OECD International Academy for Tax Crime Investigation

Managing Financial Investigations

OECD

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USE OF INTELLIGENCE IN TAX AND FINANCIAL INVESTIGATIONS

Does your Tax   Administration   have a full view of their taxpayers?

1   Yes

2   No

"

The usual tax audits based on data supplied by taxpayers themselves, have failed to uncover full tax potential as well as tax related financial crimes information.

1   True

2   False

Learning Objectives

Tax Intelligence – **ABCs**

↓

Intelligence Cycle

↓

Sources of Intelligence

↓

Challenges

↓

Conclusion

TAX INTELLIGENCE ABCs

Taxpayer Profiling

Introduction

Tax Intelligence is;

*The **systematic** use of:*

- * **Specialized techniques,** aimed at the **production of information**, for the **purpose** of assisting the tax administration in the planning and execution of its legal functions, including revenue collection, combatting tax evasion and financial crimes.*

*Source: *Inter American Center of Tax Administration - CIAT*

Definition - KRA

"Intelligence"   refers to;

- The product of all relevant data and information that has been **collected, analysed and interpreted**   into meaningful information for the relevant decision maker.

- The activity of   **transformation**   of diverse bits of information into something of strategic value for the organization

Intelligence based approaches…

Improves efficiency and effectiveness of Tax Authorities by:

- Helping administrators better understand taxpayers e.g. cargo consolidators
- Increasing taxpayer satisfaction and voluntary compliance　　　– ease of compliance
- Maximizing risk detection and intelligent audits　　　- Enforcement
- Improving macro socio　- economic predictability to close the tax gap.

Information & Data Optimization, t　　o support core mandate of Tax Administrations.

Why specialized tax intelligence unit?

- Duplication of Efforts

- Sub optimal use of resources – Scarce Resources

- Single dimension to tax matters and inquiries by audit teams,

- Silo Mentality(Legal & Process),

- Inter Agency Cooperation – Financial Crimes/IFF facilitated by Evasion/Predicate Offence

Establishing an Intelligence Unit

Key Considerations:

- Define enabling legislation

- Design and Governance Model   –   Procedures/Processes

Taxpayer Mapping Strategy

Full Taxpayer View

To enable KRA to tailor a **future state with a 360-degree customer view through robust Taxpayer Profiling**

Data & Discovery

To give **better comprehension of taxpayers' behaviour** and enable us enhance our collection abilities, giving us full view of the unknown connections and phenomenon.

Taxpayer Profiling

To enable us to **see all heterogeneous aspects of our taxpayers**.

Intelligence-based Approaches:

Higher facilitation for cash-rich segments - Foster service culture and taxpayer facilitation and accelerated robust enforcement for deliberate defaulters.

Taxpayer Profile 1 – Homogenous View

Example: Allan Nyakundi A002994665P - A PIN	Timeline	Frequency	Total Cost to engange (KES)
Segment: Individual			
Status: Non-compliant			
Visibility: Registered, non-active			
T-History: Nil Filing			
Income Annual:			
Declared: 1,000,000 - 10,000,000			
Declared: 8,000,000 - 11,000,000			
Age: 63			
Gender: M			
Occupation: Auditor			
Education: B.Sc. / M.Sc.			
Religion: Christian			
Race: African (Black)			
Nationality: Kenyan (Natural)			
County: Kirinyaga			

ITAX AND OTHER IN-HOUSE DATA SOURCES ONLY

Example: Segment Tier 2A;   14,667

Business Case

Sample Collected Revenue: KES 210,114,667,005

$1,956Mn

	Timeline	Frequency	Total Cost to engange (KES)
Example Allan Nyakundi A002994665P - A PIN			

					THIRD PARTY DATA SOURCES (TPDS)
Segment:	Individual		Country O.R.:	Dubai	
Status:	Non-compliant		City/Town O.R:		KNBS
Visibility:	Registered, non-active		Population:		CAK
T-History:	Nil Filing		Area Density:		MNOs
Income Annual:			Climate:		Professional Orgs
Declared:	1,000,000 ~ 10,000,000		Language(s):		Posta
Intuitive:	20,000,000 - 43,000,000		Social class		NSSF
Expense Annual:			Lifestyle:	Core Urban	KPLC
Declared:	8,000,000 ~ 11,000,000			Tertiary Urban	CBK
Intuitive:	23,000,000 ~ 61,000,000			Sub-Urban	CRB
Obligations:				Contemporary Urban	CBC
Loanbook:	66,887,987			Alternative Urban	Survey of Kenya
Trans.Hist:	442,000,433			Organic Urban	County
Category:	TIER 2A (HNWI)			Classic Urban	NIS
Age:	63		Personality:		NPS
Gender:	M		AIO:		ODPP
Family Assc.:	4		Concerns:		EACC
Life cycle:	Self actualisation		Personality:		Immigration (IPRS System)
Occupation:	Auditor		Values:		DCI
Operation:	Private Sector-Construction		Attitudes:		Drone Mapping
Education:	B.Sc. / M.Sc.		Benefit Sought:		FMCGs e.g. Bidco, Unilever
Religion:	Christian		Usage & Intent:		
Race:	African (Black)		User status:		
Generation:	Y		Usage rate:		
Lifestage:	Retired-Active		Loyalty status:		
Nationality:	Kenyan (Natural)		Readiness stage:		
County:	Kirinyaga		Engagement:		
			Attitude toward service being provided by KRA:		

Example: Segment Tier 2A; 203,110

Business Case

Sample Potential Yield Revenue: KES 1,600,927,013,612

$14,906Mn

TAX INTELLIGENCE CYCLE

Taxpayer Profiling

Intelligence Cycle

Planning
Intelligence Requirements
Stakeholder Engagement
Scope and Cadence

Collection
Develop Collection Plan
Task Appropriate Sources
Establish Automated Alerts
Identify Coverage Gaps

Feedback
Four «Rights» Rule
Two-Way Communications
Refinement and Re-Application

Processing
Data Conversion
Filtering Out the «Noise»

Production
Evaluate/Access Data and Information
Fusion of Sources

Intelligence Life Cycle
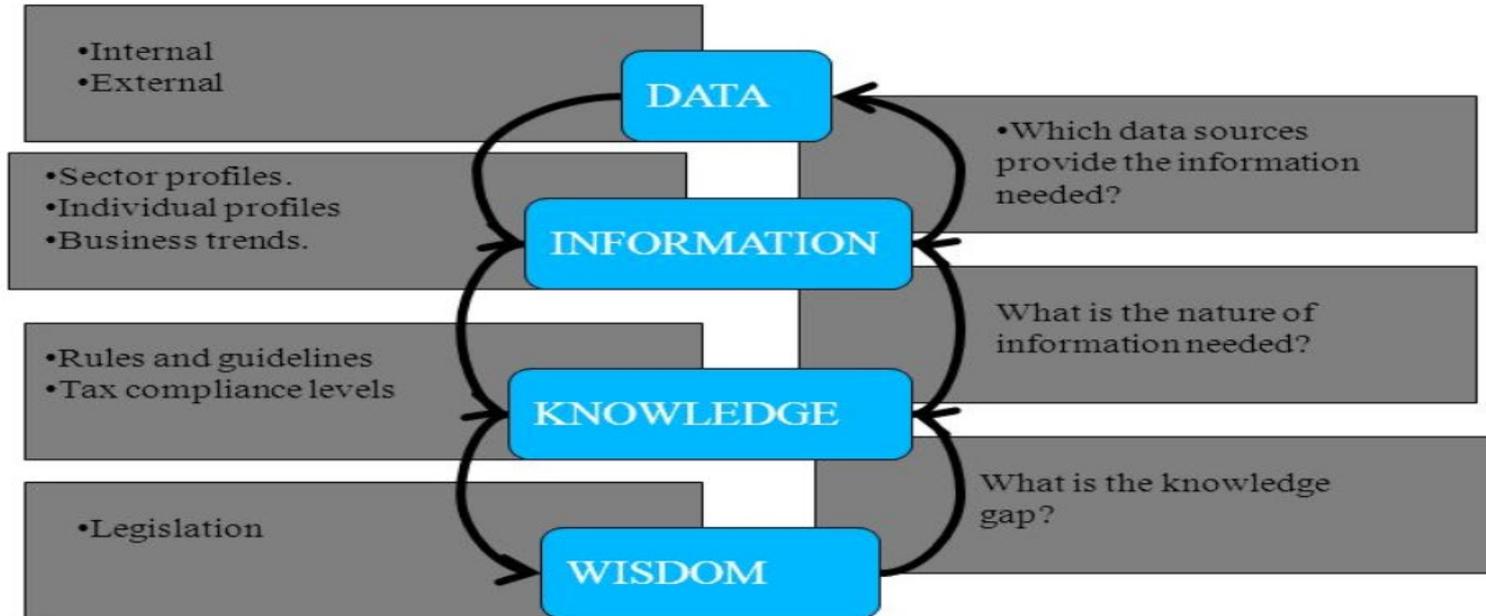
SOURCES OF INTELLIGENCE

Tax Intelligence activity needs to reach all data and/or information possible by means of open actions(overt) or not(covert).

Classification of Intelligence Sources

Influenced by need or not to use Intelligence specialized techniques for their collection.

Mainly qualified as:
- **Open source (OSINT)**   is information that is publicly available
- **Closed source**   is information collected for a specific purpose with limited access and availability to the general public e.g. PGA Databases
- **Classified**   is information collected by specifically tasked covert means including use of human and technical

Discussion Points
- *Areas of New Intelligence   – Artificial Intelligence?*

Triggers for an Intelligence Collection Activity
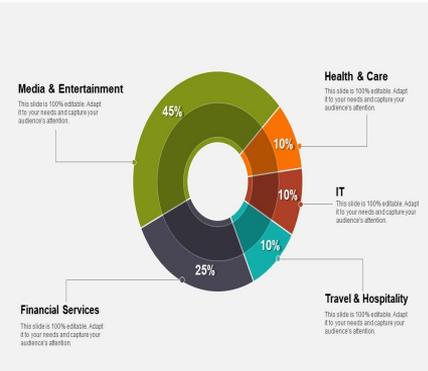
Sector Analysis/Tax Head Analysis/Predictive Data

PGAs

Informers/Whistle Blowers

Threats/Risk Assessments

Post Events – Reactive

15 MIN BREAKOUT SESSION

You are a tax inspector. Your supervisor assigns you a new case.

It is alleged that the company and its directors (local and foreign) are involved in **Tax Evasion** and **Money Laundering** across **multiple jurisdictions** .

Your supervisor asks to acquire information on the company, it's directors and the tax evasion schemes employed.

Groups 1 & 4

i. List down as many sources of tax and financial information that you are aware of.

ii. Classify the sources as either open, closed or classified?

iii. Presently, Which data sources does your organization pull from in conducting its investigations?

iv. In reference to your answers in 3 and 1 above, why aren't you using all the data sources known to you?

Groups 2 & 3

Your source indicates that the local director is a nominee director for an influential politician and has been able to obtain several communication between the two via email and WhatsApp which she can share with you. Your Tax Authority is pursuing a criminal tax evasion case on the matter.

i.   Can this intelligence be utilized in a court of law as evidence?

ii.   If not, can we convert it, into admissible evidence?

iii.   What alternative investigations(other than tax evasion and money laundering) can we recommend for the above case?

Sources of Information

- Internal Sources
- Government Agencies Databases – Social Security, Health Registry, FIUs, Land Registry, Police Records, Educational Institutions, Court records, Travel Records(Immigration)
- Financial Institutions – Banks, CRB, Lenders
- Business Records – Company Registry, Business Filings
- **Open Source Information** - *roughly 90% of valuable intelligence comes from open sources*
- Actual Events(Occurrence)
- Intelligence Sources(Overt/Covert)
- Warrants and Searches
- Testimonies – Own source information

1. Internal   Sources

Self Declarations/Self Fillings

Organization's databases   – Domestic Taxes, Customs and Border Control, Shared Government Databases   – Single Window Systems
  Considerations   :
- Information Integrity   – Accuracy/Relevance
- Information Security   - Reliability
- Data Mining   - Ease of Access, Methods of access

Complaints and Information Centre (CIC) and iWhistle

Structured, Sensitive and regulated.

Decisions to be made about which data is important to an organization.

Data to be audited regularly as it could be outdated or even illegal due to changing regulatory frameworks

2. Multi Agency Information Sources

To achieve successful investigations, many times, it requires coordination amongst state agencies.

Legal and **Process** gateways must exist between the relevant agencies .
NB : Enabling legislation, provides legitimate limitations to disclosures .

Mechanisms for Exchange

- direct access to information contained in agency records or databases ;
- an obligation to provide information spontaneously (sometimes expressed as a "reporting   obligation"
- an ability, but not an obligation, to provide information spontaneously ; and
- an obligation or ability to provide information only on request .

2. Multi Agency Information Sources

Partner Government Agencies include:

- Financial Reporting Centre
- Registrar of Companies (BRS)
- Motor Vehicle Registration Systems(TIMS)
- Directorate of Criminal Investigations
- Ethics and Anti Corruption Commission
- National Intelligence Services
- Utility Bills Companies – Kenya Power and Lighting, Water Bills registrations
- National Police Services
- Land Registries – Stamp Duty and Capital Gains Taxes etc.

3. Open Sources - OSINT

Accounts for over 90% of valuable intelligence

- Using databases to find information
- Locating people using online records
- Obtaining financial information, and locating assets
- Public records.

Investigative Issues

Criminals may use the Internet for numerous reasons including:

- Trading and sharing information such as IDs, photos, tickets, financial data, etc.

- Display of lifestyle   – trophy cabinets

- Concealing their identity

- Identifying and gathering information on victims

- Communicating with co   - conspirators

- Distributing information

- Coordinating meetings, parcel drops, etc.

Social Media

Githii Mburu
Commissioner General
Kenya Revenue Authority

MEDIA BRIEFING	KENYA REVENUE AUTHORITY
	ISO 9001:2015 CERTIFIED
Day	Friday
Date	5th November 2021
Media	Business Daily, Daily Nation, The Standard, The Star, Taifa Leo, The Nairobian

SUMMARIES

ITEM	DEPARTMENT	URGENCY			ACTION
		URGENT	MODERATE	FYI	

What Is Social Media?

The social in social media implies a conversation.

The difference between social media and TV is that with the latter, viewers seldom engage with the program makers of the show that they are watching.

Social Media Investigations

Search Engines (Index)

Search engines are "engines" or "robots" that crawl the web looking for new web pages.

These robots read the Web pages and put the text (or parts of the text) into a large database or index that you can then access…

- Google — https://www.google.co.uk
- Bing — http://www.bing.com
- Yahoo — https://uk.yahoo.com
- Yandex — https://www.yandex.com
- Index UAE — http://www.indexuae.com

Google Searches

- Regional Search

- Time filter

- Google – Similar/Related

- Google Image Search

- Google Reverse Image Search

- Phrase searching: "fraud in New Zealand"

- Boolean search: AND* fraud, NOT* scam

- Google Alternative: "fraud" ,   - scam

- Boolean search: fraud OR scam OR swindle

- Parentheses: ( ) also known as nesting… * Will not work with Google

Beyond Google

- DuckDuckGo — Privacy, simplified.

- https://search.carrot2.org/

- https://startpage.com

- www.cluuz.com

Open Sources – Useful Websites

- Finding Archived Web Pages   - https://archive.org/web

- Reverse Image Search   - http://www.tineye.com/

- IP/DNS Lookup Sites   - http://whois.domaintools.com/

- Social media searches   - https://www.social   - searcher.com/

- Yandex: https://www.yandex.com

- Online newspapers: http://www.newsola.com

- People Searches:
    - https://pipl.com
    - https://www.whois.com/whois

Comprehensive list to be shared in the ONE Community

Pitfalls of The Internet

All enquiries will leave a footprint!
- Devices will leave footprints across the internet
- Disguise your online ID (Proxy and VPN services reroute your internet traffic and change your IP)

Consideration must be given to the type of investigation being undertaken and the risk of compromise.
- Open source carries greater risk
- Digital evidence is fragile and can be easily lost or corrupted

Secure way of browsing
- Secure your browsers   – as simple as an update!
- Do not be tempted to use your own devices!
- Try; *fakenamegenerator.com* , *torproject.org*

Integrity of the investigation

Personal security

Google Cache and Privacy

- Web browsers are designed to download Web pages and store them locally on your computer's hard drive in an area called cache

- Browser cache (also know as Internet cache) contains records of every item you have viewed or downloaded whilst surfing the Internet

- When you visit the same page for a second time, your browser speeds up display time by loading the page locally from cache instead of downloading everything again.

- Internet cache can pose a threat to your privacy as everyone who has access to your computer can see some personal information by simply opening the cache folder

- In most browsers, you can clear the cache from the Privacy or History area in the Settings or Options menu, depending on the browser

4. HUMINT - Informers

Informer   – Any person in possession of information relating to commission of a tax offence and who passes that information to the Authority.

Legal Authority   - Guided by Section 5A of KRA Act.

Informer Management Guidelines   – guides the Process of Receiving of Information, Recording, Processing, Compensation,   Filing

Quantum of Rewards under Informer Reward Scheme provides for;

- Information leading to recovery of un assessed taxes   – Kshs. 5,000,000 (USD 50,000) or 5% of taxes identified, whichever is less
- Others – Kshs. 500,000 (USD 5000)

Also provides clearly for Exclusions from Rewards

4. HUMINT - Sources and Agents

A **source** refers to individuals who provide the department with valid and reliable information for recovery of taxes and tax related offences.

Source Management guidelines guides on:

- Sporting
- Recruitment
- Management
- Termination of sources and agents

Compensation of sources and agents.

Who is a Source?

- Are individuals who have been recruited for purposes of providing tax intelligence to the Authority.

- They have full access to the needed information.

- They are compensated for engagement.

- The source handler/officer has full control of the source/agent and needed information.

- They have been trained by their handlers on confidentiality and how to channel information.

- They have been validated as reliable   – Source Classification either A1

5. International   Sources

- Competent   Authorities(AEOI/EOIR), MLAs, DTAs
- *UNODC-WCOContainer Control Programme (CCP) – 55 Member States, Joint Port Control Units,* ContainerComm platform.
- INTERPOL - International Criminal Police Organization - 194 member countries EOI is through a communications system called I-24/7
- WCO - Regional Intelligence Liaison Offices (RILO)
- Egmont Group - informal network of FIUs
- Asset Recovery Inter-Agency Network of Southern Africa(ARINSA)

Intelligence Gathering Techniques

Key Consideration – *law , process* and *output!*

- Objectives
- Rights and privileges,
- Consequences of breach in law during intelligence gathering e.g. exclusion of evidence, invasion of privacy claims.

Intelligence Gathering Techniques

- Data Mining and Analytics – Manual Vs Machine Assisted (Toad for SQL and Tibco Jaspersoft) https://www.jaspersoft.com/

- Surveillance

- Reconnaissance

- Interviews

- Informers/Whistle Blowers

- Audio Visual Tools

- Search and seizure

Elicitation

- Technique used to gather intelligence through what appears to be normal, even mundane, social or professional contact.

- Normally used to confirm or expand knowledge of a sensitive program or gain clearer insight into a person targeted for recruitment.

- **Cover Story** – Usually made up stories used to gather information or to conceal identity when at risk.

- **Remember** – you are always at risk because of the nature of information that you possess or have access to.

Analysis and Production Methodologies

Intelligence Evaluation

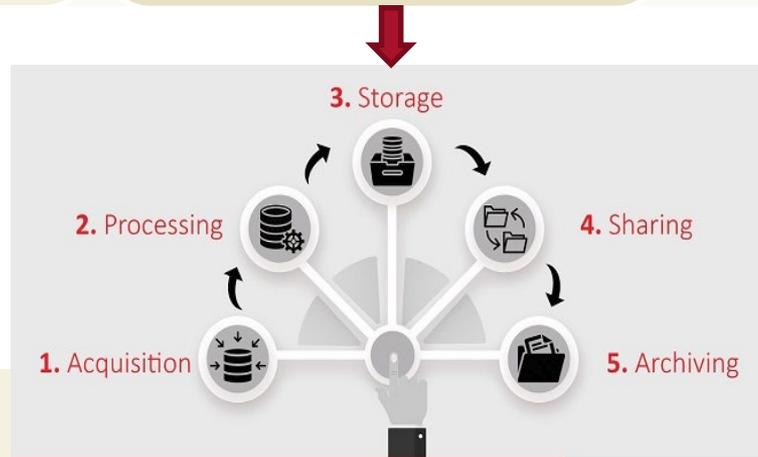Assessment of reliability and quality of information.

Source rating

Collation

Storage, Chain of Custody(chronologies), Working Documents(to do lists)

Analysis

Examination to make meaning; Look for indicative elements, links and associations.

Consider forensic examination, expert examiners

3. Storage

2. Processing

4. Sharing

1. Acquisition

5. Archiving

Analysis and Production Methodologies

Refers to process of converting data and into meaningful information.

Quantitative Vs Qualitative

- Financial Analysis   - Mathematical models, financial profiles
- Situation analysis   – event charting, activity charting
- Content Analysis

Outcome

- Values/Recoveries
- Relations and Networks
- Trends and patterns

Tools for Data Visualization and Analysis

Free Tools vs Purchased Tools

    i.   Ms Excel

    ii.   Oracle Business Intelligence, Caseware Idea

    iii.   Tableau: https://www.tableau.com/products/desktop/download

    iv.   Movieclips.com

    v.   yEd: *https://www.yworks.com/products/yed*

    vi.   IBM i2® https://www.ibm.com/security/resources/demos/i2-analyze-demo/
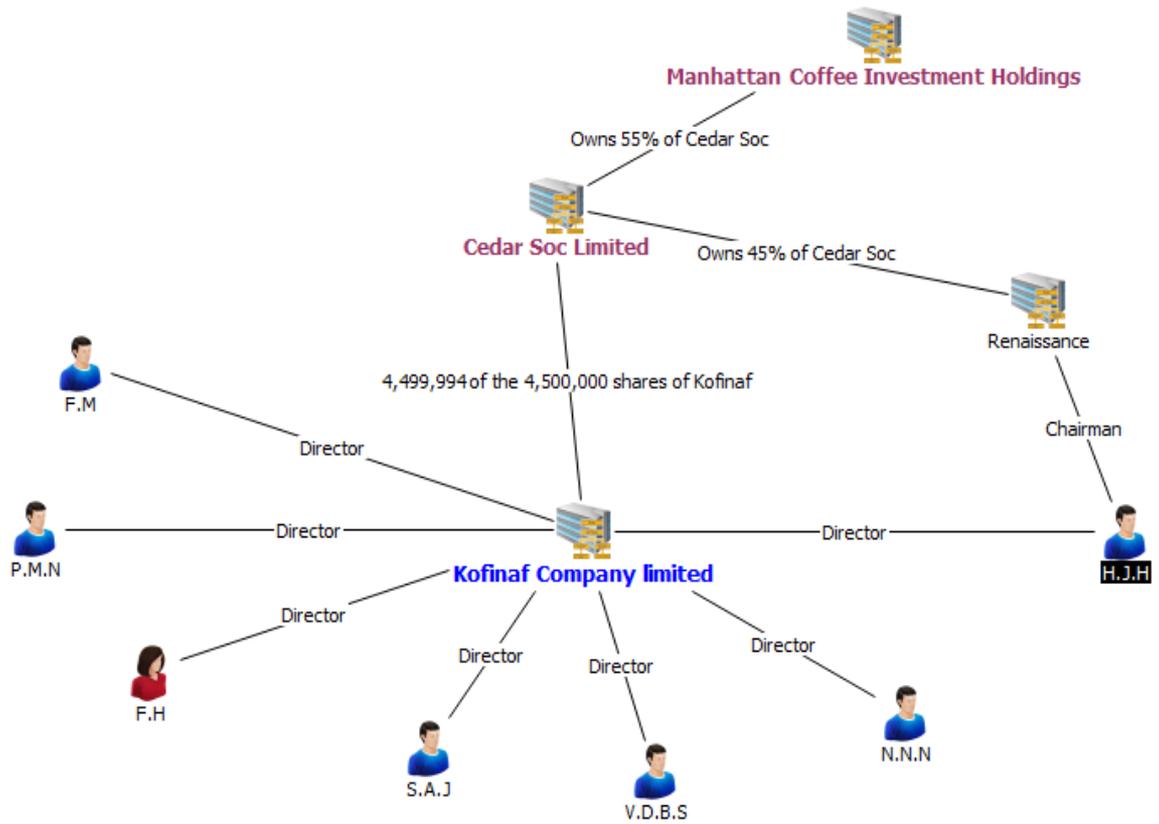
A Pictures Worth?

….As from 1st January, 2017, the company transferred the management of its coffee estates, including the Milling and Marketing Operations, to Coffee Management Services (CMS), a leading agribusiness service provider.

The company has 4,500,000 ordinary shares, of which Cedar Soc Limited owns 4,499,994. The remaining six (6) shares are owned by Kenyan citizens. **Open sources reveal a complex ownership and association of the company with** Tatu City Limited.

Kofinaf is majorly owned by a company called Cedar Soc. Two other companies called Renaissance and Manhattan Coffee Investments own shares: in Cedar IV, Renaissance (55 percent) while MCIF once owned 45 percent (now 26 percent). In Cedar Soc, Renaissance (45 percent) and Manhattan Coffee Investment Holdings - MCIH (55 percent) respectively.

Some of the directors/Shareholders of Tatu City Limited are also directors/Shareholders of Kofinaf Company Limited.

IBM i2® Analyze Image

Manhattan Coffee Investment Holdings

Owns 55% of Cedar Soc

Cedar Soc Limited

Owns 45% of Cedar Soc

Renaissance

Chairman

4,499,994 of the 4,500,000 shares of Kofinaf

F.M

Director

P.M.N — Director

Director — H.J.H

Kofinaf Company limited

Director

Director

Director

Director

F.H

S.A.J

V.D.B.S

N.N.N

Partnership Associations(Tax Evasion Scheme(s))

Intelligence Reports/Summaries

When collecting intelligence, Have the end in mind – Intelligence led Investigations/audits.

Your report should provide a clear picture of the offender or the *modus operandi* or the matter under review.

Report must be accurate, clear, relevant and timely.

Consider:

- Format: Intelligence Summaries/Reports/Oral Briefing
    - Supporting materials – Recorded Statements, Evidential Matter, Emails, Pictures, samples, exhibits
- Classification of Intelligence material(Restricted, Confidential, Internal, Public)
- Legal considerations for written reports – libel, privacy, privileges, disclosure

Ensure you have a feedback mechanism

Information Security

How do your organizations ensure confidentiality and information security ?

How Do We Handle Information Security

Background Check/Vetting of Staff

Oath of Confidentiality

Training

Culture – Clean Desk Policy, Need to Know Considerations, shredding

Access Controls – Pass Activated doors

Physical Controls – Lockers/Cabinets/File Access Monitoring/CCTVs

Repositories - Document Classification, Encryption, Access Controls

Controlled Access and Levels of approvals for Information Sharing

International Exchange of Information – OECD Guidelines

CASE STUDIES

Taxpayer Profiling

Case Ref: Luxury Motor Vehicle Theft   Syndicate Trigger   – International Request

Kenya

Tilburry Port, London

https://africabusinesscommunities.com/news/kenya   - kra - seizes - repatriates   - uk - stolen - motor - vehicles/

Case Ref: Luxury Motor Vehicle Theft Syndicate
Trigger – Humint

Offences : Transnational Organized   Crime, Penal Code, Customs Acts(EACCMA)

British   High Commission in Nbi requested the help of Kenya in dealing with the High Value Motor vehicle theft syndicate.

Request made through Ministry of Foreign Affairs.

Joint efforts of KRA, National Crimes Agency International Liaison Office, Interpol, Directorate of Criminal Investigations etc.

Findings:

- Entry Point   – Port of Mombasa
- Destination   – Neighboring Countries
- Perpetrators   – network of Vehicle owners, Shippers and Forwarder (established over 50 Units)

Part Success :

- Coordinated Approach to Investigations   – Signed witness statements from UK, Lost vehicle Reports availed, duality of offences.
- Vehicles Repatriated   – Associated Costs
- Continued Vigilance by multiple agencies   - deterrence

CHALLENGES

Taxpayer Profiling

Challenges in Intelligence Management

- Legality & Ethics   - Taxpayer rights/privileges, Who has jurisdiction?

- Confidentiality   – Taxpayer rights and Privileges, Privileged Information

- Bureaucracy and Silo Mentality

- Complexity of tax fraud and financial crimes   - Digitization, Cross Border(ownership), volatility of digital intelligence

- Feedback

Feedback Session
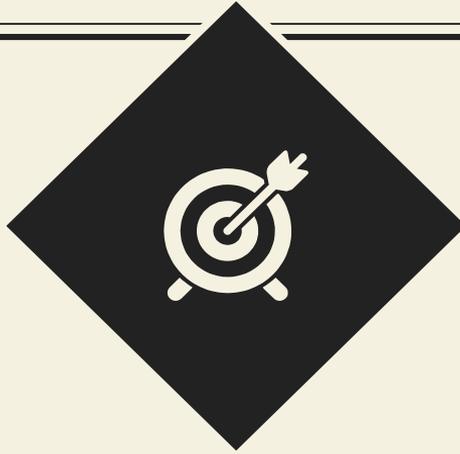
SUMMARY

Participants to list their take home from the session