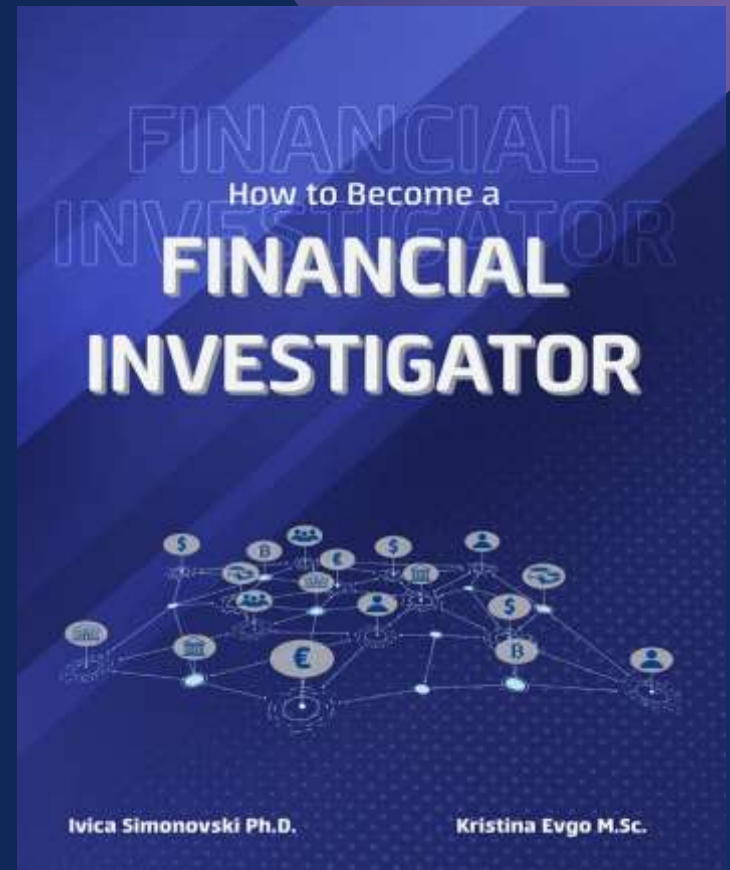


FINANCIAL INVESTIGATION



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OBJECTIVE

Upon completion of this lesson, you will have the necessary knowledge and confidence to:

- Understand the '**Follow the Goods – Follow the Money Concept**'
- Make distinctions between defining **FATF** Financial Investigations - proactive and retroactive approaches, and the importance of Financial Analyses (FA)
- Understand the importance of standardization of the procedures and empowering the national authorities for conducting financial investigations (**FATF R30 & R31**)
- Understand Best Practices in Investigating and Prosecuting Organized and Serious Crimes as well as Corruption connected to High-Value Targets Using Financial Flow Tracking Techniques and Financial Intelligence

'FOLLOW THE MONEY- FOLLOW THE GOODS' CONCEPT

"**Follow the goods - follow the money**" is a fundamental principle often used in investigations, especially in cases involving financial crimes, illicit activities, or supply chains.

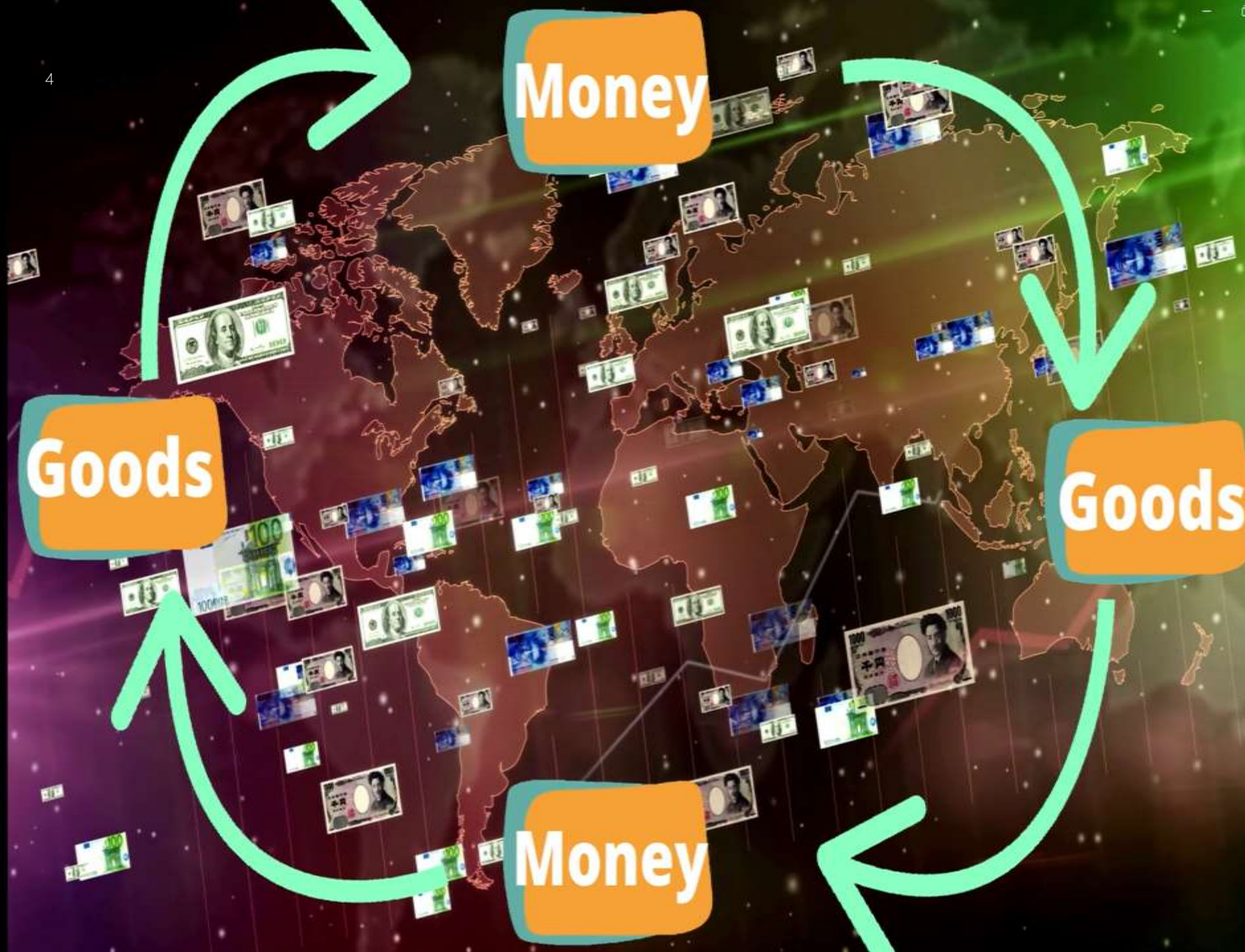
It suggests that tracing the movement of physical goods or assets can uncover the flow of money related to those goods or transactions.

This concept can be particularly useful in uncovering hidden financial networks, identifying money laundering schemes, or detecting illegal activities such as smuggling and tax evasion.



Investigators may start by tracking the path of goods from their origin through various intermediaries to their final destination to understand the financial transactions associated with each step.

Following the goods allows authorities to gain insights into the financial trail, aiding them in prosecuting offenders and dismantling criminal operations.



The importance of standardization of the procedures

5

SOPs should
compel
fulfilling

UN CAC
UN CTOC
FATF 30
FATF 31

Definition: A **financial investigation** is a specialized criminal investigation aimed at **determining** and **documenting** the **proceeds of crime**, i.e. finding all illegally acquired property, as well as the proceeds of a crime and confiscating them in the prescribed legal procedure

FATF Recommendations 30 and 31 call for countries to establish mechanisms for monitoring and supervising financial institutions' compliance with AML/CFT obligations, including conducting **parallel financial investigations** in cases involving **serious crimes** with significant capital gains, **money laundering**, **predicate offenses**, and **terrorist financing**, and implementing effective, proportionate, and dissuasive sanctions for financial institutions that fail to comply, with the ultimate goal of freezing and confiscating related assets.

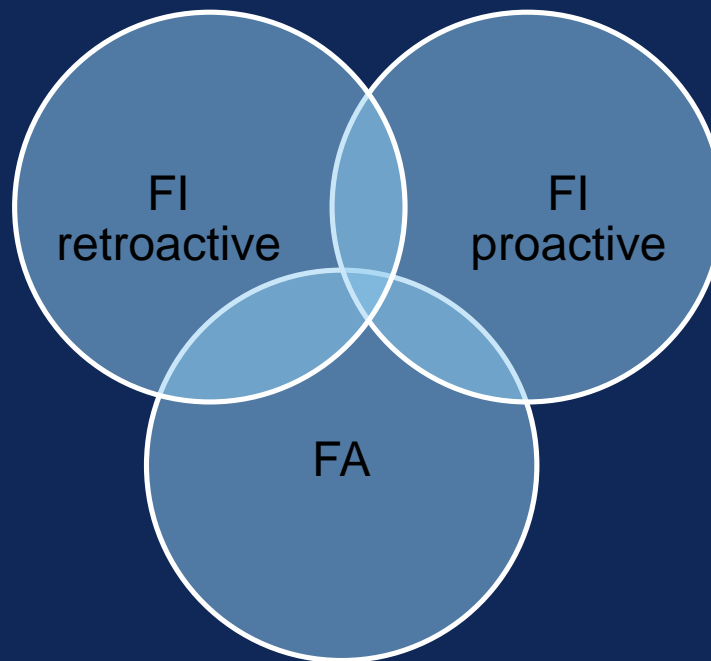
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DISTINCTIONS BETWEEN DEFINING FATF FINANCIAL INVESTIGATIONS PROACTIVE AND RETROACTIVE APPROACHES AND FINANCIAL ANALYSIS

The retroactive approach to financial investigation:

Primarily an instrument that serves the purpose of confiscation of property (arising from a criminal offense).



Proactive financial investigation (FATF) is a broader term than conservative financial investigations. It is based on the same or similar methods used by financial investigations, but its goal and purpose are largely broader than the financial complex.

Financial analysis involves a thorough examination of financial data and records to identify patterns, discrepancies, and potential evidence of financial crimes or illicit activities.

KEY OBJECTIVES AND BENEFITS

Key objectives include:

- ❑ Identifying proceeds of crime, tracing assets, and initiating asset confiscation measures, using temporary measures such as freezing/seizing when appropriate;
- ❑ Initiating **money laundering** investigations when appropriate;
- ❑ Uncovering financial and economic structures, disrupting transnational networks, and gathering knowledge on crime patterns.

Benefits:

- ❑ Prevention, because the possession of property gain is a reason and motive for further committing major crimes;
- ❑ Prevents the infiltration of illegally obtained income and corruption in the legal economic and financial systems;
- ❑ Focusing the investigation on the leadership and highest-ranking members of the criminal organization;
- ❑ Discourage potential criminals by seizing, freezing, and confiscating illegally acquired property on time.

INITIATING FINANCIAL INVESTIGATION

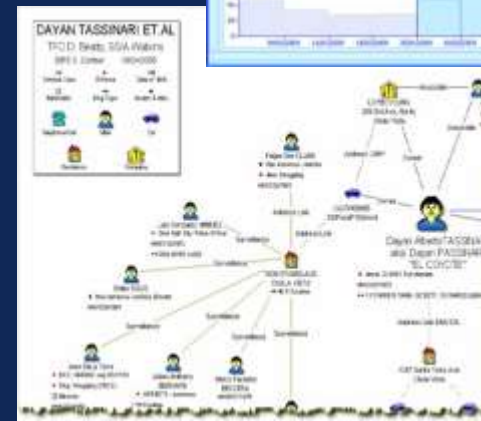
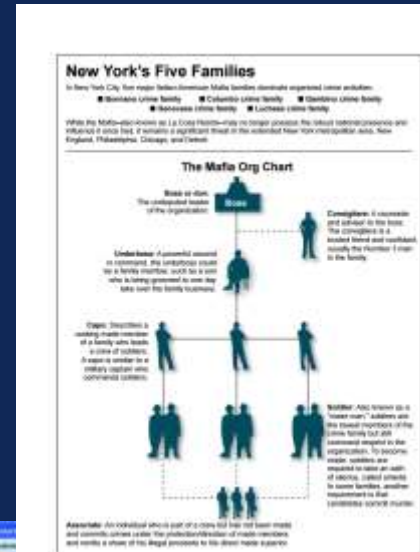
- 1) Previously (before initiating criminal investigation), when external manifestations indicate the probability that the property owned or used by a person originates from criminal activities;
- 1) At the same time (in parallel with the criminal investigation), when a preliminary criminal investigation procedure has been initiated against a person and external manifestations indicate that they have assets that are disproportionate to his reported income;
- 1) Integrated with the criminal investigation against a person in the course of the investigation procedure due to the grounds of suspicion that they committed the most serious forms of criminal acts against official duty and against the economy.

9 ELEMENTS OF THE FINANCIAL INVESTIGATION

- ❑ Provision of intelligence and evidence for the **existence of a crime**;
- ❑ Provision of intelligence and evidence for the **perpetrator/s** and the crime;
- ❑ Determination of the **proceeds of crime, the type, amount, and location** of their whereabouts;
- ❑ Determination and **documentation of ownership – property or property gain**, which can be confiscated (**identification of persons, property that will be subject to confiscation or extended confiscation**); and
- ❑ Creation of the conditions for the application of the **interim measures (seizure and security)** by the competent state bodies.

Process for standardization of the procedures for conducting Financial Investigations

- 1) Pre-conditions for Conducting Complex Investigations
- 1) Building Coordination and Cooperation Networks
- 1) Information and evidence gathering
- 1) Avenues for obtaining financial data and other evidence
- 1) Identifying relevant data



1. PRE-CONDITIONS FOR CONDUCTING COMPLEX INVESTIGATIONS

The **primary objectives** of an investigation are:

- ❑ **Information gathering** (pre-investigation process/Intelligence)
- ❑ **Evidence gathering**
- ❑ **Fact finding and reconstruction** (profiling and analyses)
- ❑ **Reporting to / supporting conclusions** of the competent authorities

PRE-CONDITIONS FOR CONDUCTING COMPLEX INVESTIGATIONS

The key elements of an investigation plan are the following:

- A. Ensuring Adequate Resources
- B. Building an Investigation Team
- C. Identifying Potential Targets
- D. Developing an Investigative Strategy
- E. Choosing Investigative Methods and Techniques

¹³ THE KEY ELEMENTS OF AN INVESTIGATION PLAN

A. ENSURING ADEQUATE RESOURCES

- Evaluate the necessary resources;
- Prepare a comprehensive list of all needed resources for the investigation:
 - human resources
 - financial or material resources
- Types of internal and/or external expertise
- Special Investigative Techniques
- Interagency cooperation
- International legal or operational cooperation
- Establishing joint investigation teams (JITs)

THE KEY ELEMENTS OF AN INVESTIGATION PLAN

B. BUILDING AN INVESTIGATION TEAM

1. Team Selection

Wrong Person	+	Wrong Place	=	REGRESSION
Wrong Person	+	Right Place	=	FRUSTRATION
Right Person	+	Wrong Place	=	CONFUSION
Right Person	+	Right Place	=	PROGRESSION
Right People	+	Right Place	=	MULTIPLICATION

2. Team Training

3. Engaging specialized experts

- Forensic (Digital)
- Accountant
- Financial
- Cyber



THE KEY ELEMENTS OF AN INVESTIGATION PLAN

C. IDENTIFYING POTENTIAL TARGETS

Required documents that should be reviewed:

- Tax returns
- Assets declarations
- Financial disclosure forms
- Employment records
- Public registers
- Real Estate Registers (home/abroad)
- Vehicle Registers (home /abroad)
- Company Registers (home abroad)
- Financial documents:
 - Bank accounts
 - Loans
 - Credits
 - Box deposits
 - Foreign bank accounts
 - Invoices
 - Contracts, Agreements etc.



Always **“FOLLOW THE MONEY”**

THE KEY ELEMENTS OF AN INVESTIGATION PLAN

D. DEVELOPING AND INVESTIGATIVE STRATEGY

- Make priority choices as to the cases to pursue and the outcomes to seek.

1. Case selection strategies

- Case selection criteria:
 - The seriousness and prevalence of the alleged offense
 - Related cases in the past to establish precedent
 - The viability or probability of a satisfactory outcome
 - The availability of financial, human, and/or technical resources to adequately investigate and prosecute
 - The legal nature of the alleged corrupt activity

2. Case management

- Coordination on a national and transnational level

THE KEY ELEMENTS OF AN INVESTIGATION PLAN

E. CHOOSING INVESTIGATIVE METHODS AND TECHNIQUES

With investigation, do not alert the targets that they are under investigation!

1. Standard Investigative Techniques

- Interviewing witnesses and defendants
- Physical Surveillance
- Trash runs
- Searches and other compulsory measures to obtain evidence

2. Special investigative techniques

- Intercepting communications
- Controlled delivery
- Cross-border observation
- Undercover operation

2. BUILDING COORDINATION AND COOPERATION NETWORKS

- A. INTERNAL COOPERATION AND COORDINATION ISSUES
- A. COLLABORATION AMONG LAW ENFORCEMENT AGENCIES AND FIUs
- A. INTERNATIONAL COOPERATION IN THE INVESTIGATION

BUILDING COORDINATION AND COOPERATION NETWORKS

A. INTERNAL COOPERATION AND COORDINATION ISSUES

The possibility of close collaboration between specialized investigative units and competent authorities is crucial for successful investigations.

Mechanisms that promote inter-agency cooperation include:

- Establishing information-sharing systems;
- Establishing policies and procedures that promote the sharing of information /intelligence within intra-agency and inter-agency cooperative frameworks;
- Establishing a process whereby intra-agency or inter-agency disputes are resolved in the best interest of the investigation;
- Establishing written agreements (MoUs)

DIVISION OF RESPONSIBILITIES

□ **Investigators and analysts** - should prepare a plan of action that incorporates a number of important steps and considerations.

- Understand the case;
- Assemble a team;
- Identify key allies;
- Communicate with foreign counterparts.

□ **Prosecutors** – “*Dominus litis*” of investigations, or follow investigations conducted by investigating judges or LEAs.

□ **Multidisciplinary team, Unit, or Joint Investigation Team(JIT)**

BUILDING COORDINATION AND COOPERATION NETWORKS

C. INTERNATIONAL COOPERATION WITH INVESTIGATIVE PURPOSES

- ❑ INFORMAL INTERNATIONAL COOPERATION MECHANISM
- ❑ FORMAL INTERNATIONAL COOPERATION MECHANISM

Key factors:

- Contacts with law enforcement authorities of other countries involved
- The proactive exchange of information

BUILDING COORDINATION AND COOPERATION NETWORKS

C. INTERNATIONAL COOPERATION WITH INVESTIGATIVE PURPOSES -INFORMAL COOPERATION-

Article 48 of the **UNCAC** encourages law enforcement authorities in different jurisdictions to strengthen their co-operation in order to enhance the effectiveness of law enforcement action to combat corruption, through for example, the exchange of information and co-ordination of administrative actions for the purpose of early identification of the offence, as well as the exchange of personnel and liaison officers.

- ❑ **Police to police contact** – Liaison officers – personal contact
- ❑ **Agency to Agency communications** – INTERPOL, EGMONT Group, etc.
- ❑ **Consular communications** – Police Attaché

BUILDING COORDINATION AND COOPERATION NETWORKS

C. INTERNATIONAL COOPERATION WITH INVESTIGATIVE PURPOSES - FORMAL COOPERATION -

Formal cooperation is often the only way in which evidence can be obtained from another jurisdiction to be presented in the court.

Formal types of assistance (international arrangements) include:

- Rogatory letters,**
- Letters of request,**
- Mutual Legal Assistance requests and**
- Requests under bilateral or multilateral treaties.**

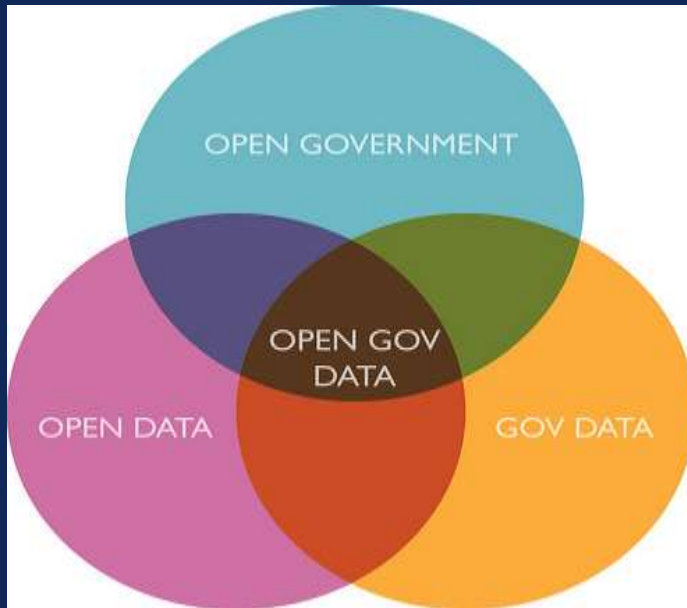


- Reciprocity,
- MoUs,
- Bilateral or multilateral agreements.

3. INFORMATION AND EVIDENCE GATHERING

A. SOURCE OF INFORMATION

A. GATHERING PERIPHERAL EVIDENCE



INFORMATION AND EVIDENCE GATHERING

5WH formula (Who – What – When – Where – Why – How)

- Who** are the victim(s), witnesses and suspect(s)?
- Where** did the offence take place?
- What** has occurred?
- When** did the offence and other significant events take place?
- Why** was the offence committed?
- How** was the offence committed? Assess the use of skills or knowledge used by the offender.

INFORMATION AND EVIDENCE GATHERING

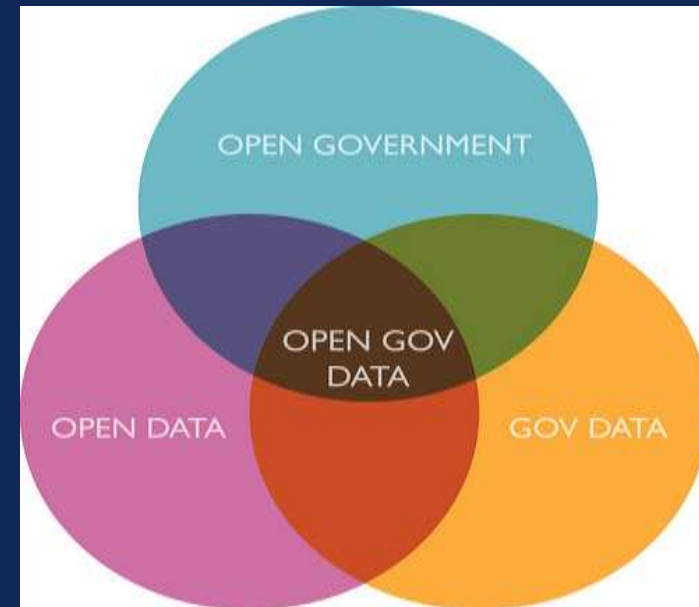
B. GATHERING OF PERIPHERAL EVIDENCE

A. OPEN DATA SOURCES

- All types of media (electronic, internet, social, journals, etc.)

B. GOVERNMENT AGENCIES DATABASES

- **OPEN GOVERNMENT SOURCES:**
 - Public Databases and Records
- **CLOSED GOVERNMENT DATA SOURCES:**
 - Police Database (INTERPOL)
 - FIU Database
 - Intelligence Database
 - Tax agencies and Tax records
 - Customs Service
 - Company's public registries
 - Securities Supervisors
 - Bankruptcy Records
 - Civil and Criminal court records
 - Real Estate Records
 - Vehicles, Airplanes and Vessels Registers



27 THE COLLECTION OF PRIVATE DATA, DIGITAL EVIDENCE SOURCES, AND THE USE OF DIGITAL FORENSIC TOOLS

DIGITAL SOURCES OF EVIDENCE:

- Computers
- Mobile devices
- Removable media and external data storage devices
- Online banking software
- Calendar(s)
- E-mail, notes, and letters
- Telephone records
- Financial or assets records
- Electronic money transfers
- Accounting or recordkeeping software

Real/Unreal Transaction????



Company A
Lounge Bar
North Macedonia

\$ 100,000.00



Company B
Consultancy Company
Cyprus



Authorized person on the account
and
Beneficiary Owner



Dirty money



Associated
persons



Owner



Company A
Lounge Bar
North Macedonia

\$ 100,000.00
Research of Market

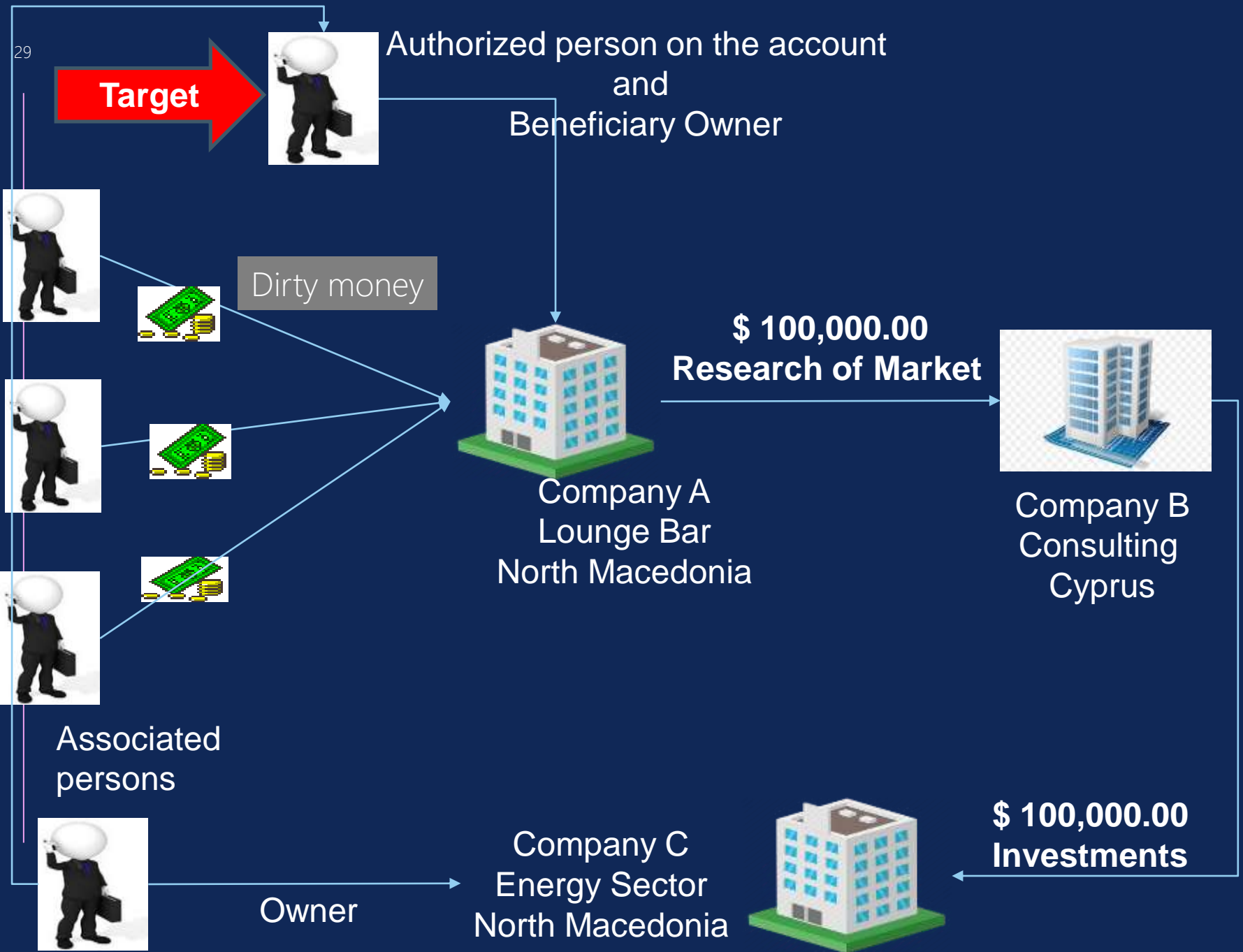


Company B
Consulting
Cyprus

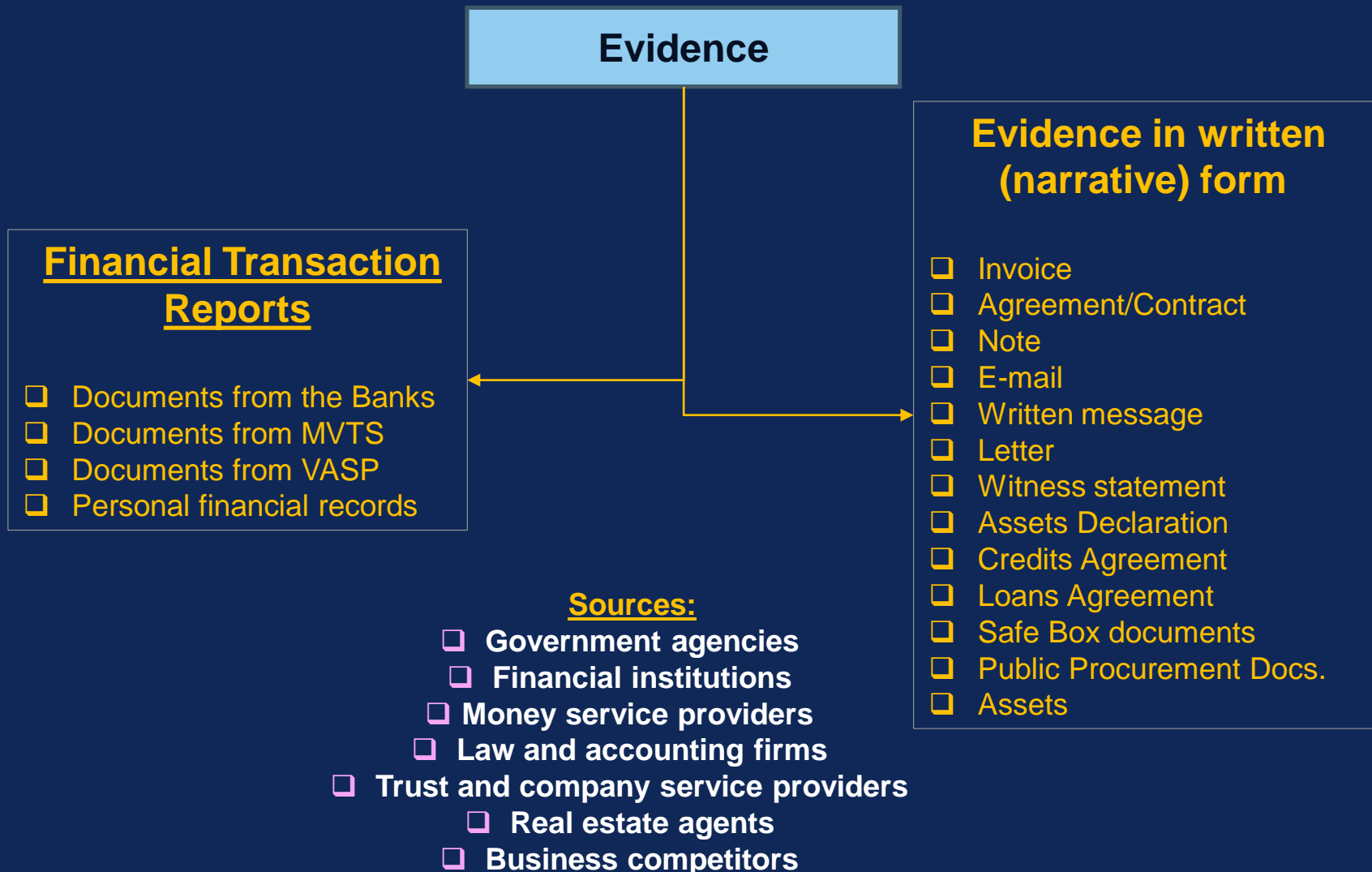


Company C
Energy Sector
North Macedonia

\$ 100,000.00
Investments

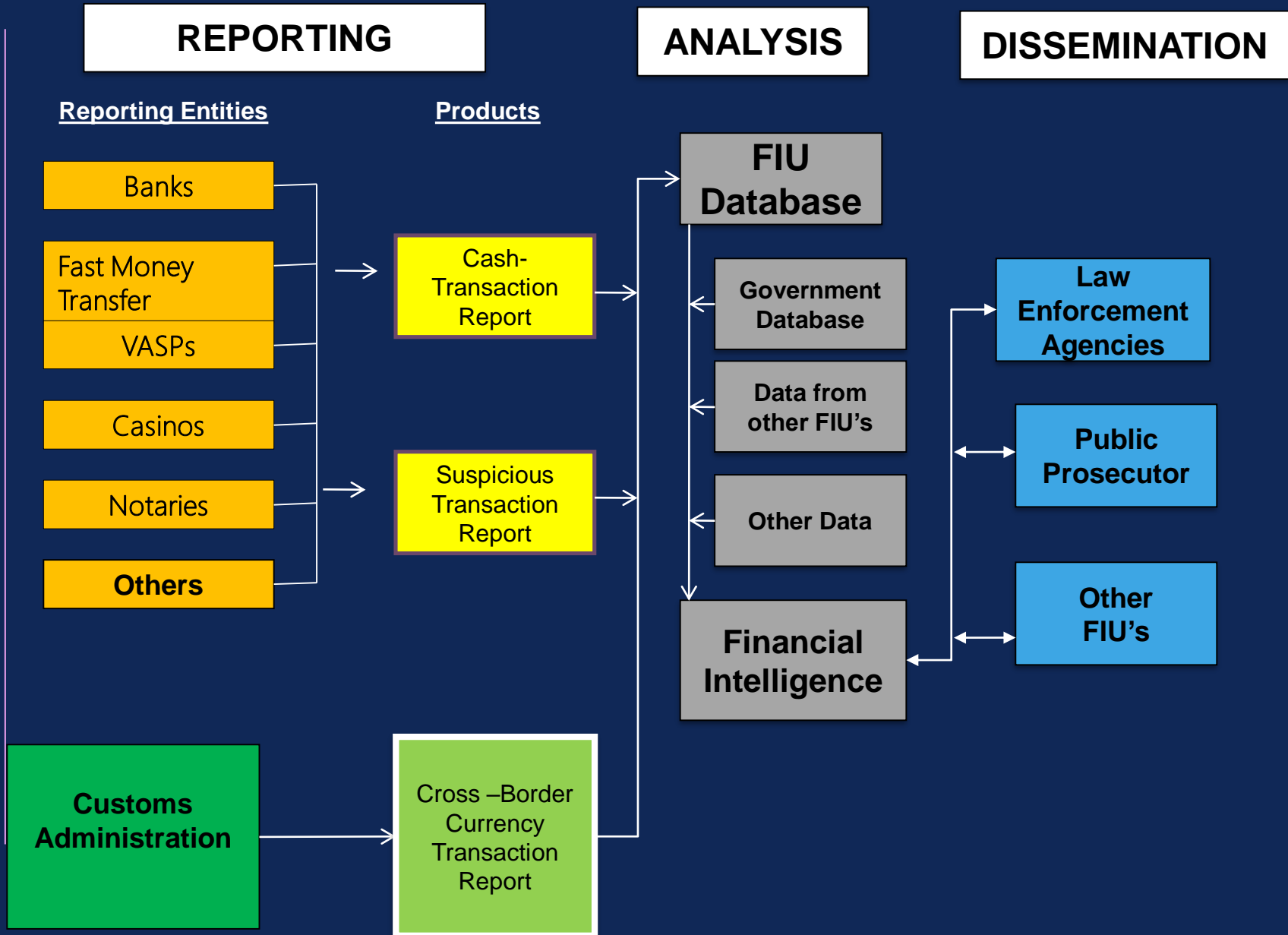


4. AVENUES FOR OBTAINING FINANCIAL DATA AND OTHER EVIDENCE



Cooperation between LEAs and FIU

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TIME FOR DISCUSSION

AVENUES FOR OBTAINING FINANCIAL DATA AND OTHER EVIDENCE

Documentation to be requested from financial institutions :

- 1) All **account opening documentation** includes forms identifying the beneficiary owner, power of attorney, and signature cards.
- 2) **Client profile, Know Your Customer (KYC) notes**, account manager notes, teller or banker journal, cashier check log, and any enhanced due diligence conducted by the financial institution, and any other data probing the economic background of the client, commercial activities and transactions on the account (copies of contracts, bills, letter of credits, list of partners and affiliated companies).
- 3) **Loan documentation** includes mortgage information, a copy of the loan application, listing and/or description of any collateral, income, assets, and personal and/or business references.
- 4) All **bank account statements** for the period under investigation.
- 5) Any **reports of suspicious transactions and activity** that were submitted by an employee of the financial institution, including those who might not have been forwarded to the FIU.

AVENUES FOR OBTAINING FINANCIAL DATA AND OTHER EVIDENCE

Documentation to be requested from financial institutions :

- 6) **Details of all credits and debits to the account(s)** to include electronic funds transfer data, displaying origin, destination, account name, and number.
- 7) **Wire transfer documentation**, including the request form.
- 8) **Correspondence files** maintained by the financial institution that could include internal bank memos, records of client visits, phone order notes, e-mails, faxes, notes authored by account managers, records or notes related to instructions or transactions, or both.
- 9) **Credit card information** to include statements, application, payment history, transaction logs to include any interaction with credit card staff, and other cards under the umbrella of the target's account but in another person's name.
- 10) **Safety deposit information**, including contracts, visiting records, and video surveillance of relevant areas.

5. IDENTIFYING RELEVANT DATA

A. Account Opening Documents and KYC/CDD Records

- ❑ The account manager and person named as power of attorney may be worth interviewing;

- ❑ The documents provided by the bank account holder to justify the source of funds (contracts, letters, real estate sales, invoices) may help to:
 - identify the beneficiary owner (look at addresses, companies, and individuals involved);
 - have a better understanding of all alleged economic backgrounds of the funds;
 - find contradictions with the figures or with other evidence already gathered;
 - prepare for interviews with targets.

- ❑ In the case of bank accounts in the name of a corporate vehicle:
 - the documents incorporating the company;
 - the name of the board members;
 - the name of the persons entitled to conduct business on behalf of the company.

IDENTIFYING RELEVANT DATA

B. Bank Account Statements

- Cash deposits
- Withdrawals
- Wire transfers
- Bonds deposits
- Checks deposits
- Loans
- Fast money transfers

BANK ACCOUNT ANALYSIS

Bank account analysis includes **systematic selection, evaluation, and interpretation** of financial data.

When analyzing a bank account, the following parameters should be considered:

- Date of opening and closing the account;
- Owner and authorized person of the account;
- Type of transaction account (EUR or other currency, deposit, credit);
- Date and time of the transaction;
- Determining the ordering party and the order recipient;
- Movement of inflows and outflows;
- Description of transactions.

UNCOVER ANOMALIES THROUGH:

All transactions should be justified by documentation, recorded through journal or ledger entries showing account names, amounts, debit or credit information, and summarized in income statements and balance sheets.

- ❑ **Invalid invoices** may indicate fictitious revenues or purchases;
- ❑ **Inconsistencies in work performed by employees** may reveal illicit payments disguised as salaries;
- ❑ **Anomalies in the source of capital and loans** provided by shareholders and lenders or absence of evidence that loans were repaid may reveal the misuse of corporate vehicles for the money laundering process;
- ❑ **Unusual source and the use of purchased property**, the inaccuracy of its valuation, as well as unusual revenue-to-assets ratios, may indicate the misuse of corporate assets.
- ❑ **Anomalies in receivables, bank account balances, and transactions in cash** may show the misuse of corporate cash flows for illicit purposes.

COMPARING WITH

Purchase and Sale Documents

Documents related to the purchase and sale of assets:

- Property
- Shares
- Vehicles
- Jewelry
- Art

Types of documents:

- Land registry documents
- Purchase and sale agreements
- Loans
- Mortgages
- Financial statements
- Tax returns
- Credit card statements
- Insurance policy
- Jewelry repair bills
- Vehicle information numbers
- Dealer stickers or decals on the vehicle



TIME FOR DISCUSSION