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CHARTERED ACCOUNTANTS

AML & CFT

**MAJOR RED FLAGS
IN AUDIT**



- Every problem is a gift.

Without problems, we would not learn & grow.

Anthony Robbins



There are reasons why criminals (whether drug traffickers, corporate embezzlers or corrupt public officials), have to

LAUNDER MONEY



Supplemental Guidance for Auditors

Introduction

Cabinet Decision No. (10) of 2019 Concerning the Implementing Regulation of Decree Law No. (20) of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organisations (the “AML-CFT Decision”) - subjects Designated Non-Financial Business and Professions (DNFBPs) to specific AML/CFT obligations.

the federal laws of the UAE and their implementing regulations, regulating the audit profession, commercial companies and financial institutions, impose specific obligations on auditors with regard to the nature and content of their duties in respect of the auditing of accounts, as well as in respect of the reporting of crimes detected during the course of carrying out those duties.

- The UAE’s ML/FT National Risk Assessment (NRA) has identified that professional money laundering (PML) as being one of the highest crimes/threats in relation to ML in the State. PML has been shown to have a high correlation with the misuse and exploitation of legal entities and legal arrangements.



Auditors under DNFBP

It covers

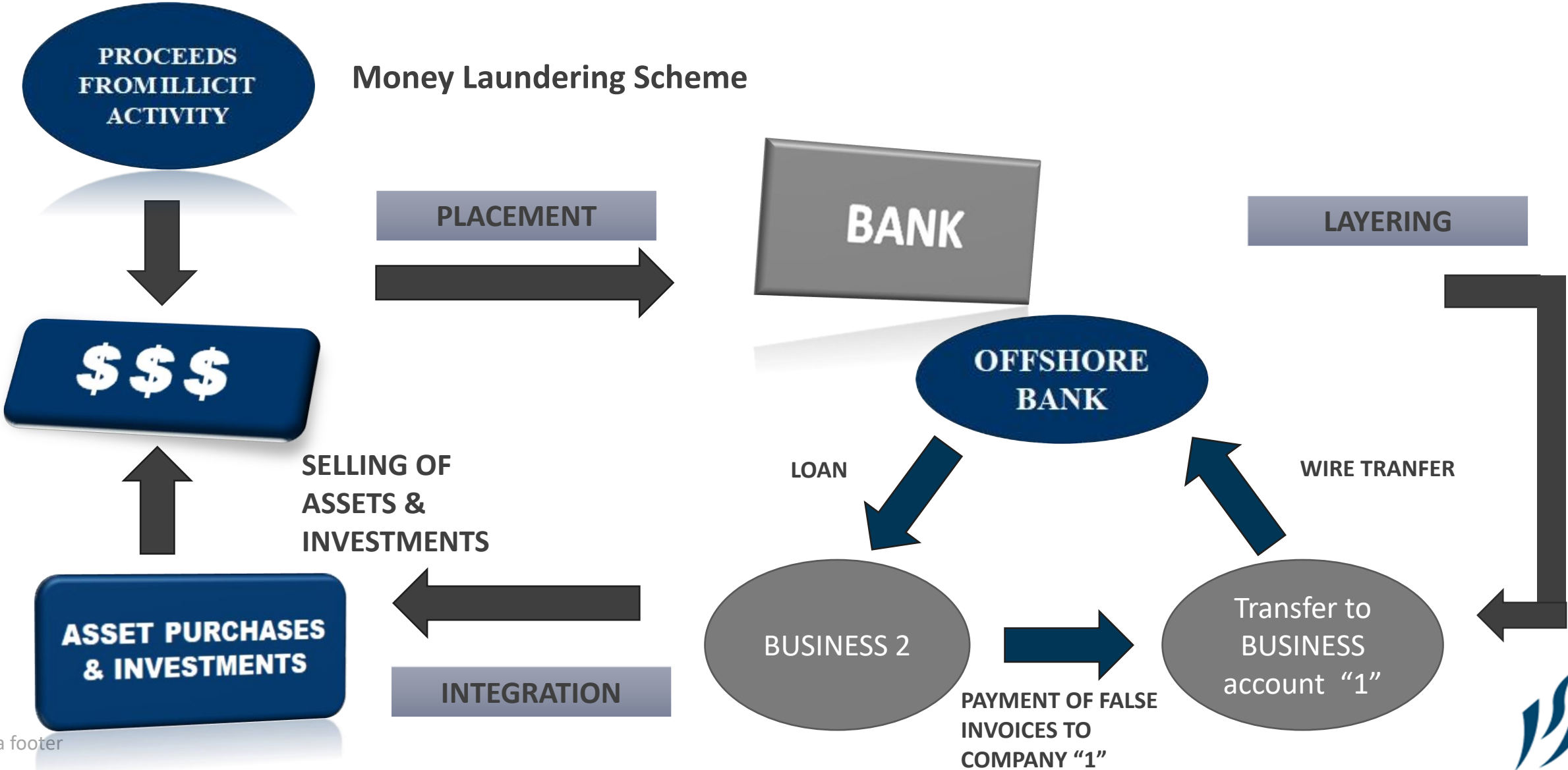
1) Audit professionals acting independently, whether as sole practitioners or as members/partners or employees of firms engaged primarily in the provision of audit-related services.

It do NOT intend to cover

2) internal auditors employed by companies, financial institutions, or other legal entities (e.g. non-profit organisations), which are already subject to the AML/CFT obligations.



Figure 1. Basic money Laundering scheme



Risk identification & Assessment

Unique position of Auditor

Own Risk

- Customer risk
- Geographic Risk
- Product & Services Risk
- Channel Risk

Client's Risk

- **Financial audits** –
- **Operational audits** - related to a client's **internal** controls, governance structures, and risk management processes and procedures
- **Compliance audits** related to a client's adherence to legal and regulatory requirements.



Challenges facing by Auditors

- Illegal organisations are continually evolving and becoming more sophisticated
- New technologies are constantly evolved



Some common methods used by criminals to launder money

- Concealing or disguising the identity of the beneficial owner or owners;
- Concealing or disguising the illicit origin of the funds involved;
- Transferring or extracting value or utility from the assets involved for the benefit of the criminal perpetrators



RED FLAGS/INDICATORS

- Entity Owners/UBO
- Entity:
- Client's transactions:
- Means of Payment
- Choice of Auditor:
- Others



Entity owner/UBO

- Is reluctant or refuses to provide personal information.
- Auditor has reasonable doubt that the provided information is incorrect or insufficient.
- Is reluctant, unable, or refuses to explain:
 - the identity of the beneficial owner;
 - their source of wealth/funds;
 - Reasons for conducting their activities in a certain manner when asked;
 - who they are transacting with;
 - the nature of their business dealings with third parties (particularly third parties located in foreign jurisdictions).



- Actively avoids personal contact without sufficient justification.
- Does not maintain contact or communication after initial appointment of the auditor, when this would normally be expected.
- Appears very concerned about, or asks an unusual number of detailed questions about compliance-related matters, such as customer due-diligence or transaction reporting requirements.
- The client is signatory to multiple company accounts (especially unrelated companies) without sufficient explanation.
- Attempts to improperly conceal beneficial ownership from competent authorities



Entity:

- Cannot be found on the internet or social business network platforms or do not have a website.
- Uses an email address with a public or non-professional domain (such as Hotmail, Gmail, Yahoo, etc.).
- Cannot demonstrate a history or provide evidence of real activity.
- Is registered under a name that does not indicate the activity of the company/
- Indicates activities different from those it claims to perform.
- Is not normally a cash intensive business, but appears to have substantial amounts of unexplained cash
- Transfers its registration or domicile from another jurisdiction without any evidence of genuine economic activity in the country of origin



Client's transactions:

- Involve the use of a large sum of cash (especially when being used as collateral rather than being used directly), without an adequate explanation as to its source or purpose.
- Involve multiple appearances of the same parties in different transactions over a short period of time, or involves transactions or financial transfers (e.g. disbursements or repayments) between the parties over an unusually long contractual time period.
- Borrowings/Lending by a non-financial institutions whether a natural or a legal person, with no logical explanation or commercial justification.
- Intercompany fund transfers and



Means of Payment:

- Involves cash or negotiable instruments which do not state the true payer (for example, bank drafts, manager's cheques, or the endorsement of a third-party cheque), especially where the amount of such instruments is significant in relation to the total value of the transaction.
- Payment comes from a third party different from the recipient of goods/service
- Involves doubts as to the validity of the documents submitted in connection with the transaction.
- Involves a loan granted, or an attempt to obtain a loan, using cash collateral, especially when this collateral is deposited abroad.



Choice of Auditor:

- Has changed a number of times in a short space of time (i.e. the client has changed or engaged multiple auditors) without legitimate reason.
- Unreasonable and without a clear explanation, given the size, location or specialisation of the auditor.
- Is due to the fact that the business relationship was refused by another auditor or the relationship with another auditor was terminated without an adequate explanation.



Others:

- The client requests that shortcuts be taken, or that the work is completed in an unreasonably short time period, and is prepared to pay substantially higher fees than usual in exchange.
- The client's requested or preferred means of payment is unusual (e.g. precious metals or stones, virtual currencies, or other unconventional payment methods).





Thank You!

