
11.5. Professionals: vulnerability of the accounting sector

11.5.1. General description of the sector

Table 87. Description of the accounting sector

Market participants	Number of market participants as of 31.12.2019	Number of obligated persons	Existence of a professional association or umbrella organization
Accountants ¹	5571	100%	Association of Estonian Accountants

Description of the Sector

- As of autumn 2020, more than 5,200 companies have been registered in Estonia, the field of activity of which is the provision of accounting services (EMTAK code 69202), of which 3,800 marked it as the main field of activity. The vast majority of accounting firms are micro-enterprises, while the market share (7%) of the largest accounting service providers is not as large as, for example, in Finland, where the 10 largest companies by turnover have 30 per cent market share. Thus, Estonia is a fragmented market, although according to the Äripäev Accounting Firms Competition Report (October 2020), there are slightly more than 200 accounting firms with an annual turnover of more than 100,000 euros, which is 3.8% of all companies in the Sector.
- The number of obligated persons in the Sector as of 2020 is approximately 5,200 enterprises, i.e., all legal persons who have declared their main activity under EMTAK code 69202, as § 2 (1) (7) of the MLTFPA impose an obligation on all accounting enterprises regardless of their size.
- Accountants and accounting firms are united and represented by the Association of Estonian Accountants (hereinafter the AEA), which has 620 members as of 31 December 2020 (495 natural and 125 legal members, including 80 legal members in the form of accounting firms). The AEA has been operating as a non-profit association since 1996, has been a provider of the profession of an accountant since 2004 (more than 4,100 professional certificates have been issued throughout history), and has also formed a separate accounting services committee to deal with topics of interest to accounting firms.
- The special feature of accounting firms in Estonia is the lack of direct regulation - the existence of a professional certificate is voluntary, it is not necessary to apply for an activity license, there is no supervision over the quality of the service, and there is no obligation to belong to a professional association. In principle, anyone can set up an accounting firm, and the service is provided on terms agreed with the client. The AEA has started to recognize its member accounting firms on a voluntary basis that meet the criteria referred to in the document “Requirements for an accounting firm recognized by the AEA” (the project was launched at the end of 2020, as of 31.01.2021, the recognition of 5 companies is in preparation).

Legal framework

- MLTFPA is the only legislation that directly imposes specific due diligence obligations on an accounting firm.
- The Accounting Act, tax laws, and other laws and regulations impose obligations on companies in terms of accounting and tax accounting (the board is responsible), and each company can decide how to organize its accounting practically - whether to hire an accountant (employment contract, engagement, mandate) or purchase an accounting service.

¹ The Estonian Tax and Customs Board 69202, including tax advisers

- The AEA accounting service committee has created a documentation package for the members of its accounting firms, which also includes recommendations for the fulfillment of MLTFPA obligations (know-your-client procedures and risk assessment).
- In 2018, the FIU, together with the AEA, drew up common rules of procedure for accounting service providers, which each company could enrich with its own specifications.

Table 88. Data from the survey conducted in the accounting sector

Sector	Number of market participants	Sample scope	Sample size/ number of responses required	Number of invitations sent out	Number of responses received	Response rate
Accountants	5690	sample	360	955	364	101%

The accounting subsector was the most active subsector in responding to the survey across the whole professional sector.

11.5.2. Description of risk typologies

The following risk scenarios can be described separately in this sector:

- The greatest risk is in a scenario where an accounting firm is knowingly involved in a money-laundering scheme and participates in it for personal gain. Such cases are likely to be carefully concealed and will become apparent in the course of the investigation. There are no known cases in Estonia.
- The participation of a particular accountant in a money-laundering scheme, either as an adviser or as one of the scheme's promoters, is similar to the previous one, and an accounting firm affiliated with it may or may not be used.
- Cases where the accounting firm has unknowingly provided a service to a client involved in a money laundering scheme, are more likely. In case of doubt, the accounting company informs the FIU in this case (in practice, individual cases when observing the FIU statistics). As money laundering requires the movement of money or other assets from one person to another, then greater responsibility falls on the technical executors of such transactions (credit authorities, notaries, etc.), the accountant involved unknowingly in the possible scheme has the opportunity to react only after the transactions have taken place when the corresponding source document (bank statement, property purchase, and sale agreement, etc.) reaches him or her. In such cases, however, steps should already be taken by technical operators to prevent possible money laundering.
- One possible scenario, which may involve money laundering, is an accounting firm's clients who engage in various forms of e-business, whose clients are in turn foreign residents who make seemingly legal e-payments for client services and are used to create e-business services, and on the other hand, external suppliers are used to creating e-business services/brokering goods. An accounting firm has no obligation or ability to verify the background of its client's customers and suppliers and often does not have the authority to evaluate the substance of transactions. Again, payment solution providers have a greater responsibility to prevent possible money laundering.

11.5.3. Threats

11.5.3.1. Threats of money laundering

The threat of cash transactions

In the case of cash transactions, the accounting firm has the opportunity to estimate the volume of the service offered by the client compared to the amount received in cash for the service. In the case of disproportionately large receipts, there may be a suspicion of money laundering, which the accounting officer should presumably be able to control.

The threat of failure to notify law enforcement authorities and the FIU of suspicious transactions and fraud committed by the client and of discovery of violations of the requirements of the MLTFPA and other laws

The accountant is required to comply with the requirements of legislation and professional standards when providing the service. However, as accountants are not subject to regulated or periodic supervision by a professional association and/or a supervisory authority, the deliberate involvement of accountants in money laundering can be considered a potential threat. An accountant can assist his or her client in committing a previous money laundering offense, such as organizing tax fraud.

Conclusion

Table 89. The threat level of money laundering in the accounting sector

Sector	The threat level of money laundering at the sector level	
Accountants	2	low

The threat of cash transactions and customer assistance is theoretically possible in Estonia as well, and both of these threats require an analysis of the knowledge and experience of market participants in the field of money laundering prevention. Rather, the threat is **low**.

11.5.3.2. Threats of terrorist financing

The probability of a threat occurring in the sector is low, and the consequence of the realization of this threat has no significant effect.

Conclusion

Table 90. The threat level of terrorist financing in the accounting sector

Sector	The threat level of money laundering at the sector level	
Accountants	1.4	low

The probability of a threat occurring in the sector is low, and the consequence of the realization of this threat has no significant effect, so the level of threat is **low**.

11.5.4. Vulnerabilities

11.5.4.1. Vulnerabilities of prevention of money laundering

11.5.4.1.1. Exposure to the threat

- **Threat of cash transactions:** In the accounting sector itself, the use of cash to pay for services is likely to be very rare, but a fairly large number of customers who settle in cash are served, and in such cases, the accountant has to implement the obligations arising from the MLTFPA.
- There is a **theoretical threat of involving accountants in criminal schemes**, but in the Estonian context, there is no data from recent years on cases of money laundering financing schemes that would have taken place with the assistance of accountants. Rather, there is a threat that the accountant may assist in the conduct of the ML due to his ignorance, i.e., ignorance of the threats. The number of accountants in Estonia is very large, and the quality of the services offered is therefore also different, which is why knowledge of the requirements arising from the MLTFPA

and compliance with due diligence measures may be low at times. This may lead to the risk that the accountant, because of his or her low awareness, becomes an accomplice in money laundering.

Potential vulnerabilities in the accounting sector include:

- **Transparency of transactions**

It is important for the accountant to understand the content of his or her client's transactions. Otherwise, they may be intentionally opaque transactions that conceal possible money laundering. When surveying a know-your-client, it is important for the accounting firm to understand what the client is doing or to establish the legality of the sources of income. This may be difficult or impossible for companies with non-resident and e-resident owners. A separate risk group consists of companies registered in Estonia related to non-resident or e-resident clients of accounting firms, in which case the background control of the client is more complicated, and the transparency of transactions may be lower.

- **Low awareness**

As becoming an accountant and providing accounting services does not require a license or activity license, it is not excluded that the person providing such a service is not aware of his or her obligations arising from the MLTFPA. As there is no state control over the competence of the service provider or the quality of the services he or she provides, this is primarily for the recipient, who may not be aware of all his or her responsibilities and, in the worst case, he or she may be interested in the selected accounting service provider not noticing suspicious money-laundering transactions in the course of its business.

11.5.4.1.2. Risk awareness

Management commitment and leadership

The results of the NRA survey show that the Sector's awareness of anti-money laundering is high mainly only among larger accounting firms, and is low for small and micro firms, as criminals are not expected to select small actors and money laundering cases may be more of a risk to the financial sector or larger firms. While analyzing the Sector's reporting statistics, given the number of market participants in the Sector, which consistently exceeds 5,000, the reporting statistics are remarkably low.

Table 91. Reporting statistics for the accounting sector in 2017-2019

2017/2018/2019	Accounting service providers
STR ²	1 / 1 / 4
CTR ³	4 / 5 / 10
UTR ³	1 / 3 / 3

In conclusion, the sector is vulnerable in terms of awareness.

11.5.4.1.3. Legal framework and control

Quality of supervision

The level of regulation in the accounting sector is low, but MLTFPA imposes direct obligations to prevent money laundering.

The FIU carries out practical supervision over compliance with the requirements of the MLTFPA. In 2017, the FIU performed 16 supervisory inspections over accountants, and in 2018-2019, the FIU did not carry out any supervision in this Sector. Given the size of the sector, it is entirely justified to carry out random checks.

² Suspicious transaction notifications.

³ Amount - based notifications.

AEA members follow a code of ethics and requirements for recognition, so the Sector has regulated its activities to some extent and self-regulation works, but it should be noted that only a small part of market participants are AEA members, so there is no knowledge of the whole sector.

Effectiveness of compliance control systems and reporting

The compliance control system of Estonian accounting firms is rather the practice of a few larger service providers; the vast majority of micro-enterprise accounting service providers do not perform specific operations in order to comply with the obligations of the MLTFPA.

As a result of the survey, we can give the following assessments:

- Senior management’s investments in risk management technologies are at a good level.
- The identification of politically exposed persons is rather weak.
- The existence of mechanisms for identifying complex or unusual transactions is rare and is rather the domain of a few larger companies in the Sector.

Brief summary

The overall assessment is, however, that the vast majority of accountancy firms, due to their small size, find it rather difficult to set up and manage compliance control systems. As one solution, the AEA, as a professional association, offers its support in the form of documentation.

Quality of the framework of due diligence measures applied with regard to customers

The main due diligence measure is the fulfillment of know-your-customer control requirements, which is based on reliable public information systems that help to control customer data.

Among the strengths found in the survey on the quality of the customer control framework are:

- Secure national identification system with state-issued identity documents
- Reliability of information on beneficial owners in national registers

Brief summary

The overall assessment here is lower than in previous risks, so the customer due diligence framework should be strengthened through the delivery of possible e-services and applications to each accounting service provider.

11.5.4.1.4. Sector-specific risk assessment with the quality of sector-specific controls

The biggest vulnerabilities in the accounting services sector are:

- Existence and efficiency of entry control, which Estonian accounting service providers essentially lack.
- Larger companies are particularly effective in enforcing compliance systems, but the accounting firm, which is considered a private practice, is largely lacking.
- However, the effectiveness of customer due diligence measures in higher-risk situations has been recognized as an issue.

Brief summary: With regard to accounting services, there is no substantive supervision of the Sector - there are no licensing or certification requirements for persons operating in the Sector. As a result, just over 5,000 accounting firms are essentially one-man businesses, where it is generally not possible to speak of the existence of different systems or procedures that ensure compliance with all the obligations set by the MLTFPA.

11.5.4.1.5. Quality of response to risks identified in previous evaluations

Under the previous NRA 2015, the overall assessment of the sector’s vulnerability was given an average-low.

In terms of structural indicators, the situation is basically the same - the majority of companies are smaller companies that are vitally interested in accounting services. At the same time, according to a survey conducted by the Ministry of Finance in 2020, almost 25% of companies do not submit annual reports, and one of the reasons is the lack of accounting - incomplete and incompetent accounting, with little knowledge or it, is not a priority. In addition, the study highlighted incorrectly submitted reports, which affects the quality of our data and thus the accuracy of the statistics, as well as the lack of knowledge and skills. In this respect, however, it is not possible for service providers in the Sector to remedy the situation themselves but rather to step up national measures to ensure non-compliance with the accounting obligation.

The previous evaluation indicated that the Sector is also active in exporting its services to other countries and that the share of external transactions is thus average. The main group of customers is made up of smaller Estonian private limited companies, NPOs, and public limited companies, and the frequency of higher-risk customers is therefore probably low. There has been no significant change here in 2015-2020.

The aggregate vulnerability calculated on the basis of structural indicators was average, and this assessment can still be accepted today.

Regarding control measures, two main aspects were assessed: the level of regulation and the adequacy/inadequacy of supervision. The sector is explicitly designated as an obligated person and is subject to all general requirements and obligations for the prevention of money laundering and terrorist financing. Then the indicator of the level of regulations was given high, which can also be agreed upon in 2020.

Supervision was performed only by the FIU, whose supervision bureau employs four officials.

The Association of Estonian Accountants has established good practice and launched an accounting services committee. In-service training is also fairly well organized and "good practice" established. Thus, the indicator was given a high score, which can also be accepted in 2020.

The FIU considers the adequacy of notifications to be important, as the Sector is sufficiently trained, and it can also be expected that information important for the prevention of money laundering will be received. However, it should be noted that the reporting activity is not high considering the size of the Sector, and this gives a high level of adequacy for STRs.

In 2017-2018, the FIU will organize five pieces of training specifically for accountants (in both Estonian and Russian), where the number of participants was 228.

Summary

Overall, both the structural indicators and the control measures in their aggregate gave an overall low assessment of the Sector's vulnerability overall.

The conclusions of the previous evaluation can also be accepted in 2020:

As the overall score is low enough, the focus should be on maintaining the level achieved. At the same time, supervising the Sector with a large number of companies and advising and training them is also resource-intensive. At the same time, the risks are reduced by close communication between the sectors and the interest in ensuring the level of the Sector (as shown by the professional standard set by the companies themselves). Thus, it may be most appropriate to strengthen the relationship between AEA and to share information and training through them and request that the necessary information and links be made available on their websites. Training must definitely be continued. Consideration should also be given to the introduction of licenses, which would help to reduce the provision of low-quality accounting services, increase the quality of the services provided and help to increase the competence of accountants, which would also raise awareness in the field of ML and TF prevention.

No further regulatory changes are necessary in this case.

11.5.4.1.6. Conclusion

On a scale of 1-5, the level of vulnerability in the accounting sector in terms of money laundering is 3.27, i.e., **average**.

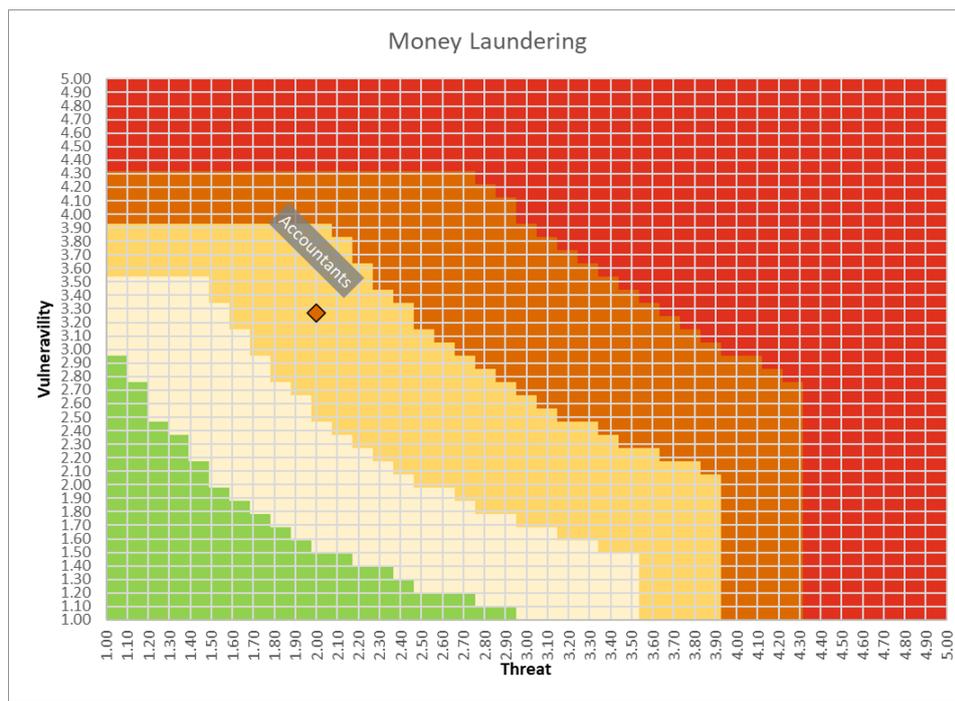
Table 92. Level of money laundering vulnerability in the accounting sector

Sector	Level of money laundering vulnerability at the sector level	
Accountants	3.27	average

The strengths of the sector include the good legal framework and the measures promoted by the professional association to improve the quality of accounting services, including the indicative documentation package compiled by the Accounting Services Committee, which also includes instructions for meeting MLTFPA requirements, a risk assessment calculator and a sample know-your-customer questionnaire.

The most vulnerable places are the lack of entry control and substantive lack of supervision in the entire field, which is why anyone can establish an accounting company in Estonia and, as a result, individuals may lack the competence and will to act in accordance with the requirements of MLTFPA. From a technical point of view, access to information on, for example, beneficial owners and PEPs, both nationally and internationally, can also be considered a weakness, and this aspect needs to be addressed at the national level.

Figure 29. Heat map of the money laundering risk level of the accounting sector



Summary

The level of risk in the sector in terms of money laundering is **average**, which means that risk mitigation needs to be addressed and concrete measures taken. Simplified due diligence measures may be applied in the sector.

11.5.4.1.7. Risk management strategy

11.5.4.1.7.1. Mitigation measures at the national level

Based on the results of the risk assessment, the following suggestions are made to improve the situation at the national level:

- In order to reduce the provision of accounting services of insufficient quality, the provision of accounting services on the basis of authorization should be introduced. This would increase the quality of service, competence, and awareness among accountants in preventing ML and TF.

11.5.4.1.7.2. Mitigation measures at the level of obligated persons

Based on the results of the risk assessment, the following proposals are made to improve the situation at the level of obligated persons:

- Implementation of the professional association's quality program (includes requirements for fulfilling the obligation set by the MLTFPA).
- Establishment of a quality control program by the professional association in cooperation with internal auditors.
- Raising the awareness of accounting service providers through sector-specific training in cooperation with the FIU.
- To strengthen supervision by the FIU.

11.5.4.2 Vulnerabilities of prevention of terrorist financing

11.5.4.2.1. Exposure to the threat

In the accounting sector, there is indirect contact with non-residents or e-residents through companies registered in Estonia that are required to maintain accounting. It does not pose a direct threat, i.e., the accounting firm is not involved in the economic activities of its clients.

11.5.4.2.2. Risk awareness

Management commitment and leadership

The results of a survey conducted in the framework of the NRA show that the Sector's awareness of the prevention of terrorist financing is low.

11.5.4.2.3. Quality of detection and prevention of terrorist financing

Quality of supervision

The level of regulation in the accounting sector is low, but MLTFPA imposes direct obligations on the detection and prevention of terrorist financing.

The FIU exercises practical supervision over compliance with the requirements of the MLTFPA, but this is rarely done.

Effectiveness of compliance control systems and reporting

The compliance control system of Estonian accounting firms is rather the practice of a few larger service providers; the vast majority of micro-enterprise accounting service providers do not perform specific operations in order to comply with the obligations of the MLTFPA.

Quality of the framework of due diligence measures applied with regard to customers

The main due diligence measure is the fulfillment of know-your-customer control requirements, which are based on reliable public information systems that help to control customer data.

Quality of the identification of Sector-based international sanctions

There was no comment on the quality of the identification of international sanctions, which in turn indicates low awareness.

11.5.4.2.4. Sector-specific risk assessment with the quality of sector-specific controls

The assessment of sector-specific risks with the quality of sector-specific controls could not be commented on.

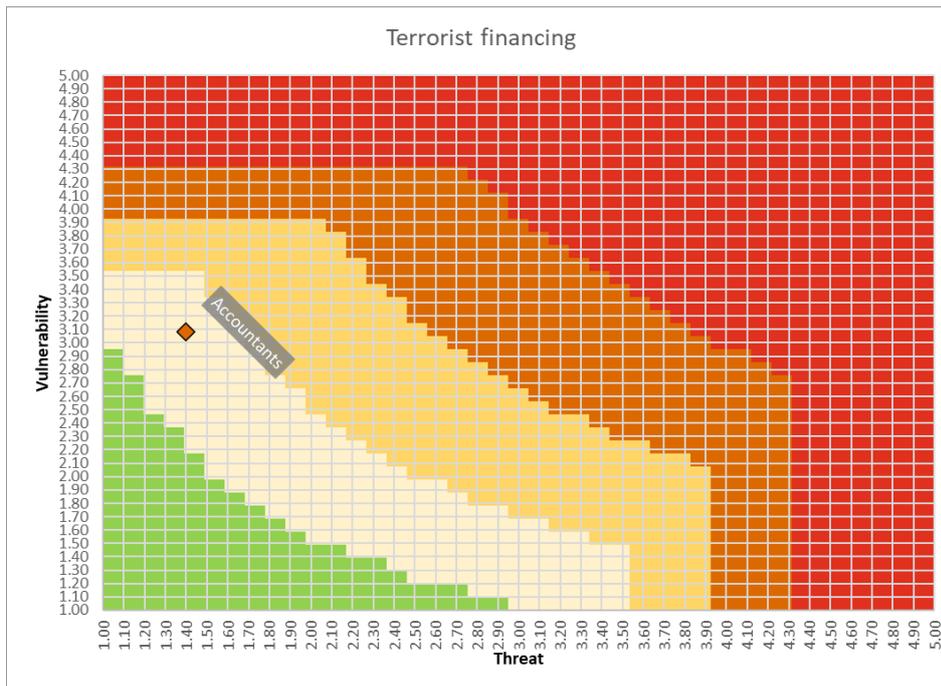
11.5.4.2.5. Conclusion

Table 93. Level of terrorist financing vulnerability in the accounting sector

Sector	Level of vulnerability to terrorist financing at Sector level	
Accountants	3.08	average

On a scale of 1-5, the vulnerability level of the accounting sector in terms of terrorist financing is 3.08, i.e., the average.

Figure 30. Heat map of the terrorist financing risk level of the accounting sector



Summary

The level of risk in the sector in terms of terrorist financing is **average**, which means that risk mitigation needs to be addressed and concrete measures taken. Simplified due diligence measures may be applied in the sector.

11.5.4.2.6. Risk management strategy

11.5.4.2.6.1. Mitigation measures at the national level

Based on the results of the risk assessment, the following suggestions are made to improve the situation at the national level:

- In order to reduce the provision of accounting services of insufficient quality, the provision of accounting services on the basis of authorization should be introduced. This would increase the quality of service, competence, and awareness among accountants in preventing ML and TF.

11.5.4.2.6.2. Mitigation measures at the level of obligated persons

Based on the results of the risk assessment, the following proposals are made to improve the situation at the level of obligated persons:

- Implementation of the professional association's quality program (includes requirements for fulfilling the obligation set by the MLTFPA).
- Establishment of a quality monitoring program by the professional association in cooperation with internal auditors.
- Raising the awareness of accounting service providers through sector-specific training in cooperation with the FIU.