



Managing Client Affairs and Making Introductions: Case Study

Performing due diligence on other parties to a transaction

Current to July 2021

The Facts

A Canadian company was a longstanding major client of your law firm. The company planned to acquire a construction entity based in a high-risk country. The client wanted the entity for its many lucrative government contracts. Very late into the negotiations, it was revealed that the construction entity had made numerous payments to other companies that were described only as “consulting services”. Establishing the identity of the consultants or the exact nature of the services they provided was difficult. You recommended that the client obtain more information about the consultant contracts and the fees paid under those contracts.

On a more detailed review, it became apparent that many of the consultants were linked to government officials responsible for awarding public contracts, licenses, and permits. No details as to the precise services performed for the construction company were provided. You became concerned that the fees might constitute bribes paid by the construction entity to secure contracts. You informed the client that the construction entity it planned to purchase may have obtained its contracts through illegal acts and that the resulting revenue could constitute the proceeds of crime. Since the client was still very interested in acquiring the entity, it instructed you to proceed with the transaction.

NOTE: *While the legal services described in this case study are outside of the paralegal scope of practice, the red flags and best practice recommendations apply, with appropriate modifications, to the provision of legal services by paralegals.*

Red Flags



Target company based in a high-risk country. These are countries that have been identified by competent authorities as posing a high risk for money laundering based on, among other things, prevalence of corruption and financial crime, and weakness of anti-money laundering laws and measures



Difficulty in obtaining satisfactory information related to services being provided to the target company and related to the payments it made



Certain assets of the entity being purchased (i.e., construction contracts) appear to have been illegally obtained

What Should You Do?



You should:

- **Conduct a comprehensive risk assessment and due diligence review.** It is important to undertake appropriate risk assessment and due diligence, and to seek additional information when concerns arise.
- **Decline to act.** As a lawyer you have a legal and professional obligation to satisfy yourself that the transaction with which you are assisting is legal. Given the multiple high-risk factors in this scenario, you must inform the client that you cannot complete the transaction unless additional information and supporting documentation is obtained that demonstrates the contracts were not illegally acquired.

Supports and Resources



- **Guidance Documents:** For more information, consider consulting the Law Society's [Red Flags Quick Reference Guide](#).
- **Practice Management Helpline:** Lawyers or paralegals who have questions about their professional obligations relating to client identification and verification, fraud, money laundering, terrorist financing, or other illegal activity may wish to contact the [Practice Management Helpline](#).



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