

Financial Investigations & Corruption & Bribery

Trade based Money-Laundering

(Introduction)

Sometimes the figures just do not add up, there is no escaping the accounting world of debits and credits.



Your mission if you choose to accept it :

What is a financial Investigation ?

Why is a financial Investigation not a standard tax audit ?

What is corruption ?

Is there any link between corruption, tax evasion and money-laundering ?



UNDERSTANDING THE TARGET POPULATION



Financial Investigations (civil)

Target Population

- **Well established in society appears** to operate **within** the **legislative framework** and tax systems of the country,
- however by art of deception and facilitation by third parties (active participants)
- knowingly and willing transgress tax laws (crossing over from tax avoidance into tax evasion)
- with the **ultimate aim of self-enrichment**
- taxpayers **mostly registered** for tax,
- yet **choosing not** to pay an appropriate share,
- if investigated and tax accordingly would **yield significant revenue** for the Fiscus,
- **highly likely pay** additional penalties,
- in order to **re-integrate** into society

TAX **AVOIDANCE** VIA MANIPULATION

Serious Fraud Office (SFO) – Syndicated Crimes and Criminal Investigations

Target Population

- **Avoid general society,**
- operations are clandestine alternatively masked
- **fundamentally evades any compliance** to legislative framework and tax systems,
- Intends to evade national and international detection and willing transgress tax laws
- with the ultimate aim of promoting the footprint and **expansion of the crime syndicate**
- taxpayers which in large or by design operate **outside legislative framework** and tax systems of the country,
- predominantly trade in cash and other means to avoid detection,
- are **not registered for tax** and
- **highly unlikely to integrate** into society on a voluntary basis.

FINANCIAL CRIMES AND TAX **EVASION**

GENERAL DEFINITIONS TO THEMES OF AUDIT WORK

* Verification audit

Verification is a face-value **verification** of the information declared by the taxpayer on the declaration or in a return. This involves a comparison of this information against the financial and accounting records and/or other supporting documents to ensure that the declaration/return is a fair and accurate representation of the taxpayer's tax position.

* Audit for tax purposes

It is an examination of the financial and accounting records and/or the supporting documents of the taxpayer to determine whether the taxpayer has correctly declared his/her tax position to SARS. Where the taxpayer has not made a declaration or filed a return, it is an investigation regarding whether the taxpayer's actions complies with the provisions of the relevant **tax** legislation.

* Tax investigation

Is an in-depth investigation processed by a tax authority in order to recover tax undercharged in previous years of assessment. It is carried out when a taxpayer is suspected of tax avoidance or evasion, or just by random sampling.

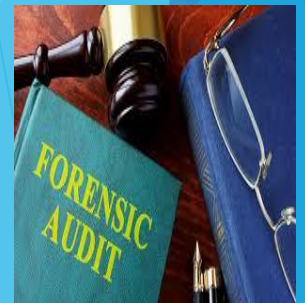
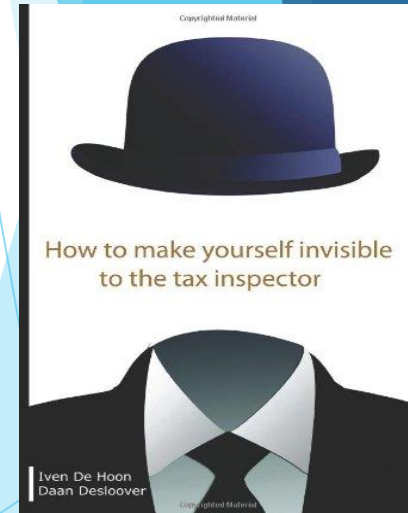
* Financial investigation

The main difference between audit and investigation is that an audit is a systematic examination of financial statements to ensure accuracy and compliance, while investigation is a thorough inquiry into a specific matter to uncover facts and identify potential wrongdoing.

* Forensic investigation (From the start methodology)

Forensic accounting, forensic accountancy or financial forensics is the speciality practice area of accounting that describes engagements that result from actual or anticipated disputes or litigation.

"Forensic" means "**suitable for use in a court of law**", and it is to this higher standard of required outcome that forensic accountants/auditors are expected to conduct all work.



CONSIDERING THE EXISTING TAX AND REVENUE AUTHORITIES TRADITIONAL APPROACH TO SERIOUS TAX EVASION AND FRAUD

The principle : Money-laundering and tax evasion is the normal consequence flowing from illicit, undetected trade activities – it is not the main objective to criminals but merely a way to :

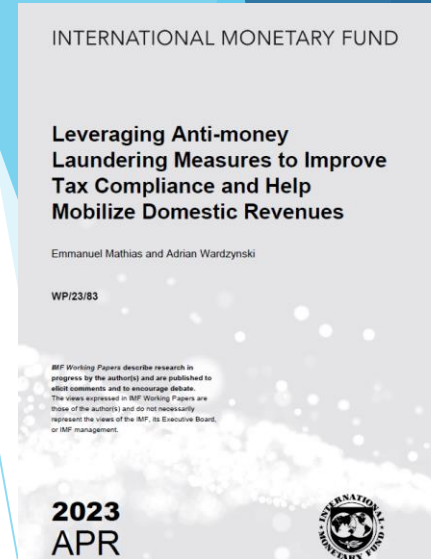
- ❑ **hide the actual ownership of assets and income**
- ❑ **By obfuscation techniques**

Traditional Tax and Revenue authorities approach

- **Reactive activities** – mostly dealing with verification of complaint taxpayer filing of returns and or suspect tax refund frauds.
- **Pro-active activities** – non compliance communications, **limited scope tax** investigations and **incomplete** third party data use as risk red flag – **Consequences for non-compliance and criminal activities?**

Leveraging anti-money laundering measures to improve tax compliance and help mobilize domestic revenues :

1. **The Changing Tax Crime Landscape** – underestimation of move into “formal” economy
2. **The Common Reporting Standard (CRS)**, information was exchanged between more than 100 Jurisdictions in respect of more than 80 million financial accounts, with a total value of over EUR 10 trillion (OECD, 2020).
3. **Operationalising the Whole of Government approach**
4. **Multi-disciplinary groups (teams)** - Experts may be appointed or seconded from other agencies (departments), such as a regulatory authority or even drawn from the private sector on an as-needed basis.
5. **The power of EOI tools for fighting tax crime** – making the most of the existing framework
6. **The rise of Digital Economy and Cryptocurrencies**
7. **Beneficial Ownership Registers**



REPORTING SUSPECTED CORRUPTION, MONEY LAUNDERING AND TERRORIST FINANCING

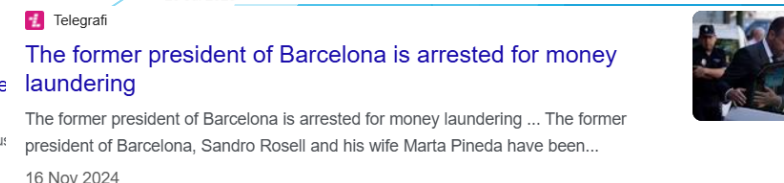
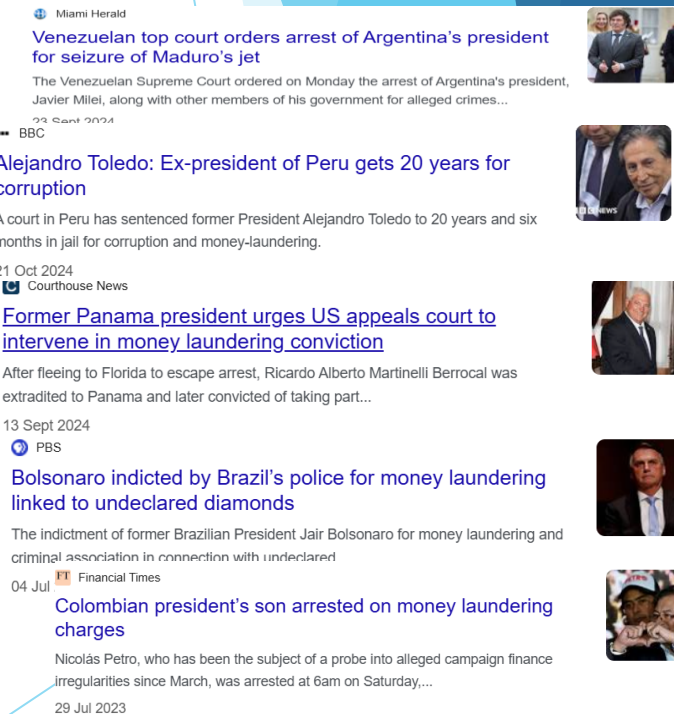
- **Tax officials** generally have an obligation to **report suspected corruption, money laundering and terrorist financing activities**, in compliance with various national and **international legislative requirements**.
- **An internal policy, guide and standard operating procedure** are developed to stipulate and clarify the obligations on tax officials and to document the process to follow should such obligation be triggered.



There are notably important aspects to consider :

- Usually **any** suspected corruption, money-laundering or terrorist activities are required to be reported **irrespective of the amount involved**.
- The respective jurisdictions **secrecy provisions** according to its **Tax and Customs & Excise Acts**
 - **does allow in limited instances**, that information may be shared with **specific institutions**
 - **Care must be taken and where in doubt**, internal legal guidance must be sought to ensure that only information specific to the suspicion should be shared with **parties outside of the Tax Authority**
 - A **Register** of all internal referrals **received and all referrals made** to must be **kept at all times**

Striking the balance in lawful exchange and reporting of suspect activities is key for any official



International Consortium of Investigative Journalists - ICIJ

Defying Angola and Interpol, Isabel dos Santos entrenches herself on Dubai waterfront

Although Interpol has asked governments around the world to find and provisionally arrest Isabel dos Santos, the Angolan former billionaire...



IA iAfrica

Mauritius' Ex-Prime Minister Granted Bail on Money Laundering Accusations

Former Mauritian Prime Minister Pravind Jugnauth has been granted bail by a magistrate in the country's capital, Port Louis.

AP AP News

Albania's left-wing former President Meta is arrested on corruption allegations

Albanian prosecutors have arrested former President Ilir Meta on suspicion of corruption. Meta is a member of the ruling Freedom Party and was engaged in alleged...

THE THREE UGLY SISTERS : TAX EVASION + ML + IFF'S

The **cash economy and cash** used in **TAX EVASION** schemes are in many instances **inseparably linked** to **MONEY LAUNDERING** and **ILLICIT FINANCIAL FLOWS**

- A **crime** is an illegal or unlawful activity, a violation of a law in which there is injury to the public or a member of the public and a term of jail or prison and or fine or penalties exists (Smith, 2012).
- The definitions of **tax evasion** and **crime** indicate that both are illegal practices.
- Another characteristic that can be derived from the definitions of tax evasion and crime is that by evading taxes there is 'injury' to the public.

The commonalities identified by comparing the definitions of **TAX EVASION** and **MONEY LAUNDERING** :

1. both are unlawful activities;
2. both involve the violation of laws;
3. the acts are **deliberate** in both tax evasion and money laundering; and
4. both of these offences disguise or conceal the money received.

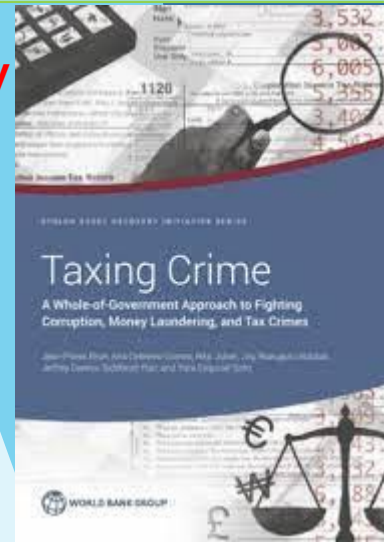
Why criminals launder money - some reasons :

- Trying to **hide wealth**;
- they want to **evade taxes** in order to **increase their profits**;
- they want to **legalize the money** and they want to **avoid prosecution**.

➤ *The problem : Declaring illegal funds for tax purposes will risk being prosecuted for the offence of money laundering and/or other applicable offences.*

ILLICIT FINANCIAL FLOWS - The **cross-border movement of money** that is **illegally earned, transferred, or utilized**, is referred to as the flow of illicit funds (Renner, 2012). This usually involves the transfer of money earned through illegal activities, for example criminal deeds (money laundering) and corruption, as well as efforts to hide wealth from a country's tax authorities.

= *Deriving from this explanation of **illicit financial flows**, it can be stated that the **offences of both money laundering and tax evasion** are included in illicit financial flows.*



Trade based Money Laundering and taxation

Trade-based money laundering is defined as the process of **disguising** the proceeds of **crime** and moving value through the **use of trade transactions** in an attempt to **legitimize their illicit origins**. In practice, this can be achieved through the **misrepresentation of the price, quantity or quality of imports or exports**. Moreover, trade-based money laundering techniques vary in complexity and are frequently used in combination with other money laundering techniques to further **obscure the money trail**.

There are **three main methods** by which criminal organisations and terrorist financiers move money for the purpose of **disguising its origins and integrating** it into the **formal economy**.

- The first is through the **use of the financial system**;
- the second involves the **physical movement of money** (e.g. through the use of **cash couriers**); and
- the third is through the physical movement of **goods through the trade system**



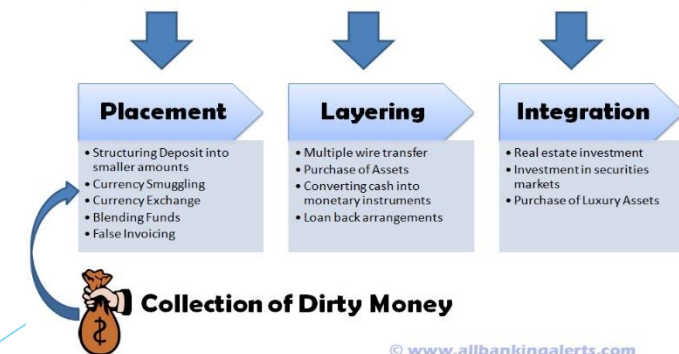
Tax evasion as a predicate offence for money laundering

Money Laundering is a three-stage process

1. which starts with the money coming from the crime first being placed somewhere to hide its link to the crime (**placement**).
2. After it has been placed it is layered, which means its connection to the crime and the criminal is further disguised. This can be done, for example, by a series of transactions, a process which often involves the **money being transferred through several banks abroad** or being used to set **up shell companies in tax havens** (**layering**).
3. After it has been layered successfully, the money (which can also be in the form **of property**) is then integrated into the lawful economy (**integration**).

- It is a good habit now and then to question things that one has taken for granted for years. - German proverb

Money Laundering Cycle

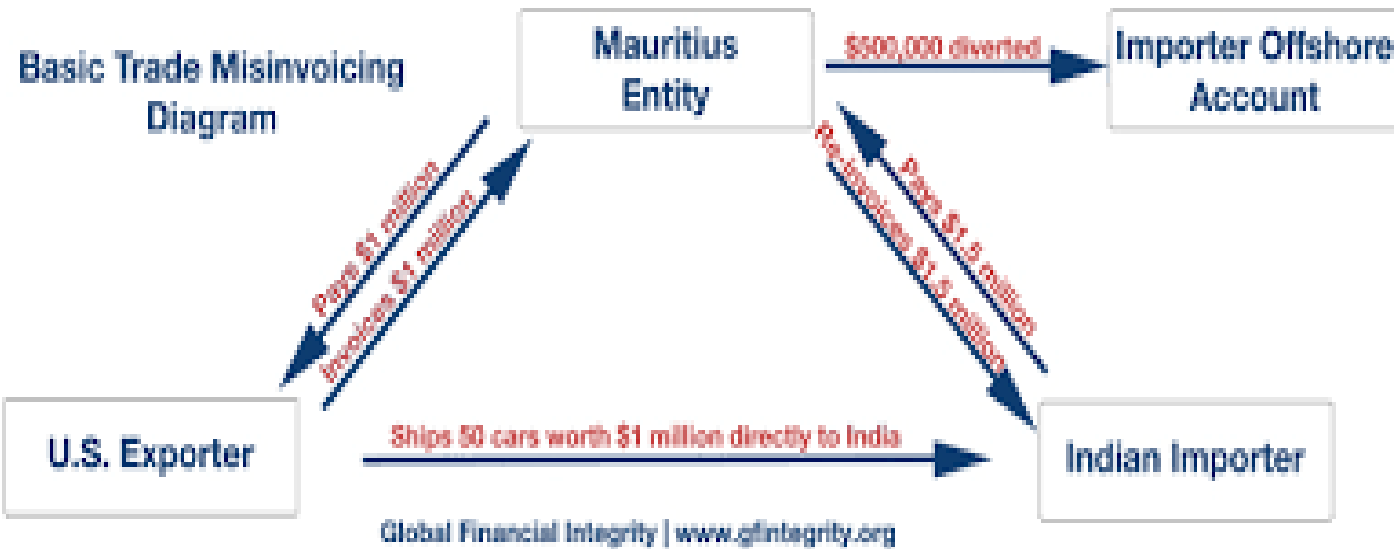




Trade Based Money Laundering



EXAMPLE TRADE BASED MONEY LAUNDERING



US EXPORTER	
Invoice Mauritius Company (No VAT - direct export)	\$1,000,000
MAURITIUS COMPANY	
Cost - Receives Invoice and pay US Exporter	-\$1,000,000
Revenue - INVOICE Indian Importer - No VAT	\$1,500,000
Profit in low tax jurisdiction	\$500,000
INDIAN IMPORTER	
COST - INVOICE Indian Importer	\$1,500,000

HOW BIG IS THE PROBLEM - EVERY YEAR

Globally

According to reports from [UNODC and Europol](#), **2% to 5%** of the **global GDP** is **laundered every year** = This accounts for **EUR 715 billion** to **EUR 1.87 trillion**.

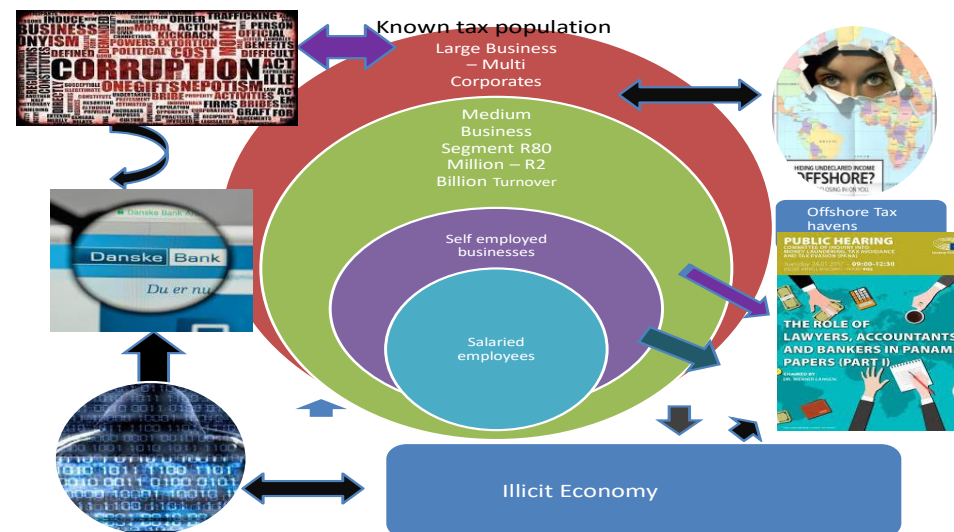
African continent

According to the [Economic Development in Africa Report 2020](#) by the UN Conference on Trade and Development (UNCTAD) :

Africa loses about **US\$88.6 billion**, **3.7%** of its gross domestic product (GDP) **annually** in **illicit financial flows**.

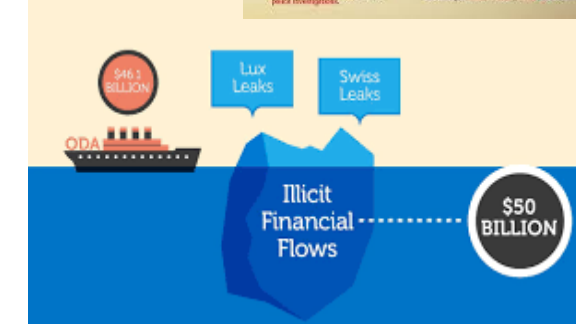
Curbing IFFs, according to UNCTAD, could almost **halve the \$200 billion annual financing gap** Africa faces to achieve the sustainable development goals (SDGs).

= **Money-laundering is not a victimless crime and the life support system for financial crimes**



EXAMPLES OF MOVING ILLICIT FUNDS

- ❑ **TRADE BASED MONEY LAUNDERING** - price and invoice manipulation
- ❑ **BULK CASH SMUGGLING (Cash/Bank Mules)** - depositing it in a financial institution, such as an offshore bank, that offers greater bank secrecy (Gold, diamonds, currency)
- ❑ **HAWALA NETWORKS** - hawala brokers, or hawaladars. It is the transfer of money **without actually physically** moving it
- ❑ **CASH INTENSIVE BUSINESSES** - uses its **legitimate accounts to deposit criminally derived cash**
- ❑ **ATTORNEY TRUST ACCOUNTS** (Panama, Paradise and Pandora leaked papers)
- ❑ **PURCHASE OF LISTED SHARES and SECURITIES** - local and international indexes
- ❑ **PURCHASE OF PROPERTY** : fixed property, jewellery, artwork
- ❑ **CASINOS and GAMBLING**
- ❑ **CRYPTOCURRENCY and E-wallets**
- ❑ **RELIGIOUS ORGINISATIONS** - contributions, books and on-line services
- ❑ **LEGAL and ILLEGAL WILDLIFE TRADE**
- ❑ **BANK CAPTURE** - money launderers or criminals buy a controlling interest in a bank
- ❑ **PURCHASE OR SPONSORING SPORT TEAMS/CLUBS**
- ❑ **ONLINE ADVERTISING**
- ❑ **INSURANCE POLICIES** with termination date
- ❑ **COMPLEX TAX STRUCTURES**
- ❑ **LOW TAX JURISDICTIONS** - profit shifting
- ❑ **BANK SYSTEM FRAUD** - smurfing, is a method of placement whereby cash is broken into smaller depositions
- ❑ **SHELL AND FRONT COMPANIES** - Beneficial ownership
- ❑ **BACK TO BACK LOANS**



BULK CASH SMUGGLING – CASH MULES – HAWALA NETWORKS

11 September 2015

Five people were arrested at OR Tambo International Airport after being found with **undeclared currency totalling R23m, as well as a further \$3.77m (R50.2m)**. The passengers were scheduled to leave South Africa on United Arab Emirates flight to Dubai cash was hidden in 12 pieces of luggage, including four backpacks.

Two sources, independent of each other, have said the agencies believe the money was on its way to Pakistan. They also believe some of the money was destined for the self-proclaimed Islamic State (Isis).



Publication: NEW AGE, THE
Date: 2015-09-11
Page: 1

'BILLIONS FLY OUT'

SARS GIVES RESERVE BANK R78M FROM FIVE DUBAI-BOUND 'MONEY CARRIERS'

YUSUMUZI SHABANGU

MASSIVE amounts of South African and foreign currency are being smuggled out of the country via OR Tambo International Airport on a regular basis.

The currency smuggling known as hawala came to light last week when five men boarding a flight to Dubai were intercepted by customs officials with undeclared currency of R78m which included US dollars.

The South African Revenue Service (SARS) said the suspects were attempting to board with eight luggage cases and four backpacks.

SARS said the money seized was handed over to the SA Reserve Bank for further investigation.

The suspects have not appeared in court. Sources, however, told The New Age the money seized was the "tip of a very large currency smuggling iceberg".

"The men arrested were the runners for one of six or seven operating syndicates involved in hawala. To avoid paying corporate and sales tax, business people in the Indian, Chinese and expatriate communities launder money by smuggling it out."

The source said the courier syndicate based would undertake between two to three trips a week.

"The R78m seized seemed exceptional. My understanding is that the currency regularly smuggled amounts of R20m, on average, on each trip. With six or seven syndicates in operation, you do the sums. Billions of rands are flowing out of the country annually."

The source said the courier syndicates charged their clients 4% on the amount smuggled.

"These are people who are simply skimming cash out of their tills to avoid taxation and who are keen to invest it off-shore."

"This is not round-tripping of laundered money. It never comes back but is invested in property or businesses elsewhere."

Dubai seems to be the favourite destination for hawala.

"Couriers truthfully declare the currency amounts they are carrying on arrival at Dubai airport where customs officials provide them with paper work to be presented at local banks. It's deposited into the offshore accounts of their South African clients."

The source said the currency smuggling was facilitated by corrupt customs officials.

"I'm aware of entire consignments of cash being seized by customs and never declared to the authorities. Customs jobs at ORT is apparently highly sought after."

However SARS spokesperson Sandile Memela said there was no evidence that pointed to SARS officials colluding with syndicates to move money out or undermine law enforcement.

"All the cash that has been seized was handed over to the South African Reserve Bank for further handling," he said.

The police had not responded at the time of going to press.

cusmzis@thenewage.co.za



Hawala – money smuggling at new level

Five men intercepted at ORT. **R78m** seized

6 to 7 hawala syndicates are known to operate

A means for local business people avoid paying taxes

Syndicate could make three trips a week

Couriers carry an average of **R20m** on each trip

'Clients' are charged **4%** of the amount smuggled

Dubai is a favourite destination. Lax banking system

Smuggled cash invested in UAE

Customs officials allegedly complicit

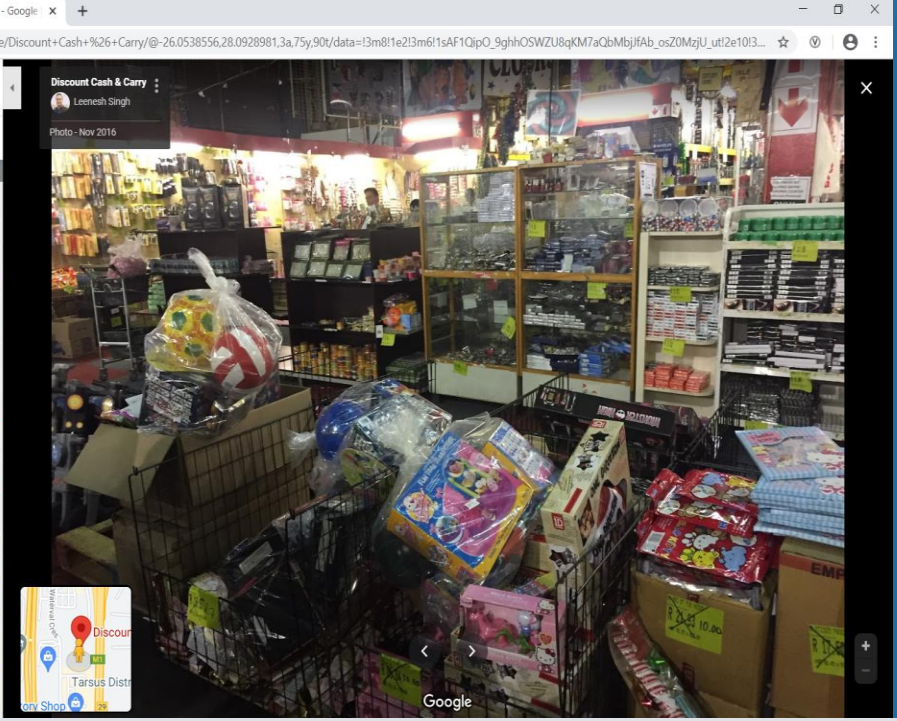


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EXAMPLE 1 - WHAT POTENTIAL RED FLAGS DO YOU OBSERVE



EXAMPLE 2
- WHAT
POTENTIAL
RED FLAGS
DO YOU
OBSERVE



EXAMPLE 3 -
WHAT POTENTIAL RED FLAGS DO YOU OBSERVE

Hyatt Hotel Data			
Hotel	Cash Rate	Points Rate	Cash + Points Rate
Grand Hyatt New York (New York, New York)	\$888.04	80,000 (valued at \$1,520)	\$470.70 + 40,000 points (total value \$1,230.70)
Hyatt Place Charlottesville (Charlottesville, Virginia)	\$455.32	32,000 (valued at \$608)	\$284.57 + 16,000 points (total value \$588.57)
Hyatt Place Moab (Moab, Utah)	\$676.06	32,000 (valued at \$608)	\$422.54 + 16,000 points (total value \$726.54)
Hyatt Palm Springs (Palm Springs, California)	\$1,298.73	48,000 points (valued at \$912)	\$739.67 + 24,000 points (total value \$1,195.67)
Hyatt Regency Maui (Lahaina, Hawaii)	\$1,570.74	100,000 (valued at \$1,900)	\$1,036.62 + 50,000 points (total value \$1986.62)



Hotel Room Booking
system for WordPress



up to
60% OFF
HOTELS
Based on national hot rates.
hotwire **Get Deal**

Calendar Start Period

Wednesday, March 1, 2017

Total # of Room

55

[edit room information](#)

Status Code

5

Ucode	No	Status Name	Description
B	1	Booked	
S	2	Stayed	
X	3	Cancelled	
MR	4	Booked - Move Room	
URM	5	Under Renovation/Maintenance	
	6		
	7		
	8		
	9		
	10		

account ageing report

Aged Accounts receivables as on :							Sr. No.
							Outstanding (in days)
Name	Balance	Current	Upto 30	31-60	61-90	91-120	120+
Mr. J	6488.60		6488.60				
Mr. B	15365.00						15365.00
Mr. C	9575.00	4000.00	5575.00				
Total outstanding	31428.60	4000.00	12063.60				15365.00



FOLLOW THE MONEY !!!

- ▶ TO ANALYZE MONEY FLOWS IN ORDER TO UNCOVER OTHER CRIMINAL ACTIVITIES



Meyer Lansky : 1902 - 1983, known as the "Mob's Accountant", was an American organized crime figure who, along with his associate Charles "Lucky" Luciano, was instrumental in the development of the National Crime Syndicate in the United States

GLOBAL ASSET RECOVERY

DEPRIVING CRIMINALS OF PROCEEDS OF CRIME 9

DECEMBER 2022 STATEMENT - INTERPOL FATF

Joint INTERPOL and the Financial Action Task Force (FATF) - Sept 2023 LYON, France

► “Criminal groups are making billions in illicit profits every year, and their activities should be considered a **national security threat**.” Jürgen Stock, INTERPOL Secretary General

► “Asset recovery is **not a secondary** or ancillary aspect of investigations and prosecution. It should be a key crime prevention strategy to **remove the primary incentive for financial crime - money**. If done well, it will prevent and reduce further crime,” said FATF President T. Raja Kumar



Europol European Financial and Economic Crime Threat Assessment Sept 2023

► Criminal networks in Europe are increasingly **mixing illicit finances** with **seemingly legal businesses**, and exploiting new technology to grow their operations and launder money faster than authorities can keep up, a new Europol report revealed.

► Nearly **70%** of criminal elements operating in the European Union **use money-laundering** techniques to garner revenue and hide assets, degrading the region's financial stability and impeding its economic growth

► “Organised crime has built a **parallel global criminal economic and financial system around money laundering, illicit financial transfers and corruption**. The ability to launder illicit proceeds on an **industrial scale**, to move them through a web of criminal financial brokers, and to corrupt the relevant actors, has become indispensable for modern organised crime.” - Catherine De Bolle, the executive director Interpol



MONEY-LAUNDERING RULES – A TAX AUTHORITY’S NEW BEST FRIEND

(OECD TFTC Action Group on Asset Recovery June 2023) and possible new FATF standard

The **role of tax administrations** in the **recovery of criminal assets** - Aiming for a *whole-of-government* approach

*Criminal proceeds reach up to 3.6% of the world’s GDP (i.e., around EUR 4 billion a year), less than estimated **1.1%** confiscated each year.*

- ▶ In April 2023 the **International Monetary Fund** released a working paper explaining how tax authorities can better leverage anti-money-laundering (AML) measures to **improve tax compliance and boost domestic revenue mobilization**.
- ▶ The idea is not new, but it’s been a **challenging concept for tax authorities to execute tax crimes and money laundering historically have been viewed and treated as two separate issues**.
 - Co-authors Adrian Wardzynski and Emmanuel Mathias painstakingly describe, tax crimes and money laundering are interrelated activities that often occur in the same causal chain.
- 1. Tax treaty-exchanged tax information to fight illicit financial flows and non-financial crimes.
- 2. The OECD Ten Global Principles for fighting tax crime, making tax crimes a predicate offense for money laundering, Principle No. 7. In June 2022 the OECD Council encouraged all OECD countries to follow that approach in an official council recommendation.
- 3. Risk of Voluntary Disclosure and Money Laundering
- 4. Moving From Identification to Collection of data
- 5. What Should Authorities Prioritize?
- 6. **Cross-border tax compliance initiatives** have gained quite a bit of momentum in recent years. For example, the Joint Chiefs of Global Tax Enforcement (J5) was launched in 2018 as a tax-crime-fighting alliance among Australia, Canada, the Netherlands, the United Kingdom, and the United States. In emerging markets in Africa and Latin America, the OECD Global Forum is running some pilots to improve tax compliance.

<https://www.imf.org/en/Publications/WP/Issues/2023/04/21/Leveraging-Anti-money-Laundering-Measures-to-Improve-Tax-Compliance-and-Help-Mobilize-532652>



INTERNATIONAL MONETARY FUND

Leveraging Anti-money Laundering Measures to Improve Tax Compliance and Help Mobilize Domestic Revenues

Emmanuel Mathias and Adrian Wardzynski

WP/23/83

IMF Working Paper describes research in progress by the authors and is published to elicit comments and to encourage debate. The views expressed in IMF Working Papers are those of the authors and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

**2023
APR**



WORKING PAPER



Money Laundering and Terrorist Financing Indicators: a handbook for tax auditors and tax examiners

Published on 13 June 2019

Download the report (PDF):

- **English** First launched in 2009 as a practical tool to assist tax authorities in identifying money laundering during the course of normal tax audits, this revised handbook includes updated money laundering indicators and new material to increase detection and reporting of terrorist financing.
- **French**
- **German**
- **Russian** The OECD's Global Relations Programme announced the **launch of a new on-line course focused on Money Laundering and Terrorist Financing Indicators**: a handbook for tax auditors and tax examiners.
- **Dutch**
- **Spanish**
- **Korean**
- **Portuguese**

About this course:

This e-learning module provides specific money laundering and terrorist financing indicators that will help auditors and examiners **identify these activities during the course of their normal tax audits.**

The course, which includes a **great number of case studies**, describes the nature of money laundering and terrorist financing activities, **emphasizes the roles of auditors and examiners in countering** these practices, **and describes practical resources and tools that are available for effective detection and deterrence.**

This Handbook should complement but not replace domestic policies and procedures. To that end, it is designed so that tax administrations can adapt it to suit their domestic context, taking into account the varying roles that tax administrations have in relation to reporting unusual or suspicious transactions, receiving suspicious transaction reports and investigating money laundering offences.