

## Indicators related to Accountants Sector

## Preface

The Accountants Sector is a diverse sector and differs in terms of the nature of the services provided by accountants, as well as the nature of customers, whether they are natural or legal entities. That great diversity may render the sector vulnerable to ML/FT professionals.

Therefore, this guide tackles the indicators that accountants may encounter while performing their professional obligations, with the aim of enabling them to effectively control and manage the risks of the services provided thereby, which apply to a specific category of accountants, whether they are auditors or chartered accountants, who provide specific activities (services), as below described:

- Real estate purchase and sale transactions.
- Customer's funds, securities or other assets management.
- Management of bank accounts, savings accounts or securities.
- Organizing contributions for the establishment, operation or management of companies.
- Establishing, operating or managing commercial entities or arrangements for the purchase and sale of commercial entities.

## Indicators Related to Customer:

1. Customer seeks confidentiality and anonymity.
2. Customer avoids face-to-face meetings and gives intermittent instructions that are so elusive and hard to reach.
3. Customer is reluctant to provide all information or information provided thereby is insufficient or incorrect.
4. Customer does not disclose all sources of his income, which may indicate tax evasion.
5. Customer submits forged documents, invoices and loans.
6. Commercial entity does not know the location of its records.
7. Customer tries to convince the employee not to complete any documents required for the transaction.
8. Customer gets defensive for questions addressed thereto or over-justifies the transaction.

9. Customer has a previous criminal record and prior convictions resulting in illegal proceeds.
10. Unusual development for a customer who has funds that are not commensurate with his personal status or activities, such as (age, occupation, income, etc.), indicating that he lives beyond his financial capabilities.
11. Customer appears to be acting pursuant to instructions of another person whose identity is concealed.
12. Customer continuously moves between several accountants to conduct his transactions.
13. Customer changes his settlement or implementation instructions without a clear economic reason.
14. Customer selects an accountant that is not commensurate with the commercial entity's activity or size.
15. Customer's base of the commercial entity includes the following:
  - Sectors with greater opportunities for ML/FT, such as (retail markets and intensive cash markets).
  - Politically exposed persons and persons closely associated therewith.
16. Structure or nature of the customer's commercial entity makes it difficult to identify the actual owner or beneficiary, its ownership or the nature of its transactions, such as:
  - Ownership and management structure (management structure of the commercial entity) is complex without a clear economic reason thereto.
  - The nature of the company is fictitious, a front company, or a joint stock company which asset management is divided through the shares owned and controlled by various states, without a clear economic reason thereto.
  - Appointing family members or partner's relatives as shareholders or nominee managers, so that they would receive instructions from the beneficial owner (the actual beneficiary).
17. Customer's business cycle is unusual or he enters newly emerging markets, such as retail markets and intensive cash markets.
18. Customer begins developing an establishment with an unpredictable profile or an unusual business cycle, or enters a newly emerging market, predominantly retail/cash-intensive markets.

19. Commercial entity that is considered cash intensive and subject to AML/CFT requirements, such as:
  - Money or value transfer services companies, such as (Currency exchange shops, exchange offices, agents and banknote dealers or other companies that provide money transfer services).
  - Dealers of precious metals and precious stones.
20. Commercial entity is not interested in incurring losses or making profits that are too low compared to people working in similar commercial entities and insists on continuing its activities.
21. Commercial entity frequently and unjustifiably changes professional accountant consultants, account officers or members of management.
22. Turnover rate of the commercial entity is unusually high given the low number of employees or assets used compared to similar commercial entities.

### **Indicators Related to Transactions:**

1. Unusual development of transactions, in which the pattern or volume of transactions is inconsistent with the customer's activity or personal information.
2. Sudden, unjustifiable, activity from an inactive customer.
3. Customer's records indicate repeated exchange of small denominations currencies with large denominations ones.
4. Customer structures the transactions in an orderly manner under the minimum reporting level.
5. Customer carries out real estate transfer transactions or high-value assets, such as (jewelry, stones, precious commodities or artifacts), where it is not common or normal to the customer or his regular transactions.
6. Customer carries out transactions related to legacies and inheritances, in which the deceased is convicted of previous crimes and the funds/property owned are illegal proceeds of the crimes committed.
7. Customer carries out transactions involving closely related persons, in which the customer and his financial advisors provide inconsistent explanations, indicating that they are unwilling to provide a clear economic explanation.
8. Commercial entity's transaction activity is inconsistent with the rates recorded in similar entities or with the financial ratios for the same sector.

9. Customer grants authorization to the accountant in unusual circumstances and for unclear or illogical reasons.
10. Examination of the commercial entity's original documents indicates the existence of erroneous data that are difficult to discover or trace through the company's books.
11. Commercial entity's records indicate the following financial data:
  - Obligations that are not actual or have been paid in advance, yet they constantly appear in the records.
  - Continuous below-cost sales, which incur losses for the company, and yet the company continues not to provide any logical explanation for that permanent loss.
  - Missing or incorrect recording of data which may indicate that the records are tampered with.
12. Customer carries out acquisitions of companies under liquidation without a clear economic justification.
13. Commercial entity acquires personal and consumer assets, e.g., (boats, luxury cars, private rural homes and villas), while this type of transaction is not compatible with the normal business practices of that commercial entity in similar sectors.
14. Commercial entity's loans are incompatible with its activity.
15. Unusual terms and conditions exist in credit arrangements that do not reflect the commercial status between both parties, such as:
  - Unusual short/long periods of consumption.
  - Interest rates are above/below market rates.
  - Frequent and unjustified cancellations of mortgages or other guarantees prior to the agreed upon maturity date

16. Commercial entity engages in fraudulent transactions, usually involving the following fraudulent methods, during the import/export of goods or services:
- \*Over or Under Invoicing of goods/services'
  - \*Multiple invoices for the same goods/services.
  - \*Over or under shipments.
  - \*Falsely described goods/services.

**\*Over or Under Invoicing of Goods/Services**

- Exporter in state (A) issues invoices for goods or services that are less than the (fair market price). These invoices are then transferred to the importer in state (B) (the money launderer), who, in turn, sells the goods or services in the open market and recovers their actual fair value, as a way to launder illegal money.
- Exporter in state (A) issues invoices for goods or services that are higher than the (fair market price). These invoices are then transferred to the importer (money launderer) in state (B) so that he, in turn, pays a higher value through illegal funds and then sells the goods or services and collects legitimate funds.

**\*Multiple Invoices for the Same Goods/Services**

- Exporter in state (A) issues multiple invoices for the same goods or services, so that the importer (money launderer) in state (B) uses different financial institutions to pay the same invoices for the goods or services.

**\*Over or Under Shipments**

- The quantity of shipments is manipulated by collusion between the exporter and the importer through tampering with customs documents. Shipments may be fictitious to be used only as a front for illegal money laundering process.

**\*Falsely Described Goods/Services**

- The quality and type of the (goods or services) are manipulated through collusion between the exporter and the importer, such as shipping low-quality goods, where supporting documents are distorted with high-quality descriptions, so that it could be a means of laundering illegal money.

## Indicators related to Products, Services and Channels Used:

1. Customer requests the completion of commercial transactions or services in unusual circumstances or over a short time, without an apparent economic reason.
2. Customer requests the implementation of commercial or private services and he does not have clear legitimate business in exchange for them.
3. Customer pays high levels of fees for services that would not normally involve such a level of fees.
4. Customer changes the means of payment unjustifiably, in the last moments, which may indicate the presence of a third party (actual beneficiary).
5. Customer pays for legal services provided in cash and avoids completing them through financial institutions or uses unusual means of payment, such as (precious metals, precious stones, etc.)
6. Customer offers money or tips to the accountant for providing services that may seem unusual or suspicious.
7. Customer has been recently establishing a series of new relationships with various financial entities.
8. Incoming or outgoing transactions that passed through intermediaries (third parties) are unknown and there are no links among them, for no obvious reason.
9. Customer always uses personal bank account for commercial purposes.
10. Customer opens a bank account that is used exclusively for depositing foreign currencies in cash.
11. Commercial entity receives checks from unknown sources, where the volume of the amounts received does not correspond to the volume of sales.
12. Commercial entity employs many different auditing firms.
13. Commercial entity pays huge sums to **\*subsidiaries** or companies under its control, where those sums are not considered part of the capital.

**\*Subsidiaries:** Companies with limited liability owned and controlled by the parent company by 51-99%, where the parent company provides the subsidiaries with capital to carry out their necessary activities, where those subsidiaries direct the resulting profit returns to the parent company. The aim of establishing these companies is to reduce the level of risks and damages that may attack the assets of the parent company, as well as to avoid harming other subsidiaries.

14. The capital and other contributions increased successively for the same commercial entity within a short period of time without a clear economic reason compared to similar entities.

### **Indicators Related to Geographical Location:**

1. Customer's source of wealth or money is linked to high-risk states.
2. Location of most of the operations carried out by the customer is linked to high-risk states.
3. Customer uses financial intermediaries, financial institutions or non-financial businesses and professions that are not subject to sufficient laws and measures to combat ML/FT and are not subject to adequate supervision by the competent authorities.
4. State of residence of the beneficial owner (actual beneficiary) is linked to a high-risk state.
5. Commercial entity manages a large part of its business or has subsidiaries in high-risk states.
6. Commercial entity pays advisory fees that are unusual for commercial entities in other states.
7. Commercial entity moves its headquarters to another state, which may indicate the existence of a front company for the purpose of obscuring the beneficiary or owner.
8. Incoming payments to the commercial entity from organizations located in states that do not apply AML/CFT regulations, states known for their banking secrecy or states with safe tax havens.