

# Indicators specifically concerning the recipient of the proceeds of possible bribery or corruption

## Introduction

Much of the focus in the previous chapters has been on the *payer* of bribes and other payments within corrupt transactions. However, tax examiners and auditors must remain aware of indicators concerning the *recipients* of bribes and other proceeds of corruption, and the tax consequences of the income or gains they receive. The recipients of possible bribes or other proceeds of corruption are individuals, whether government officials or decision makers in companies, which either seek to hide the payments they receive, or disguise them as another form of income. Wherever tax examiners or auditors uncover indicators of possible tax evasion or money laundering, they should also consider whether these may also suggest that the taxpayer is in receipt of bribes or other proceeds of corruption.

Many of the indicators discussed in the previous chapters are relevant in audits and tax return examinations of both the payers and the recipients of bribes and other corrupt payments, but there are a number of indicators that are particularly relevant to individuals who are the recipients of the proceeds of bribery and corruption and these are included below.

When considering the position of the recipient of the proceeds of possible bribery or corruption, tax examiners and auditors should keep in mind the need to pay particular attention to any unusual transactions, which could indicate increased risk. As set out in a previous chapter, the circumstances that make a transaction unusual are very wide, but some of the main characteristics of an unusual transaction include:

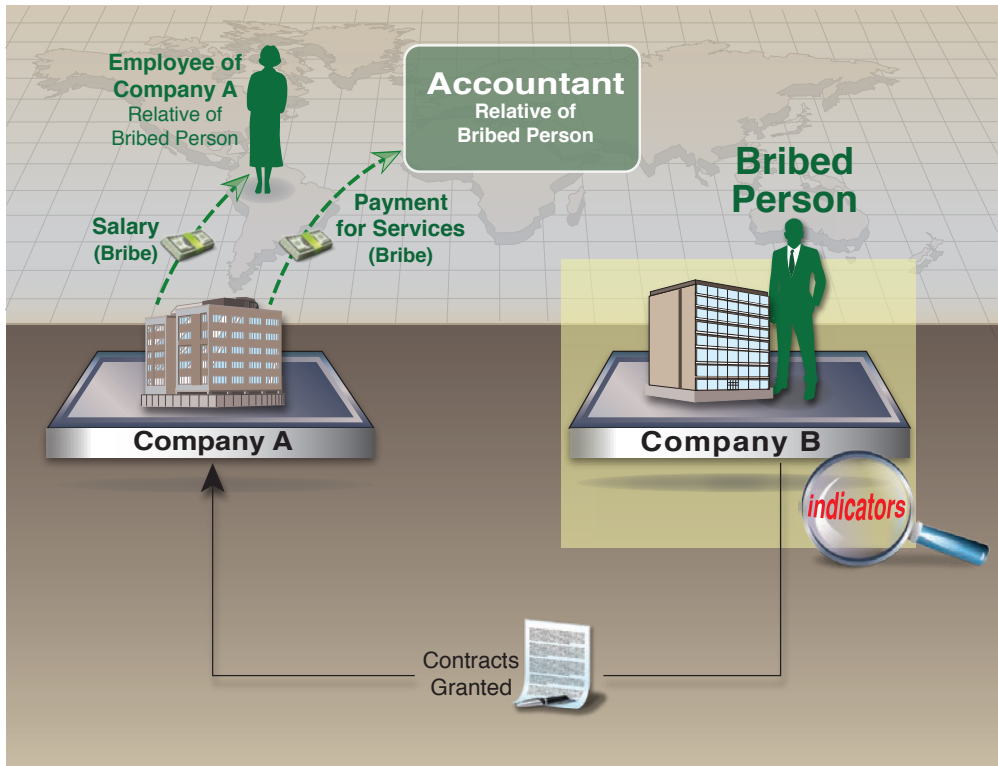
- a transaction which does not fit with a person's background or circumstances;
- a transaction which has no logical economic or practical explanation;
- a transaction where the identity of the parties is unclear; and
- a transaction where the origin of the funds is unclear.

## Indicators

- Works for government agency in high risk country.
- Responsible for granting authorisations, licences or contracts to businesses.
- Ownership or control of entities not connected with recipient's main job.
- Receives commissions for consultancy work, but lacks relevant skills and experience.
- Receives additional employment or consultancy income when already fully employed.
- Sudden or unusual support given to particular companies or industries.
- Referred to in a Suspicious Transaction Report (STR) received by the FIU.
- Unexplained growth in net worth (including that of family members).
- Unexplained donations to political campaigns or parties.
- Unusual and unexplained spending, particularly in cash (including by family members).

## Example

### Unusual and unexplained spending

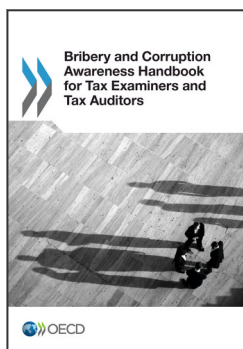


Company B is a large mail order company. During a tax audit, the auditor became aware of a number of printing contracts which had been awarded without the usual approval process. Further enquiries revealed that the contracts had all been approved by Mr M, a senior manager responsible for production of the company's catalogue. Mr M was unable to provide a convincing explanation for how the contracts had been awarded. It also came to the attention of the auditor that Mr M had recently begun to enjoy a more lavish lifestyle, including a new car and expensive holidays, which it seemed unlikely could be supported by his salary.

The tax auditor conducted third party checks, and discovered that Mr M's wife, Mrs M, was employed by Company A, the printing company that had been awarded the largest contract to print the catalogue. However, although Mrs M was on Company A's payroll and received a salary, she did not seem to perform any work at the company. In addition it was found that Company A and a number of other printing companies that had been awarded contracts by Mr M, each made payments to the same accountancy firm, Accountant, without receiving any services in return. Further checks revealed that Accountant was owned by Mr M's daughter. The tax auditor suspected that Mrs M's salary and the payments to Accountant,

were in fact bribes paid to Mr M and his family in return for the granting of the printing contracts with Company B. The suspicions were reported to the appropriate law enforcement authority, which commenced a criminal investigation. Company B also began its own internal investigation.

In this case, the key indicators that caused the tax auditor to suspect possible corruption were that contracts had been approved by Mr M that did not comply with the Company B's usual approval process, while at the same time Mr M was enjoying an unexplained increase in his personal expenditure. Other indicators included the fact that Mr M's wife was employed by Company A, which had been granted a large printing contract, while his daughter received payments for accountancy services from a number of printing companies which had contracts with Company B.



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