

CDD Case Studies

Case Study 3 – Change in client circumstances

Brief background

Alice is a sole practitioner based in the Midlands providing accounting and tax services predominately to local manufacturing firms.

Alice, receives a call from Eva, a dual national of Cyprus and UK, asking for advice in respect of the incorporation of Propnet, a company that will be used for investment in residential property in Birmingham. Eva will be the sole shareholder.

After an initial meeting where Alice obtains further details about the services required, she performs customer due diligence verification of Eva's identity and detailed background checks including adverse media screening. Alice identifies that Eva was until very recently a senior government official in the Ministry of Housing in Cyprus and so performs enhanced due diligence procedures due to Eva's PEP status. Alice obtains source of funds and source of wealth information indicating that Eva has an annual income of approximately £60,000 and net wealth of £350,000, which has partly come from an inheritance following the recent passing of Eva's father. Alice is engaged to prepare the annual accounts and tax returns.

During the first year of operations Propnet purchases two studio flats using money Eva invests into the company and begins to generate rental income. Alice notices nothing unusual about the company's transactions in the year and prepares and files the first year's accounts.

When asked to prepare accounts following the second year of operations, Alice notices that there is a regular stream of rental income from the two studio flats. However, in the weeks leading up to the year end a series of large amounts totalling £500,000 over a three-week period are wired to Propnet's business account from another entity called Propfinance. Alice contacts Eva and asks for an explanation. Eva explains that Propfinance is a company based in Jersey and is owned by her cousin who is providing her with finance to expand Propnet and the money will be used to purchase more properties. Eva shares a loan agreement between Propfinance and Propnet. Alice accepts the evidence provided and keeps a copy of the loan agreement.

Within a month, Alice learns that Eva is the subject of a criminal investigation in relation to the acceptance of bribes by Ministry of Housing officials in Cyprus.

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

- The PEP status was not declared by the client and was only picked up after Alice performed her own background checks.

- The client did not notify Alice that a series of large amounts would be paid into Propnet's business account.
- The large amounts were wired from an offshore bank account.
- The level of investment does not appear to be consistent with the size of Propnet which currently only own two studio flats.
- The only evidence provided appears to have been a document prepared by Alice and her cousin.

What were the risks and the potential threats Alice may be faced with in this situation?

- Alice may be the subject of criminal investigation on the grounds of potentially aiding money laundering activities.
- Alice may suffer reputational damage from her association with criminal activity.

What actions should be taken by Alice?

- Alice should have asked for explanations from Eva after identifying she was a PEP to understand why this information had not been disclosed.
- Alice should have identified as suspicious the series of deposits totalling £500,000 and submitted a SAR.

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