

# National risk assessment – the Croatian features

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## Abstract

**Purpose** – The purpose of this paper is to present the risk of the non-financial sector in Croatia concerning the threats of money laundering through the prism of national and supranational risk assessment. In addition to a brief overview of the financial sector, the specifics of the non-financial sector have been highlighted. This paper aims to emphasize the peculiarities of the non-financial sector, focusing on the consequences of arbitrary application on the right to professional secrecy and independence.

**Design/methodology/approach** – Specifics of the national risk assessment in Croatia have been analyzed using deductive and inductive methods. To provide an overview of the non-financial sector, the risk assessment at the supranational level has been discussed and compared with the national one. Particular attention has been paid to the areas of increased risk.

**Findings** – The effectiveness of risk assessment depends on several factors such as the characteristic of the sector being observed, the specifics of each profession or business, changes at the level of awareness-raising and efficient and coherent supervision. Most deficiencies were observed in the area of beneficial ownership identification, conducting due diligence, awareness of the risk exposure and permanent education.

**Originality/value** – By recognizing the risk profile faced by the non-financial sector, this paper seeks to point out their role as “Gatekeepers” that is far from being negligible. By analyzing the risk of money laundering in Croatia, the tendencies of harmonization with international standards are pointed out along with the occurrences indicated by the practice.

**Keywords** Risk factors, Croatia, Risk assessment, Due diligence, Money laundering, Gambling, independence, Beneficial ownership, Non-financial sector, Legal professional privilege, Professional secrecy

**Paper type** Research paper

## 1. Introduction

The risk-based approach is crucial to the effective implementation of the FATF Recommendations. It assumes that countries, competent authorities, and obliged entities identify, assess, and finally understand the scale and impact of the money laundering and terrorist financing (hereafter ML/TF) risk to which they are exposed. Following the identified level of risk, they establish the most effective preventive measures to mitigate it. In terms of de-risking, it is better to learn how to manage risk than to avoid it.

The importance of national risk assessment, based on supranational one, is emphasized. As a result of timely detected and well-understood the national level of risk, country authorities should apply anti-money laundering and terrorist financing measures (hereafter



AML/TF) in proportion to the detected risk. The results of national risk assessments would benefit the risk assessment provided by obliged entities highlighting the most challenging areas. According to the nature and size of the obliged entities, [Directive \(EU\) 2015/849, \(2015\)](#) requires them to take appropriate steps to identify and assess the risks of ML/TF, by taking into account risk factors relating to their customers, countries or geographic areas, products, services, transactions or delivery channels.

## **2. The basic principles of the (supra) national risk assessments**

ML/TF risk assessment has to be conducted at different levels concerning the importance of supranational, national, and subnational risk assessment.

At the supranational level, in 2017 and 2019, the European Commission published Supranational Risk Assessment Reports regarding an assessment of ML/TF risks affecting the internal market and relating to cross-border activities. The mentioned Reports incorporated Joint Opinion of the European Supervisory Authorities (European Banking Authority, European Insurance, and Occupational Pensions Authority, European Securities and Markets Authority) on the risks of ML/TF, and include the Member States experts in the area, representatives from the financial-intelligence unit's (hereafter FIUs) as well as other European Union level bodies.

On the level of the national risk assessment, it appears that the requirement of assessing and understanding the extent and consequences of ML/TF risk is not easy to satisfy. Considering that the scope of risk assessment depends on the size, complexity and structure of a country, it indicates that risk assessment cannot be defined universally. Finally, subnational risk assessments are related to a particular sector, region, or operational function within a country.

The process of the national risk assessment can be divided into a series of activities or stages: identification, analysis, and evaluation. The identification process starts by developing an initial list of potential risks or risk factors which countries face when combating ML/TF. The second stage - the analysis, involves understanding the nature, sources, likelihood, and consequences of the identified risks, or risk factors. The aim is to gain a holistic understanding of each established risk – as a combination of threat, vulnerability, and consequence to work toward assigning a category of relative value or importance to them. The third one – the evaluation, involves taking the risk analyzed during the previous stage to determine priorities for addressing them, considering the purpose established at the beginning of the assessment process ([FATF, 2013b](#), p. 21).

## **3. The main features of the risk assessment in Croatia**

Croatia conducted the risk assessment of ML/TF in 2016 (for period 2011–2014) (hereafter Report 2016) and 2020 (for period 2015–2020) (hereafter Report 2020) following FATF Recommendation 1, Supranational Risk Assessment Reports, recommendations of the European Commission on the measures suitable for addressing the identified risks, and above mentioned Joint Opinion of the European Supervisory Authorities.

Both reports indicate that the most common predicate offenses in Croatia are tax evasion, drug abuse, and corruption offenses. These criminal offenses include the two conditions cumulatively met – frequency and providing significant material gain. Crimes with a medium threat of money laundering include fraud, abuse of intellectual property rights, evasion of customs control, human trafficking and smuggling, prostitution, embezzlement, and usury. Predicate offenses were committed mostly by criminal associations, on the international level.

### *3.1 Financial Sector – credit institutions/corporate banking*

At the end of 2018, 25 credit institutions were operating in Croatia: 21 banks, 4 housing savings banks, and 1 branch of a foreign credit institution. Banks' assets accounted for 98.7% of all credit institutions' total assets, while the total assets of housing savings banks amounted to only 1.3%.

The assessment of money laundering risk in the banking sector in Croatia is medium. The banking sector is highly exposed to money laundering risk due to its size and importance in the financial system. The appeal of this sector is based on the number of users and the range of available banking products that imply significant financial flows. Wide availability and easy access to banking products and services provide more opportunities to conceal illegally acquired funds.

Although ML/TF typologies are permanently developing and expanding in the scope of the financial non-banking and non-financial sector, activities with frequent cash operations are still the most exposed to ML/TF risk. A significant number of money laundering activities starts in the banking sector or occur in it. While the [European Commission \(2017, p. 47\)](#) in its First risk assessment Report recognized a vulnerability of corporate banking relating to customers' risk factors, the Second risk assessment Report ([European Commission, 2019, p. 2](#)) connected it to the other financial subsectors or products that deal with cash as foreign exchange offices, transfers of funds, and e-money products, especially in case of unscrupulous behavior on behalf of the third parties who act in their delivery channels, as agents or distributors.

Credit institutions involved in corporate banking activities in Croatia are aware of the ML/TF risks and prepared to respond. In this regard, there has been no significant level of risk. Higher risk is related to new technologies that enable quick and anonymous transactions with increasing non-face-to-face business relationships. However, these risks can be effectively mitigated by utilizing electronic identification means as set out in the Regulation (EU) No 910/2014. Efficient regulatory policy and supervisory mechanism reduce the vulnerability of the Croatian banking sector, thus ensuring a high level of compliance. Observing the banking system as a whole, credit institutions and credit unions have established adequate internal policies, procedures, and controls necessary to mitigate ML/TF risk. However, [Moneyval \(2013b, p. 8\)](#) highlighted some structural weaknesses in business relationships with non-resident customers and customer due diligence implementation relating to beneficial owners. Several shortcomings have been detected regarding the politically exposed persons (hereafter PEPs) as well. The definition of a foreign PEPs was not in line with the FATF standards, and the provisions did not apply to foreign PEPs who are temporarily or permanently residing in Croatia.

### *3.2 Financial Sector – institutional investments/securities market*

Applying the World Bank methodology, the estimated vulnerability of the securities sector has been assessed as medium-low. The securities sector is not quite attractive to money launderers even though it involves the fluctuation of a large amount of money. In contrast to other institutions of the financial sector, the securities sector is not easy to access. It is not financially viable and requires knowledge and technical expertise to take advantage of it in a money laundering process.

The low-risk assessment of ML/TF risk at the securities market in Croatia is based on the finding that it is a less developed and shallow market that failed to fully recover after a sharp drop in stock market turnover during the economic crisis. Insolvency and lower trading volumes are the most significant issues faced by the securities market. Objects of trading are mainly shares.

In addition to a weaker but continuous decline in turnover, there is a decline in professional participants and intermediaries. A reduced number of investment companies, banks, and open-end investment fund management companies with a public offering is evident. The Croatian Ministry of Finance (2020, pp. 128–129) in the Report 2020 pointed out a few investors from the third countries, while the number of investors and customers from offshore centers is neglectable. Furthermore, no significant activity of PEPs was observed.

### *3.3 Financial sector – insurance industry*

The insurance industry is a part of the financial sector that offers a wide range of investment products suitable for the placement stage. According to the [European Commission \(2017, p. 97\)](#), ML/TF risks were presented primarily in the insurance industry in life insurance and annuity products. Given that the insurance industry requires as many sophisticated money laundering schemes as the securities sector, its vulnerability was assessed as low.

Despite the estimated medium-low risk of ML/TF in the insurance industry in Croatia (Ministry of Finance, 2020, p. 149), there are several reasons for its identification as a low-risk category. A significant part of vulnerability assessment was the sales channel, customer profile, premium payment (a share of cash transactions), and sales fraud. The analysis of these categories indicates the lower risk exposure due to the complexity and transparency of products compared to the offers in other financial sectors. The method of premium payment contributes to reducing the vulnerability of products as well. There is a trend of a significant reduction of cash payments. Non-cash payment methods are common ways of premium payment: standing orders, credit cards, et cetera. On the level of the sector, the Report 2020 emphasized high standards for determining fit and proper criteria, the participation of employees in training programs, efficient supervision based on a risk assessment, and identification of beneficial ownership through the central register.

### *3.4 Financial sector – other non-bank financial institutions*

The risk of ML/TF for other financial institutions of the non-banking sector (exchange offices, transfer of funds, electronic money, leasing, and factoring) has been assessed as a medium, except for money transfer companies where the risk is medium-high. This sector has been assessed as a medium-high risk, since 70% of money transfers occur as cross-border transactions, while 30% as national transactions. It is significant to point out that there is no possibility of anonymous use of products or transactions without the customer's presence. Additionally, there are no difficulties in tracking transactions, nor are any specific national typologies for ML/TF recorded in this sector.

A deviation from the classical notion of money laundering methodology is reflected in the medium-risk assessment relating to exchange offices. Such an attitude stems from the fact that they are allowed to do business only with natural persons. They cannot perform payment operations or conduct transactions using a bank account for and on behalf of the person whom it represents.

Due to restrictions regarding foreign exchange operations, there are no international transactions in the sector. Business with non-residents (natural persons) accounts for 5% of the total turnover of exchange offices. There is a small number of suspicious transaction reports (hereafter STRs) due to many walk-in customers who do not establish a business relationship but only perform occasional transactions. In addition, it is not possible to conduct transactions with an absent party. Due to the way of conducting business, obliged entities report more cash transactions than suspicious ones.

### 3.5 Features of non-financial sector and products

According to the [European Commission \(2019\)](#), p. 3) manufacturers, distributors, legal professionals, and other non-financial institutions are increasingly attracting the attention of would-be money launderers. This claim supports the study conducted by [Bussmann and Vockrodt \(2016\)](#), pp. 138–143) stating that 20%–30% of all proceeds from crime are laundered in the non-financial sector.

In Croatia, the vulnerability of the following obliged entities was analyzed: providers of gambling services, auditors, external accountants, tax advisors, notaries and other independent legal professionals, estate agents, dealers in precious metals and precious stones, art objects, and antiques, as well as auctions organizers. Comparing the Report 2016 ([Ministry of Finance, 2016](#)) and the Report 2020 (Ministry of Finance, 2020), it is evident that the latter assessed the non-financial sector as holding more risk than the previous one. The gambling industry branch holds a high risk, while other obliged entities in the sector are assessed as a medium-risk. Only dealers in art objects and antiques, the auction organizers, and auditors are evaluated as a medium-low risk.

*3.5.1 Gambling services – particularities of casino.* The Tax Administration of Croatia (as the Supervisor) estimated that 97% of the turnover in betting shops and 85% of the turnover on slot machines was conducted in cash. The level of cash activities concerning its prevalence in the other games of chance is estimated to hold a higher risk. Such assessment applies to the players' profile as well (Ministry of finance, 2020, pp. 186–187).

There is a similar tendency at supranational risk assessments. Under the [Directive \(EU\) 2015/849, \(2015\)](#), all gambling services providers have become obliged entities. Certain gambling products are significantly exposed to money laundering risks, especially land-based betting and poker, due to ineffective supervision. Besides the horizontal threat reflected in the risk of infiltration and ownership, the other important element is match-fixing. Furthermore, online gambling represents a high-risk exposure due to the large volumes of financial flows and lack of face-to-face contact.

It is significant to point out that casinos had been the only gambling services covered by the Directive (EU) 2006/50/EC. Revised FATF 40 Recommendations (2009) recognized the vulnerability of casinos a few years later. As a consequence, casinos are implementing enhanced money laundering preventive measures. They are subject to money laundering due to significant cash-intensive activity, competition in growth, and vulnerability to criminal exploitation.

In addition to gambling, casinos conduct several financial transactions that could be considered to hold risk in the context of money laundering. Most casinos provide financial services characteristic to financial institutions, including accepting funds on an account, conducting money exchange, money transfers, foreign currency exchange, stored value services, debit card cashing facilities, cheque cashing, and safety deposit boxes. Such activities have prompted international bodies to recognize them as a high-risk business.

In Croatia, casinos are assessed as medium risk. To prevent ML/TF, the organizers are required to establish such a system for the storage of received deposits and withdrawals that would ensure the implementation of efficient control. Providers of gambling services are obliged to establish a direct connection to the Ministry of Finance in real-time to ensure continuous and immediate supervision. The introduction of the “responsible gambling principle” has increased the concern and responsibility of organizers regarding control over the excessive use of financial assets, thus contributing to the effective implementation of anti-money laundering preventive measures.

Additionally, the Croatian legislation provides for gambling via the Internet, telephone, or some other interactive communication devices which allow the player to play

independently, without a direct representative of the organizer. To participate in online gambling, a player must register based on a contract concluded at the casino or via the organizer's website. Player identification is the process of verifying the accuracy of player data and determining the age of majority by using the Tax Administration's databases or electronic payment system by checking the debit or credit cardholder. Although not cash-based, online gambling is still closely connected to the use of e-money, digital, and virtual currencies that imply a high level of anonymity for customers.

*3.5.2 Designated non-financial businesses and professions.* The advice and services of specialized professionals represent another opportunity for money launderers to conceal illegally obtained funds. Their expertise and knowledge can contribute to the complexity of the money laundering process, adding respectability (FATF, 2013a, p. 7) and legitimacy to the undertaken activities. Each profession has its own peculiarities which could lead to such illegal activities: accountants, auditors, tax advisors, and independent legal professionals – lawyers and notaries. Furthermore, according to the Directive (EU) 2018/843 (2018), AML/TF measures should be applied to any other person that undertakes to provide, directly or by other persons, material aid, assistance, or advice on tax matters as a principal business or professional activity.

Notaries, lawyers, and other independent legal professionals have been subject to the EU AML/TF requirements since 2001, including certain exemptions. Due to the specific nature of their business, these professionals can be unwillingly involved in the process of money laundering as well as complicit or willfully negligent in conducting customer due diligence.

*3.5.2.1 Legal professional privilege and professional Secrecy – law companies, lawyers and notaries.* According to the Directive (EU) 2015/849 (2015), notaries and other independent legal professionals are applying customer due diligence where they participate, whether by acting for and on behalf of their customer in any financial or real estate transaction, or by assisting in the planning or carrying out of transactions for their customer. The relevant transactions include buying and selling of real property or business entities; managing of customer money, securities, or other assets; opening or management of the bank, savings, or securities accounts; organization of contributions necessary for the creation, operation, or management of companies; and creation, operation or management of trusts, companies, foundations, or similar structures.

Based on the terms of confidentiality, legal professional privilege, and professional secrecy, Directive (EU) 2015/849 (2015) and FATF Recommendations 24 have included exceptions for the legal professions in the course of ascertaining the legal position of their customer or in performing their task of defending or representing that customer in or concerning judicial, administrative, arbitration or mediation proceedings, including providing advice on instituting or avoiding such proceedings. Without intending to call into question the provisions of EU legislation, several intricate issues arise - universal attitude toward the legal professional privilege or professional secrecy, respect to fundamental human rights and their ethical obligations, and awareness of their possible passive participation in the ML/TF process.

There are three main reasons why lawyers are exposed to misuse by criminals involved in money laundering activities. Firstly, engaging a lawyer adds respectability and an appearance of legitimacy to any activity – criminals concerned about their activities appearing illegitimate will seek the involvement of a lawyer as a “stamp of approval” for certain activities. Secondly, the services that lawyers provide, such as setting up companies and trusts, or carrying out conveyancing procedures, are methods that criminals can use to facilitate money laundering. Thirdly, lawyers handle customer's money in many



jurisdictions implying that they are capable, even unwittingly, of “cleansing” money by simply putting it into their customer account (IBA, ABA and CCBE, 2014, p. 24).

The role of the legal professions as professional money launderers is of considerable importance. From that point of view, they are third-party launderers, not involved in the commission of the predicate offense nor concerned about the origins of the money that is transferred. Their advantage is specialized knowledge and expertise to exploit legal loopholes, find opportunities for criminals, and help criminals retain and legitimize the proceeds of crime. In the process of setting up a shell company, the services of a lawyer are often used to facilitate complex money laundering schemes. Such professionals can provide numerous services, including the company incorporation, the provision of resident or nominee directors, and the facilitation of new bank accounts (FATF, 2018, p. 11).

The European Commission (2017, p. 149) emphasized the notaries and lawyers as highly exposed to the risk of ML/TF. Access to legal professionals is considered relatively easy for criminal organizations, while legal professional privilege and the right to a fair trial give them even more attractiveness. Legal advice (for the creation, operation, or management of companies) is of great importance since it is not covered by the legal professional privilege. However, confidentiality, legal professional privilege, and professional secrecy vary from one country to another which has a direct impact on the STRs’ requirements, related investigative actions, and the exchange of information between FIUs. In that context, the red flags considerable for the sector are listed as customer’s behavior or identity, concealment techniques (use of intermediaries, avoidance of personal contact), and the size of funds (disproportionate amount of private funding).

Croatia, like many other countries, has faced a small number of STRs made by lawyers. The reasons were manifold: insufficient legislative provisions, reduced awareness of the ML/TF risk, lack of education provided by FIU and competent authorities, and infrequent supervision. The Third round assessment report on Croatia (Moneyval, 2008, p. 167) pointed out the lack of awareness and understanding regarding obligations prescribed by the Anti-Money Laundering and Terrorist Financing Law (hereafter AML/TF law) since lawyers considered that it is applied rarely, due to legal professional privilege and professional secrecy. There was no change in the Fourth round assessment report on Croatia (Moneyval, 2013a, p. 204). The Fifth round assessment report is expected in 2022.

In 2018, Croatian FIU sent questionnaires on compliance with the AML/TF law (Official Gazette 108/17) to all law companies and lawyers in Croatia. According to the questionnaire, 41% of the total number of entities in the sector stated that they were obliged to implement measures prescribed by the AML/TF law, which is a significant step compared to 2011 and 2012 when only 5.5% of lawyers had declared themselves as obliged entities. The data indicate an increase in their risk perception prompted by changes in legislation (2017) and supervisors’ activity to promote ML/TF threats faced by the legal profession.

The Report 2020 (Ministry of Finance, 2020, p. 192) identified the medium risk of ML/TF in the sector. According to the data collected by the Financial Inspectorate on a sample of 1,183 law companies and lawyers, the transaction that held the most risk was assistance in planning and conducting transactions related to the purchase and sale of real estate (70%) and real estate transactions for and on behalf of customers (37%). The following transactions were considered lower-risk transactions: managing customer money, securities or other assets (30%), creation, operation, or management of trusts, companies, foundations or similar structures (27 %), and organization of contributions necessary for the creation, operation or management of companies (23 %). It should be highlighted that there is no practice in Croatia for lawyers to conduct the management of cash funds, financial instruments, or other customer-owned property on the basis of the proxy.

Given that a large proportion of respondents did not primarily declare themselves liable to implement AML/FT measures, it is interesting to note that 37% of respondents did business with high-risk customers: non-residents from offshore zones, non-residents from third countries, non-profit organizations, PEPs or non-transparent beneficial ownership customers. At the same time, 16% of lawyers did business with customers solely online, while 9% of lawyers provide their business address to customers. The Financial Inspectorate filed four indictments during the supervision (2014–2018) of the sector. The most frequently identified irregularities were related to determining the beneficial owner, data and records keeping, due diligence measures, risk assessment, STRs and monitoring.

The risk of ML/TF for notaries was recognized in other categories, on a sample of 280 notaries (Ministry of Finance, 2020, p. 194): creation, operation, or management of trusts, companies, foundations, or similar structures (84 %), real estate transactions for and on behalf of customers (80 %), buying and selling of business entities (77 %), conducting financial transactions for and on behalf of customers (48 %), and the purchase and sale of real estate (43 %). The peculiarities of notaries arise from the possibility of opening an account to perform transactions for their customers. In this regard, 83% of respondents stated that they had a separate deposit account to manage the customer's funds.

As observed for the notaries, business with high-risk customers is frequent: 82% of notaries dealt with non-residents from the EU, 10% with non-residents from offshore zones, 67% with non-residents from the third countries, 12% with non-profit organizations, 2% with non-transparent beneficial ownership customers, and 2% with PEPs. The Financial Inspectorate filed five indictments during the supervision (2014–2018) of the sector. The most frequently identified irregularities were related to determining the beneficial owner, conducting due diligence, risk assessment, and record keeping.

3.5.2.2. A priori and a posteriori monitoring – accountants, auditors, tax advisors. The main features of ML/TF risk assessment for lawyers and notaries can be found as well in a risk assessment for accountants, auditors, and tax advisors. As stated by the [European Commission \(2017, p. 144\)](#), their skills are particularly relevant in the areas of misuse of customer accounts, purchase of real property, creation/management of trusts and companies, undertaking certain litigation, setting up and managing charities, over or under-invoicing or false declaration around import/export goods, providing assurance, and tax compliance. These professionals may be unwittingly involved in the money laundering process, as well as complicit or willfully negligent in conducting their customer due diligence obligations. They are frequently involved in the creation of complex business entities or arrangements where the identification of beneficial ownership is particularly challenging, often established in multiple jurisdictions, including offshore centers.

ML/TF can be performed through business transactions that appear to be in line with the law, therefore these acts need to be recognized as part of corporate crime. All activities taking place in the business operations are represented through financial statements. If illegal activities in business operations have been established, including ML/TF, they are to be given a legal framework to gain a form of legality. Before modifying financial statements, business documents confirming the emergence of a specific business change are often created. As a result of the formal authentication, transactions that in fact are suspicious seem formally correct and presented in accordance with the requirements of financial reporting ([Cindori and Slović, 2017, pp. 9–10](#)). In this regard, creative accounting is of particular importance. By definition, it encompasses all practices that might be used to adjust reported financial results and position including aggressive accounting and fraudulent financial reporting ([Mulford and Comiskey, 2002, p. 49](#)).



Creative accounting is not illegal, although various ethical questions arise since it involves procedures and methods of manipulating balance sheet items and their values presented in the financial statements. The opposite of creative accounting is forensic accounting. Forensic accounting includes preventing frauds and analyzing antifraud controls. It involves the audit of accounting records in search of evidence of fraud – a fraud audit. A fraud investigation to prove or disprove a fraud would be part of forensic accounting. Along with mentioned, forensic accounting includes the gathering of non-financial information such as interviews of all related parties to a fraud, when it is applicable (Singleton and Singleton, 2010, p. 12). From an auditor's perspective, forensic accounting deals with the application of auditing methods, techniques, or procedures to resolve legal issues that require the integration of investigative, accounting, and auditing skills. On the contrary, from the perspective of an attorney or a litigator, it involves gathering, interpreting, summarizing, and presenting complex financial issues in a clear, succinct and factual manner, often in a court of law as an expert (Ozili, 2015, p. 64). Moreover, it proactively integrates accounting, criminology, computer forensics, litigation services and auditing investigative services into the investigation of a broad range of future-oriented business problems (Smith and Crumbley, 2009, p. 66). Forensic accountants can be engaged in identifying a variety of illegal activities as money laundering techniques, although their responsibilities involve a much broader range of risk assessments. In the end, it is interesting to highlight that for users, the truth supplied by accountants can only be the result of a compromise between expectations and demanding requirements, while for generators, a ratio between sincerity and regularity (observance of the fundamental principles and rules) (Lăzărescu (Marinescu), 2008, p. 45).

Based on the same principles as accountants, the auditors are obliged to assess the risk related to the fact that fraud and inaccuracy can lead to significant misrepresentations in the financial reports. Even though the transaction is seemingly correct, in addition to applying fundamental auditors' professional principles, there is a need for due diligence and ML/TF risk assessment. To detect suspicious and unusual transactions, as well as other illegal activities, auditors and accountants should plan and perform an audit or review with professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated (IFAC, 2009, p. 78). Besides professional skepticism, there are two other important determinants of the audit and accountant profession: independence and professional ethics. Independence is linked to the fundamental principles of objectivity along with integrity, and comprises independence of mind and independence of appearance. Fundamental principles of professional ethics related to accountants are integrity, objectivity, professional competence, confidentiality, and professional behavior (IFAC, 2018, p. 18).

The increasingly complex scheme of ML/TF requires the professional assistance of professional service providers. The services of tax advisors, as well as the previously mentioned professions, are used due to the nature of the services they provide and the reputation that gives legitimacy to the transaction. Risk management among tax advisors is one of the essential activities of the profession. The risks can be divided into several categories. In addition to the customers' risk, there are risks relating to services, geographical risk, reputational risk and professional risk.

The deep insight into tax and accounting regulations of national and international marketing enables tax advisors to identify and detect tax evasion, tax planning, and especially carousel fraud in the field of value-added tax (hereafter VAT). By developing indicators for the mentioned area, tax advisors can effectively prevent these occurrences and carousel fraud related to money laundering. It is valuable to emphasize the FATF attitude

that VAT carousel fraud is not a form of tax evasion but a deliberate, systematic attack on Government revenues. Due to the closed and contrived nature of transactions in the fraud, there are no limits to the amounts of money that can be stolen, posing a significant risk to government finances. As the proceeds of carousel fraud crime, the majority of the money is laundered through the banking sector or has been deposited as casino transactions (FATF, 2007, p. 2, 8).

The European Commission (2017, p. 144) pointed out that organized crime organizations recurrently used tax advisors' advice and sought out their involvement in money laundering schemes. The involvement of that profession is essential to perform certain types of transactions while adding the necessary respectability and legitimacy. Since these professionals are often in a long-term business relationship with their customers, which increases the ability to detect unusual transactions or behavior (as a red flag), accountants and tax advisors may include an element of investigation and auditing as useful intelligence for STRs. On the contrary, activities related to one specific tax advice that occur only once or on an irregular basis may lead the professionals to fulfill their task without complete knowledge of their customers' business activities. Therefore, accountants, auditors, and tax advisors are assessed at high risk for money laundering, easily accessible and perceived by organized crime organizations as a way to compensate for their lack of expertise.

Unlike the supranational risk assessment, the Report 2020 (Ministry of Finance, 2020, p. 197) assessed tax advisors and accountants as the medium risk for money laundering while auditors were assessed as a medium-low risk category. According to the data collected by the Financial Inspectorate on a sample of 1,000 accountants, 70% of obliged entities stated that they did not perform any other service than accounting for customers. The remaining 30% stated that, in addition to providing accounting services, they most often perform the following services: allowing the use of their own business address (17 %), tax consulting (13 %), opening or managing the customer's bank accounts (10%), managing of customer money, securities or other assets (7%) and real estate transactions for and on behalf of customers (3%). However, the obliged entities stated that they had customers with potentially higher risk as well: non-residents from offshore zones (2%), non-residents from the third countries (21 %), non-profit organizations (38 %), the PEPs (1%), and customers with a non-transparent ownership structure (0.5%). Furthermore, 11% of accountants in the sample had customers with whom they did business exclusively by telecommunications.

The Financial Inspectorate filed eight indictments during the supervision (2014–2018) of the accounting sector. The most frequently identified irregularities were related to determining the beneficial owner, applying the indicators, conducting due diligence, and risk assessment. However, one of the main shortcomings in this sector is that the law has not prescribed the professional conditions required to provide accounting services, nor fit and proper regime. Therefore, there is a large number of providers, from low-skilled trained accountants to highly qualified professionals.

Opposite to tax advisors, the auditors (and accountants) provide a posteriori insight into the financial transactions and analysis of individual transactions that could result in the detection of ML/TF, fraud, or other criminal offenses. Such circumstances comprise aspects related to the management's integrity and competence, internal or external unusual conditions that influence the activity of the economic agent, unusual transactions, or problems concerning obtaining sufficient and appropriate audit-proof (Petraşcu and Tieanu, 2014, p. 493).

The independence of external auditors is crucial in considering the reliability of the information they provide and the reporting of suspicious transactions. It is the principal means by which audit professions demonstrate the comprehensiveness of auditing by

following the adopted principles of ethics. However, they may be asked for advice, confirmation of the legitimacy of transactions and procedures, or may be required to be negligent on purpose. Indicators in the accounting sector are not based on transactions, though on unusual patterns of customer behavior.

Given the above, auditors may participate in ML/TF concerning transactions on a client's account (payments without reasonable ground, payments to related parties), purchase of assets (real estate, vehicles), over-invoicing or sub-invoicing, false import/export statement, applying techniques of aggressive tax planning, incorrect inventory valuation, and giving guarantees. According to the data available to the Financial Inspectorate (Ministry of Finance, 2020, p. 199), 51 % of auditors in the sample (data are not available) did business with non-residents from the EU, 2% with non-residents from offshore zones, 20% with non-residents from the third countries, 44% with non-profit organizations, 3% with parties without transparent ownership structure, and 1% with PEPs. Accordingly, the client profile in the auditor sector was estimated to hold a low risk. In the period 2014–2018, the Financial Inspectorate performed 34 inspections of auditing companies. As a result, it imposed 24 measures to correct the identified irregularities. The most common irregularities were related to non-compliance with policies and procedures prescribed by AML/TF law and due diligence procedures.

#### 4. Conclusion

The ML/TF techniques are developing more rapidly than the means of their prevention. To identify, assess, understand, and mitigate the risks of ML/TF, national risk assessment is a crucial method. In addition to supranational risk assessment, risk assessment on the national and subnational level is an efficient instrument for reporting entities, supervisors, FIU and law enforcement authorities to combat identified risks. Nevertheless, obstacles to the efficient application of risk assessment are numerous: clear legal provisions, timely and effective supervision, awareness of ML/TF risk, support of all the authorities in charge of intelligence, and cooperation of competent authorities at the national and international level.

Considering the advantages that are specific to the non-financial sector and designated non-financial entities, risk assessment is supposed to be higher. Nevertheless, a high-risk level has been identified in the cash business of any kind, as well as for high-value assets, independent legal professionals and casinos. The importance of the financial sector should not be disregarded due to the high number of STRs, although the compliance is expected to be satisfactory.

Risk assessment in Croatia also recognizes the higher risk faced by the non-financial sector, especially in betting shops and slot machines. The main challenges faced by the non-financial sector occur in the field of beneficial ownership identification, conduct of due diligence, reduced awareness of the ML/TF risk, lack of education, and ineffective supervision. Even though designated non-financial businesses and professions have not recognized the advantages of the self-regulatory bodies as supervisors and a link to the FIU, the progress is considerable. The rise in awareness of money laundering is evident due to a growing number of reported STRs made by accountants, auditors, and the real estate sector while lawyers still balance between legal advice and legal professional privilege. However, the legal and ethical issues that are facing all professions have been establishing boundaries related to ML/TF legislation regarding the right to professional secrecy and independence. In the end, the active role of certain designated businesses and professions in the ML/TF process is considered to be an open question, which raises numerous legal and ethical considerations.

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