

CDD Case Studies

Case Study 1 - High Risk Jurisdiction

Brief background

A two-partner practice in York

It is 2019. One of the partners is contacted by a bookkeeper he knows personally.

The bookkeeper, also a friend, has a contact looking for an accountant who can prepare statutory accounts for his recently founded company.

His friend is not qualified to prepare accounts and so often refers clients to the accountant. They have a reciprocal relationship in that he uses the bookkeeper to help with management accounting for clients.

He meets the sole shareholder and director in person. He is based in Malta. Previously employed in the banking industry in eastern Europe, he says he is very wealthy. A high net worth individual

Seems like a decent chap

The company is a representative office of an overseas holding company controlled by the Maltese national.

The company owns property in London and the plan is to maintain this through the company and purchase other properties in London area for investment purposes.

The firm has no overseas based clients and no clients that have property investments to this scale.

The firm undertakes their normal CDD. The client's identity is verified through certified copies of passport. This is not a British Passport but they are satisfied that it is a genuine document He is who he says he is, and the firm do screen the client and the company for sanctions. There are none.

The client says his sources of income are from his previous banking employment and family businesses. No proofs or details are requested or provided

There may be rental income, unquantified at the moment.

The partner documents this and accepts the client. He classifies the client as normal risk. No additional checks are made.

The firm starts to prepare the year-end accounts

Malta is now a high-risk jurisdiction – they need to do EDD

They note:

- The shareholder/director previous employment was at a bank that was fined by regulators, in another jurisdiction, for failing to prevent industrial scale money laundering. Prosecutions did follow but not of the individual client.
- They can't get a straight answer to the sources of wealth. There are large overseas cash deposits into the firm's bank account, and it is unclear where the deposits have come from.

What were the red flags that should have been picked up by the accountancy firm?

- Sources of wealth. The client has not fully explained how he has sourced the funds to purchase the properties. The firm has accepted the client's explanations and has not asked for any documentary proofs.
- Although Malta was not a high risk third country when they took on the client it was building up a reputation for corruption risks.
- This type of client is new to the firm, they have no overseas clients and few clients that have this level of property investment.
- Why did the client want an accountancy firm that was remote from the properties and client's locations?

What are the risks and the potential threats that the accountancy firm may be faced with in this situation?

- The money that is being processed through the firm may not be from a legitimate source.
- The company may be set up purely to provide money laundering services to the clients of the previous bank as the service they had there has now been closed down.
- The accountant may be professionally enabling money laundering.
- There is insufficient professional skepticism being shown here.
- They are leaving themselves open to sanction and possible prosecution due to lack of due diligence and lack of knowledge.

What actions should have been taken by the accountancy firm?

- Explored sources of wealth, or at the very least required documentary proof of the explanations that the client has provided.

- Explored the background of both beneficial owners, a simple google search perhaps.
- Discuss the purpose of the business and the nature of transactions and where they are not satisfied with the explanation dig a little deeper.

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