companies. However, accountants in company Y see such funds as vague. In all cases, companies with criminal activities cannot provide a loan agreement that was signed between both parties. Moreover, it seems for accountants that a company with criminal activities is not affiliated with a party that provided a fund. It is noticed by accountants that the business owner himself or herself would do cash deposits in big money amounts on corporate bank account without providing a reason for that.

Accountants in company Y assume that companies with criminal activities and money laundering might receive funds from abroad. Funds might be received from a front organization in Finland. Accountants noticed that there is no frequency in funds receiving in companies with criminal activities. However, accountants assume that funds would rather be received at different points of time. Companies with criminal activities or money laundering receive funds in big money amounts. Funds come in euro currency. However, if a company would receive a fund in a different currency from a party that is located outside of the EU and the company does not have any official business operations there, an accountant in company Y would address questions to that company about the nature of that fund.

Accountants in company Y suppose that a company with criminal activities would not want to publish annual reports to the Finnish trade register. However, company Y terminates contract with a company with criminal activities before annual reporting.

4.3 Money Laundering and Financial Crime in Financial Statements of Companies that Have Criminal Operations

4.3.1 Company X

Income statement does not provide direct information to the accountant, whereas the company has criminal activities and money laundering activities or not. However, accountants would investigate the contents of accounts as other sales revenue, other income, and other business expenses.

Part of respondents in company X does not have information on how companies with criminal activities and money laundering earn revenues, as they receive monthly sales reports summarised from sales journals. One accountant responded that the company with possible money laundering activities has main operations in selling products and additionally is involved into the construction field. Company provides construction services and labor rent.

Accountants in company X has different experience about expenses in companies with criminal or money laundering activities. Companies with criminal activities have the same expenses as companies with healthy operations. They can have accounts with different rents of premises. On the other hand, expenses of companies that are linked to criminal activities and money laundering are not linked to the business activities of such companies according to accountants from company X. Such type of clients would have bizarre expenses without providing any document of purchase.

Liabilities and equity on the balance sheet do not provide direct information to the accountant, whereas the company has criminal and money laundering activities or not. However, accountants investigate account *other liabilities* in liabilities of the balance sheet. The presence of *petty cash* in the current assets of the balance sheet draws the attention of an accountant. Account *petty cash* needs more investigation if it is used to cover insignificant expenses that are linked to the activities of a company. If there is no linkage between *petty cash* and the company's expenses, it would work as a red flag for an accountant about possible criminal activities and would lead to a detailed examination of a company's accounts. There is negative *petty cash* account on the balance sheet of a company that is possibly linked to money laundering activities. During the interview time, the balance of petty cash account was -6 000 euros. Company with potential money activities has a significant amount of accounting transactions in the suspense account. During the interview time, the balance of suspense account of such company was 70 000 euros. It is suspicious for accountants if clients cannot provide any document about property, plant, or equipment that appear in assets on the company's balance sheet.

Accountants have noticed that goods purchased for sale by companies with criminal activities do not always match business activities of such companies and lack logical explanation from the management of those companies. However, in most of the cases products in inventory match business operations of those companies.

4.3.2 Company Y

The ratio of cost of goods sold to revenue on the income statement works as a sign for criminal operations for accountants in company Y. The ratio is distorted. Gross margin is different compared to the gross margin of other companies with healthy business operations that operate in the same field. The sign of criminal activities on the income statement is the nature of purchases. Purchases lack explanation about their origin from a side of a company. There is no understanding from an accounting point of view why purchases occurred, or should they be booked as other business expenses, not as purchases. Sign of possible criminal activity is an exceptionally high interest expense for a loan in a company.

Accountants in company Y have noticed that cash sales are revenue sources for companies with criminal activities. From an accounting perspective, there is no clear reason why the company would have cash sales. Companies with criminal activities present artificial sales invoices to boost revenues. Products or services in sales invoices of companies with criminal activities are not a part of their business operations.

Company with criminal activities has exceptionally high expenses. From an accounting perspective, expenses are not a part of the company's business operations. Moreover, the size and accounts of expenses in companies with criminal activities significantly differ from the sizes and accounts of expenses in companies with healthy business operations.

Accountants in company Y noted that account *loan payable* on the liabilities side of the balance sheet is different in companies with criminal activities. Companies with criminal activities have loans from private persons or organisations that are not linked to the company itself. On the equity side of the balance sheet, the company with criminal activities pays dividends from retained earnings to another company, which is neither linked to it, nor is a shareholder.

From experience of accountants in company Y, purchased goods for sale or provided services in companies in criminal activities often do not match their business operations. There are missing purchase invoices. The company can never explain the reasons behind purchasing a specific good or service for sale and provides unlogic explanations. Company does not provide missing purchase invoices for an accountant. That would be a classical example that a company is involved in criminal activities. If purchased goods for sale or provided services do not match the business operations of a company that immediately should be a red flag for an accountant to take further actions.

4.4 Actions Accountants Take when They Encounter Criminal Accounting Practices

4.4.1 Company X

First of all, accountants ask the client for explanations. If explanations are not received, there are two possible ways what actions should be taken if the accountant suspects that company might practice criminal or money laundering activities. The first way is informing your own manager about a company with criminal activities. After that manager reports to a certain department in company X that has duties to investigate criminal and money laundering activities in the business operations of clients. Another way is informing about those clients to a certain department of company X directly. Then workers of that department research the client and report to other parties, for example police, and the contract is terminated.

Part of accountants in company X believe that they have enough knowledge to recognise if a client has criminal activities in their own business operations. Even if there is an insignificant suspicion from the accountant's side about possible criminal activities, it should be taken seriously and reported. One accountant informed that she does not have enough knowledge about recognising criminal or money laundering activities. Accountants in company X concluded that banks have more detailed information and are more skilled in detecting money laundering or the nature of money flows, whereas accountants receive only accounting documents and a bank statement.

Accountants more likely would like to receive additional education about recognition of criminal and money laundering activities in accounting. Accountants would enjoy if there was work on a project in company X about recognition of cases of money laundering and criminal activities. One accountant would like to walk through this subject in weekly meetings to feel more confident in recognising criminal or money laundering activities Another accountant instead of receiving additional education about recognition of cases of criminal activities and money laundering in accounting would prefer immediate termination of a contract with such clients.

4.4.2 Company Y

Before taking radical measures, accountants in company Y ask a company for missing documents or explanations about the nature of occurred money transfers. If explanations and invoices are received, accountants investigate Finnish accounting standards, how they advise to book such transactions. If the accountant does not receive missing invoices or explanations about the nature of the occurred money transfers, company Y starts the process of termination of the agreement. Management of company Y has not experienced any situation yet, when it would have to inform the Finnish police or the Financial Intelligence Unit.

Accountants in company Y believe that they have enough knowledge in recognising criminal activities or possible money laundering activities in companies while doing accounting for them. Usually it is seen immediately for an accountant if a company has irregular business operations compared to the companies with healthy business operations. Accountants in company Y mentioned that nowadays, banks closely evaluate transactions in corporate bank accounts. Therefore, if transfers, cash withdrawals, or deposits happen in a company frequently, banks would notice this aspect faster than an accounting firm.

As for spring 2020, company Y works on the personal project about recognition of money laundering activities. The project shall be ready in the second quarter. After the project is completed, company Y will have its own process of identifying money laundering activities in companies that they serve.

While doing a series of interviews in company X and company Y, both companies noticed that criminal activities tend to happen in micro-companies. Both accounting firms emphasized that they are big and known companies and offer relatively high prices for accounting services. Micro-companies cannot afford to buy services of such type accounting firms. There is a risk for companies with criminal activities and money laundering that accountants will discover their activities and notify the police. Therefore, company X and company Y assume that companies with criminal and money laundering activities would purchase services from small and publicly unknown accounting firms.

5 Discussion

5.1 Key findings

Research on the first investigative question “What are the practices accountants use to discover criminal activities in the accounting of companies?” consisted of eleven interview questions about customer analysis, customer risk analysis, and accountant’s professional experiences about recognition of money laundering and financial crime. Key findings of the first investigative question are presented below.

The theoretical part of this thesis suggests companies to use identification KYC program. The program has three stages: customer identification, due diligence, and enhanced due diligence. Financial Supervisory Authority obligates all its supervised entities to know about their clients’ business and evaluate suspicious transactions. Finnish Financial Supervisory Authority obligates all its supervised entities to know about their clients’ business and evaluate suspicious transactions. Management of an entity is responsible for risk management. Both company X and company Y perform basic research about the owner of a company that would like to become a client in those companies. Company Y checks the credit rating of a company that would like to become a client. Accountants in company X do not have information if the company does any risk analysis about a potential client. Company Y does not have a unified process of doing risk analysis.

Both case companies supposed that criminal activities tend to happen in micro-companies. Case companies emphasized that they are big and known companies in Finland and offer relatively high prices for accounting services. Micro-companies cannot afford to buy services of such type accounting firms. There is a risk for companies with criminal activities and money laundering that accountants will discover their activities and notify the police.

Accountants in company X cannot say straight if their client is involved in criminal activities or money laundering activities, they suspect him or her. Accountants in company X emphasized that the process of doing accounting for such companies differs compared to companies with healthy business operations. Accountants in company Y tend to identify criminal activities as soon as they start to appear in their accounting of their client and terminate a contract after that. Company Y monitors clients more closely, who are in a higher risk group of having money laundering activities.

Tax evasion, embezzlement, or accounting offense are examples of criminal activities that the accountants in both companies have experienced while doing accounting. Entrepreneur puts personal expenses into documents of a company, which would decrease EBIT and minimise income tax amount. Under embezzlement or accounting offense, accountants in both companies described situations, when a client simultaneously transfers money from a corporate bank and never returns it in full amount back. The client does not provide any explanation about those transfers. Accountants in both companies mentioned that they experienced situations, when a client has several companies and there are constant money transfers between these companies without any explanation and reasons behind those transfers.

Accountants in case companies have different opinions about legal forms of business that would practice criminal or money laundering activities more often. Accountants in company X noticed that limited liability companies, or *Oy* in Finnish legislation, practice criminal activities in their own operations more often compared to other business organization forms. Limited partnerships practice criminal activities rarely. From the experience of accountants in company X, self-employed persons would not practice criminal activities, as they bare the risk of losing personal assets. Accountants in company Y noticed that limited companies with criminal activities are established rarely compared to partnerships, or *henkilöyritykset* in Finnish legislation.

According to the theoretical part of this thesis, offenders tend to have cash-intense businesses to perform criminal activities. Cash-intense businesses are bars, pizza shops, car wash, etc. Accountants in both company X and company Y noticed that companies that operate in construction or restaurant fields are involved in criminal activities more often compared to other fields. Accountants in both companies assumed that companies in any field could be involved in money laundering activities.

The theoretical part of this thesis suggests that a sign of possible money laundering is that the offender transfers money from or to anonymous accounts abroad, when international transactions are not common for his or her business operations. Suspect has an increasing amount of cash-payments. According to accountants in company X and Y, a red flag for money laundering in accounting is a situation, when an owner of a company constantly transfers money from a corporate bank account to another account or withdraws cash. The company neither presents receipts for such transfers, nor provides logical explanations and reasons behind these transfers. Money is not returned as well. Another red flag is a situation, when the entrepreneur has several companies and there are constant money transfers between these companies without reasoning. Each company has different accountants.

Accountants in companies X and Y have different opinions about the number of bank accounts companies with criminal activities or money laundering would have. Accountants in company X have not noticed that clients who have been suspected to have criminal activities or money laundering would have more than one bank account. It is possible that those companies have not informed accountants and management of company X that they would have another bank account. Accountants in company Y noticed that it is typical for companies with criminal activities to have several corporate bank accounts. It is complicated for an accountant to track all the transactions in those accounts.

Accountants in companies X and Y could not answer how often companies with criminal activities change accountants. Accountants in company X noticed that companies with criminal activities changed accountants twice in twelve months to minimise control in accounting. Accountants in company Y noticed that a company with criminal activities change an accountant as soon as the accountant revealed criminal activities in that company.

Most of the respondents in both companies have noticed that the number of companies with criminal activities has decreased during their work in companies X and Y. The reason for that is the fact that nowadays it is harder for companies to have criminal activities if they use bank transfers as a method of payment. Business operations of companies have become more transparent for accountants.

Research on the second investigative question "What aspects of bank statements or any other document alarm accountants about criminal accounting practices?" consisted of seven interview questions about bank statements, the validity of documents, and nature of funds companies receive. Key findings of the second investigative question are presented below.

According to the theoretical part of the thesis, unusual transactions are those, which are different in terms of amount or structure, they do not have financial purpose and conflict with the company's business activities. Accountants in companies X and Y noticed that bank statements of companies with criminal and money laundering activities contain a significant amount of cash withdrawals. From the accounting perspective, there are no reasons behind withdrawing cash or making payments with cash.

According to the theoretical part of the thesis, if any receipt is missing, it could be a sign of embezzlement in a company. Accountants in companies X and Y noticed that clients with criminal or possible money laundering activities do not provide logical explanations if an accountant asks about occurred money transfers of withdrawals. When accountants in companies X and Y ask for missing documents from companies with criminal activities, those clients tend to provide vague invoices and receipts.

According to the theoretical part of the thesis, an offender that exploits lending activity has loans that are paid on a behalf of third party without an explanation. Offender holds loans that lack a legitimate business purpose. Accountants in companies X and Y noticed that companies with criminal activities receive loans from registered financial institutions. In some cases, financing is received from a shareholder of a company, from a private person and sometimes from other companies or front organizations.

Accountants in company X and Y have different opinions about the sizes of funds that were received by companies with criminal or money laundering activities. Accountants in company X noted that companies with criminal activities receive funds in big cash amounts rarely and funds in small cash amounts often. Accountants in company Y noted that companies with criminal activities receive funds in big money amounts at different points of time.

After annual audit and tax reporting, financial statements of all limited liability companies that are clients of both companies, are sent automatically to the Finnish Trade Register. It cannot be said if clients do not want to publish their financial statements in the Finnish Trade Register.

Research on the third investigative question "How money laundering and financial crime appear in financial statements of companies that have criminal operations?" consisted of five interview questions about an income statement and a balance sheet in a company with criminal activities. Key findings of the third investigative question are presented below.

According to the theoretical part of this thesis, money laundering and criminal activities rarely have a direct impact on the income statement. According to accountants from company X, the income statement does not provide direct information to the accountant, whereas the company has criminal or money laundering activities. Accountants in company Y suggested to analyse gross margin if they suspect a company to be linked to criminal activities. Accountants in both case companies would investigate the contents of accounts as *other sales revenue*, *other income,* and *other business expenses*.

The theoretical part of the thesis suggests that sales in companies with criminal activities fluctuate compared to prior periods. An offender would sell products that are not related to the company's business operations. Accountants in company X do not have information on how companies with criminal activities and money laundering earn revenues. Accountants in company Y have noticed that cash sales are revenue sources for companies with criminal activities.

The theoretical part of the thesis suggests that variable and administrative expenses in companies with criminal activities fluctuate compared to prior periods. A company with criminal activities has payments to unknown vendors or employees. Accountants in company X have different opinions about expenses companies with criminal activities have. It was noticed that they can be both uncommonly high or low, related and non-related. According to accountants in company Y, size, and accounts of expenses on the income statement of companies with criminal activities significantly differs from sizes and accounts of expenses in companies with healthy business operations.

According to the theoretical part of this thesis, money laundering and criminal activities rarely have a direct impact on the balance sheet. Accountants in company X would investigate account *other liabilities* in liabilities of the balance sheet. *Petty cash* in the current assets of the balance sheet draws an accountant's attention and needs to be investigated if it is used to cover insignificant expenses that are linked to the activities of a company. Accountants in company Y noted that account *loan payable* on the liabilities side of the balance sheet is different in companies with criminal activities. On the equity side of the balance sheet, the company with criminal activities pays part dividends from retained earnings to another company, which is not a shareholder.

Accountants in both case companies noticed that goods purchased for sale by companies with criminal activities do not always match business activities of such companies and lack logical explanation or an invoice.

Research on the fourth investigative question "How do accountants deal with criminal accounting practices they encounter?" consisted of three interview questions about measures and actions accountants take when they suspected a client in criminal or money laundering activities. Key findings of the fourth investigative question are presented below.

According to the theoretical part of the thesis, parties that have an obligation to report about money laundering, must arrange training to their employees and make sure that they can act according to Act on Detecting and Preventing Money Laundering and Terrorist Financing. Financial Supervisory Authority recommends entities to appoint a person, who receives reports on bizarre transactions and who has the right to report to the Financial Intelligence Unit. Both companies first ask for explanations or missing documents from a client. If an accountant receives needed materials or explanations, he or she books it according to Finnish Accounting Standards. If neither document, nor explanations are received, accountants in company X notify management, and management notifies another department for further investigations. The department can inform further to the police if it sees the need for that. Company Y terminates agreement with a client if explanations or documents are not received. Respondents in case companies did not mention if they are liable to report to the police. Case companies prefer terminating the contract with a client who was involved in criminal activities. The reason for terminating the contract is its violation.

Some of accountants in companies X and Y believe that they have enough knowledge to recognise criminal or money laundering activities, as accounting for such clients is different compared to the clients with healthy business operations. Both companies believed that banks have more knowledge and data to recognise the nature of all money operations that occur in companies.

Accountants in company X would like to receive additional education about the recognition of cases of criminal activities and money laundering in accounting. They would enjoy if there was work on a project in company X about recognition of cases of money laundering and criminal activities. Company Y works on the personal project about recognition of money laundering activities.

5.2 Recommendations

Research of this thesis is “How to recognize money laundering cases and financial crime and how to deal with them from the perspective of accounting.” Based on the theoretical and empirical research in this thesis, the following recommendations can be given to the accountants in Finland.

Accountants in the case companies X and Y have experience in recognising embezzlement and tax evasion, while doing accounting for clients, who outsourced their accounting departments. Criminal activities in those companies might lead to money laundering activities. Accountants emphasized what aspects of accounting draws or would draw their attention to the fact that a company has or might have criminal or money laundering activities.

It is recommended for accountants to evaluate bank statements of clients. Bank statement of a company with criminal or money laundering activities has multiple amounts of money inflows and outflows from or to unaffiliated parties. The client does not provide official accounting documents to validate occurred money operations. Official accounting documents are invoices or receipts. Moreover, the client cannot explain properly to an accountant about the nature of these transfers.

Accountants should have a closer look at companies with cash-intensive businesses. If a client has multiple amounts of cash withdrawals from a corporate bank account, an accountant should notice that and ask for explanations. If a client claims that cash was withdrawn to purchase a product or service, an accountant should compare a date and amount of withdrawn cash to the contents of an invoice that was provided by a client.

Suspicious factor for an accountant is a situation, when one entrepreneur has several companies. The accounting of each company is handled by a different accountant. There are constant money transfers between these companies, and they lack motives and reasoning.

If accountants suspect client to have criminal or money laundering activities, he or she should monitor invoices that are delivered to accounting more closely. Clients with criminal activities tend to send invoices that do not match business operations or occurred transactions, Invoices are written by hand, are low quality, and might be in a foreign language. If a company has a loan, it cannot provide a valid loan agreement.

Accountants should remember that criminal and money laundering activities rarely have a direct impact on financial statements. Accounting records work as an indicator for possible criminal or money laundering activities. On the income statement, an accountant should have a closer look at the contents of accounts as other sales revenue, other income, and other business expenses. Accountants can calculate the gross ratio and compare the result to the companies in the same fields. Gross ratio of a company that is linked to criminal activities differs. On the balance sheet, accountants should evaluate loans, retained earnings and petty cash. Balance of petty cash does not match purchases of the company. The client cannot provide explanation and documents about a loan. Dividends from retained earnings are paid to parties that are not shareholders of a company.

If a client provides missing documents, accountants should examine Finnish Accounting Standards in order to define how the occurred transaction shall be booked in the accounting.

5.3 Validity of the Research

The empirical part of this thesis used qualitative research methods. Nowell, et al. suggest four criteria for evaluating the validity of qualitative research. These criteria are credibility, transferability, dependability, and confirmability.

Credibility means the fact that the outcomes of qualitative research are credible from a research participant's point of view. In this thesis, participants of the research were involved in anonymous interviews, therefore could reveal their opinions openly. Accountants, who participated in this research, has professional experience in accounting and experience with recognition of criminal activities while doing accounting for clients. Recognition of money laundering in accounting records is a completely new topic for accountants and case companies. The majority of respondents based their answers regarding money laundering based on their wide professional experience in accounting and theoretical knowledge about the topic.

Transferability means the degree to which the results can be generalized. In this thesis, accountants in the interviews were talking about personal experiences in the field, without generalizing. Author of the thesis described in the details all the information that was gained in the interviews. It was found by the author of the thesis that case companies have the same experiences and approaches in most of the cases, therefore there is a space for generalizing key findings and recommendations in this thesis. However, as accountants in both case companies based their answers on professional experience, accountants in other firms can have different opinions about the research topic.

Dependability means the need for the researcher to emphasize the ever-changing context within the research occurs. In this thesis, accountants were talking about situations with criminal and money laundering activities, which occurred in the past and situation about the topic in case companies in winter and early spring 2020. Case companies follow Finnish legislation. There is a possibility that law regarding money laundering and criminal activities will change in the past, and case companies will change their approaches in recognition and handling criminal activities in outsourced accounting.

Confirmability means the degree to which the results could be confirmed and corroborated by others. The author of this thesis recorded all interviews. However, as the interviews were anonymous, the author of the thesis promised to delete all the interviews after the thesis is submitted to avoid all possible issues. (Nowell, et al. 2017, 3.)

5.4 Assessment of Self-learning

The author of the thesis works as an accountant. Her duty is to do accounting for different limited liability companies and self-employed persons, who outsourced their own accounting department to third parties.

The author of the thesis noticed herself that at her working place, the concept of money laundering is relatively new for both accountants and management. Decision-makers at her working place implemented internal rules and regulations concerning money laundering and outsourced accounting in 2019. However, rules and regulations are still a matter of change.

By writing the theoretical part and conducting research of this thesis, the author of the thesis benefited herself professionally. Now she evaluates her clients more critically, while doing monthly accounting for them. After writing this thesis, she knows what the red flags of money laundering and other financial crime are from the perspective of theoretical sources and professional experiences of other accountants.

Recognition of money laundering is a new concept in the Finnish accounting scene. The author of the thesis sees opportunities in the topic of money laundering recognition in outsourced accounting, as the topic is new for Finnish accounting firms. She will continue to research the same topic in master’s studies and hopefully will have a chance to interview more accounting firms.

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Appendix 1. Interview Questions to the Accountants that Work in the Case Companies X and Y

IQ1: What are the practices accountants use to discover criminal activities in companies' accounting?

1. Before signing a contract, how does the company verify the client?
2. How does the company evaluate client for risk?
3. How often do you encounter clients with criminal activities in their business?
4. Have you encountered money laundering, while doing accounting for your clients? If no, have you suspected any company in activities which lead to money laundering?
5. What criminal activities have you encountered, while doing accounting for such companies?
6. Are the criminal activities more common in sole trader (Tmi), limited partnership (KY), general partnership (AY) or limited liability company (OY)?
7. In which business areas do those companies operate?
8. How do you understand if activities of a company lead to money laundering or if a company in linked to money laundering?
9. Do the companies with criminal or money laundering activities have more bank accounts, than ordinary companies do?
10. Have you noticed that companies with criminal and money laundering activities change accountants often? If yes, how long do they stay as your clients compared to ordinary companies?
11. Have the number of businesses with criminal activities increased during your working life?

IQ2: What aspects of bank statements or any other document alarm accountants about criminal accounting practices?

1. How does the bank statement of a company with criminal activities and with money laundering activities looks like compared to ordinary companies? For example, are there strange transactions in the bank statements of those companies?
2. How do the clients explain suspicious transactions in their bank statement?
3. Have such companies ever provided false or suspicious documents in order to back up own bank transactions? If yes, what are these documents? If no, what could be these documents in your opinion?
4. How do companies with criminal activities fund their business? For example, is there a funding from an individual, who is running a cash-intensive business or funding is provided by a lender with no logical explanation or economic justification.

5. If such companies receive funds, from which country do these funds come from? Do they come from Finland or abroad?
6. If such companies receive funds, how often do they occur? In how big money amounts they are received? In which currency they come?
7. Have you noticed that companies do not want to publish their financial statements to trade register? Would that indicate that company is linked to criminal activities?

IQ3: How money laundering and financial crime appear in financial statements of companies that have criminal operations?

1. What aspects of income statements might alarm accountants that the company is linked to criminal activities and money laundering?
2. From where does the revenue come in companies that are linked to criminal activities or money laundering?
3. What expenses do those companies have?
4. What aspects of assets, liability and equity might alarm accountants that the company is linked to criminal activities and money laundering?
5. Have you noticed that purchased goods for sale or provided services did not match business operations? If yes, how the client explained it?

IQ4: How do accountants deal with criminal accounting practices they encounter?

1. When criminal activities are encountered, what further actions do you take?
2. Do you feel that you have enough knowledge to discover criminal activities?
3. Would you like to get more instructions from your working place or somewhere else about recognition of criminal activities?