



FINANCIAL CRIME INVESTIGATION

SAMPLE QUESTIONS

1. Prime Audit Ltd is a middle size Audit Firm in Cyprus, specializing in the provision of a range of professional services, ranging from accounting, tax, fiduciary and audit services. Mr. Donald, a prominent American businessman and lawyer by profession, has approached the Firm requesting the incorporation of 6 companies with €1.000 issued share capital for each company (i.e. total of €6.000) with the principal activities to invest, on the behalf of prominent investors, in the real estate property of Eastern Europe. The Audit Firm performs full Know your Client (KYC) verification of Mr. Donald, by obtaining all the required identification and economic profile data and also performing a full background check for the said individual as to identify any PEP, sanctions and adverse media positive matches. All the procedures performed do not identify anything suspicious or negative which would prevent the acceptance of Mr. Donald as client. The Audit Firm incorporates the 6 companies with the assistance of a registered licensed lawyer requested by the client, with Mr. Donald as the sole Beneficial Shareholder (BO) and immediately there are funds deposited in the bank accounts of each of the 6 companies for €10.000.000 (i.e. total of €60.000.000). Each of the funds is shown as loans payable, for 1% interest, to a common investor Mr. Vladimir from Russia. The funds are then immediately invested in commercial property in Easter Europe.

During a Regulatory monitoring inspection from ICPAC, it is identified that Mr. Vladimir (the sole investor) is PEP (ex-mayor of a Russian city) and has a criminal history and sentences by Russian courts for embezzlement, money laundering, and being involved in a criminal organization. The Audit Firm is reported in the Disciplinary Committee of ICPAC for not performing adequate KYC procedures and also the specific BO (Mr. Donald) and the sole investor (Mr. Vladimir) are reported by ICPAC to MOKAS.

Required

- a. What are the red flags identified which might indicate money laundering activity and/or terrorist financing in this case?
- b. What are the risks and the potential threats that the accounting firm may be faced with in this situation?
- c. What KYC/Due Diligence work could the accounting firm have carried out and when?
- d. What steps may the accounting firm undertake to mitigate its risks and possible exposure?

2. An investment company is offering brokerage service to clients. It collects clients' funds and places them into the bank account denominated as "Clients Bank Account" with ABC Bank plc, for further clearing and settlement transactions for clients' orders, which require 2 signatures of both executive directors. Clients' agreement indicates that the Company does not use clients' funds for own purposes, separates and segregates clients' funds in an EU bank.

The Company has a process to daily reconcile the records of accounting, back office and bank, to ensure that the Clients' Funds are kept in the separate accounts with the licensed bank and not used for 'own' Company needs at any circumstances. Due to shortage of staff, the in-house accountant is responsible to prepare accounting records, which include obligations to clients, and to reconcile these records to third party records and to back-office records. Due to non-compliance with the risk management policies, and resulting liquidity and capital shortage, executive directors decide to use clients' funds to hedge own trading positions.

Trading, unfortunately, is not profitable and the clients' funds are paid to the counterparties to settle own loss-making trading deals.

The in-house accountant, due to heavy workload, prepares the accounting records based on the accounting statements, however, does not perform regular reconciliations with the back-office records, to ensure that the Clients' funds held with the ABC Bank and reflected in the accounting records, correspond to the amounts reflected on clients' statements (i.e. what Company shows in external reports to clients as due to clients).

At some point, the clients start to experience difficulties in withdrawing the funds and complain to the Competent Authority.

The Competent Authority during its investigation revealed that the company:

- committed a theft of clients' funds and used them for own purposes,
- operates a scheme where the clients' withdrawals were paid from other's clients funds generated by aggressive marketing techniques,
- did not employ the procedures to safeguard clients' funds,
- internal 2nd and 3rd line of controls failed to report this to the Board and to the Competent Authority

As a result, the Company's license is withdrawn due to non-compliance with Article 28(1) of the Law, in relation to the authorization and operating conditions laid down in Article 18(2)(j) of the Law, was due to their fault, willful omission and negligence.

- a. Explain **five (5) Economic crimes** committed in this case.
- b. Discuss briefly the actions made by the various professionals to enable these crimes?
- c. What actions might the in-house accountant have taken?
- d. Explain the role of a professional accountant in averting the crimes in (i).

3. "Fraud evokes a visceral reaction in us. It is an abuse of our expectation of fair treatment by fellow human beings. Beyond that, it is a blow to our self-image as savvy managers capable of deterring or detecting a fraudulent scheme. "Discuss **six (6) indicators of fraud** that may warrant consultation with a forensic accounting investigator.

4. Discuss with **practical examples** the **mechanism of duplicate payments** as a fraud typology.

5. To be successful, the interviewer in an investigation must be well versed in and comfortable with a variety of approaches. Explain the interview approaches outlined below:

- (a) The logical approach
- (b) The do-the-right-thing approach
- (c) The silent approach.
- (d) The rationalization approach