

RED FLAG INDICATORS FOR PROFESSIONAL & PUBLIC ACCOUNTANTS

Common broad themes of red flags

- (a) Broadly, transactions that appear inconsistent with a client's known legitimate (business or personal) activities or means; unusual deviations from normal account and transaction
- (b) Any situation where personal identity is difficult to determine;
- (c) Unauthorised or improperly recorded transactions; inadequate audit trails;
- (d) Unconventionally large currency transactions, particularly in exchange for negotiable instruments or for the direct purchase of funds transfer services;
- (e) Apparent structuring of transactions to avoid dealing with identification requirements or regulatory record-keeping and reporting thresholds;
- (f) Transactions passed through intermediaries for no apparent business reason; and
- (g) Introduction of a client by an overseas associate or financial institution based in a country or jurisdiction known for drug trafficking and production, other financial crimes and "bank secrecy".

General red flags

- Frequent address changes.
- Client does not want correspondence sent to home address.
- Client repeatedly uses an address but frequently changes the names involved.
- Client uses a post office box or general delivery address, or other type of mail drop address, instead of a street address when this is not the norm for that area.
- Client's home or business telephone number has been disconnected or there is no such number when an attempt is made to contact client shortly after he/she has opened an account.
- Client is accompanied and watched.
- Client shows uncommon curiosity about internal systems, controls, policies and reporting; client has unusual knowledge of the law in relation to suspicious transaction reporting.
- Client has only vague knowledge of the amount of a deposit.
- Client gives unrealistic, confusing or inconsistent explanation for transaction or account activity.
- Defensive stance to questioning or over-justification of the transaction.
- Client is secretive and reluctant to meet in person.
- Unusual nervousness of the person conducting the transaction.
- Client is involved in transactions that are suspicious but seems blind to being involved in money laundering activities.
- Client insists on a transaction being done quickly.
- Client appears to have recently established a series of new relationships with different financial entities.
- Client attempts to develop close rapport with staff.
- Client offers money, gratuities or unusual favours for the provision of services that may appear unusual or suspicious.

- Client attempts to convince employee not to complete any documentation required for the transaction.
- Large contracts or transactions with apparently unrelated third parties, particularly from abroad.
- Large lump-sum payments to or from abroad, particularly with countries known or suspected to facilitate money laundering activities.
- Client is quick to volunteer that funds are “clean” or “not being laundered”.
- Client’s lack of business knowledge atypical of trade practitioners.
- Forming companies or trusts with no apparent business purpose.
- Unusual transference of negotiable instruments.
- Uncharacteristically premature redemption of investment vehicles, particularly with requests to remit proceeds to apparently unrelated third parties or with little regard to tax or other cancellation charges.
- Large or unusual currency settlements for investments or payment for investments made from an account that is not the client’s.
- Clients seeking investment management services where the source of funds is difficult to pinpoint or appears inconsistent with the client’s means or expected behavior.
- Purchase of large cash value investments, soon followed by heavy borrowing against them.
- Buying or selling investments for no apparent reason, or in circumstances that appear unusual, e.g. losing money without the principals seeming concerned.
- Forming overseas subsidiaries or branches that do not seem necessary to the business and manipulating transfer prices with them.
- Extensive and unnecessary foreign travel.
- Purchasing at prices significantly below or above market.
- Excessive or unusual sales commissions or agents fees; large payments for unspecified services or loans to consultants, related parties, employees or government employees.

Red flags specific to auditors

- Client receives unusual payments from unlikely sources which is inconsistent with sales.
- Use of many different firms of auditors and advisers for connected companies and businesses.
- Client has a history of changing bookkeepers or accountants yearly.
- Client is uncertain about location of company records.
- Company records consistently reflect sales at less than cost, thus putting the company into a loss position, but the company continues without reasonable explanation of the continued loss.
- Company shareholder loans are not consistent with business activity.
- Company makes large payments to subsidiaries or other entities within the group that do not appear within normal course of business.
- Company is invoiced by organizations located in a country that does not have adequate money laundering laws and is known as a highly secretive banking and corporate tax haven.

Red flags specific to tax practitioners

- Client appears to be living beyond his or her means.
- Client has no or low income compared to normal cost of living.
- Client has unusual rise in net worth arising from gambling and lottery gains.
- Client has unusual rise in net worth arising from inheritance from a criminal family member.
- Client owns assets located abroad, not declared in the tax return.
- Client obtains loan from unidentified parties.
- Client obtains mortgage on a relatively low income.

Red flags relating to corporate actions by the client entity or its directors

- Complex corporate structure where complexity does not seem to be warranted.
- Complex or unusual transactions, possibly with related parties.
- Transactions with little commercial logic taking place in the normal course of business.
- Transactions not in the normal course of business.
- Transactions where there is a lack of information or explanations, or where explanations are unsatisfactory.
- Transactions which are undervalued.
- Transactions with companies whose identity is difficult to establish as they are registered in countries known for their commercial secrecy.
- Extensive or unusual related party transactions.
- Many large cash transactions when not expected.
- Payments for unspecified services, or payments for services that appear excessive in relation to the services provided.
- The forming of companies or trusts with no apparent commercial or other purpose.
- Long delays in the production of company or trust accounts.
- Foreign travel which is apparently unnecessary and extensive.

Red flags on client transactions involving cash

- Client frequently exchanges small bills for large ones.
- Deposit of bank notes with a suspect appearance (very old notes, notes covered in powder, etc).
- Use of unusually large amounts in traveler's checks.
- Frequent domestic and international ATM activity.
- Client asks to hold or transmit large sums of money or other assets when this type of activity is unusual for the client.
- Purchase or sale of gold, diamonds or other precious metals or stones in cash.
- Shared address for individuals involved in cash transactions, particularly when the address is also for a business location, or does not seem to correspond to the stated occupation (for example, student, unemployed, self-employed, etc.).

Red flags on client transactions Involving bank accounts

- Apparent use of personal account for business purposes.
- Opening accounts when the client's address is outside the local service area.
- Opening accounts with names very similar to other established business entities.
- Opening an account that is credited exclusively with cash deposits in foreign currencies.
- Use of nominees who act as holders of, or who hold power of attorney over, bank accounts.
- Account with a large number of small cash deposits and a small number of large cash withdrawals.
- Funds being deposited into several accounts, consolidated into one and transferred outside the country.
- Use of wire transfers and the Internet to move funds to/from high-risk countries and geographic locations.
- Accounts receiving frequent deposits of bearer instruments (e.g. bearer cheques, money orders, bearer bonds) followed by wire transactions.
- Deposit at a variety of locations and times for no logical reason.
- Multiple transactions are carried out on the same day at the same branch but with an apparent attempt to use different tellers.
- Establishment of multiple accounts, some of which appear to remain dormant for extended periods.
- Account that was reactivated from inactive or dormant status suddenly sees significant activity.
- Cash advances from credit card accounts to purchase cashier's checks or to wire funds to foreign destinations.
- Large cash payments on small or zero-balance credit card accounts followed by "credit balance refund checks" sent to account holders.
- Attempting to open accounts for the sole purpose of obtaining online banking capabilities.

Red flags on client transactions involving offshore business activity

- Loans secured by obligations from offshore banks.
- Loans to or from offshore companies.
- Offers of multimillion-dollar deposits from a confidential source to be sent from an offshore bank or somehow guaranteed by an offshore bank.
- Transactions involving an offshore "shell" bank whose name may be very similar to the name of a major legitimate institution.