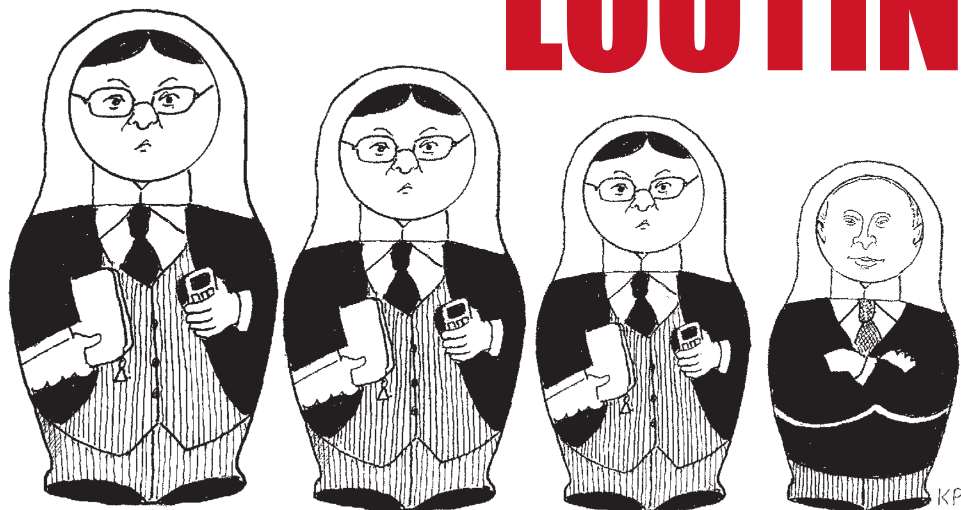
LOOTING WITH PUTIN



How City of London suits joined the Moscow gold rush

Special Report by **Richard Brooks**

In the wake of the Salisbury nerve agent attack, MPs investigating how Russian president Vladimir Putin and allies have been "hiding and laundering their corrupt assets in London" concluded it was still "business as usual".

Given the boast that London's pre-eminence as a financial centre is based on the rule of law, how did the capital become a magnet for so much dirty money, sustaining corrupt regimes in Moscow and beyond?

Part of the answer lies in the network of pukka professionals that for nearly three decades has helped oligarchs and kleptocrats keep the funny money flowing out of the former Soviet Union and into London. While perhaps meeting their own inadequate standards, every step of the way the accountants and lawyers who have long presented themselves as the best of the west have signed off the pillaging of the east…

AS THE REST of the world watched the Berlin wall fall in 1989, rejoicing in the liberation of millions, the west's bankers, lawyers and accountants smelt money. Whatever the future held for countries east of the iron curtain, it was sure to involve a monumental financial shake-up and some very big paydays.

By the mid-1990s, the *consiglieri* and chief number-crunchers to the world's financial system, its elite lawyers and accountants, had all established themselves in the capital of what was now the fractured former Soviet Union. "Magic Circle" law firm Clifford Chance led the way for the lawyers in 1991, by which time the Big Six accountancy firms, led by Ernst & Young (now EY), had also set up shop in Moscow.

Over the previous decade, back in their own countries the beancounters had already become as much consultants as they were auditors. For these global firms, a region suddenly thrown open to capitalism was another lucrative opportunity. And what an opportunity it was.

First, there was the chance to help create the new economic order – with hundreds of millions of dollars available from the US government to advise on setting up the first wave of privatisations and other "modernising" measures, such as the markets on which the new privately-held shares would be traded.

Then, in the mid-1990s came the notorious second wave of privatisations. A new breed of oligarch, many of whom had got rich by using rigged auctions to snaffle up the vouchers in state companies originally offered to ordinary Russians, took control of the new corporations at the heights of the country's economy.

Party time

Under the "loans-for-shares" schemes, these well-connected men funded Boris Yeltsin's financially beleaguered government in return for shares bought at farcically low prices. While the ordinary Russian was fleeced, it was party time for this elite circle and their new professional friends. As one local partner of the accountancy firm Arthur Andersen remarked in 1994: "We expect to do very well… They couldn't make a civilised transition without us."

Price Waterhouse's then regional director added that life was "very satisfying, because you know you helped to re-do their entire system". (Based on information entirely from the Central Bank of Russia, his firm was soon exonerating the bank for transferring tens of billions of dollars, including money from the International Monetary Fund, to a company in Jersey, ostensibly to protect foreign reserves but in reality becoming a slush fund for Russian banking officials.) Meanwhile, KPMG's top man sat in an office acquired from the Communist party and beamed: "This is a huge market."

Much of it was also very corrupt, as would have been obvious to the most unobservant accountant or lawyer. Newly privatised companies – most of which by value were owned by just a handful of oligarchs – were now being run by and for the benefit of the men who had cheated their way to owning them. But that did not seem to be the prime concern of the professional advisers as they pursued fees from yet more corporate finance deals, highly sought-after tax advice and other consultancy services to westernise the ex-Soviet corporations.

Not long after the Big Six accountants had moved into Russia, they were checking the numbers on most of its large companies. After the fall of Arthur Andersen and the merger of Price Waterhouse with Coopers & Lybrand, the Big Six became the Big Four, who now count the beans in 85 percent of large, ex-Soviet companies.

Allowing the big western firms to audit Russian companies was presented as an essential safeguard against abuse. As former banker Tom Keatinge, director of the Royal United Services Institute (RUSI), told the *Eye*, in "frontier markets… the accountancy firms lent large credibility to clients". But the times they found anything untoward were vanishingly rare.

Siphoning of funds

There was always a risk that audit firms employing many former state inspectors but operating under a new commercial model would overlook scandal. When the *New York Times* interviewed some accountants in 2002, one from EY recalled: "A big client is like God… You do what they want and tell you to do… If you lose [a major] account, no matter how justified you are, that's the end of a career."

The former boss of the state accounting regulator commented that the auditors "check that the paperwork was done correctly, but look right past the deeply corrupt heart of the matter". That "corrupt heart" was often the siphoning off of funds through deals with the oligarchs' cronies. Known in accounting jargon as "related party transactions", such deals ought to be top of a sceptical auditor's list of suspicions.

Nowhere was this more critical than at Gazprom, Russia's largest energy company and one of the first "voucher" privatisations. It became an early target for hedge fund Hermitage Capital, which under its American founder Bill Browder was challenging the companies he considered were now grossly underperforming because of this corruption.

In the late 1990s Hermitage discovered what Browder told the *Eye* was "enormous fraud" and wrote a report detailing half a dozen scams through which the company's assets had been stripped by "related parties", handing them trillions of cubic metres of oil reserves for peanuts – all under the nose of auditors from PwC (as Price Waterhouse had become in 1998).

When Hermitage, as a Gazprom shareholder, demanded an independent inquiry, the company insisted it was performed by… PwC. In Browder's view what emerged was a "report whitewashing the theft of billions of dollars of assets", even though "there was no way they

couldn't have seen [the rip-offs]". Two decades later Browder, the outsider with perhaps more insight into post-Soviet corruption than any other, recalls this complicity and lack of curiosity as "the first really stark enabler action I saw – and it's continued".

OUT OF LATVIA

By now tens of billions of dollars were being stolen from the Russian economy – brought to its knees in 1998 in the wake of the Asian financial crisis – by those who had effectively taken it over. But with the rouble hardly a safe haven currency, the cash had to be stashed elsewhere. It needed a way out.

The escape route was via a smaller state with its own trading tradition from before Soviet times, and which now sought to style itself as a Switzerland on the Baltic: Latvia.

Among the scores of aspiring bankers in its capital, Riga, were two businessmen and former Latvian Communist Youth League members who had achieved success as travel agents in the late 1980s period of economic *perestroika*: Valery Kargin and Viktor Krasovitsky. By the time of Latvia's independence in 1991, they were ready to set up their own bank, Parex, complete with numbered accounts and other Swiss-style accoutrements.

This was also the time that America's most aggressive accountancy firm Arthur Andersen was wading into eastern Europe and the two were a perfect match. The firm that was helping Enron fiddle its figures was not going to raise too many concerns over the fraud and money laundering on behalf of Russian mafia networks and the familiar "related parties" that were soon running through Parex.

Network of 'proxies'

Better might have been expected from the firm that took over Andersen's Latvian business when it folded following the Enron affair in 2002, and with it the Parex account. Yet the Anglo-American firm Ernst & Young also looked the other way, while supposedly applying international auditing standards that required it to speak up about material levels of fraud *(see Rules of the game: The auditors)*.

Parex was intimately linked with a network of "proxies" who were fronting tens of thousands of shell companies for corrupt officials and businessmen from Russia, Ukraine, Kazakhstan and other former Soviet republics. In 2013, the *Eye*'s special report *Where There's Muck There's Brass Plates* exposed the extent of the UK connection, recounting one case in which the dirty money – the proceeds of a £60m fraud on the Ukrainian health budget – was run through Parex.

By this stage, an American who had been brought into the bank was horrified at what he found and had already reported the fraud to Ernst & Young in Latvia and London, to no avail *(see Parex: The whistleblower who was silenced)*. An investment banker who at the time was considering investing in Latvia told the *Eye* he'd steered clear as he "could easily establish that [Parex] was a money-laundering front for the Russians".

Ernst & Young's wilful blindness showed how much the beancounters wanted the business – not just from Parex, but a host of similar banks sprouting up in Riga. The *Eye*'s report identified the Baltic International Bank, also audited by Ernst & Young, routing 134 payments on behalf of a UK shell company registered in Birmingham, with Belize shell company owners and accounts that showed no financial activity whatsoever, out to accounts in

PAREX PAIR: Viktor Krasovitsky and Valery Kargin, whose non-resident bank had Swiss-style numbered accounts

the Far East. Parex and Baltic were just two among scores of "non-resident" banks set up in Latvia in the 1990s largely to take money out of the region. There would soon be a lot more for the accountants to get their hands on.

THERE MAY BE ROUBLES AHEAD...

There was a subtext to Russian president Vladimir Putin's infamous deal with the oligarchs in the summer of 2000, when he clipped their political wings in return for giving them their commercial freedom. It was that the money would keep flowing out of state coffers so long as enough of it headed back his way through a coterie of cronies placed in suitable positions. This remains the essential power settlement in Moscow today.

As opposition activist and former chess champion Garry Kasparov told the British parliament's foreign affairs committee recently, Putin's cronies were "agents of a rogue Russian criminal regime, not businessmen". Their companies were "the means to launder money and spread corruption and influence".

One essential feature of the new financial order was a series of large privatisations, often of the companies in which minority stakes had already been sold off. Britain's finest law firms were again on hand to run the deals, while its beancounters crunched the improbable numbers.

Linklaters led the legal pack, advising for example on the 2002 flotation of Lukoil, which happened to be 20 percent owned by the deputy oil minister at the time of the first sell-off, Vagit Alekperov (now on international sanctions lists). In 2005, the same firm, along with PwC, advised on Gazprom's acquisition of Roman Abramovich's oil firm Sibneft – for which the Chelsea FC owner got $13bn – and repeatedly advised Gazprom on fundraisings backed by the accounts that Bill Browder's Hermitage fund had said annually were concealing huge corruption.

'High risk, high reward'

It was also Linklaters which in 2006, aided by Ernst & Young, advised the bankers running the controversial privatisation of oil company Rosneft on the London stock market. Its main asset had been expropriated from Yukos, the oil company owned by Mikhail Khodorkovsky, the oligarch imprisoned not long before for daring to breach the spirit of the 2000 Kremlin deal. As transactions were waved through by regulators despite repeated warnings of the damage to the integrity of Britain's financial markets, Linklaters' senior Russian partner until 2006, Dominic Sanders, answered concerns about who was behind some of these companies with the comment that: "Russia is a high risk, high reward market."

In such a climate, with the world's "light touch" financial centres careering towards the 2008 financial crisis, propriety was not, it seems, top priority for either the UK's regulators, lawyers or accountants. KPMG's then UK boss John Griffith-Jones (who went on to become chairman of the Financial Conduct Authority in 2012) captured the self-satisfied mood in a 2006 interview with *Financial*

CLOSE TIES: Vladimir Putin and Rusal founder Oleg Deripaska, now the subject of worldwide sanctions

PAREX: THE WHISTLEBLOWER WHO WAS SILENCED

LATVIAN bank Parex is a case study in how, at a critical juncture in the growth of the eastern European money-laundering network, the scandal could have been exposed but wasn't.

In 2002, US banker John Christmas joined the bank as head of international relations, persuading investors to support the bank. After a couple of years, however, he learned that the bank was lending amounts exceeding its entire capital to "related parties" – companies secretly controlled by people connected to management and shareholders.

On the other side of the balance sheet, 80 percent of Parex's deposits were coming in from "non-residents", often through shell companies and representing a cocktail of tax evasion and money laundering.

Christmas outlined the various scams to a partner in auditor Ernst & Young's local office, and was amazed when the firm neither tackled the blatant fraud nor dropped the bank as an audit client. Instead, when news filtered back to Parex via a credit ratings agency he had also spoken to, he was summarily sacked and fled the country fearing for his safety.

The whistleblower then watched in amazement as clean audit certificates were issued for accounts hiding the abuse for a couple of years.

Finally, Christmas took the scandal to the Financial Services Authority in London, since Parex had a bond listed on the London market (backed by the false accounts). The regulator referred him to Ernst & Young Global, the firm's head office, in London. Christmas was assured that "EY have been looking into the allegations you have made". Not too thoroughly, if at all, it seems: Christmas says EY's deputy counsel in London was irritated that the matter had been brought to him. EY kept vouching for Parex.

In the wake of the 2008 financial crisis the Latvian taxpayer, later helped by the European Bank for Reconstruction and Development and the IMF, bailed out Parex at a cost of $1bn. The "bad bank" successor bank to Parex, Reverta, successfully sued its former owners Valery Kargin and Viktor Karovitsky over improper loans.

Reflecting more than anything EY's indifference to such episodes, the Latvian firm's lead auditor of Parex remains in charge of auditing in Latvia.

Director magazine. "We're a small cog in a rather successful machine which is the City of London," he remarked. "Therefore", he added, "it is in our interest that the machine continues to flourish."

To continue flourishing meant using the benefit of softer regulations in the UK compared to the US and "persuading the Indians, Arabs, Chinese and Russians that London is a safe place to keep their money and an honourable place in which to do business".

By 2008, when Griffith-Jones had become KPMG's European boss, it could boast of 62 percent annual growth in Russia. Its rival Big Four firms were also cashing in. The largest firm in the region, PwC, increased its income in central and eastern Europe, including Russia, from $378m to $861m between 2005 and 2008. Its rival Deloitte, while not giving away actual numbers, did reveal that its income from the former Soviet states multiplied five fold in the four years from 2005.

PwC's contortions

The contortions PwC would put itself through for its fees became clear again when Vladimir Putin sought to confiscate Yukos from Khodorkovsky on the ostensible grounds that he had embezzled millions. PwC initially resisted pressure to withdraw ten years' worth of clean audit certificates, declaring the companies' finances above board. But PwC was itself put under investigation for tax offences, had its offices raided, and relented (and the tax investigation was dropped).

A Wikileaks cable in December 2006 from the American embassy in Moscow to the US State Department revealed why the firm might have abandoned its principles. It noted that "PwC has allies here – it is the official auditor of firms comprising more than 50 percent of Russian GDP, including giant Gazprom, and has reached out to many of its clients over the past few days for support." These clients included the Central Bank of Russia and most of the major state-owned banks. This was not a government that a fee-hungry firm like PwC could stand up to for long. Gazprom's largest foreign shareholder said it showed "a complete lack of backbone".

Nor was this some faraway scandal for which the respectable beancounters were not responsible in their main centres of operations. PwC's boss for the region, John Heywood, was based in London (and in 2006 even became a non-executive director of the Home Office).

Russian revolving door

Even in the wake of the financial crisis and a later Russian economic dip after sanctions following the 2014 invasion of Crimea, the consultancy and corporate finance deals just kept on coming. As the *Eye*'s Slicker noted earlier this year: "Since 2004, Russian companies have raised more than $200bn in shares and bonds via the London Stock Exchange", with London grabbing around 60 percent of more than 100 stock market flotations alone. Linklaters acted in a quarter of these cases and also on around 30 separate bond issues. Next busiest UK firms were Clifford Chance and Allen & Overy. In 2016 the latter advised Metinvest, controlled by Ukraine's richest oligarch and close Yanukovych associate Rinat Akhmetov, on a $2.3bn restructuring.

An under-reported side-effect was the creation of a Russian revolving door, particularly active between the major accountancy firms and the country's leading conglomerates.

Roger Munnings, KPMG's president in Russia during the beancounting goldrush, from 1996 to 2008, went on to become a director of two of its major clients, Lukoil and Norilsk Nickel. The former, now-sanctioned, has been at the centre of repeated corruption allegations but received consistently clean audit certificates from KPMG. Another Russian ex-KPMG partner is now the company's chief executive.

Munnings, meanwhile, also became a member of a UK government working group on trade with Russia and a big cheese in various bodies like the American-Russian Business Council and a director of Sistema, the similarly accusation-prone conglomerate that employed Lord (Peter) Mandelson.

There was always a place on the Russian non-executive circuit at the end of senior beancounting service in the region. PwC's John Heywood, for example, landed a directorship at Evraz, the mining company part-owned by Roman Abramovich. Stephen Young, the KPMG partner who had overseen the firm's central and eastern European business for a decade, is now a director at the bank that assumed the "good" part of Parex, Citadele Banka.

HOME FROM HOME

Reliable estimates of the illicit money bleeding from the Russian economy are hard to come by, but much of it ends up in Britain.

Official statistics, the campaigning group Global Witness reports, show £68bn flowing into UK tax havens such as the British Virgin Islands (BVI) and Jersey in the decade to 2016 (not all of which will be tainted). But as banker-turned anti-corruption campaigner Roman Borisovich told MPs on the Commons foreign affairs select committee in March, the cash "doesn't sit under a palm tree in the Cayman Islands; it is invested in stocks, shares, bonds, properties, yachts, planes and reputation laundering [*eg by funding educational projects or acquiring high profile businesses*]. It all comes here…"

Having reliable and desirable places to put the money is critical to the operation of the kleptocracy. In return for buttressing the Putin regime with special deals for the president's cronies and pet projects, the oligarchs and friends get their safe assets and luxury lifestyles. London's legal establishment, while doubtless satisfying itself the regulations do not prevent firms from acting, has ably helped this along.

'Investor visas'

The UK government had already rolled out the red carpet with special "investor visas", first introduced in 1996 for those with £1m to spare. By 2015, 700 had been granted to Russians, with specialist lawyers like Henley & Partners helping the super-rich through the immigration hoops. The Big Four accountancy firms, meanwhile, set out their stalls as tax advisers to this elite, ensuring they maximised the tax advantages of their "non-domiciled" status.

PILE OF CASH: The 120m Park Place, near Henley, owned by exiled Bank of Moscow president Andrey Brorodin

The serious legal business was in the homes bought with the Russian billions, both illicit and legitimate. When the *Eye* began examining the extent to which British property was owned through tax haven companies, in the relatively few cases where the ultimate owners could be tracked down, the Russians were at the top of the pile courtesy of their favoured London law firms.

In the *Eye*'s 2015 report *Selling England by the Offshore Pound*, accompanied by an interactive map (www.private-eye.co.uk/registry), we showed how the exiled former president of the Bank of Moscow, Andrey Borodin, owned the £120m Park Place outside Henley-on-Thames through a BVI company. Land Registry documents revealed that upmarket law firm Farrers had acted for him, as it had for the owners of at least 141 properties held through 81 anonymously-owned offshore companies. Other firms had a finger in this pie too, including Mishcon de Reya (190 properties), Fieldfisher (144) and Macfarlanes (115), though the figures are based only on the relatively few cases where a law firm is mentioned in Land Registry documents.

Although just a minority of these would have been Russian, in 2013 upmarket estate agent

RULES OF THE GAME: What the auditors should do

COMPANY auditors have long been expected to be watchdogs, not bloodhounds. They should apply "professional scepticism" and question suspicious transactions; but they can't be expected to sniff out every fiddle in a large business.

Under international rules to which the Big Four firms operating in Russia, Latvia and elsewhere are all signed up, auditors are required to obtain "reasonable assurance that [a company's] financial statements taken as a whole are free from material misstatement, whether caused by fraud or error".

Among other things, this means that if funds are being used to any significant extent corruptly, or if the company is exposing its shareholders to "material" risk, the issue should be highlighted. Offshore shell companies are particular "red flags" for auditors to look out for under the relevant auditing standard, as are the terms on which deals are struck with anyone connected with a company's managers or owners. A company should report these matters comprehensively and an auditor should check it has done so.

If an audit firm is alerted to suspicions about fraud or the misuse of money at a client company, it has a duty to investigate (and if necessary report it to the authorities, as well as in its audit report). The same English judge who characterised the auditor as a "watchdog" also said: "If there is anything calculated to excite suspicion he should probe it to the bottom." It is a principle the beancounters certainly did not take with them to the former Soviet republics.

Beyond the action taken against PwC in Ukraine (see *PrivatBank: A private dysfunction*) there is no record of disciplinary action against Big Four auditors in Russia, Latvia or elsewhere for overlooking money laundering.

Knight Frank stated that Russians were the largest spenders on "prime", ie £1m+ London property. The following year, Savills reckoned one in 12 buyers of £2m+ houses was Russian.

Making a killing

In the capital the lawyers were making a killing from the Russians' arrival on London's most expensive streets.

London law firm Macfarlanes helped Sir Leonard Blavatnik buy 15 Kensington Palace Gardens, now worth north of £200m, through a Delaware company. Others advised by the firm included the less distinguished Vladimir Antonov, a Russian banker who bought a Notting Hill townhouse in 2009 and was later accused of embezzling €290m from Lithuania's Snoros bank. After nationalising the bank, the Lithuanian authorities successfully sought his extradition from the UK, only to see him flee to Moscow in 2015. His UK properties are now the subject of a worldwide freezing order, which he unsuccessfully appealed through the good offices of Mishcon de Reya. Like other firms, Macfarlanes didn't act only for Russians; it also helped Malaysian financiaer Jho Low buy a £35m Mayfair townhouse through a BVI company using funds that US prosecutors now say were looted from his country's development fund, 1MDB

Mayfair solicitor Alistair Tulloch is another of the Russians' personal favourites. He has worked for Igor Shuvalov, the former Russian deputy prime minister and close Putin ally (and one of many insiders reported to have benefited from Gazprom's generosity) in Shuvalov's purchase of two Whitehall apartments for £11m, among others.

Such high profile buyers were the tip of a multi-billion pound iceberg. The large majority of properties ulitmately owned by people from the former Soviet republics were held by lesser known but still important individuals.

In 2016 *Eye* 1411 revealed the declarations of interest of Russian parliamentarians to include such properties as a 250m² apartment owned by Putin's "business ombudsman". The properties were usually acquired by people whose declared income was in the low five figures (sterling equivalent), meaning the purchases might be thought likely to have been made with illicit funds. In each case there was evidently no legal or regulatory impediment standing between the London lawyers and their fat conveyancing fees.

Of the £4.2bn of UK property estimated by Transparency International last year to have been acquired from "suspicious wealth" (based on the tiny fraction of corruption already publicly reported), a big chunk will have come from the ex-Soviet states – signed off by an evidently accommodating legal system.

HOW TO SPEND IT, TAX-FREE

For any self-respecting oligarch, luxury doesn't just mean a prestigious London address. It means trinkets, too, and a private jet has long been one of the most popular.

Last year's Paradise Papers, obtained by the *Süddeutsche Zeitung* and shared by the International Consortium of Investigative Journalists, revealed that those who were already super-rich were especially keen to get their planes into the EU without paying VAT, for which purpose the Isle of Man, in cahoots with accountancy firms PwC and EY, offered the perfect tax avoidance schemes. Neither beancounter seemed too fussy who they worked for.

Eye 1457 exposed how, with "EY Moscow as introducing party", offshore law firm Appleby and EY Isle of Man had arranged a tax dodge on the purchase of an Airbus 318, funded by Putin crony and shopping centre tycoon God Nisanov, in which a stooge Irish company provided "passenger transport services" to another shell company.

FLY GUYS: A G200 Gulfstream jet, a favoured oligarch trinket

The accountancy firm that claims to be "building a better working world" did much the same thing for railway magnate Yury Korotchenko's G200 Gulfstream in 2012. This was funded by cash from the account of a UK limited liability partnership at Latvian bank ABLV. As the *Eye* demonstrated, the LLP was filing flagrantly bogus accounts, which a couple of clicks on Companies House records would easily have established.

PwC was hardly more fastidious when its "private wealth services" division approached Appleby in 2017 with "several potential clients, who consider using IoM for their aircraft structures". One of PwC's clients was Vitaly Malkin, of whom Appleby said: "Like many Russian billionaires, Mr Malkin has a lively biography". This featured "close connections to the Kremlin", "alleged involvement in criminal activities" and "misappropriate allocation of funds" going back to the Yeltsin years, and alleged rake-offs on a debt deal with Angola.

(Malkin also incidentally led a delegation of Russian senators to Washington in 2012 to argue against the Magnitsky Act, banning from the US Russians thought to have been involved in human rights abuses. The new law was named after lawyer Sergei Magnitsky, who uncovered a $230m tax fraud using companies stolen from Bill Browder's Hermitage business, and was subsequently killed while in Russian custody.)

The incorrigibility of the Big Four accountants in keeping their ultra-rich clients as far away from a tax bill as possible became clear in a second Panama Papers leak this year. Despite the public outcry following the earlier leaks, KPMG was seen to be setting up a scheme for oil billionaire Michel Litvak, a resident at London's One Hyde Park, to shift a company holding some of his interests from the Bahamas to Cyprus. EY meanwhile was helping previously unheard of businessman Mikhail Tsukerman deal with a clampdown on highly opaque bearer shares by shifting his assets into a BVI company.

If this was what the elites were now doing with their wealth once they had got it out of the region, a pressing question remained. With money laundering out of the former Soviet Union having been widely recognised for a couple of decades, how were even those with the most dubious money still able to get it into places like Britain in the first place?

BOUNTIFUL LAUNDERETTES

The answer was that a group of intensely corrupt banks had simply carried on regardless, thanks to the continuing approval of their auditors. Their activities emerged in some detail in a series of "laundromats", exposed by the Organised Crime and Corruption Reporting Project (OCCRP) from 2014, operating out of Russia, Azerbaijan and elsewhere.

The "Russian Laundromat", for example, featured a clever ruse in which the proceeds of corruption on anything from rigged state contracts to customs frauds and plundered public service budgets were stripped out of the country via the small republic of Moldova.

Fake debts were created between shell companies and corrupt Moldovan judges were then bribed to enforce judgment on them, resulting in vast payments to the local Moldiconbank (whose auditor Grant Thornton might also be thought to have questions to answer). The bank would then transfer the money to banks in Latvia, by now happily a member of the EU.

The OCCRP identified $13bn going through the most active bank, Trasta Komercbanka, between 2011 and 2014, which was about twenty times the size of the bank's balance sheet at any given time. In accounting parlance, this was certainly a "material" amount. The arrival of money via an obscure Moldovan bank for no apparent reason should have raised more red flags for Trasta's auditor than a Communist party parade day. But neither EY, auditor of accounts up to the end of 2011, nor its successor KPMG, drew attention to it.

Repeated warnings

KPMG was now dominating Latvian "non-resident" bank auditing, signing off the numbers for several major money-laundering outlets, including other prominent players in the Russian Laundromat such as the local arm of Ukraine's PrivatBank, Baltikums Bank and ABLV.

ABLV had picked up the lion's share of Parex's business following its 2009 demise. It was also involved in channelling proceeds of the Magnitsky fraud and had been audited by EY until 2015. International money-laundering monitors had issued repeated warnings that Latvian banks posed a serious risk, but these appear to have fallen on deaf beancounting ears.

It was only when regulators and law enforcers took belated action for their own reputational reasons that the auditors timorously raised any concerns. Earlier this year KPMG admitted that Rietumu Bank, fined in France and Latvia for money laundering, might not be a "going concern" because Latvian financial authorities had now banned banking for offshore shell companies. This meant shutting the accounts of two thirds of its corporate customers. Somehow, over the 15 years KPMG

UP CLOSE: EY's Jim Turley has a word with Putin puppet Dmitry Medvedev

had been checking the books, these had presented no concerns.

The two worst offending Latvian banks were eventually shut down: Trasta by the Latvian authorities and the European Central Bank in 2016; and ABLV earlier this year, after a run on the bank triggered when US authorities blackballed it. ABLV, the US Treasury said, had "institutionalised money laundering as a pillar of the bank's business practices" – not what might be hoped for under the nose of serious auditors. Or as Bill Browder mused when speaking to the *Eye*: "If these banks are being shut down by the regulator and they've been audited for 10 years before that by Ernst & Young [*and others*], then – what the fuck?"

Over the couple of decades that it wasn't preventing these banks from laundering ex-Soviet money with abandon, EY was growing very close to Moscow. Jim Turley, EY's worldwide chairman until 2013, and later his successor Mark Weinberger co-chaired Russia's foreign investment advisory council with prime minister and Putin puppet Dmitry Medvedev. Steve Varley, the boss of the UK arm of EY, which was also doing nicely out of the corporate finance business coming from Russia, was an eager companion of prime minister David Cameron on a trade visit in 2011. This aimed to smooth over the lingering awkwardness of the 2006 murder in London of Alexander Litvinenko in the interests of future business, and the delegation included the chair of the London Stock Exchange and partners from Magic Circle law firms Eversheds and Allen & Overy.

MOSCOW GOLD PROSPECTORS: PwC's Ian Powell, KPMG's Roger Munnigs and Steve Varley of EY

Sanctions-breaking racket

Perhaps as a result of the belated regulatory interest in the likes of Trasta and ABLV banks, some seriously questionable money began heading to even more dubious locations for a full spin. And here, too, the beancounters were instrumental.

In Malta in 2014, KPMG helped 32-year-old Iranian Sayed Ali Sadr Hasheminejad, currently charged in the US over a large sanctions-breaking racket in the US, set up Pilatus Bank. KPMG went on to approve its accounts as auditor. When local regulators raised eyebrows, the same accountancy firm produced a "compliance" report finding nothing suspicious (at around the same time its leading financial services consultant was attending Ali Sadr's wedding in Venice). Local journalist Daphne Caruana Galizia, who wrote extensively about Maltese corruption (and was later murdered), had meanwhile unearthed evidence that Pilatus was a money-laundering operation, including for funds from the former Soviet countries.

Something very similar was going on at the exotic FBME bank, mostly active in Cyprus but registered in Tanzania (following a switch from the Cayman Islands). Its probity, too, was being vouched for by KPMG – both by signing off its accounts and by producing reports vouching for it.

"Based on our audit work," the firm claimed in a 2013 document addressing money-laundering suspicions and first reported by BuzzFeed News, "we came to the overall conclusion that FBME basically fulfills the requirements set out by the Cyprus regulator and is in principle in compliance with EU standards." This was the considered opinion of the Frankfurt branch of the firm, which also happened to count as a big client FBME's European "correspondent bank" (ie its conduit into major markets such as the US), Deutsche Bank – itself this year heavily fined for money-laundering failures.

Chemical weapons financing

Then, immediately after the US Treasury labelled FBME an institution of "primary money-laundering concern" the following year, the bank's lawyer Hogan Lovells brought EY in to say that its anti-money laundering policies were "in line with the applicable requirements", even though it had trawled through hundreds of transactions with money-laundering links to everything from Syrian chemical weapons financing to cyber crime. While it presented the report as evidence of its research into its clients, it also showed the depth and scale of the corruption running through the bank, which should never have allowed a reasonable auditor to sign it off for years.

By 2014, with the exception of Deutsche Bank, major banks had stopped dealing with FBME and the dodgier Latvian banks. They recognised that the risk of incurring large fines was now too great (as HSBC's $1.9bn penalty in 2012 in the US over its global money-laundering failings had shown). The same could not be said for the accountants and lawyers who had suffered no such punishment and, as the RUSI's Tom Keatinge told the *Eye*, have still "not had the same 'come to Jesus' conversation".

Trouble did in fact arrive in the region's most troubled country, Ukraine, when the Kiev government nationalised its largest bank, PrivatBank, after the launderette within it put a $5.5bn hole in the balance sheet. PwC was banned from auditing banks in the country after an investigation found that 95 percent of the bank's loans were made to parties related to shareholders, some in the most flagrantly dishonest way *(see PrivatBank: A private dysfunction)*. Here was world class blind-eye-turning, yet still those responsible, including leading partners during the decade of complicity, escaped any censure. Men such as Ian Powell, the UK chairman and board member overseeing the region from 2008 to 2016, remained untouched. (Powell is now chairman of another of the *Eye's* favourites, outsourcing company Capita).

PROTECTION RACKET

It was generally left to the media and campaigners to expose the operators and beneficiaries of the great launderette. But when they did, a profit-driven legal establishment would do all it could to silence them. Bill Browder, for one, got both legal barrels, with London lawyers used by the Russian state, in his words, as "cut out figures to sue me".

Firstly, in 2012 leading libel firm Olswang took up the cause of the former Russian police

PRIVATBANK: A PRIVATE DYSFUNCTION

THE nationalisation of Ukraine's largest commercial lender, PrivatBank, in December 2016 showed how auditors from PwC had more or less given up getting to the financial truth.

After Ukraine's corrupt former president Viktor Yanukovich was deposed in the spring of 2014, new incumbent Petro Poroshenko set about a clean-up of the country's banking system that cost around 80 lenders their licences.

With the International Monetary Fund calling for the National Bank of Ukraine to sort out systemically–important banks like PrivatBank, the central bank began to look a little more closely at the books. PrivatBank defended itself fiercely, pointing out in September 2016 that on international accounting standards, "related-party lending stood at 17.7 percent at the end of 2015, as confirmed by a PwC audit".

Within weeks Latvia-based reporter Graham Stack had obtained the bank's loan book and concluded that almost *all* the bank's lending was to related parties. The bank was quickly found to be insolvent and was nationalised.

Some of the loans were to genuine businesses linked to PrivatBank shareholders, but more than half had no identifiable businesses. Most of these were owned by offshore shell companies, while a chunk of loans headed directly to tax haven shell companies.

On the other side of the balance sheet, no less suspiciously, around a quarter of the bank's corporate deposits came from just five limited liability partnerships registered at a service address in Enfield, north London. All are owned by two BVI shell companies and filed accounts at the UK's Companies House showing funds worth less than 1 percent of their real deposits at PrivatBank.

This LLP structure, backed by offshore shell companies and dodgy accounts, and with no sign of real business, was exactly the sort the *Eye* had exposed in 2013 and which the least curious auditor should have looked into. PwC evidently did not.

Based on a report from corporate intelligence firm Kroll, the National Bank earlier this year confirmed that "PrivatBank was subjected to a large scale and coordinated fraud over at least a ten-year period, which resulted in the bank suffering a loss of at least $5.5bn". There were multiple obvious signs of money laundering: "multiple layering"; "repeated loan recycling"; "very extensive use of special purpose vehicle companies based in offshore jurisdictions"; all of which should have prompted investigation by an alert auditor.

Citing "multiple instances of banking fraud and false accounting", the National Bank had especially harsh words for PwC: "Despite this, the accounts of the bank were given a clean audit opinion by the auditors of the bank for all years between 2007 and 2014 and in 2015 a qualified opinion was given only due to [certain technical matters]".

PwC was banned from auditing in Ukraine and continues to be sued by PrivatBank, but none of its partners faced action. So untroubled was the firm that the man behind the defective audits was… promoted to a "strategic" role covering the Baltics and Poland!

officer whom Browder had accused of corruptly incarcerating his lawyer, Sergei Magnitsky, and being involved in his killing. The ex-plod could afford the lawyers' high six-figure (sterling) fees on a paltry police pension because of the help of a bank loan guaranteed by an unidentified "friend". When the case was thrown out as an "abuse of process", Browder and Hermitage had to whistle for their costs as the ex-policeman had now disappeared.

The same firm then weighed in on behalf of a Russian public bankruptcy receiver in a particularly cynical case. The Moscow authorities had relisted an old Russian Hermitage company; Browder was accused of asset-stripping it; and a case was brought by Olswang on behalf of the Russian receiver in the London high court. It was thrown out last year, with the judge criticising the Moscow receiver for "failure to inform the court of the highly political nature of the case that he intended to pursue against the Hermitage parties". Browder summed up the episodes thus: "So Sergei Magnitsky gets killed, I fight for justice, the Russians get mad and then they use the money that he was killed over to try to persecute me in a UK court paying a British law firm".

'Kleptocracy tour'

Browder might have added that all this was done with the encouragement of the British government. In the same week in September 2011 that David Cameron – accompanied by Allen & Overy, Eversheds and EY – was buttering up Vladimir Putin in Moscow, his justice secretary Kenneth Clarke spoke at the offices of Clifford Chance on the "future of litigation". Britain, he said, could be "lawyer and adviser to the world".

RULES OF THE GAME: What the lawyers should do

INTERNATIONAL guidance that the UK's Law Society recommends its members follow asks them to do "what lawyers, as guardians of justice and the rule of law, and professionals subject to ethical obligations, have always done – namely to avoid assisting criminals or facilitating criminal activity".

More specifically, lawyers in the UK are covered by anti-money laundering laws within the 2002 Proceeds of Crime Act, preventing them processing money and transactions that they ought to suspect are corrupt. They are also covered by regulations – updated in 2017 - requiring them to ensure sufficient safeguards in their own practice and when working for particular clients on matters such as financial or property transactions.

When assessing money-laundering risks, the Law Society warns solicitors to consider whether "jurisdictions in which your clients, or the beneficial owners of your clients, are based… have deficient anti-money laundering legislation, systems and practice, high levels of acquisitive crime or higher levels of corruption [and/or] are considered to be 'offshore financial centres' or tax havens".

This covers quite a lot of money coming into the UK, which must mean lawyers have concluded that these features have not translated into actual money-laundering risk. Action against lawyers for breaching these rules is relatively rare. Last year, after 500 completed visits by regulators, 151 legal firms were rated "non-compliant" with regulations. There was enforcement action in just 22 cases – ranging from expulsion to fines and reprimands of solicitors – down from 78 cases two years before.

The only trouble was that the part of the world that saw London as the place to repair a tainted reputation or pursue a business grudge was not always the cleanest part. Yet its leading players have been able to find London lawyers who have been satisfied that anti-money laundering rules would not prevent them taking up the cudgels. With pockets far deeper than those of their critics, this generally meant its wealthiest figures could try to bully their critics into submission.

When, for example, the campaigner Roman Borisovich hosted a "kleptocracy tour" of London, bussing journalists and others around some of London's smarter and more dubiously acquired addresses, they received a stern missive from Mishcon de Reya on behalf of the owner (via a BVI company) of one St John's Wood property. The trip constituted "an unlawful campaign of harassment" against Andrey Yakunin, son of Putin confidant and ex-railway boss Vladimir.

The local *Ham & High* newspaper, unable to afford a legal fight, had to delete its report of the oligarch on their doorstep. But others did stand their ground. When in 2015 Global Witness prepared a report on money laundering out of Kyrgyzstan, linked to a Surrey mansion owned through a Belize company by the deposed president's son, Maxim Bakiyev, it was threatened by Mishcon with "aggravated damages and costs" if it published. (It did, and nothing happened).

When official action is taken against the kleptocracy, there are yet more fees to be earned from fighting it. For some London law firms, few pariahs are untouchable. One of the most active firms is Joseph Hage Aaronson. It has challenged European sanctions against state-controlled Russian gas company Rosneft, which effectively operates as an arm of the Putin regime; and against arguably the region's greatest thief-in-office, ousted Ukrainian president Viktor Yanukovich, and his son.

The firm achieved a short-lived success in the latter case on the grounds that the EU had not initially given sufficient reasons for sanctions, prompting partner Joe Hage to claim that "the basis for the sanctions is flimsy". The private palaces, complete with artworks, petting zoo and classic car collection – all on a state salary – suggested otherwise.

At this end of the market, the legal profession has become a business in which justice is commoditised. The more money a client has, the more of it he or she can buy. The sons of murdered Maltese journalist Daphne Caruana Galizia accused Mishcon de Reya of having "sought to cripple her financially with libel action in the UK courts" (at the same time as the firm's deputy chairman Anthony Julius was chairing the freedom of expression charity PEN, supposedly a Caruana Galizia supporter).

But keeping the oligarchy going by protecting its reputation was all part of a greater legal circus, as London, true to former justice secretary Ken Clarke's wishes, became *the* arena for the kleptocrats' legal fights. Last year the second and third most common nationalities of litigants in the commercial courts (behind British) were Kazakh and Russian, with the linked country of Cyprus not far behind.

BUSINESS AS USUAL

The never-ending spin cycle – in which a corrupt system is endorsed, its proceeds laundered and its participants guarded – continues.

In May this year a markets analyst was sacked from state-controlled Sberbank for venturing the view that Gazprom – reporting remarkably low profits for a near monopoly company – was actually very good at what it set out to do, which was to act "for the benefit of its contractors" – ie businesses invariably controlled by the oligarchs close to Putin, such as Gennady Timchenko and childhood friend Arkady Rotenberg.

In 2011, one research institute reckoned Gazprom was losing almost half its profits through corruption. Yet auditors from PwC, until 2015, said nothing. Instead they continued to sign off the books and service the regime. The firm's worldwide chairman until last year, Dennis Nally, sat down with Gazprom chief and Putin favourite Alexei Miller to ask what his firm could do – including long after the Gazprombank that Miller also chairs had been sanctioned following the Crimea invasion.

Nally's successor in 2016, Bob Moritz, stood before a hall of employees at sanctioned Sberbank and set out what PwC, which audits the bank but earns many times more from it in consultancy services, could do for them. Even after the attempted murders in Salisbury this year, PwC and EY were still to be found schmoozing the big Russian corporations, oligarchs and politicians as sponsors of the St Petersburg International Forum alongside lead sponsor (and sanctioned bank) VTB.

Major payday

The continued closeness with sanctioned banks was in evidence again in the latest major payday for the lawyers and accountants: the £1bn London flotation in 2017 of Oleg Deripaska's EN+ group, controller of aluminium giant Rusal (whose chief executive, like an increasing number of top executives, is a KPMG veteran). While Deripaska used the money to repay VTB in an apparently sanctions-circumventing (albeit legal) manner, Linklaters and KPMG shared in a multi-million dollar payday.

In their "Moscow Gold" report in May, MPs on the foreign affairs select committee said they would leave it to others to judge whether the law firm had become "entwined in the corruption of the Kremlin". Tory MP Tom Tugendhat, who chaired the inquiry, told the *Eye*: "Firms aren't increasing access to justice if they're chasing business in corrupt jurisdictions from individuals who banks won't touch; they're using the law as whitewash".

When Theresa May stood in parliament to announce action against Russia back in March, its London embassy could gloat that Gazprom, supposedly sanctioned from raising money with UK help, had just issued a €750m bond on the London market using a Luxembourg company. This was vouched for by PwC's arm in the Grand Duchy.

The parliamentary committee concluded that "the use of London as a base for the corrupt assets of Kremlin-connected individuals is now clearly linked to a wider Russian strategy and has implications for our national security". This could only have happened because many with serious responsibilities for the rule of law and the proper use of money saw no barrier to pursuing their own riches. The system had thus enabled corrupt leaders and their placemen to loot their countries and reinforce their unsavoury regimes.

As politicians agonise over the consequent security threat and ramp up sanctions, they might contemplate the role of the lawyers and the accountants to whom they have given such a free rein. If the launderette is ever to stop spinning, the most powerful western professional firms need to be taken off the great fee cycle ■

Additional reporting by Christian Eriksson and Matei Rosca