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| **رقم البحث بالقائمة/ نوعه** | **2** / individual |
| **عنوان البحث** | Audit Committee and Anti-Money Laundry Programs: a Case of Selected Listed Banks in the Egyptian Stock Exchange |
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**Abstract**

**(1) Introduction**

The last recent years have witnessed a rapid increase usage of the term *"corporate governance"* and emphasized the relations between this term and numerous perspectives2. Hence, corporate governance has become a crucial topic in transition economies in the current years. Owners, regulators, and corporate managers have recognized that there are enormous benefits that can be accomplished from constructing a good corporate governance structure. Besides, the Egyptian manager's center (2011) has issued the "*rules and standards*" guide of corporate governance in Egypt; this guide highlighted the essential role of auditing (mainly audit committee) in the corporate governance process. In addition, the previous study highlighted the significance need for ACs and its impact on financial reporting quality and corporate performance. In trying to explore the role of auditors in designing a good system in facing several crimes particularly money laundering, Smith and Mulig (2004) have indicated that the accountants and internal auditors are increasingly more liable and responsible for ensuring that companies have in place adequate systems of internal control. Such controls should include procedures to detect and prevent the corruption aspects (specially the money laundering).

**Background and Literature Review. (2)**

There are various contemporary studies that clarified the fundamental meaning of corporate governance from diverse perspectives. This section can be divided into three sub-sections.

* The relations between corporate governance and auditors.
* The role of auditors in solving the problems of money laundering and other corruption aspects.
* The relationship between the role of audit committee in anti-money laundering and auditor’s fees and opinion.

**(3) Research Questions**

Corporate governance in Egypt encompasses numerous principles, rules, systems, and procedures which accomplish the best balance and shelter of the interests of board of directors, corporate managers, and the other stakeholders. So, there is a hope that the companies should apply the principles of corporate governance to attain the goals not only for those companies but also to the investment environment as a whole. Audit committee represents one of the rules of corporate governance which contains numerous sub-rules that shape and interpret the relationships among managers, board of directors, and other stakeholders. Hence, the central research questions of the research are as follows:

*RQ (1)*: Did corporate governance prudently show all rules and regulations that should be involved in the audit committee structure?

*RQ (2)*: To what extent can the audit committee develop and improve the anti-money laundering programs?

**(4) Research Methodology**

The dominant research approach is deductive which allows the study to explain the causal relationship between audit committee and anti-money laundering programs and after that developing the hypotheses which states the "the development of audit committee will improve the efficiency of anti-money laundering programs".The sample used in this study is 30 banks which are recorded in the Egyptian stock exchange particularly EGX 100. This study selected such sample for many reasons. The banking sector was selected because the main research topic is closely linked to the processes of financial corruption and that appears very clearly in the banking sector, as well as EGX 100 index was selected because it is most wide-ranging and broader than other price indexes (EGX 30 and EGX 70 for example) along with including the most 100 active companies on the Egyptian stock exchange. Additionally, there are several methods of collecting data that can be used to fulfill quantitative research. Firstly the questionnaire is designed to measure the relationship between audit committee and anti-money laundering programs in light of numerous control variables, secondly the participant observation through visiting some banks included in the EGX 100 index which allows the researcher to be involved in the community or situation being studied. Also, unstructured interviews have been conducted with academics, bank managers, credit mangers, accounting firms, and some experts in the Egyptian stock exchange. Finally, SPSS is used to analyze the data collected using three different tools: (1) descriptive analysis, (2) communalities, and (3) the correlation analysis. (*The empirical results are shown in the appendix at end of this study*).Exhibit 1 depicts the basic research model.

**Exhibit 1**: the basic research model

1. Corporate governance 2. Disclosure and transparency 3. Bank type and size

4. Egyptian business environment 5. Ethical values

The audit committee

Anti–money laundering programs

**(5) Research Hypotheses**

The next section will discuss the operationalization of research variables starting from the control variables followed by the main research relationship (audit committee and anti–money laundering programs AC&AML). There are six hypotheses of this paper:

* *H1: application the rules and principles of corporate governance effectively, it will positively reflect on the formulation of audit committee and the preparation of anti-money laundering programs.*
* *H2: Good application for disclosure and transparency affects positively the effectiveness of strict audit committees and to detect money laundering.*
* *H3: The type and size of the bank determine the structure of the audit committee and the development of anti-money laundering programs.*
* *H4: Changes and fluctuations in the Egyptian business environment have a great impact on the principles and regulations of corporate governance.*
* *H5: the higher ethical values progresses the efficiency of audit committee and develops the anti-money laundering programs.*
* *H6: The development of the performance of audit committee will lead to the development and improvement of the preparation of anti-money laundering programs.*

**(6) Research Findings and Recommendations**

**(A) The most important findings**

* Corporate Governance (CG)

The study found out that there is a correlation between corporate governance (CG) and both audit committee and anti-money laundering programs, but it is very clear that most of the correlation coefficients are positive but not significant. However, there are a few negative correlations, indicating that there are many efforts must be carried out in the scope of corporate governance, particularly regarding a tight internal control system that can able to formulate a qualified audit committee and in turn augment anti-money laundering programs.

* Disclosure and Transparency (DT)

The study found out that there is a substantial tendency among the respondents on the essential role of DT in supporting audit committee's members in working in an apparent atmosphere which enables them in reporting any corruption action. It can be observed from the study that the lowest importance is DT1 which related to the issuing of regular reports about money laundering transactions that discovered, this is consistent with the literature which reveals that there are very few reports that showed the money laundering actions that discovered in the Egyptian banking system. Likewise, there is a correlation between DT and both audit committee and anti-money laundering programs. It can be noticed that the correlation coefficients are not significant either positive or negative, but the highest values in the correlation analysis in DT2 viewing the critical significance of revealing the work of audit committees to achieve transparency and clarity among stakeholders in the bank.

* Bank Type and Size (BTS)

The study found out that most of the correlation coefficients are positive (but not significant) which means that if the bank size increased in terms of its transactions, deposits, customers, ….etc. this requires additional efforts and hard work to establish the formation of audit committee and its responsibilities (these responsibilities for example include: the financial supervision, risk management, procedures and policies of money laundering, and internal control transactions). Further, the type of a bank has an influence on the relationship between audit committee and anti-money laundering programs in terms of the degree of flexibility to revise and modify the rules, procedures, and regulations of a bank towards accomplishing short-term and long-term programs.

* Egyptian Business Environment (EBE)

The changes and fluctuations in the Egyptian economy after the January 2011 revolution have a great impact on the application of corporate governance rules in several directions including the formation of audit committee and its relation with the development of anti-money laundering programs. Changes and instability in the Egyptian economy led to the emergence of various aspects of financial corruption (including money-laundering transactions) particularly in the banking sector that led to the essential role of preparing programs to combat money laundering and focus on the major role of the audit committee.

* Ethical Values (EV)

There is a great trend among the sample concerning the fundamental role of high values and ethics in developing audit committee and augmenting anti-money laundering programs. These findings indicated that a firm that states business ethical values as a fundamental element of a corporate culture stimulates personnel to achieve their job responsibilities in an appropriate manner. This often involves doing what’s right for the business, without regard to personal consequences or hidden motivations.

* Main Research Variables (audit committee and anti-money laundry programs)

The study found out that there is a great tendency among the sample concerning the important role in the formation of the audit committee, both in the number of its members, or the level of competence and expertise where it has a significant impact in the quality of the performance of the audit committee. In addition, banks are spending a lot of money in the preparation of money laundering programs to face this kind of corruption at an early stage so that any delay in the discovery will result in negative consequences for the financial position of the bank. Moreover, there is a relationship between developing the audit committee and formulating the anti-money laundering programs. So, the following section indicates the role of audit committee in combating money laundering in the Egyptian banks.

1. *Supervision of the bank's money laundering unit*.
2. *Control over all of the bank activities.*
3. *Identify the elements of an effective accounting information system to combat money laundering*.

**(B) The most important recommendations**

* The members of the audit committee should be selected efficiently and should be received several training courses in how to deal with different types of corruption, especially money laundering operations.
* The bank must publish any money laundering operations that discovered even serve as a deterrent to any operations that may occur in the future.
* Audit committees should examine the internal control system relating to the money laundering in order to be an elaborate system can detect this kind of operations.
* Finally, the regulatory authorities in each city (such as the central auditing agency) should help banks provide the required data for the purpose of detecting money laundering operations and the development of policies and procedures necessary to combat these processes.