

Indicators of possible bribery or corruption

Tax examiners and auditors need to be aware of the indicators of possible bribery or corruption to ensure they can be taken into account when planning an examination, and can be recognised when they are present. This chapter categorises the main indicators of possible bribery or corruption that may arise during the compliance risk analysis process for selecting the cases, during the examination of a tax return, the planning of a tax audit and during the audit itself.

Indicators of possible bribery or corruption can be discovered in a wide range of places. The most obvious of these include tax returns, bank records and financial accounts, including income statements, balance sheets and cash flow statements. However, tax examiners and auditors may also look for indicators in publicly available information including news articles, websites about relevant industries or geographic regions, and databases on fair market prices (to compare the terms of contracts with market norms). Internal audit reports, court reports and anonymous tip-offs may also prove useful sources of information, though any information provided anonymously should be thoroughly verified with independent evidence.

Bribery and corruption can take place in many different situations and at all levels of public and private sector organisations. Tax examiners and auditors should be aware of the possibility of corruption in the public sector arising in transactions which involve a Politically Exposed Person (PEP), due to their high level of influence. A PEP is a person who has been entrusted with a prominent public function, such as a senior political figure, as well as the close relatives and business associates of such a person. Because of the increased money laundering risk posed by PEPs, financial institutions and certain other bodies are required to keep records of transactions and accounts involving PEPs. To assist institutions in identifying PEPs, a number of public and private organisations maintain lists of PEPs, and it may be possible for tax examiners and auditors to access these lists in the course of their enquiries.

For the purposes of this Handbook the indicators of possible bribery or corruption have been categorised into five broad groups, which are discussed in the following chapters. In practice, most indicators that a tax examiner or auditor are likely to come across will relate to taxpayers who are making bribes or other payments related to corruption, and these are covered in the next four chapters. Many of the indicators included in these four chapters are also relevant when considering the position of someone who may have received the proceeds of bribery or corruption. However, the fifth chapter in this Handbook looks at indicators of possible bribery or corruption that are particularly relevant to these recipients. These next five chapters are:

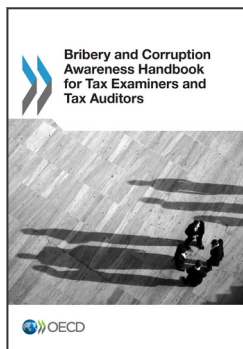
- Indicators concerning the taxpayer's external and internal risk environment.

- Indicators concerning the taxpayer's transactions.
- Indicators concerning payments and money flows.
- Indicators concerning the outcomes of the taxpayer's transactions.
- Indicators specifically concerning recipients of the proceeds of possible bribery or corruption.

Even a single indicator of possible bribery or corruption should be taken seriously, and may mean that a tax examiner or auditor should pay increased attention to try and identify other indicators or possible evidence before reaching a decision to refer a possible offence. Where bribery or corruption is present, indicators rarely exist in isolation. This is shown in each of the next five chapters, which include examples taken from real world cases where tax examiners or auditors identified key information that resulted in, or contributed to, a corruption investigation.

Wherever a tax examiner or auditor suspects they are dealing with a taxpayer or official who may be involved in bribery or corruption, they should consider for the purpose of determining the civil tax liability of the parties involved, extending their enquiries to look for indicators on the other side of the bribery or corrupt transaction. This may include contacting the tax administration in another country, if the suspected bribery or corruption is taking place across national borders.

A complete list of all the indicators referred to in these chapters is included in Annex C.



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