GUIDE TO FORENSIC ACCOUNTING INVESTIGATION TECHNIQUES APPLIED TO FOREST CRIME
Technical Toolkit for Investigators and Prosecutors

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- Environmental Bureau – Peruvian National Police (PNP-DIRMEAMB).
- National Superintendency of Customs and Tax Administration (SUNAT).

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ABBREVIATIONS
AND ACRONYMS

ARFFS: Regional Forestry and Wildlife Authorities
FEMA: Public Prosecutor’s Office for Environmental Crime
IFFs: Illicit Financial Flows
FISLAVE: Public Prosecutor’s Office for Money Laundering and Loss of Domain Crimes
GTF: Timber Transport Permit
GFAT: Guide to Forensic Accounting Investigation Techniques
GORE: Regional Government
AI: Artificial Intelligence
PGMF: General Forest Management Plan
PNP: National Police of Peru
SERFOR: National Forest and Wildlife Service
SUNAT: National Customs and Tax Administration
ICT: Information and Communication Technologies
FIU-PERU: Peru Financial Intelligence Unit
UNODC: United Nations Office on Drugs and Crime
GPWLFC: Global Programme for Combating Wildlife and Forest Crime
BACKGROUND

This Guide to Forensic Accounting Investigation Techniques applied to Forest Crime is an output of the Criminal Justice Responses to Forest Crime in Peru project, developed by the United Nations Office on Drugs and Crime (UNODC) with the financial support of the Federal Ministry for Economic Cooperation and Development (BMZ) of Germany, the Foreign, Commonwealth and Development Office of the UK and in collaboration with the UNODC Global Programme for Combating Wildlife and Forest Crime and national authorities including the Public Prosecutor’s Office, Peru’s Tax and Customs Authority (SUNAT), Financial Intelligence Unit (FIU-Peru), and the National Police of Peru (PNP).

This guide provides fundamental concepts of forensic accounting and outlines how investigators can apply an analysis of financial and commercial transactions carried out by individuals or legal entities (companies) for investigations of economic crimes/illicit financial flows with links to the illegal timber trade. Financial and commercial transactions always leave a trace, record, or evidence behind - such evidence can be found through the orderly and systematic use and analysis of financial statements and various accounting indicators which can serve as an essential tool for investigators to address cases of illicit financial flows (IFFs) linked to forest crime and other related crimes.

Based on the exchanges held in Lima with the Interagency Working Group officials from SUNAT, FIU-Peru, and FEMA, the members involved became aware of the need to develop tools to support specialists from these institutions to become familiar with forensic accounting
investigation techniques and financial investigations linked to forest crime. In addition to providing training, it was necessary to develop a reference tool with all sectoral specialists responsible for conducting investigations. In this context, the Working Group members proposed developing a guide on financial investigation matters which can be used by national authorities, including prosecutors and investigators when working on forest crime investigations with links to IFFs, thus standardizing such investigation procedures with more effective responses to broader organized crimes.

The guide is the output of a series of interagency workshops and meetings with the collaboration of Working Group specialists and was also reviewed and validated by project counterparts comprised of the above authorities. The techniques and procedures described in this publication are based on a compilation of best practices and national and international knowledge on forensic accounting and financial investigations, as proposed by Working Group members, and within the legal and institutional response framework in Peru. It should be noted that this document is not legally binding, it has been designed to provide reference information, illustrate good practices, and provide technical assistance to build investigative capacities on cases of illicit financial flows linked to forest crime.
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section 01
OVERVIEW
1.1 SCOPE AND OBJECTIVES

The *Guide to Forensic Accounting Investigation Techniques applied to Forest Crime* has been developed in order to promote more effective investigations, prosecutions, and actions from law enforcement authorities responsible for combating forest crime, related offences, and illicit financial flows. This document raises awareness of the improved criminal justice responses and best practices for financial crime investigations conducted under the Peruvian legal framework.

Recent studies report that over 40% of the forestry sector is comprised of timber of illegal origin with illicit financial flows of more than USD 150 million annually. Evidence shows that the illegal activities linked to the illegal timber trade and illegal deforestation activities include corruption, fraud, tax evasion, money laundering, organized crime among others. As a result, national and international markets are flooded with large volumes of illegal timber and deforestation expanding at an alarming rate. The importance of understanding and addressing illicit financial flows related to the forestry sector in Peru has never been greater.

There are several laws and legal mechanisms to address environmental crimes and illicit financial flows in Peru. Forest crime is increasingly recognized as crimes that are driven by

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Recent studies report that over 40% of the forestry sector is comprised of timber of illegal origin.

money laundering, tax evasion, corruption amongst others. These high-level crimes require a multidisciplinary and multi-agency response to detect the illicit activities and the illicit financial flows they generate from the illegal exploitation of natural resources.

One of the main strategies to countering the criminal networks behind forest crime has been to target the financial gains derived from these illicit extractive activities and make this activity less profitable and attractive for the actors involved. The forensic accounting techniques available to investigators and prosecutors seek to deprive criminals and networks of the necessary resources to continue their criminal activity.

To effectively combat this threat, the Peruvian criminal justice authorities must be equipped with applicable legal tools to strengthen their responses. In order to respond to the complexity of illicit financial flows linked to forest crime, this guide aims to:

- **Enhance knowledge of national authorities on forensic accounting techniques** which can be used to identify criminal activity and strengthen investigations against forest crime, related offences, and illicit financial flows.

- **Strengthen national authorities’ technical capacities** with specialized investigation techniques and best practices to effectively respond to illegal timber trade cases.

- **Promote interagency collaboration** to conduct parallel joint investigations using different specialized agencies and experts.

The guide is intended to be a user-friendly technical knowledge tool for rapid information and practice for authorities that carry out investigations and enforcement activities against forest crime.
The guide is divided into four sections with a:
1) General Overview of the guide 2) Introduction to Forest Crime and Illicit Financial Flows 3) Information on the Concept of Forensic Accounting and 4) Best Practices. The second section of the guide presents forest crime and specifically the illegal trade in timber and its connection to IFFs with Section 3 – the heart of the guide featuring forensic accounting materials and its application for investigations.

The guide also includes specialized investigation techniques and best practices for inter-agency cooperation on financial investigations. The fourth section examines national mechanisms for asset seizure, recovery, international best practices, and global trends in financial investigations. Professionals using this guide should apply it in the context of their work and national institutional procedures and legislation. The guide is not legally binding and serves as a reference tool.
Guide to Forensic Accounting Investigation Techniques
applied to Forest Crime
1.2 METHODOLOGY

This guide was developed under the leadership of the Interagency Investigation Team composed of FEMA, SUNAT and FIU-Peru (members of the Forest Crime Platform) specialists and international experts under the Criminal Justice Responses to Forest Crime in Peru project aimed at strengthening national capacities on investigations of forest crime. The development process and methodology was established based on a collaborative process across the design, development, and review phases as directed by national partners and UNODC. Participants included prosecutors, police, customs officials, and financial analysts who provided experiences in conducting financial investigations and responding to forest crime cases.

The joint process, facilitated by UNODC, aimed at collecting information and experiences at the national level, both from law enforcement authorities and the financial authorities responsible for combating illicit financial activities linked to forest crime. With the participation of national authorities, workshops and feedback activities were carried out under the guiding principles of interagency collaboration, teamwork, efficiency, transparency, and consensus. These activities took the form of group work and virtual workshops.

The guide’s structure and main concepts were agreed upon and discussed jointly by a group of specialists from the Interagency Investigation Team at a workshop held in Lima in February 2020. Following this, consultations were held with members who attended the workshops and inputs were compiled and consolidated into a draft document. In a virtual meeting held in August, this document was presented and jointly reviewed to add technical inputs to finalize the guide.
section 02

Forest Crime and Illicit Financial Flows (IFFs)
There is no universally accepted legal definition of forest crime. However, for the purposes of this guide, forest crime is defined as a subset of environmental crimes, consisting of any criminal violation against national or international laws designed to protect forests.

Forest crime can be referred to as the extraction, trade (supply, sale, or trafficking), import, export, transformation, possession, harvest, and consumption of timber and other forest products, and related offences in violation of national or international law. In Peru, under the Criminal Code Section XIII, Chapter II - Crimes against Natural Resources classifies a criminal offence as any activity linked to the depredation and illegal trafficking of natural resources, including those actions by public officials or servants who unlawfully grant licenses and give false information. The Criminal Code punishes any illegal activity which takes place along the different stages
Illegal logging of timber forest products. Illegal trade of timber forest products. Art. 310-A

In order to make this regulation effective, the Intervention Protocol in Extraordinary Interdiction Actions against Illegal Logging was issued, approved by Resolution of the National Prosecutor’s Office 1787-2016-MP-FN.

Additionally, Legislative Decree 1220 establishes special measures to combat illegal logging. The objective of this regulation is to guarantee the protection of Peru’s forests from illegal activities and promote compliance with laws and sustainable forestry sector activities. To this end, it establishes specific operational actions to be enforced jointly with the justice operators, such as confiscation, destruction of objects associated with an offence related to illegal logging and the activities described in article 310-A of the Criminal Code (illegal trade in timber goods)³. (Annex 2)

³ The Legislative Decree 1220 establishes measures for the fight against illegal logging. This regulations measures is in place to protect the conservation of Peru’s forest heritage.
To cut and/or remove, all or part of *timber forest specimens*, whether natural or planted, without holding a permit, license, authorisation, concession or other enabling title, issued by the competent authority or when these permits are expired.

This also covers similar activities when they are carried out in *unauthorised areas*, in quantities in excess of those permitted or other actions contrary to the regulations on legal harvesting.

To acquire, collect, store, transform, transport, conceal, guard, market, ship, load/unload, import, export or re-export *timber forest products or specimens*, whose illicit origin is known or can be presumed.
2.1 TRACEABILITY OF FOREST RESOURCES

This guide focuses on selective logging activities where timber has been illegally harvested for economic gain through illegal it’s commercialization. Knowledge of timber traceability systems and information is crucial to verify that raw timber goods come from sources which are of legal origins. Timber traceability systems are used to provide information on the journey of timber goods from the forest to markets.

In Peru, the national Forest and Wildlife Service (SERFOR) is the entity in charge of developing transparency mechanisms to verify the legal origin and custody of timber, as well as establishing instruments that guarantee the traceability of timber goods. On October 29, 2019, SERFOR issued Executive Resolution 230, called “Traceability of Timber Resources”. This document establishes the traceability parameters of forest products throughout the different stages of the timber supply chain:

**FOREST HARVESTING**

In this stage, logging, cutting, and dispatching activities are carried out. Here, it is important to make sure that each log is marked with the Id code of the tree it comes from.

**PLANNING**

This stage consists of the approval of the Forest Management Plan that contains information drawn from the forest census including the location of the trees (UTM coordinates). A code is assigned to each tree and its species is also registered.
COMMERCIALIZATION
This is carried out during the course of the production chain in order to supply the national and international market, the latter includes the export of forest products and by-products.

SECONDARY TRANSPORTATION
Timber goods are moved from and between primary and secondary transformation centres, warehouses and markets.

SECONDARY TRANSFORMATION
This is the transformation process to which forest products and by-products from a primary transformation industry are subjected to obtain additional added value.

PRIMARY TRANSPORTATION
This stage consists of moving timber forest products from the harvesting areas to the manufacturer, warehouses or trading centres. A Timber Transport Permit (GTF) is used to move timber forest products.

PRIMARY TRANSFORMATION
This is the first transformation process of raw wood timber goods and by-products (usually in log form).

5 FAO, 2016: Traceability: A management tool for companies and governments.
2.1.1 TRACEABILITY TOOLS FOR TIMBER RESOURCES

To ensure the traceability of timber resources throughout the value chain, the Peruvian Government has established the following tools:

- **Forest Management Plan.**
- **Operations Logbook** recording the timber forest harvesting licenses.
- **Operations Logbook of the Primary transformation facility** for timber forest products and by-products.
- **Timber Transport Permit (GTF).**
- **Software to issue and register GTFs** from license holders and primary transformation facilities.
- **Software to register information and reports in the Operations logbook** regarding timber harvesting licenses.

LIST OF DOCUMENTS REQUIRED FOR DOMESTIC TRANSPORTATION OF TIMBER
### LIST OF DOCUMENTS REQUIRED FOR EXPORTING TIMBER

- **Packing list**
- **Commercial Invoice**
- **Bill of lading**
- **Customs Declaration Form**
- **Phytosanitary Certificate**
- **Certificate of Origin**

1. **Log list**
2. **Timber Transport Permit (GTF), natural condition**
3. **Timber Transport Permit, finished product**
4. **Timber Weight and Size Certificate**
5. **Affidavit**
6. **Carrier’s Permit**
7. **Sender’s Permit**

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Together with the Peruvian national counterparts, authorities identified six different scenarios in which authorities can quickly identify where illegal activities related to the timber trade take place. This guide refers to this concept as the *Six Crime Scenarios of the Illegal Timber Trade* and represents the six scenarios of different crimes which can occur in the Peruvian Criminal Code. These scenarios cover all crimes that may take place throughout the entire process from accessing forest resources to the commercialization of timber. These crimes can be carried out by either individuals or legal entities whom seek to misguide authorities with legal activities as a way of evading government control mechanisms and then engaging in the illegal trade of timber.

The concept of crime scenarios provides a holistic and rapid overview enabling national authorities to identify and track not only forest crime but also other criminal activities related to the illegal trade in timber. The following diagram highlights elements of the six scenarios including how to identify crimes with admin documents and possible sanctions:
1 ACCESSING FOREST RESOURCES

APPLICATION OF LOGGING AUTHORISATION LICENCES
- Concessions
- Permits
- Authorisations
- Application of logging authorisation licence
- Preparation of management tools: PGMF, OP (forest consultant)
- Forest census

APPROVAL OF LOGGING AUTHORISATION LICENCES
- On site visit
- Technical report from on-site inspection
- Approval by resolution
- Mobilisation report

INDIVIDUAL OR LEGAL ENTITY

FOREST MANAGEMENT REGULATIONS
ARTICLES OF THE FOREST MANAGEMENT REGULATION:
- Art. 39. Licenses
- Art. 41. Minimum conditions for the license applicant and administrative activities
- Art. 54. Forest Management Plan
- Art. 56. Types of Forest Management Plans
- Art. 80. Granting of concessions for timber purposes

CRIMINAL CODE
- Art. 314. Public Official’s liability for unlawfully issuing licenses
- Art. 314-B. Liability for providing false information in reports
- Art. 427. Document Forgery
- Art. 428. Ideological Falsehood

2 TIMBER EXTRACTION

Authorised extraction based on the management plan
- Supervision and control of authorised harvesting activities (Legislative Decree 1085)

OSINFOR

FOREST MANAGEMENT REGULATIONS
ARTICLES OF THE FOREST MANAGEMENT REGULATION:
- Art. 54. Forest Management Plan
- Art. 58. Timber Extraction
- Legislative Decree 1085

CRIMINAL CODE
- Art. 310. Crimes against forest and forest formations
- Art. 310-A. Illegal Trafficking in Forest Products
- Art. 427. Document Control
- Art. 428. Ideological Falsehood

The Forest Crime Scenarios provide a holistic and rapid understanding for national authorities of the criminal conduct in the illegal timber trade.
3 PRIMARY TRANSPORT

Authorized collection based on Management Plans
Mobilization of forest products based on authorized Timber Transport Permits

ARFFS (Regional Forest Authority)
Authority in charge of forest administration and control (in some cases SERFOR)

FOREST MANAGEMENT REGULATIONS
- Art. 168. Proof of Legal Origin of Forest Products and by-products
- Art. 169. Traceability of Forest Resources
- Art. 171. Forest Operation Logbook
- Art. 172. Timber Transport Permit
- Art. 173. Special Condition for the Transport of Forest Specimens, Products or By-Products
- Art. 199. Supervision of Portable Sawmills, Forest Truck, and Transportation Vehicles

CRIMINAL CODE
- Art. 310-A. Illicit Trafficking of Timber Products
- Art. 310-B. Obstruction of Proceeding
- Art. 314-B. Liability for false statements contained in reports
- Art. 427. Document Forgery

4 PRIMARY TIMBER TRANSFORMATION FACILITY

License to Set Up a Transformation Centre
Control of unprocessed products entering the Primary Transformation Centers (PTCs)
Regular Inspections
Operations Logbook
Timber Transport Permit (GTF) are required to dispatch or mobilise processed products, except furniture, handicrafts, and related items

ARFFS
Forest administration and control authority (in some cases SERFOR)

FOREST MANAGEMENT REGULATIONS
- Art. 168. Proof of Legal Origin of Forest Products and by-products
- Art. 169. Traceability of Forest Resources
- Art. 171. Forest Operation Logbook
- Art. 172. Timber Transport Permit
- Art. 174. Facility Operating License for Primary transformation facilities, Collection Points, Storages, and Trade Centres

CRIMINAL CODE
- Art. 310-A. Illegal Trafficking in Forest Products
- Art. 310-B. Obstruction of Proceedings
- Art. 314-B. Liability for false statements contained in reports
- Art. 427. Document Forgery
- Art. 428. Ideological Falsehood
License to Set Up a Storage and Commercial Facility

All products purchased must have a GTF

Regular Inspections

Operations Logbooks

ARFFS

Forest administration and control authority (in some cases SERFOR)

FOREST MANAGEMENT REGULATIONS

- Art. 168. Proof of Legal Origin of Forest Products and by-products
- Art. 169. Traceability of Forest Resources
- Art. 171. Forest Operation Logbook
- Art. 172. Timber Transport Permit
- Art. 174. Facility Operating License for Primary transformation facilities, Collection Points, Storages, and Trade Centres
- Art. 175. Obligations of primary transformation facilities, collection points, storages, and trading centres for forest specimens, products, and by-products
- Art. 198. Control of transformation centres, collection points, storages, and trading centres

CRIMINAL CODE

- Art. 310-B. Obstruction of Proceeding
- Art. 314-B. Liability for false statements contained in reports
- Art. 427. Document Forger
- Art. 428. Ideological Falsehood

EXTRACTION

Customs control

CITES Authorization

SERFOR grants Flora and Fauna Export Permits, in accordance with the LFFS and international agreements

SUNAT and SERFOR

FOREST MANAGEMENT REGULATIONS

- Art. 200. Control of legal origin of imports and exports
- Art. 201. Audit of exporters and producers of forest products

CRIMINAL CODE

- Art. 310-A: Illegal Trafficking in Forest Products
- Art. 310-B: Obstruction of Proceeding
- Art. 427: Document Forgery
- Art. 428: Ideological Falsehood
2.3 RELATED OFFENCES

Forest crime are associated with other criminal activities referred to as related offences (or cross-over crimes). These are deemed as significant offences which cross-over with the illegal timber trade (considered a predicate crime) and are widely regarded as the underlying drivers/facilitators of this illicit trade and other environmental crimes by generating illegal proceeds/funding for criminal activities (from money laundering, tax evasion etc.) and using “enabling” offences of corruption or fraud\(^8\) to further stimulate the trade. It has been well-documented that forest crime networks involved in illegal logging and timber trafficking operate above these predicate crimes through other organized crime and related offences activities.

Related offences drive or enable forest crime – these include illicit activities like money laundering, tax fraud, corruption, amongst other organized crimes which are some of the most notable offences linked to forest crime. The illegal timber trade consists of a wide range of illegal activities embedded in legitimate trade, making it difficult to detect such activities. Criminals frequently violate

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\(^8\) Enhancing the detection, investigation and Disruption of Illicit Financial Flows from Wildlife Crime, Research Report - APGML, UNODC (2017).
different processes within the timber value chain by engaging in illicit practices such as obtaining forged permits, inventories and operation plans, as well as fake transactions and smuggling.

The main related offences identified by national authorities include the following:

TAX EVASION AND CONTRABAND

TAX EVASION AND SMUGGLING
These offences involve unlawful activities in which individuals or legal entities conceal assets or income from SUNAT or overstate deductible accounts, in order to pay less taxes. For the purposes of this guide, tax crimes are:

- **Tax fraud**: Occurs when and individual or legal entity intentionally falsifies information on a tax return to limit the amount of tax liability payable by law by them or a third party by resorting to scam, deceit or any other fraudulent means, the taxes established by law are not paid in whole or in part.

- **Tax crime for drawing up, receiving, selling or acquiring false invoices**: Occurs when any title, invoice, carrier’s permit, sender’s permit, credit notes or debit notes are issued, received, sold or acquired with the purpose of committing or making possible the commission of crimes classified in the Criminal Tax Law.

CUSTOMS CRIMES
According to articles 1, 2, 3, 4, 5 and 8 of Law 28008, Customs Crimes Law, the main crimes for the purposes of this guide are the following:

- **Customs Fraud**: Any fraudulent attempt, by deception, trickery, cunning or other fraudulent means, to avoid payment of, all or part of, the customs duty (tariff or tax) levied on an import operation.

- **Smuggling**: illegal movement of goods that consists of by-passing, evading or circumventing customs controls.

- **Trafficking of prohibited or restricted goods**: Consists of bringing into, or removing from, a country those items whose import or export are banned by resorting to scam, or violating specific regulations.
Corruption crimes are dishonest or fraudulent acts conducted by public officials typically involving the solicitation or acceptance of an undue advantage, for that official to deliver or refrain from delivering a duty inherent to their position. Examples of corruption referred to in the United Nations Convention against Corruption (UNCAC) include:

**Article 15:** Bribery of national public officials

Each State Party shall adopt such legislative and other measures as may be necessary to establish as criminal offences, when committed intentionally:

a) The promise, offering or giving, to a public official, directly or indirectly, of an undue advantage, for the official himself or herself or another person or entity, in order that the official act or refrain from acting in the exercise of his or her official duties;

b) The solicitation or acceptance by a public official, directly or indirectly, of an undue advantage, for the official himself or herself or another person or entity, in order that the official act or refrain from acting in the exercise of his or her official duties.

In these cases, the Public Prosecutor’s Office of Peru may request information from the FIU through a National Information Request (SIN) form or Technical Assistance (ATE), under investigations of money laundering and terrorist financing. This request must include the tax resolution ordering the investigation and the request for information (or through the Communication System with Requesting Entities - Sistema de Comunicaciones con Entidades Solicitantes - SCES). Within the framework of joint investigation and prior exchange of information, the FIU will send a Financial Intelligence Report (FIIR) to the requesting public institution.

Money laundering aims at intentionally making funds or assets obtained through illicit activities (predicate offenses) look legitimate through a series of conversion transactions in order to introduce them into the legitimate economic-financial system, thus making them appear legal.

This crime is set out under Legislative Decree 1106 and consists of the process of disguising or concealing the origin of illegally obtained money, goods, assets or profits gained through criminal means, usually involving a complex sequence of transactions.
Article 18: Influence Peddling (Trading in Influence)
Each State Party shall consider adopting such legislative and other measures as may be necessary to establish as criminal offences, when committed intentionally:

a) The promise, offering or giving to a public official or any other person, directly or indirectly, of an undue advantage in order that the public official or the person abuse his or her real or supposed influence with a view to obtaining from an administration or public authority of the State Party an undue advantage for the original instigator of the act or for any other person;

b) The solicitation or acceptance by a public official or any other person, directly or indirectly, of an undue advantage for himself or herself or for another person in order that the public official or the person abuse his or her real or supposed influence with a view to obtaining from an administration or public authority of the State Party an undue advantage.

Article 19: Abuse of functions
Each State Party shall consider adopting such legislative and other measures as may be necessary to establish as a criminal offence, when committed intentionally, the abuse of functions or position, that is, the performance of or failure to perform an act, in violation of laws, by a public official in the discharge of his or her functions, for the purpose of obtaining an undue advantage for himself or herself or for another person or entity.

Many forms of corruption are classified in the Criminal Code, in articles 393 to 401-C; however, there are certain forms that are more frequent, and that tend to cross-over with forest crime. In general, the most common form of corruption in the forestry sector is bribery, which occurs when a public official or servant accepts a gift, benefit or promise to carry out or refrain from acting in violation of his or her public or legal duty.

Examples of corruption include bribery of public officials, Influence trafficking and abuse of functions.
2.4  TYPOLOGY OF RELATED OFFENCES LINKED TO FOREST CRIME

A crime typology provides an understanding of commonly observed criminal conduct, practices, or activities about a particular type of crime. Typologies provide a general understanding to identify key factors in crimes using real-world examples. These are especially useful for investigators to understand common and essential characteristics of crimes under targeted investigations.

Different typologies include descriptions of a series of factors and acts of the criminal actors involved. For example, in the case of a company, this means its areas of work, its business history and common transactions. Each crime type may describe the motive, the laws violated, the circumstances of the event, the connections to other crimes, the victims involved, and the frequency of the unlawful behaviour.

Each crime typology may describe the motive, the laws violated, the circumstances of the event, the connections to other crimes among other factors.
These typologies can also describe various angles of the criminal acts for investigators. A typology can reveal different aspects of the crime: legal, physical, individual, environmental, sociological, and economic-financial. In the case of the illegal timber trade in Peru, the following typologies for related offences have been identified:

**TAX FRAUD:**
Financial investigations carried out in the past have revealed that timber exporters have falsified their tax returns to receive import duty rebates as incentives for the export of illegal timber.

The state tax rebate mechanism (called drawback) for exporters which they are returns of duty taxes they pay in importing countries. The investigation showed that exporters overvalued timber shipments and received amounts of the drawback higher than those they were entitled to. Informal arrangements between importing and exporting companies were also uncovered. In such arrangements the timber companies agreed to use false declarations and reaped the benefits of the rebates system.

After detecting the illegal timber and the companies involved in these schemes, authorities were able to reject millions of dollars in tax refunds during their investigations as they confirmed that the timber had been harvested unlawfully with falsified documentation.

**CORRUPTION:**
This typically occurs when officials issue timber transport permits and other legal documents with falsified information and profit from these actions through bribes and illegal payments. This includes cases in areas where timber is extracted from unauthorized areas and officials are working with illegal logging networks in these areas to traffick timber shipments to checkpoints that are also involved in the schemes allowing illegally extracted timber to be transported with falsified documents. These falsified permits allow illegal timber trafficking to bypass checkpoints and controls across the entire country. This timber can come from protected natural areas and other areas outside harvesting sites, where extraction is illegal and subject to limited control.

Criminal networks involved in timber trafficking then exploit the profits from trading at the end of the supply chain by dividing the proceeds, often through cash payments. Bribe obtained through corruption are also a major challenge that facilitates the illegal timber trade (Annex. 5 Case Study).

* Checkpoints may also be involved and may allow timber to go through and even delete any record or trace of the movement of timber.
MONEY LAUNDERING:
the operator of a lumber company (Company X) involved in money laundering is part of a family group that has established a number of companies engaged in the timber trading industry. These commercial operations cover a broad range of activities in Peru and multiple operations abroad. The company works with foreign importing companies that, according to the authorities, use falsified documents.

The main operator also works with a partner company (Company Y) that has several operators that provide different services for wood production. The owners involved in company Y have been found to be front men for company X, and both benefit from illicit transactions that take place abroad (tax evasion and money laundering)\(^9\). This example demonstrates how companies with illegal timber production operations make funds obtained through illicit activities look legitimate and further stimulate their illegal business operations using a multi-stakeholder scheme.


- Mixing of personal and commercial financial transactions
- Failure to report commercial / personal taxes.
- Multiple deposits not consistent with the trade purpose
- Cash deposits made in high-risk areas for illegal logging
- Irregularities with expenses linked to the purpose of the account
- Cash transactions and cash and wire transfers patterns through FOREX, Western Union
- Use of third persons for banking services
- Rapid cash movement: cash in / cash out
MONEY LAUNDERING SCHEMES

Offshore company (Shell/ghost/paper) Pays Y

Expenses/legal investments

Integration

Illegal transactions and movements of illegal timber profits

Layering

Investment company Pays Z
Financial loan

Investment

Placement of goods or money

Financing through legitimate money

Purchase of assets/properties/projects, etc. Pays XYZ

Pays X

ILLEGAL TIMBER BUSINESS OPERATOR
Criminal networks exploit forest resources in several ways throughout the various phases of the timber value chain: timber extraction, transport, transformation, and trading in domestic and international markets. Common modus operandi related to the illegal timber trade is highlighted in the graphic attached:
The 2nd level regional forestry official, in breach of his duties, issues a technical report intentionally recommending the approval of the PGMF, knowing it contains fake data.

Once approved, the authorized volumes are sold through the Timber Transport Permits, with information about the extraction and river transport of logs of various species from the extraction area to their final destination.

The timber transport permit is stamped and signed (by the forest authority) by the checkpoints along the river to demonstrate that the documents, logs, and carrier have actually gone through such checkpoints.

Once the license has been issued, the holder performs the following activities: extraction of unauthorized forest product (does not match authorized species), extraction of timber forest product from an unauthorized area, extraction of a volume of timber forest product that does not match the information in the management plan.

The Regional Forestry Official (in charge) approves the Technical Report without any control, issuing the respective authorization for the extraction and mobilization of volumes of timber that do not exist in the area.

The forest consultant is in charge of formulating the General Forest Management Plan (PGMF) does so with fake or overestimated forest inventory.

Once the Timber Transport Permit is issued, it is accepted and exchanged by the forestry authority with the fake information it contains, resulting in an official record, falsely certifying to have controlled the logs, documents, and carrier.
The money laundering process is generally divided into three stages:

1. **Placement**: Illicit proceeds are deposited into the financial system (for example, through trade).
2. **Layering**: When financial transactions are made available to conceal the criminal origin of proceeds or to separate the proceeds of criminal activity from their origin (for example, transactions using different accounts, countries, and companies).
3. **Integration**: Laundered funds are reintroduced into the legitimate economy (appearing to have originated from a legitimate source).
As forest crime is increasingly recognized as a predicate crime for money laundering and other related offences, there is a greater need to harmonize responses and build joint work between justice sector, environmental authorities and financial investigative agencies to carry out parallel investigations that can result in applying higher penalties against cases of financial crime, corruption, organized crime to counter illicit activities in the forest sector.

Other types of crimes that require further identification and development in the framework of forest crime include the following criminal areas:

- **Bank Transfers**: proceeds are transferred electronically between financial institutions in different jurisdictions to avoid detection and confiscation.

- **Business Investments (Blending of Funds)**: This means blending the money from illicit activities with funds from legitimate business operations to conceal the source of the funds.

- **Cash Mules**: These are people used to physically move cash originating from illicit operations.

- **Currency Exchange**: This is a method used to favour the smuggling of funds to other countries, taking advantage of the minimum information requirements or weak regulations, reducing the risk of detection.

- **Purchase of Valuable Property and Assets (Asset Purchase)**: This consists in using illicit proceeds and purchasing assets to conceal wealth and the criminal origin of proceeds, and transfer them to other jurisdictions and conceal their source (gold, real estate).

- **Trade-based Money Laundering**: This consists of timber exports with tampered invoices and trade financing routes and commodities to circumvent financial transparency laws and regulations.

- **“Smurfing”**: This method is used by criminal networks and involves a large number of financial transactions (deposits, withdrawals, transfers), using several people and smaller transactions with different accounts to avoid detection.

- **Use of Foreign Bank Accounts**: with the purpose of avoiding the interdiction of funds by national authorities and concealing the identity of the people who control said illicit proceeds.

- **Use of persons acting as the fictitious owners of proceeds, trusts, family members or third parties**: in order to conceal the true identity of the persons responsible for obtaining and benefiting from illicit proceeds.

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ILILICIT FINANCIAL FLOWS (IFFs)

Illicit Financial Flows linked to forest crime undermine economic and political security, the rule of law, and good governance. Forest crimes are strongly related to IFF with indications that these illicit flows cost countries hundreds of millions of dollars and stimulate further criminal activity, especially in rich natural resource rich countries like Peru.

At the global level, IFFs are defined as all cross-border transfers, use or movement of funds derived from illegal activities contravening national or international laws. This refers to the financial flows that are connected with or procured from illicit activities like the illegal timber trade, tax fraud, corruption, among others. Illicit financial flows can be classified into the following three areas:

A. The act of an illegal activity that incorporates illegal tax or commercial finance (tax fraud, fraudulent transfer pricing, import/export crimes).

B. Illicit financing from corruption including bribery, trading in influence, embezzlement, abuse of functions, illicit enrichment.

C. Finance from the transfer of illegal profits from national/international trading of goods/services (exploitation type activities). These crimes are carried out by networks that aim to generate profits from the exploitation of illegally obtained goods, such as trafficking of illegal timber, gold, drugs etc. In Peru, illegal trade of natural resources is an important source of IFFs.

12 Tackling illicit financial flows for Sustainable Development in Africa. 2020. UNCTAD.
For the purposes of this guide targeting forest crime, IFFs can be defined as any funds obtained, transferred or used illegally from illegal timber trade activities. IFFs are linked to markets where trade in goods or natural resources—such as timber—are traded with the intention of obtaining their illicit proceeds. Once illegally exploited, the proceeds of these assets are often redirected to other illicit activities or to facilitate more of the same illicit activity. Illegal funds are used at any point of the supply chain and may also include legal assets in order to circumvent control. **It is important to understand the characteristics and strategies to respond to IFFs related to forest crime in order to:**

- Better identify the risks and vulnerabilities of financial crime in the illegal trade in timber.
- Foster multidisciplinary and multi-agency cooperation between government agencies (criminal, financial, administrative authorities).
- Identify guidelines to help investigators and prosecutors capture relevant intelligence and identify and report suspicious activities associated with the illegal trade in timber.
- Develop good practices and strategies which improve financial investigations into forest crime activity and expand investigations to gather evidence against high-level criminal actors responsible for driving the trade through illicit finance and corruption.

**IFFs are linked to markets** where trade in goods or natural resources—such as timber—are traded with the intention of obtaining their illicit proceeds.
The importance of conducting financial investigations and combating IFFs is vital to deterring criminals. Forest crime networks use a variety of financial mechanisms to transfer funds to keep illegal operations moving and to profit from the illegal trade in timber. IFFs are recognized for being a driver of the illegal trade in natural resources. These can be facilitated through illicit financial activity like multiple cash payments, trade-based money laundering, wire transfers through legal businesses, and secondary accounts to conceal identities and assets that are vital to the functioning of forest crime networks.

Illicit financial transactions often occur when the people/companies involved in the extraction, transportation, financing and/or trading carry out illicit activities within this value chain. The timber supply chain is full of informal activities and the lack of oversight makes it an attractive activity for criminal networks to exploit and become involved in corruption, money laundering and trafficking in illicit goods, among others. Financial investigation techniques such as forensic accounting are key to addressing IFFs through specialized investigation techniques, innovative forensic tools, and interagency mechanisms, as detailed in section three of this guide.
In Ucayali, timber commonly arrives to the river ports with volumes of timber from various areas of the Amazon region. Different vessels mobilise between 700 m³ and 1000 m³. Payments for high-value species such as shihuahuaco are made per chata (unit of measurement) at a cost of PEN 500.00, of which about PEN 250 may go to pay off public officials to allow free movement/transport of illegal or suspect timber shipments. Subsequently, to expedite administrative procedures and permits, approximately PEN 250.00 may be paid at the Technical Offices of the administrative authorities, which may include payments of PEN 50.00 per truckload of timber for a fake verification of the timber load. This verification is carried out by forestry engineers inspecting the timber content of each truck registered in the Timber Transport Permit. Once the timber is falsely inspected, it continues on its route to be sold in Lima. The timber load typically passes through about eight checkpoints including Campo Verde, Aguaytía, Tingo María, Rancho, La Aurora, and the entrance to Lima. At each checkpoint, carriers may pay approximately, PEN 200.00; hence a total of PEN 1600 per trip. However, at some of the checkpoints, carriers may pay up to PEN 800 when other control/compliance authorities are present.
FORENSIC ACCOUNTING TECHNIQUES APPLIED TO FOREST CRIME
Accounting is the science of systematically recording all financial transactions and movements pertaining to a business in a chronological order in such a way as to determine the company’s financial operations. These movements and transactions are evidenced in various supporting documents, such as invoices, receipts, and vouchers. These documents are then classified and recorded in physical or digital books (journals and ledgers), which will be the basis for preparing financial statements such as trial balance, income statements, and balance sheets.

This following text in 3.1 describes some of the common accounting documents and records. These documents are vital for officials responsible for preventing, controlling, and investigating financial crimes. Authorities should become familiar with their information and relevance as potential evidence that can be collected, analyzed, and exhibited for broader investigations and prosecutions.
Commercial Invoice:
A negotiable instrument (representing a right) issued by the seller. This invoice represents the sale of goods or delivery of service actually and materially delivered to the buyer. Therefore, the invoice is sufficient to prove the existence of a clear, and enforceable obligation that can be legally enforced by the courts.

Invoices must meet several statutory requirements to be considered a negotiable instrument, among which the following may be noted: name or company name of the drawer, taxpayer’s identification number, consecutive numbering approved by the government tax entity, description, quantities of products sold or service provided, unit cost and total amount, settlement of the sales tax, if applicable, reference to the credit granted, signature of its drawer (issuer), due date, date of receipt of the invoice and payment conditions.*

* See subsection 14.4 hereunder for risks or warning signs to consider when analysing invoices.
Cashier’s Receipt:
This supporting document records payments or cash income of individuals or companies (it serves as proof/evidence of payment).

Bank Deposit Stub:
This document is issued by banks to its customers as proof of deposits made in cash or by check.

Proof of Payment:
This is the supporting document issued by individuals or companies paying goods or services by issuing or drafting checks.
**Debit Notes:**

This negotiable instrument is issued by a company to its client and its purpose is to recognize a higher value due to omissions or errors at the time of settling the sales invoice as well as the interest due to financing or late payment of outstanding obligations.

**Credit Note:**

This negotiable instrument is issued when the company grants discounts or rebates to its customers and these were not settled in the invoice, or when the customer returns all or part of the goods.

---

### Debit Note

Company: Ramón Rosario

---

**Amount details:**

---

Total value: 

Authorized by: 

---

### Credit Note

**Tax ID number**

---

**DATE OF ISSUE:** 

**PURCHASER:** 

**MR/MRS.:** 

**TAX ID NUMBER:**

For the following:

<table>
<thead>
<tr>
<th>QUANTITY</th>
<th>DETAILS</th>
<th>P. PER UNIT</th>
<th>TOTAL S/.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**MODIFIED BY:**

---

**SUB TOTAL**

<table>
<thead>
<tr>
<th>VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOTAL S/.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>
**Cash Receipt:**
This is the supporting document of those expenses paid in cash that, given their minimum amount, do not require the drawing of a check.

---

**CASH RECEIPT**

<table>
<thead>
<tr>
<th>CITY:</th>
<th>DAY</th>
<th>MONTH</th>
<th>N°.</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYABLE TO:</td>
<td>$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FOR THE USE OF:</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**AMOUNT IN LETTER:**

<table>
<thead>
<tr>
<th>CODE:</th>
<th>BENEFICIARY’S:</th>
</tr>
</thead>
<tbody>
<tr>
<td>APPROVED BY:</td>
<td></td>
</tr>
<tr>
<td>ID</td>
<td>Tax ID Number</td>
</tr>
</tbody>
</table>

---

**Journal Receipt:**
This is the accounting document that is prepared before making an accounting record and must contain the number, date, origin, description, amount of the transaction and the relevant accounts that are affected by the accounting entry.

---

**DAILY ACCOUNTANT’S RECEIPT**

<table>
<thead>
<tr>
<th>DATE: APRIL 30, 20XX</th>
<th>N°</th>
<th>37</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>CODE</th>
<th>ACCOUNT</th>
<th>PARTIAL AMOUNT</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans receivable from customers/suppliers (C/S)</td>
<td>$20,000.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans receivable (C/S)</td>
<td>$20,000.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for loan losses</td>
<td>$20,000.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for loan losses</td>
<td>$20,000.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Memorandum account receivable from:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans receivable (C/S)</td>
<td>$20,000.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Memorandum account payable to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans receivable (C/S)</td>
<td>$20,000.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EQUAL AMOUNTS</td>
<td>$40,000.00</td>
<td>$40,000.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Concept: Account
**Check:**
This is a negotiable instrument through which an individual or company, called “drawer” orders a bank to pay a specific amount of money to a third party called “beneficiary”. Due to its characteristics, this document makes payment of large amounts of money without the need to carry such large amounts in cash.

**Promissory Note:**
This is a negotiable instrument through which an individual or company called the grantor, agrees to pay a specified sum of money to another person called the beneficiary or bearer.

**Bill of Exchange:**
This negotiable instrument is addressed by one person (the seller of goods or drawee) to another (the buyer or debtor) requiring the latter to pay on demand (a sight draft) or at a fixed or determinable future time (a time draft) a certain sum of money to a specified person or to the bearer of the bill.
This is a detailed account (physical or virtual records) documenting all the transactions of an individual or company in its usual course of business in a chronological order. This record of daily activities includes the name of accounts (including entries), date and amounts.

The record of economic events is called an entry or accounting item. These entries are recorded on the basis of the double-entry system whereby transactions are recorded in terms of debits and credits. Since a debit in one or several accounts offsets a credit in another or several accounts, the sum of all debits must equal the sum of all credits. In other words, the debit account or accounts must reflect everything is an income or debit, i.e. everything that is debited from or into the account, while all expenses or credits must be reflected in the corresponding credit account or accounts.

This is a book, on physical or virtual means, containing the company’s accounts in which the classified and summarised information from the journals is posted as debits and credits in a chronological order. A ledger must contain the date on which the transaction took place, the relevant accounts, and the page of the journal in which the transaction is recorded. The main purpose of this ledger is to post the debit and credit amounts of transactions. The journal entries, listed in a chronological order, post all of the company’s business and financial transactions. The general ledger represents the record-keeping of transactions listed in a chronological order in the different debit and credit accounts.
Example:
A company sells goods for an amount of S/ 820.00 and receives S/ 200 in cash and credit balance. The transaction shall be posted in the records as follows:

SALES OF GOODS
January 5 2020

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>S/ 820.00</td>
</tr>
<tr>
<td>Debit S/ 200.00</td>
<td>Credit</td>
</tr>
<tr>
<td>Clients</td>
<td>Credit</td>
</tr>
<tr>
<td>Debit S/ 620.00</td>
<td></td>
</tr>
</tbody>
</table>
3.2 INTRODUCTION TO FORENSIC ACCOUNTING

Forensic accounting is the science of gathering, analyzing and presenting accounting, financial, legal, administrative, and tax information.\footnote{Some authors consider that the difference between forensic accounting and forensic auditing is that forensic accounting provides financial information for internal and external users, while forensic auditing ensures that the information is reliable and prepared in accordance with norms and regulations.} It provides an accounting analysis suitable to be used by criminal justice officials to prove financial crimes in legal proceedings. Forensic accounting uses a combination of accounting and investigative techniques to examine and prove cases concerning illicit finances or IFFs. It is a specialized investigative science used in particular on money laundering and tax fraud cases. In cases of environmental crime, applying forensic accounting investigation techniques can be of particular usefulness to investigate the related offences where illicit finances and organized crime activities driving forest crime are involved.

This type of investigative skills requires examining different types of financial records to find indicators of money laundering, tax fraud, or other crimes related to IFFs. Forensic accounting provides an analysis of the financial books to be used as evidence in court. Forensic accountants can be considered “financial detectives” who analyse financial transactions to discover illicit activities. Forensic accounting skills can be applied to address forest crime involving IFF cases by identifying the financial footprint of the actors involved and can be used to trace the origin or source of these crimes.
3.2.1

OBJECTIVES OF FORENSIC ACCOUNTING INVESTIGATIONS

The aim of forensic accounting investigations is to analyse and identify potential perpetrators, assets and financial activities or events of an illicit nature, as well as to determine the existence of sufficient evidence to initiate administrative or criminal proceedings. For this purpose, primary and secondary financial information sources and techniques are used, as well as technical procedures that guarantee the quality of “the collection, conservation, custody, presentation and validation of evidence”. Financial interviews and analysis of financial records (physical and digital documents), which are the basis for the construction of testimonial and documentary evidence.

In order to effectively implement the different forensic accounting investigation stages, an initial hypothesis is required in order to focus efforts, resources, and analysis on relevant aspects. It is precisely such hypotheses of the investigation that allow for assumptions to be made about occurrence, based on preliminary information and an initial observation of the scene or context. Throughout the forensic accounting analysis process, such hypotheses will be confirmed or rejected.
3.3 SCOPE AND STEPS OF FORENSIC ACCOUNTING INVESTIGATIONS

Initiating a forensic accounting investigation or financial investigation process requires at first selecting a suitable team and establishing the scope and objectives of the investigation. On the first point, it is important to have specialists who act under the reality of the information available, that is, they must consider the financial and logistical resources, and the institutional objectives, in addition to analysing the human resources (technical capacities) and the time designated for the delivery of results. The scope must be flexible enough to allow for adjustments to be made throughout the steps of the investigation. This information and process should be recorded in a confidential document. The actual forensic accounting investigation process is divided into six steps:
SIX STEPS OF FORENSIC ACCOUNTING INVESTIGATIONS

STEP 1
MAPPING OUT A FORENSIC ACCOUNTING INVESTIGATION

To conduct a successful forensic accounting investigation, you need a clearly structured plan. First and foremost, you must differentiate between the different types of accounting records, namely:

- Source documents, invoices, payment instructions, etc.
- Main entry books, accounting books, cash ledger, journals, etc.
- Accounting books, balances, income statements, etc.

The importance of the trial balance should also be recognised when transferring information from the main entry books to the accounting books. The main determinant of the structure and documents to be used is the nature of the forensic accounting work.

Investigative activities should also be planned within the legal framework in which the investigation will be conducted, considering the current and future scope and resources. At this stage, the procedures, sources of information, instruments, and the size of the sample (selection of persons and/or documents to be analysed) are defined.

STEP 2
GATHERING EVIDENCE

This step seeks to obtain and protect testimonial and documentary evidence, through techniques which include: interviews and documentary analysis (physical or digital). The purpose is to verify the hypotheses, review “personal, equity or commercial background” and inquire about potential conflicts of interest, assets or relevant financial characteristics (such as indebtedness or investments), unknown, personal or family ties, in addition to confirming economic, judicial and current commercial status of the company.

During the forensic interview, the selection of key profiles or potential interviewees is essential to obtain data or information related to the investigated events. For documentary analyses, mainly those with digital information sources, skills are required to triangulate a variety of information (clouds, emails, programmes, servers, devices, among others) and establish the traceability of data. Likewise, it is necessary to have experience in establishing keywords or algorithms to optimise searches of common elements, and to establish protocols necessary to recover information that could have been deleted.\(^\text{14}\)

Step 3
Information Analysis

In first instance, the “information analysis” work should focus on reviewing documents and testimonials with the aim of accepting or rejecting the hypothesis of possible fraud or crime. Following this, it is recommended to review the accounting and financial information and data (records, bank statements, drafts, transfers, deposits, donations, inheritances, assets, etc.), as well as to determine possible new interviews, based on the information obtained in the initial analyses.

In addition to the foregoing, and within the framework of the initial hypothesis of investigation, it is advisable to study the records and archives of the people connected with the institution or company; that is, customers, suppliers, employees, and managers.

Similarly, using accounting records and other internal and external sources of information, forensic accountants should look for inconsistencies to confirm or dismiss the hypothesis such as changes in records, data recorded on unusual hours or days, or other types of inconsistencies in the information of suppliers, customers or employees, or on purchases and sales made.

The hypotheses of fraud or financial crimes are validated by analysing the following sources of information:

- Bank documents.
- Statements and financial payment documents.
- The origin and reception of funds.
- Transfers and use of funds.
- Cash handling.
- Changes in assets.
- Analysis of gifts, donations, or inheritances
- Determination of equity or funds of unknown origin.

If your analysis has identified irregularities to open new cases, the investigation cannot be closed until all findings are complete.
**STEP 4**

**REPORTS**

This step of the forensic accounting investigation corresponds to the preparation and writing of partial and final reports, with the aim of reporting the results obtained throughout the process and as a final report. The interim reports allow for monitoring of actions and findings in order to be able to adjust procedures. On the other hand, the final report must provide sufficient information for decision making, determining whether or not fraud or a financial crime has occurred, as well as indicating the persons involved, the transactions made, and the assets involved with the evidences identified.

In both reports, the language should be simple and easy to understand, and include the following components:

- Executive summary.
- Objectives.
- Scope.
- Findings.
- Glossary.
- Main Content.
- Conclusions.
- Recommendations.
- Annexes (evidence).
- References.
- Bibliography.

**STEP 5**

**CORRECTIVE MEASURES**

After identifying the opportunities for improvement (weaknesses and vulnerabilities) of the institution or company, it is essential to include in the “Recommendations” section of the final report, the proposed improvement plan, the suggestion of corrections and adjustments to the different processes, systems, and subsystems of the institution or company.

**STEP 6**

**CLOSURE**

After the achievement of objectives, identification of findings that allow accepting or discarding the hypothesis, and implementation of corrective measures as appropriate, the investigation is formally closed. If findings have been identified that warrant opening new cases, the investigation cannot be closed. Likewise, in those investigations in which it is not possible to conclude or establish findings, or in which it is not possible to accept or discard the hypotheses, it will be the directors of the institution or company who decide on the continuity or closure of the investigation.\(^\text{15}\).

3.4 THE FOLLOW THE MONEY CONCEPT

IFFs related to forest crime are increasingly complex and sophisticated, as criminal networks accumulate significant amounts of illicit funds and profits not only through forest crime but also through the related offences/cross-over crimes. It is important to understand the concept of Follow the Money to identify crimes and the actors who benefit from IFFs, to map the route and transactions of these illicit finances, understand the drivers and facilitators of financial crimes, and to establish law enforcement responses to investigate and effectively enforce laws.

There is global recognition among international experts for the use of forensic accounting and financial intelligence to combat forest crime and related offences. These concepts are already used globally in other major crimes, including trafficking in persons, arms, and drugs. The Follow the Money concept includes best practices, which are highlighted in the following five steps:
1. **Thinking with a following the money approach.** Devise strategies to investigate illicit financial transactions and gather intelligence on financial crime activity. Thinking about investigations by tracking financial transactions to identify how illicit income is used and how it was moved.

2. **Starting a financial investigation.** Conduct a financial investigation (collection and analysis of information) simultaneously with the criminal investigation of the predicate offence to track the beneficiaries of the illicit activity and effectively build a strong case. This type of intervention offers multiple investigators to trace IFFs to the criminal networks that control these illicit activities. The collection of key financial information on predicate offences detected in forest crimes can help to identify:
   - Motives, associations and links to people and places
   - What instruments were used in the crime
   - Suspects, witnesses or victims
   - Information on a suspect's movements
   - Tracking of assets, transactions and persons

3. **Work with the FIU and partner agencies.** Connect with specialised agencies (specialised prosecutors, public prosecutors, police, customs/tax) with expertise and access to intelligence and investigative powers specialised in financial crime work and conduct parallel investigations as a broader justice sector response.

4. **Use asset recovery networks.** Work with practitioners in the international and national networks to identify, seize, freeze, confiscate, and recover assets from all crimes. These networks can work with specialists around the world to combat financial crime through knowledge transfer, best practices, and capacity building.

5. **Seize the proceeds of crime.** The confiscation of illicitly obtained assets and finances is key to deterring criminals. This requires investigating and tracing property, seeking a judicial outcome on the seizure and forfeiture of the property in accordance with the law (extinguishment of ownership as per Peruvian legislation).
Following the money investigative techniques and effective financial investigations can incorporate forensic accounting techniques that use accounting, auditing, and “financial” investigation skills to conduct an examination of the finances of an individual or company involved in illegal businesses like the ones used by illegal timber trade networks. IFFs can cut across sectors, actors, and countries, highlighting the importance of international cooperation and interagency collaboration with various agencies. This is an important approach that combines accounting and investigative techniques that are used to uncover financial crimes that drive the illegal trade in timber. Forensic accounting techniques can be used in cases of tax fraud, money laundering, and corruption to present the dynamics and scope of forest crime cases with links to illicit financial flows.

**Some key indicators of illicit financial activities in the forest sector which can be used to follow the money include:**

- Public officials working directly or indirectly in the timber sector present irregular financial statements as they make purchases of high value goods that do not correspond to the amount of their income. (e.g., a house, vehicles, luxury items).
- Irregular transactions to finance logging and associated businesses activities such as transport and transformation centres operating in high-risk areas.
- Questionable financial documents on bank loans, customs and shipping documents or letters of credit.
- Questionable sources of cash used for loggers and purchases of heavy equipment used for logging, usually falsified in the financial statements.
- Involvement of or strong connections to politicians, officials, law enforcement authorities with timber intermediaries, timber processing companies, exporters etc.\(^{16}\)

3.5 Types of Forensic Accounting Investigations

When conducting forensic accounting investigations, the selection of accounting records will depend on the hypothesis to be verified and the structured plan designed by agencies. There are different types of forensic accounting investigations according to the objectives set as well as the accounting material available. The two main types that are included in this guide are: monitoring the movement of money and financial reconstructions.
3.5.1 MONITORING THE MOVEMENT OF MONEY

The first and easiest of these categories generally focuses on specific types of source documents, namely, payment/transfer instructions and bank receipts along with cash and bank statements (main entry books). This job, in many cases, does not require a specialised forensic accountant. **Anyone who has been taught to read bank documents, including codes embedded in bank transfer and payment instructions, should be able to conduct this work.**

MONITORING BASED ON SOURCE DOCUMENTS

The first step is to build a financial profile for the person or entity in question. This process involves gathering and reviewing documents and records such as invoices, income receipts, debit notes, credit notes, payment vouchers, cash receipts, tax returns, bank statements, mobile payment account history, investment account statements, credit card statements, life insurance policies, pay check stubs, real and personal property records, and any other financial-related information or statements for the period of time during which questionable activity is suspected.

As these documents are being compiled, build a master list comprised of all identified accounts, including owner’s names, authorised users, associated addresses, or other account
profile information. It is also advisable to identify potential e-mail addresses, social media accounts, and other web-based account information.

When analysing these documents, keep the following tips in mind:

❖ **To identify financial accounts, get physical or electronic account statements directly from the source, where possible.** This helps ensure the integrity of the information. Also, if possible, obtain the information in electronic format so that it can be crossed in various digital search and analysis tools.

❖ **Tax returns provide information concerning wages, business income, and investment income.** They can identify the existence of both real and personal property and the possibility of foreign accounts or trusts. As tax returns reveal sources of income and ties them to specific accounts. For example, if income is listed on the return, but no account is identified, investigate to find an institution, account number, and related statements.

❖ **If a “new” business is uncovered,** in addition to identifying all financial accounts related to this new business and business activity, try to obtain the articles of organisation and/or other ownership information for that business. This can help identify, among many things, the parties involved in an illegal activity and other businesses with which a suspect is associated, and it can even help identify any hidden assets.

❖ **Investment accounts** have long been a popular vehicle to transfer and/or launder illegal funds through the purchase and subsequent sale of financial products and commodities.
Reviewing pay stubs from the relevant period cannot only identify multiple bank accounts but it can also help identify and/or support any unusual spending behaviour and other financial activity.

Mobile payments through online providers such as PayPal and Venmo have become increasingly popular and provide another avenue to divert funds and hiding assets. The transaction history of these accounts should be obtained not only for this reason, but in addition, it provides a paper trail of both the origin and recipient of funds that could uncover hidden accounts or parties associated with a fraud or illegal activity.

Depending on the jurisdiction (state, city), real property records including deeds, liens and other documents identifying ownership of assets are publicly available information. These records can be used to identify any assets not previously reported without the request of a subpoena from the competent authority.

If a recent credit report can be obtained, it can be a useful document to help identify a large portion of these items in a consolidated format. With all the information gathered, the next step is a funds-tracing exercise to analyse deposits to and withdrawals from, each of the identified accounts. Tracing of funds may also reveal more accounts for which statements should be obtained and funds traced. Update the account master list to reflect any new accounts discovered and to record all deposits, withdrawals, and other activity for each account.
When tracing funds, keep the following points in mind:

- **Develop a complete list of suspect’s family/business members and acquaintances, including names, aliases and addresses, and match those names against account statements and transactions to determine if any of the related parties received funds.** Close attention should be paid to any financial transactions with the suspect’s parents, children, siblings, partners, and any of their respective businesses.

- **Any unusual transfers or expenditures deserve special attention, as well as recurring deposits from a bank or brokerage in any amount.** This could uncover dividend-paying stocks or interest-paying bonds.

- **A review of cancelled checks will help to determine whom the checks were paid out to, but also to what account number and institution the check was deposited, which can lead to new hidden accounts.** Again, pay special attention to checks to family members and acquaintances or for unusual amounts or activities.

- **An analysis of ATM withdrawals or credit card cash advances, including aggregated amounts and the locations made, may indicate areas where the suspect is spending a large amount of time and possibly working to hide assets in secret accounts.** Ask for explanations for any large cash withdrawals, whether through an ATM or in person.¹⁷

**BANK TRANSFERS**

Funds or financial capital are moved domestically or internationally through wire transfers carried out by financial institutions or banks, which are monitored and supervised by government supervisory bodies.

Interbank money transfers are normally made between two banks, the sender and the beneficiary or destination bank, and sometimes use the services of a third bank called a correspondent bank. **For these purposes, the BIC (Bank Identifier Code) or SWIFT (Society for World Interbank Financial Telecommunication) code is commonly used** to identify the destination bank. It is an international alphanumeric code that can consist of 8 or 11 characters: Eight-character code: includes information on the institution, each country and the locality.

---

**TRACING MONEY TRANSFER SERVICES**

These transfer services are used by criminal organisations to evade government control and formal banking systems. These include:

- Unregulated money transfer services
- Trade-based money laundering
- Tax evasion and avoidance
- Mobile or app-based payments
- Other payment methods

**Unregulated Money Transfer Services**

These are movements of funds between individuals or organisations whose services are not regulated by government financial institutions. Also referred to as “underground banking”, sometimes operating through a system known as “Hawala” (transfer or wire). One of the
characteristics of this informal system is that the fees are typically low (often one to two per cent) compared to regulated money service businesses, which can charge up to 15 per cent.

**Trade-based Money Laundering**
Trade-based money laundering (TBML) is a commercial and financial manoeuvre, under which criminal organisations use imports and exports of goods to launder money illicitly obtained from a variety of sources, such as smuggling, wildlife trafficking or logging. Methods of manipulation of trade documentation include: over- or under-invoicing, multiple invoicing, false description of goods or fake exports, *inter alia*. 
Tax Evasion and Tax Fraud
This consists of avoiding the payment of taxes by using various methods such as unjustified expenses, reporting non-existent losses, using different commercial invoices (e.g., permits) to hide sales. **Fraud is sometimes committed by claiming tax benefits** (sales tax -VAT- refund paid on the production of goods to be shipped abroad) and other exemptions granted by the government for the export of goods, without actually being entitled to it. In such cases it is common for fictitious exports to take place.

Mobile or App-based payments
Due to the boom in information and telecommunications technology, mobile payments are now used to process payment or transfer funds. **These payment methods allow users to deposit, transfer, borrow, withdraw, and disburse funds through their mobile device.** Account information may be stored on the user’s mobile phone SIM card. Mobile money or technology-based payment systems (such as Yape, Lukita, Tunki in Peru) may be multi-purpose and used for messaging, social networking and mobile payment. Yape or Paypal, for example, requires users to be linked to a bank account or credit card. Users can transfer funds between them to pay invoices and pay purchases on their mobile device.

Other Payment Methods (money transfers):
Other commonly used payment methods occur when people transfer money among them
without providing personal data or intentionally providing fake identification data. This is done in order to evade control of financial regulatory authorities.

© **Barter trade**
This has been a traditional method of exchanging goods or services between two parties, characterised by the fact that cash is not involved, thus making it difficult to value the goods or services traded.

© **Nominal Accounts**
Through this illegitimate method, a person solicits a group of individuals to open bank accounts into which funds derived from illicit activity will be deposited or transferred. The holders of the bank accounts are paid for lending their identity for the opening of the accounts. However, the person actually managing the accounts and the real beneficiary of the transferred funds transferred is a third party outside the group of persons and who typically accesses the funds by using ATMs.

© **Cash**
Due to the difficulty of tracking cash transactions, this method is used to facilitate the buying and selling of wildlife species or to pay for services related to illegal logging, such as payment for the transport of goods, workers’ wages or food.

**Trade Based Money Laundering (TBML)**
works generally off of the manipulation of prices, quantity or quality of imports and exports by companies.
In this method, people are “recruited” or engaged, knowingly or unknowingly, to carry cash from illicit activities, usually camouflaged or hidden in their body, luggage or personal belongings.

MONEY MULE
3.5.2
FINANCIAL RECONSTRUCTIONS

There are many different methods of financial reconstruction, all of which focus on identifying unexplained wealth or income. Two key characteristics of financial reconstruction are:

- They should always be based on the cash value of the transactions; and
- In most cases, rebuilding will focus on a variation of the equation:

\[
\text{Revenue} - \text{Expenditure} = \text{Net Profit}
\]

Examples of the different methods of financial reconstructions include:

**PROFIT AND LOSS STATEMENT**

The P&L statement summarises the company’s revenues, expenses, profits, and losses incurred over a specified period (monthly, quarterly or annual). This statement is prepared with the aim of establishing the net profit or net loss obtained in a specified period.\(^1\)\(^8\). This basic formula is used to properly prepare it:

\[
\text{Net assets at the end of the accounting year} - \text{Net assets at the beginning of the accounting year} + \text{Expenses} - \text{Known sources of income} = \text{Unknown sources of income or wealth}
\]

\[
\text{Revenue} - \text{Expenditure} = \text{Pre-tax income} - \text{Income taxes} = \text{Net income (after taxes)}
\]

**Sample Profit and Loss Statement**  
Augusto 1-31, 20XX

<table>
<thead>
<tr>
<th>Operational revenues</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Product sales</td>
<td>$12,000</td>
</tr>
<tr>
<td>Service sales</td>
<td>$3,000</td>
</tr>
<tr>
<td><strong>Total operations revenues</strong></td>
<td>$15,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operational costs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of sold goods</td>
<td>$7,000</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>$8,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed costs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>$1,500</td>
</tr>
<tr>
<td>Insurance</td>
<td>$250</td>
</tr>
<tr>
<td>Office materials</td>
<td>$150</td>
</tr>
<tr>
<td>Public services</td>
<td>$100</td>
</tr>
<tr>
<td><strong>Total fixed costs</strong></td>
<td>$2,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other costs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operational revenues</strong></td>
<td>$6,000</td>
</tr>
<tr>
<td>Interests for debts</td>
<td>$500</td>
</tr>
<tr>
<td>Profits (before taxes)</td>
<td>$5,500</td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
<td>$500</td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td>$5,000</td>
</tr>
</tbody>
</table>

- **Revenue** is the money received in payment for products or services.
- **Operating, or variable, expenses** are the expenses that rise or fall based on sales volume.
- **Gross profit margin or operating margin** is the total amount left after subtracting the operating expenses from revenues.
- **Overhead, or Fixed** Expenses are costs that do not vary much month-to-month and do not rise or fall with the number of sales made. Examples might include salaries of staff, or rent.
- **Operating income** is income after deducting operating and overhead expenses.
- **Other income or expenses (non-operating)** generally do not relate to the operating side of the business, rather to how management finances the business. Other income might include interest paid on loans or dividends paid on investments.  
  **Pre-tac Income** is income before paying state taxes.  
  **Income taxes** how income tax is shown on the P&L varies based on the type of legal entity.
- **Net income (after taxes)** is the final amount on most profit-and-loss statements. It represents the net total profit earned by the company during a given period, above and beyond all related costs and expenses.
INVENTORY SET

This is a technique used to efficiently evaluate the existence of irregularities in the institution or company, identifying, for example, money laundering, smuggling, undeclared movements, tax evasion, tax fraud, among others. Through the Inventory Package, it is sought to compare the number of units of the inventories registered in the documents or books, with the physical count of the same items. In addition to the Inventory Package, and the basic financial statements, it is essential to analyse the assets and income of the institution or company and of certain key people.

If any discrepancy is found after comparing these data, there would be suspicions of irregularities, such as:

- **Physical inventory is greater than amounts reported in accounting books**
- **Physical inventory is less than amounts declared in accounting books**

**Initial Inventory**

+ Purchase of goods
- Sales
+ Sales returns
= Final inventory
**Trial Balance (or Purchase Balance)**

A trial balance is a financial instrument that is used to display all the debits and credits of the accounts, together with their corresponding balance (whether debtor or creditor). In this way, a basic summary of a financial statement is available.

The trial balance can also confirm that the company’s accounting is well organised. The balance of sums and balances may be correct and yet include faulty accounting. For example, a company that has paid a supplier but posted that payment to a different supplier. The balance would be correct in terms of the figures, but would not match what actually happened.

The preparation of a trial balance begins with the realisation of the sums annotated in each account, both debits and credits. The next step is to obtain the balance of each account (the difference between debit and credit). Finally, the amounts and balances obtained are posted on the balance sheet. In general, the trial balance is a recommended document so that the investigator may have accurate information about the company’s financial health."19

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**Company ABC**

Verification of a balance by the end of the fiscal year in dollars.

<table>
<thead>
<tr>
<th>Title of account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribed capital</td>
<td></td>
<td>15.000</td>
</tr>
<tr>
<td>Furniture and furnishings</td>
<td>5.000</td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>10.000</td>
<td></td>
</tr>
<tr>
<td>Creditor</td>
<td>5.000</td>
<td></td>
</tr>
<tr>
<td>Debtor</td>
<td>3.000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>2.000</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>10.000</td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>8.000</td>
<td></td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>2.000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30.000</strong></td>
<td><strong>30.000</strong></td>
</tr>
</tbody>
</table>

Source: Lifeder.com

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19 https://definicion.de/balance-de-comprobacion/
**BALANCE SHEET**

A financial statement allowing investigators to see the company’s financial health at a given date, based on a summary of the value of its properties and rights, liabilities, and assets. In this way, the document summarises the entries from the general ledger and, consequently, from the transactions recorded in the journals.

A financial statement is prepared as at least once a year, with a cut-off at the end of the year. This must be certified by an auditor, accountant, and/or manager of the company, in addition to being approved by relevant stakeholders.

**Company ABC. Ltda.**
Initial Balance 01 as of month 20XX

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>Current liabilities</td>
</tr>
<tr>
<td>Cash account</td>
<td>Other</td>
</tr>
<tr>
<td>$52,000,000</td>
<td>$ 300,000</td>
</tr>
<tr>
<td>Total current asset</td>
<td>Total current liability</td>
</tr>
<tr>
<td>$52,000,000</td>
<td>$ 300,000</td>
</tr>
<tr>
<td>Total liability</td>
<td>$ 300,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed asset</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>Capital contribution</td>
</tr>
<tr>
<td>$140,000,000</td>
<td>$239,700,000</td>
</tr>
<tr>
<td>Stock</td>
<td>Total estate assets</td>
</tr>
<tr>
<td>$ 10,000,000</td>
<td>$239,700,000</td>
</tr>
<tr>
<td>Truck</td>
<td></td>
</tr>
<tr>
<td>$ 38,000,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total fixed assets</strong></td>
<td><strong>Total asset + estate</strong></td>
</tr>
<tr>
<td><strong>$188,000,000</strong></td>
<td><strong>$240,000,000</strong></td>
</tr>
</tbody>
</table>

| Total asset               | $240,000,000               |

Report in a specific date the financial situation of a company, to present a summary of the value of their properties and assets, obligations of fiscal information. Current accounts are also mentioned and their values must correspond exactly to adjusted balances of ledger.

Fuente: contabilidadmasfinanzas.com.co/asientos-contables-ejercicios/
**EQUITY ANALYSIS: DIRECT AND INDIRECT METHOD**

This process allows to prepare the financial profile or to verify the assets of the institution, company or individual by reviewing documents or information related to assets, income and expenses during a minimum period of three years. By studying discrepancies or raising trends or assets movements, investigators may use this tool to establish potential irregularities (cases of corruption, tax fraud, and money laundering).

---

**Direct method** consists of providing information of a company’s assets or establishing the financial profile of a company or person from documents and information specific related with the goods, income and expenses of funds during a period of time.

---

**Verify** that all transactions and contracts have been duly recorded.

**Confirm** that all supporting documents for all transactions and financial movements exist (ensuring their quality and suitability).

**Establish** an effective method to detect potential irregularities, within the framework of a context analysis (institution’s or company’s surroundings and/or activities engaged).
Assets
To study assets and revenue, it is advisable to gather documents and other information that allows to determine origin, date, amount, acquisition methods, location, status, etc of assets.

Ordinary income
Must be justified and evidenced through documents proving "amounts, dates, description, origin (local or foreign), originator or payer, and payment method.

Extraordinary income
Documents related to income not related to the principle business activities of the company or institution (donations, extra profits from the sale of goods or assets, games of chance, royalties, among others) must be analysed.
Liabilities or Debts
Concerning liabilities or debts, investigators shall verify original amounts, reasons, dates, payment methods and agreements, entries of ordinary and extraordinary payments, guarantees, among others. Likewise, it is recommended to analyse their relationship with the income obtained and the reduction of liabilities within the framework of said relationship. Close attention should be paid to income that is presented in the form of donations, gifts, surplus profits from the sale of goods or assets, prizes from lotteries or games of chance, royalties and other income outside the principal business activity.

Regarding expenses and payments, it is essential to consider the amounts, dates and payment methods, evidenced description of items, supporting documents, and other characteristics that justify the ordinary and extraordinary payments of the company.

Indirect Method of Net Worth or Equity Value
Based on analysing the conglomerate of years or periods, this method aims at identifying any increase in equity. Usually, this method is used in those cases when the assets or income of the company or individual cannot be easily established.

Indirect Method of Net Worth or Equity

\[
\text{Assets} - \text{Liabilities} = \text{Net Worth or Net Equity} \\
= \text{Net Worth of the previous period} + \text{Increase/Decrease in Net Worth} \\
= \text{Net Worth of the previous period} + \text{Expenses} + \text{Income from Known Sources} = \text{Unexplained Income}
\]

Indirect Method of Bank Deposits
The objective of this method is to establish the destination of income or funds obtained, comparing the amount or money received with the amount spent. All this considering the existence of initial funds that, depending on the economic activity, have increased or decreased. Commonly, this method is used when accounting records are not available or in cases where companies or individuals use a large number of banking and financial transactions.

Indirect Method of Bank Deposits Scheme
Within the framework of forensic accounting investigation, the methods mentioned above mainly seek to establish the illicit or non-illegal origin of the assets. In those cases associated with illicit activities, assets are generally placed under the names of family members, third parties or front men, while the true owner is the one who uses and controls such assets. In the same way, it is essential to be watch out for warning signs or findings of the equity analysis, since this allows to identify irregularities such as excessive consumption, abnormally huge income, unusual consignments or payments, goods without traceability or with unexpected sales, obligations without amortization, payments to non-existent companies or people, among others.  

Within the framework of forensic accounting investigation, the methods mentioned above mainly seek to establish the illicit or non-illegal origin of the assets.

Money and Current Funds
- Transfers between accounts = Net Cash and Funds
+ Expenditure for the period = Cash and Available Funds
- Income from Known Sources = Unexplained Income

Source: Sacari, Raúl. Treatise on Forensic Auditing. 2012

3.6 USE OF FINANCIAL INFORMATION AS EVIDENCE FOR CRIMES

When using financial information, investigators should consider hand-written accounting records, supporting accounting documents, encrypted information, and systematised files.

Some of the highest risk accounts used to commit financial crimes are: income accounts; accounts receivable; investment accounts; inventory; property, plant, and equipment; and liabilities or obligations accounts.

**Revenue or income:** In this account, revenue from illegal activities are entered to show them as operating income, by preparing invoices for sales of non-existent products or for services not performed. Companies making cash sales that are not required to issue invoices but an equivalent document, it is possible to record income as cash sales without the latter being posted in inventories.

**Accounts receivable:** These accounts are entered fraudulently when irregular invoices have been drawn up.
**Investments:** It is common for those who commit financial crimes to make fixed-term deposits or other cash investments in countries where such illicit income is made and to secure bank loans that are subsequently not paid, thus forcing the bank to use the collateral (Cano, 2005, p. 283).

**Inventories:** Through this account it is possible to register inventories whose cost abroad, in high percentage, have been paid with illicit money and which enter the country under-invoiced. This allows for the payment of low tariffs and money laundering through their sale.

**Property, plant, and equipment:** It is a common practice that the amount of the deed of purchase of fixed assets is not recorded exactly. Large sums of money are laundered through the purchase of real estate since, in some cases, the amount of deed is much lower than the commercial value or the transaction is not actually paid for. This account contains amounts far below the actual historical costs of acquisition.

**Liabilities or Obligations:** Consists of obtaining credits with banks and making prepayments with illicit money or accounting for fictitious credits to justify cash movements at the time of payment.  

3.7 FORENSIC ACCOUNTING INVESTIGATIONS ON THE ILLEGAL TIMBER TRADE

Forensic accounting investigations focus on the reconstruction of economic, financial, and commercial events that preceded the commission of a crime. On many occasions it is the only technique that enables investigators and analysts to establish with certainty the actual financial route, evidence and material proof to support an investigation.

IT IS IMPORTANT TO ANSWER FOUR QUESTIONS

1. What should have happened?
2. What happened?
3. If there is any difference: who is responsible?
4. If there is any difference between the answers to questions 1 and 2 and why?
Forensic accounting can be used to investigate a wide range of crimes, including corporate crimes, commercial fraud, insurance claims fraud, acts of corruption, tax evasion, as well as illicit financial activities from the smuggling of goods like the illegal trafficking of wildlife and forest crime.

In financial terms, crime or fraud can materialise through the manipulation, falsification or alteration of records or documents, the misappropriation of assets and the deliberate misapplication and misuse of accounting practices.

Identification of links between the actors and the source and exchanging of funds can provide proof of criminal activity.

In the illegal timber trade, this can occur along the supply chain where a number of financial transactions take place and where money is exchanged to facilitate this trade and the movement of timber goods through markets and the value chain (between loggers, transporters, storage facilities, processing facilities, and others), or within operational and administrative activities involving officials.

Identifying the links between these actors and where the money comes from, who receives it, when it is received and where it is used, transferred, or deposited, can provide evidence of criminal activity. Forensic accounting investigators may perform their duties better if they understand the sales cycle/payment methods used along the value chain, the required administrative documents and permits and control processes described below:
Logging:
In timber harvesting - one of the models of the sales/purchase cycle of extracted logs occurs between small/medium concessions where large companies pay the small concessionaire to harvest their timber resources (standing trees) since many small/medium concessions do not have enough capital to pay for the extraction activity. These large companies have their own harvesting teams, log yards, transport and processing facilities, and therefore pay the concession holder a minimum amount of cash to access their resources. The amounts paid depend on the harvested volume or the number of trees, species, resources to be harvested and used, and the number of workers employed. Intermediaries will pay cash in advance for the operations of a concession (to cover high operating costs - workers, equipment, food, fuel, etc.). At this stage, the price paid by timber buyers or large concession operators is very low (cash purchase).

There is another harvesting model in which there are some independent contractors to extract the timber resources and transport them to the sawmills. These ‘intermediary’ contractors or loggers are often closely connected with sawmills or private buyers.
Transport:
Transport is a critical and costly component of the commercial transaction of the timber sector in small and medium-sized concessions. Most of the truck fleets involved transport the timber from the concession (harvest) to the point of delivery or to the buyer and outside the region are independent companies offering transport services or people bringing several trucks together (which are subcontracted to provide local and regional transport services). **Transactions between truck fleet providers and logging companies (harvesting/processing) are also usually paid for in cash** (subcontracting agreements are paid for a daily fee for a driver depending on the volume mobilised and the distance travelled).

Transformation of Timber Products:
Procurement processes in transformation sawmills are based on financing the harvesting operations in the concessions or in the case of larger companies that provide their own logging operations and equipment to harvest, transport and process the wood to the transformation facilities. Sawmills that generally earn significantly more than other actors in the supply chain (have direct access to market services with processed goods) have the necessary capital to lead the logging operations in the concessions and negotiate their fees through informal and cash arrangements.

Larger sawmills can leverage their capital to control and manage many activities in the timber value
chain by offering and buying timber services. After primary and secondary processing, the wood is transported by land for trading to the city of Lima or other cities. **Commercial transactions of sawmills (generally carried out through cash payments on delivery) may include:**

- Outsourced services for land / river transport.
- Primary transformation of logs in its own centre with the purchase of inputs from local third-party suppliers.
- Contract third party services with secondary transformation centres.
- Roundwood purchased in log yards from loggers or directly from nearby small concessions.
- The sawmill sells its services for the extraction and transport of wood.

**Larger sawmills** can leverage their capital to control and manage many activities in the timber value chain by offering and buying timber services.

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22 Financiamiento para el aprovechamiento forestal y la producción de madera en la Amazonía peruana. Un análisis de las estructuras de costos, los flujos de caja y el requerimiento de capital *(Financing for forest harvesting and timber production in the Peruvian Amazon. An analysis of cost structures, cash flows and capital requirements)* (2016) - GIZ.
**Operational Activities**

**Allocation of Administrative Permits/Documents**

- **General Forest Management Plan (PGMF):** A long-term strategic planning instrument formulated for the entire area and period of validity of the license, which contains the forest inventory as the main information.

- **Operational Plan (OP):** Short-term forestry planning instrument. Its main source of information is the forest census, which generates maps and lists of species that are the main tools for harvesting and onsite inspections.

- **Harvesting Balance:** Document that shows the approved volume and compares with the harvested volume, and additionally the balance at a certain date.

- **Resolutions** that approve the forest management instrument by the competent forest authority, in order to establish the volumes and species authorized for harvesting, as well as to define the area (vertices) within which the harvest must be carried out.

- **Timber Transport Permit (GTF):** It allows to compare the volumes and species declared against those mobilised. In cases of river transport, the cargo manifest must be requested.

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**Administrative Documents**

The following documents may be requested to confirm information on the origin of the timber being moved:

1. **Steps 1-2:** Access Licence, Management Plan Licence.
2. **Steps 3-5:** Record of Balances, GTF, Transport Permit.
3. **Steps 6:** Documents required for export (Section 2.1).
Operations Logbook of the primary transformation centre to verify the entry of the timber goods where the harvested volume and the performance of the forest management plan are recorded, as well as the specific timber species.

Technical Report of the field visit: contains the following information, in order to verify the approval of the license:

- Schedule/Notes of initiation or agreement with a harvesting community/concession
- Certificate of initiation of inspection
- Certificate of completion of field work
- Field data sheet

Onsite inspection report: issued by the competent authority. It must contain the minutes of the beginning and end of the field work, field records and the minutes of the assembly with the community, if any.

Form 20: ARFFS forest control document proving the movements of the timber forest product by volume and species (historical information), for each license, felling plot and PO.

CITES-listed species documented with required export CITES Permit issued by competent authorities (CITES Management Authorities).
Onsite inspection by GORE is required in order to grant harvest authorisations.

OSINFOR supervises, verifies, and audits post-harvest forest management activities and can report the concession as a red list or green list concession, depending on the results of supervision and compliance.

There are inspections at the regional level checkpoints managed by the GORE ATFFS. The above documents are verified by the authorities at the checkpoints.

Shipping and sales documents are inspected to comply with the requirements of national laws and international agreements (in accordance with customs and tax laws). This can be verified through onsite inspections (ports, checkpoints where SUNAT operates) by SUNAT officials.

Spontaneous control processes between justice operators and environmental authorities (e.g., field operations).
If the forest concessions contain CITES species, a mandatory prior inspection must be carried out with SERFOR with supervision (post-harvest) from OSINFOR.

SERFOR can verify and audit export permits granted for mahogany and cedar (CITES).


SUNAT also performs routine inspections that include the verification of prices of goods that are exported within the ranges of similar products in export destinations. When there is evidence of a price discrepancy, a detailed timber exporter audit can be performed.
This section describes forensic accounting techniques to conduct more effective investigations at each of the six criminal scenarios of the illegal timber trade. Investigators can apply different risk indicators that they can analyse when conducting an investigation at the different stages of the diagram shown below. However not all forensic accounting techniques are applicable in each of these six scenarios – the risk indicators provide a general framework on identifying specific risks and under each scenario allowing investigators to pursue broader enforcement responses based on the risks detected. Enforcement and compliance officers can resort to the most appropriate technique of those outlined above for the case under investigation, according to its own characteristics and information\textsuperscript{23}.

\textsuperscript{23} For detailed information about each of these stages see: the Rapid Reference Guide for Investigators and Prosecutors of Forest Crime, United Nations Office on Drugs and Crime (UNODC). @UNODC_Peru First edition, May 2020.
WHAT ARE RISKS INDICATORS?

- Risk indicators for the purpose of this guide can be defined as specific criteria used to measure the degree of risk involved in different activities (e.g., risks of illegal activities in the timber trade). These indicators when examined with the criteria and the activities can warn of potential risks and they can serve as a practical tool to identify, target and gauge activities that pose a risk for example of illegal acts.

- The use of indicators is important because it allows investigators with an overview of the risk profile of those investigated. It allows an investigator to determine the need for a thorough and in-depth analysis of accounting data. They are an efficient tool to identify signs or leads of alleged accounting irregularities or potential financial crimes.
APPLYING RISK INDICATORS AND FORENSIC ACCOUNTING TECHNIQUES TO ILLEGAL TIMBER TRADE CASES

1. FOREST ACCESS METHODS
   - Check Inventory Package. Inventory risk indicators.
   - Risk indicators in the supporting documents.

2. FOREST HARVESTING
   - Check Risk indicators in the procurement cycle.
   - Risk indicators in the sales and accounts receivable cycle.
   - Risk indicators in inventories.

3. PRIMARY TRANSPORT
   - Inventory Package. Inventory risk indicators.
Check Operations Logbook. In these cases, it is important to take into account:

If there are Remittances, Transfer Orders or Quotations for forest timber products, cross-check the volumes and/or quantities received, shipped or dispatched with the records in the Operations Logbook.

Check the Risk Indicators in the accounting records, supporting documents, and apply techniques used under the Inventory Package.

Check Inventory Risk Indicators.

Cross-check information with all clients, suppliers, banks, to detect undeclared sales or income of large sums of money in the company’s accounts as well as in the accounts of its owners, shareholders or third parties.

Potential for fraud and financial crimes (3.9).

Irregularities detected in inventory related risks.

In addition, cross-check information with international clients and verify the information with the customs and tax authorities in the countries of final destination.
3.8.1 RISK INDICATORS IN SUPPORTING DOCUMENTS

- Significant unexplained items in settlements.
- Inconsistent, vague or implausible answers from company representatives or employees in investigations or analytical procedures.
- Missing or non-existent cancelled cheques missing or non-existent in circumstances where cancelled cheques would ordinarily be returned to the entity with the bank statement.
- Significant shortages in inventory or physical assets.
- Electronic evidence unavailable or missing, inconsistent with the entity’s reporting policies.
- Missing documents.
- Documents that appear to have been altered.
- Unavailability of documents other than photocopies or electronically transmitted documents when the documents are expected to exist in original form.
- Unusual changes in balance sheets, or changes in trends, or significant financial statement ratios - for example, accounts receivable increasing faster than revenues.
- Unusual discrepancies between entity’s records and confirmation responses.
RISK INDICATORS IN INVENTORIES

- Lack of controls on the entry and exit of goods.
- Returns by item/supplier.
- Age of goods in transit.
- Negative adjustments compensated with positive adjustments.
- Changes to minimum safety stocks.
- Inventory goods in stock tied up for long periods of time.
- Inventory programmes where several users can change the data.
- Identification of an item with a different unit cost depending on its location.
- Assets with cost variations greater than the expected average between periods.
- Identification of inventory assets with negative cost or quantities.
- Decreases in inventories, due to their type, location, or other parameters.
- Duplicate inventory movements.
- Inventory adjustments by manager.
- Inventory adjustments by supplier.
- Inventory assets with shelf life (before the expiration date) less than the average number of days for that item.
- Lack of oversight in the use of tools.
- Inventory items deposited in hard-to-reach or in unusual locations making it difficult to check.

No quality control of incoming and/or outgoing goods.

Bibliography of these indicators at the end of the publication.
## Risk Indicators in the Purchasing Cycle and Accounts Payable

### Risk Indicators in the Procurement Cycle:
- Cumulative purchases per supplier.
- Cumulative purchases per person.
- Frequency of purchases per supplier.
- Cumulative purchase amount per buyer.
- Number of payments/months per supplier.
- Suppliers with no financial movements.
- Purchases for amounts higher than the historical average.
- Breakdown of numbering sequence of purchase orders, incoming reports, and payment orders.
- Relationship between debit/credit notes and purchases by supplier/buyer, purchases by supplier/buyer.
- Authorised purchases above the buyer's limit.
- Variations in payment terms exceeding the number of days established for this purpose.
- Variations in bonuses higher than the percentage established by the company.
- Cheques not withdrawn by suppliers.
- Unapplied supplier receipts.
- Payments dated before the due date of the invoice.
- Suppliers with inconsistent balances based on the transactions recorded.
- Suppliers with payments individually immaterial but significant when considered as a whole.
- Vouchers are not stamped as paid (stamp paid and completed).
Invoices from several suppliers on the same paper, format and even with the same printing press.

Change of supplier for urgent orders.

Ordering together and placing huge orders with short delivery times in order to benefit those with special arrangement.

Invoices from suppliers not associated with purchase orders and/or incoming reports.

Duplicate commercial documents.

Cancelled documents.

Payment orders not linked to invoices.

Payments to the order of a company or person other than the supplier.

Overdue debts.

Differences between purchase order and supplier invoice or between the latter and the payment order.

Repeated supplier codes and/or names.

Suppliers with same data (name, address, bank account) but different code.

Bibliography of these indicators at the end of the publication.
**Risk Indicators in the Sales and Accounts Receivable Cycle**

- Ratio of discounts granted and sales per customer, salesperson, etc.
- Debit and credits not applied, by customer and issuer.
- Cumulative credit amounts issued per person.
- Sales per customer above historical averages.
- Credit notes issued to breach credit limits.
- Sales to customers with exceeded credit limits.
- Customers with credit limits exceeding the percentage of average purchases.
- Customers with inconsistent balances based on transactions recorded.
- Past due credit balances that have matured a long time ago.
- Unapplied receipts.
- Sales price list variations higher than the percentage established by the company.
- Variations in bonuses per customer.
- Unusual credit variations.
- Large number of returns after the end of each financial year.
- Sales cancelled and not re-invoiced.
- Duplicate customer codes and/or names.
- Customers with the same data (name, address, bank account, etc.) and different code.
INVENTORY RISK INDICATORS

- **Inventory write-downs**, by type, location, or other type, location, or other parameters.
- **Aging of goods** in transit.
- **Inventory adjustments** by supplier.
- **Negative adjustments** offset by positive adjustments.
- **Changes to minimum safety stocks**.
- **Inventory goods in stock** tied up for long periods of time.
- **Inventory programmes** where several users can change data.
- **Returns by item/supplier**.
- **Identify an item with different unit cost** based on its location.
- **Assets with cost variations greater than the expected average between periods**.
- **Identify inventory assets with negative cost or amounts**.
- **Duplicate inventory movements**.
- **Inventory assets with shelf life** (before the expiration date) less than the average number of days for that item.
- **Lack of incoming and outgoing controls** of goods for repair.
- **Lack of control in the use of tools**.
- **Items from the inventory placed in places** that are difficult to access or unusual making it difficult to check.
- **Inventory adjustments by manager**.
- **No quality control** of receipts and/or disbursements.
Inventory Package. Inventory risk indicators described in this Guide.
### 3.8.3 Inventory Risk Indicators

<table>
<thead>
<tr>
<th>Low risk</th>
<th>Medium risk</th>
<th>High risk</th>
</tr>
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<tbody>
<tr>
<td>Inventory write-downs, by type, location, or other type, location, or other parameters.</td>
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<td>Returns by item/supplier.</td>
<td>Lack of control in the use of tools.</td>
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<tr>
<td>Frequency of purchases by item/supplier.</td>
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<td></td>
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<tr>
<td>Items from the inventory placed in places that are difficult to access or unusual making it difficult to check.</td>
<td>No quality control of incoming and/or outgoing goods.</td>
<td></td>
</tr>
<tr>
<td>Identify the same item with a different unit cost based on its location.</td>
<td>Bibliography of these indicators at the end of the publication.</td>
<td></td>
</tr>
</tbody>
</table>
3.8.4 RISK INDICATORS IN ACCOUNTING RECORDS

If there are Remittances, Transfer Orders or Quotations for forest timber products, cross-check the volumes and/or quantities received, shipped or dispatched with the records in the Operations Logbook.

Check the Risk Indicators in the accounting records, supporting documents, and apply techniques used under the Inventory Package.

Also check, Risk Indicators of Inventories in this guide.

- Loan payments are made to companies located in countries that are considered tax havens.
- Last minute adjustments that significantly affect the financial results.
- Transactions that are not fully and timely recorded in terms of accounting period, classification or entity policy.
- Using third parties to conduct business transactions.
- Frequent use of cashier's or manager's cheques.
- Concealing assets.
- The company has double sets of journals and accounting records separately.
- Accounting books have been destroyed, are missing, or simply cannot be found at the time of request.
- Cash receipts journal, sales journal, and source documents, record large or frequent monetary transactions in a company which given its nature does not handle large amounts of cash.
- Loans or other types of business carried out in countries that are considered tax havens.
- When requesting supporting documents for transactions recorded in the accounting books, photocopies rather than originals are provided.
- False or altered sales invoices or purchase receipts found.
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<td><strong>Detection of bank deposits</strong> whose origin cannot be determined.</td>
<td><strong>Complaints from internal audit and other departments</strong> of the organisation indicating that fraud or money laundering may be taking place.</td>
<td><strong>Accounting policies that appear to vary</strong> from industry standards.</td>
</tr>
<tr>
<td><strong>Finding in the accounting journal, purchase journal or other documents, transactions with shell companies.</strong></td>
<td><strong>Unexplained or inadequately explained discrepancies</strong> between the secondary accounts receivable and the control account, or between customer’s tax returns and the accounts receivable.</td>
<td><strong>Frequent changes in accounting estimates</strong> that do not appear to be the result of changing circumstances.</td>
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<tr>
<td><strong>Evidence of employee unduly given access to systems and records</strong> in order to perform duties.</td>
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</tr>
</tbody>
</table>

Bibliography of these indicators at the end of the publication.
Risk Indicators in Supporting Documents

- **Significant unexplained entries** in settlement accounts.
- **Significant shortages in inventory** or physical count of assets.
- **Missing documents**.
- **Documents that appear to have been altered**.
- **Unavailability of original documents** only photocopies or copies transmitted electronically are available when such documents are expected to exist in original form.
- **Unusual changes in balance sheets**, or changes in trends, ratios or indicators in the financial statements - e.g., accounts receivable financial statements that show faster increase than revenues.
- **Inconsistent, vague or implausible answers** by officers or employees uncovered in investigations or analytical procedures.
- **Unusual discrepancies** between entity records and confirmation responses.
- **Missing or non-existent cancelled cheques** in circumstances where regular cancelled cheques are ordinarily returned to the entity with the bank statement.
- **Missing or unavailable electronic evidence** inconsistent with retention practices or company policies.
RISK INDICATORS IN INVENTORIES

- **Inventory programmes** where different users can change data.
- **Lack of oversight** over incoming and outgoing goods.
- **Assets with cost variations** higher than the expected average between periods.
- **Identify inventory assets** with negative cost or quantities.
- **No quality control** in income and/or expenses.
- **Age of goods in transit**.
- **Negative adjustments offset** with positive adjustments.
- **Changes to minimum safety stocks**.
- **Inventory goods in stock** tied up for long periods of time.
- **Returns** by item/supplier.
- **Decreases in inventories**, by type, location, or other parameters.
- **Movements of duplicate inventories**.
- **Inventory adjustments by manager**.
- **Inventory adjustments by supplier**.
- **Inventory assets with shelf life** (before expiry date) less than the average number of days for that item.
- **Lack of control** in the use of tools.
- **Identifying an item with a different unit cost** based on its location.
- **Inventory items deposited** in places that are difficult to access or unusual making it difficult to check.
3.85 RISK INDICATORS IN ACCOUNTING RECORDS

- Loan payments are made to companies located in countries that are considered tax havens.
- Frequent use of cashier’s or manager’s cheques.
- Transactions that are not fully and timely recorded in terms of accounting period, classification or entity policy.
- Last minute adjustments that significantly affect the financial results.
- The company has double sets of journals and accounting records separately.
- Accounting books have been destroyed, are missing, or simply cannot be found at the time of request.
- Cash receipts journal, sales journal, and source documents, record large or frequent monetary transactions in a company which given its nature does not handle large amounts of cash.
- Loans or other types of business carried out in countries that are considered tax havens.
- When requesting supporting documents for transactions recorded in the accounting books, photocopies rather than originals are provided.
- False or altered sales invoices or purchase receipts found.
- Detect bank deposits whose origin cannot be determined.
- Finding in the cash outflow journal, purchase journal or source documents, transactions with shell companies.
- Concealing assets.
- Using third parties to conduct business transactions.
- Unexplained or inadequately explained discrepancies between the secondary accounts receivable and the control account, or between customer’s tax returns and the accounts receivable.
- Evidence of employee unduly given access to systems and records in order to perform duties.
- Complaints from internal audit and other departments of the organisation indicating that fraud or money laundering may be taking place.
- Accounting policies that appear to vary from industry standards.
- Frequent changes in accounting estimates that do not appear to be the result of changing circumstances.

Cross-check information with all clients, suppliers, banks, to detect undeclared sales or income of large sums of money in the company’s accounts as well as in the accounts of its owners, shareholders or third parties.

STORAGE OR PRIMARY TRANSFORMATION PRODUCTS TRADING FACILITY

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Cross-check information with all clients, suppliers, banks, to detect undeclared sales or income of large sums of money in the company’s accounts as well as in the accounts of its owners, shareholders or third parties.
## Risk Indicators in the Sales and Account Receivable Cycles

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<td><strong>Debit and credits not applied</strong>, by customer and issuer.</td>
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<td><strong>Sales per customer above historical averages.</strong> Credit notes issued to breach credit limits.</td>
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<td><strong>Ratio of discounts granted and sales per customer, salesperson, etc.</strong></td>
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<td><strong>Customers with credit limits exceeding</strong> the percentage of average purchases.</td>
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<td><strong>Unusual credit variations.</strong></td>
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</table>

Bibliography of these indicators at the end of the publication.
### 3.86 Risk Indicators in Accounting Records

<table>
<thead>
<tr>
<th>Potential actions when faced with an indicator of fraud or accounting crime.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>⚠️</strong> Actions to be taken when irregularities are detected in the inventories.</td>
</tr>
<tr>
<td><strong>⚠️</strong> Additional actions when risk indicators are found.</td>
</tr>
<tr>
<td><strong>⚠️</strong> In addition, cross-check information with international clients and verify the information with the customs and tax authorities in the countries of final destination.</td>
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- Using third parties to conduct business transactions.

- Unexplained or inadequately explained discrepancies between the secondary accounts receivable and the control account, or between customer's tax returns and the accounts receivable.

- Last minute adjustments that significantly affect the financial results.

- Evidence of employee unduly given access to systems and records in order to perform duties.

- Complaints from internal audit and other departments of the organisation indicating that fraud or money laundering may be taking place.

- Accounting policies that appear to vary from industry standards.

- Frequent changes in accounting estimates that do not appear to be the result of changing circumstances.

Bibliography of these indicators at the end of the publication.
This is a key list of money laundering indicators to alert investigators of potential money laundering within illegal timber trade cases.

1. The use of multiple deposits or withdrawals.

2. The purchase of various assets by actors (individuals / companies) involved without a history of asset acquisitions or funds to acquire said assets.

3. Business / corporate cheques cashing at commercial cheques cashers purchased from logging companies.

3.8.7 Risk indicators on money laundering

This is a key list of money laundering indicators to alert investigators of potential money laundering within illegal timber trade cases.
An individual or business account with irregular business activities but can be considered to be used for storage of funds.

Clients or related parties that are transferring funds nationally or internationally, from or through high-risk areas or in countries with known bank secrecy laws for money laundering cases.

Identification of offshore “shell” companies and significant financial transactions

The use of money exchange houses to exchange large sums of money.

Transactions of large amounts of money orders, bank transfers or cheques (national / international).

The use of other (related) persons and different accounts to buy personal or business assets (property, land or other investments, etc.) for suspicious persons.

Different accounts not related to commercial activities related to the wood carried out by the client that involve a significant number of funds transfers.

An individual or business account with irregular business activities but can be considered to be used for storage of funds.
**Examples of illegal acts of “Placement” in the Illegal Timber Trade**

- Cash or cheques from proceeds of illegal trade in timber (logging, transport, processing, etc.), deposited in bank accounts.

**Examples of “Layering” Activities / Transactions in the Illegal Trade in Timber**

- Transfer of payments to offshore accounts (usually involving large logging companies with illegal logging exports).
- Proceeds from the sale of illegal timber / corruption are used to purchase inputs which are later resold to receive “legal” funds (usually in cash).
- Cash proceeds from the sale of illegal timber / corruption are invested in financial investment products or converted into foreign currency.
- Transfer of proceeds from fraudulent price transfer (illegal timber revenues through fraudulent invoicing, market pricing, illegal timber handlers) to foreign accounts.
Examples of the third step of money laundering

They are related to the integration linking the proceeds of illegal trade in timber activities with the proceeds from legal activities. These may include:

- A timber company transforms illegal timber into a type of finished product that can be integrated into the legal supply chain.

- Cash proceeds from illegal trade in timber activities are invested in legal businesses.

- Cumulated revenues from illegal trade in timber activities placed in financial institutions are transferred to other legal businesses.
3.88

WARNING SIGNS IN THE TRANSFER OF FUNDS FROM FOREIGN TRADE TRANSACTIONS

1. Transfers received for the export of a good or service that is not commonly exported by local individuals or companies.

2. Transfers received for the export of a good or service that, due to its characteristics, is difficult to quantify.

3. Transfers received for the export of a good or service that, due to market characteristics and prices, would not be necessary or logical to purchase from another country.

4. Transfers received from a country other than the country to which the export of a good or service was made, with no apparent justification.

13. Transfers received for the export of goods or services by several companies with common corporate purposes, addresses, telephone numbers, associates, administrators and/or auditors, who apparently do not know or have no links with each other.

14. Transfers made for the export of goods or services with the participation of persons or companies whose names resemble companies recognized locally or abroad, with no apparent link between them.

15. Transfers received for the export of goods or services, whose declared tariff items do not match with the commercial activity of the exporting person or company.

16. Transfers received for the export of a good which total amount represents a higher value of the price of the goods actually exported. In other words, it is an overvalued export.

Transfers received for the export of a good or service from a country that is considered to have low controls against money laundering and/or terrorist financing.

Transfers received for the export of a good or service, which documents or contracts constantly have errors, inconsistencies, incoherencies or are not related to the exported goods or services.

Transfers received for the export of a good or service that are immediately withdrawn from bank accounts, through multiple checks or local transfers with signs of instalments or irregularities.

Transfers received for the export of a good or service, which increase significantly in a short period of time, with no apparent justification.

Transfers received for the export of a good or service whose corporate purpose or commercial activity of the purchaser does not match with or bear no relation to the good or service being paid for.

Transfers received for the export of a good or service with managers of the exporting company who lack knowledge and experience in the sector and, in addition, are involved in the management of other similar companies.

Transfers received for the export of a good or service, which are withdrawn from bank accounts through multiple checks or local transfers that do not correspond to purchases of goods or services, or expenses of the exporting company.

Transfers received for the export of a good or service, which are withdrawn from bank accounts through multiple checks or local transfers in favour of persons who are not suppliers or service providers of the exporting company.
3.9 Potential Responses to Indicators of Fraud or Financial Crime

These are some actions to take, when finding an indicator related to a possible accounting fraud or crime:

1. Unannounced visits/audits without prior notice
2. Traces of unusually large transactions
3. Conduct interviews of staff involved
4. Inventory count of products mobilized
5. Cross-checking of information
   - Banks
   - Suppliers
   - Customers
6. Account reconciliations
3.9.1

ACTIONS FOR INDICATIONS OF IRREGULARITIES IN INVENTORIES

When irregularities in inventories are detected, investigators should verify the physical counts in certain locations or carry out physical counts in all locations and compare these results with the figures in the accounting records. Similarly, it is possible to compare the current quantities with previous periods, establishing certain categories, or comparing what has been counted with the perpetual inventories. It is also recommended to check labels or serial numbers of items in order to determine the possibility of their duplication or omission.

1. Make unannounced inventory counts in certain locations or conduct inventory counts at all locations on the same date and compare accounting records.

2. Compare quantities for the current period with previous periods by class or category of inventory, locality or other criteria, or compare quantities counted against past records.

3. Sort by label number to perform controls tests or by item serial number to test for the possibility of omission or duplication of items.
3.92

ADDITIONAL ACTIONS AGAINST FINANCIAL CRIME RISKS

Finally, when suspecting a possible misappropriation of assets, the following procedures are recommended:

- Count cash or securities at or near the end of the year.
- Confirm with clients, directly, the account activity, within the framework of the audit exercise.
- Analyse recoveries from cancelled accounts.
- Analyse inventory shortfalls, losses or quantities and corresponding supporting documents.
- Compare inventory indexes, according to regulations.
- Compare vendor list with employee list, looking for matching address, phone numbers, IDs, bank accounts, etc.
- Search personnel files with little or no evidence of activity.
- Analyse discounts and sales returns to identify unusual patterns or trends.
- Confirm specific terms of contracts with third parties and look for evidence of compliance with the terms of the contracts.
- Review ownership of expenses for larger or unusual amounts.
- Review the authorization and the value of the loan books.
- Review the level and ownership of management expense reports.

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3.93
POSSIBLE ACTORS INVOLVED IN THE ILLEGAL TIMBER TRADE

- Pre-holder and/or holder of the concession license/title (concession, permit, authorisation, local forest).
- Forest Consultant (forester).
- Public servant if he/she recommends approval and the forestry official who approves Director’s Resolution.
- Permit holder using his Timber Transport Permits to sell volumes of timber.
- Entrepreneur (processing plants) tampering the operations logbook.
- Loggers/logging company providers.
- Taxpayer’s Id (R.U.C.) of those selling invoices and waybills.
- Trader buying illegal timber without documents.
- Forestry official who manipulates database. For example: official who records a higher volume using falsified permits in order to facilitate the ‘laundering’ of more permits.
- Forestry officer who endorses the above issues GTFs.
- Carriers collecting forest product from an unauthorised area.
- Forestry officials, police, other government officials.
- National companies buying the product from processing facilities for national/intl trade.
Once **indications leading to determining the commission of a crime** have been verified, bank accounts of account holders, cash deposits, physical cash in the home of account holders, close relatives or family members are checked, following the procedures and rules established by the competent judicial and police authorities.

**Carry out a thorough and detailed analysis of the company’s inventories.** Then cross-check the information with additional documents found during accounting operations at the company’s premises.

**Take into account the practices and risk indicators** detailed in the guide including other evidences to determine timber illegality.
3.9.4 ANALYSIS FORM

Source: Unit 2. Financial Forensic Investigations. University of New Granada - Faculty of Distance Studies.
## Preliminary Research Questionnaire

Obtain a copy of the most recent financial statements and perform a general analytical review.

<table>
<thead>
<tr>
<th></th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.</strong> What is the nature and sector of the business?</td>
<td></td>
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<tr>
<td><strong>2.</strong> Distribution of products per areas or regions</td>
<td></td>
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<tr>
<td><strong>3.</strong> Search of registry records</td>
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<tr>
<td><strong>4.</strong> Types of customers</td>
<td></td>
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<tr>
<td><strong>5.</strong> Number of employees</td>
<td></td>
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<tr>
<td><strong>6.</strong> Number of agencies or branches</td>
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<tr>
<td><strong>7.</strong> By what date is the report needed?</td>
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<tr>
<td><strong>8.</strong> Are there tax claims?</td>
<td></td>
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<tr>
<td><strong>9.</strong> Are there known problems regarding:</td>
<td></td>
</tr>
<tr>
<td>- Shareholders</td>
<td></td>
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<tr>
<td>- Entities in charge of monitoring and surveillance</td>
<td></td>
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<tr>
<td>- Customers</td>
<td></td>
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<tr>
<td><strong>10.</strong> Number of customers usually handled.</td>
<td></td>
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<tr>
<td><strong>11.</strong> Are there individual records for fixed assets?</td>
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<tr>
<td><strong>12.</strong> How are costs determined?</td>
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<tr>
<td><strong>13.</strong> Are all accounts available to be promptly analysed?</td>
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<tr>
<td><strong>14.</strong> Include special problems suffered by the company in recent years such as strikes, critical situations due to lack of credit, market, etc.</td>
<td></td>
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<tr>
<td><strong>15.</strong> Are there all balanced bank accounts?</td>
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<tr>
<td><strong>16.</strong> What is the overall opinion of the accounting department regarding personnel, records, etc.?</td>
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<tr>
<td><strong>17.</strong> Sales volume, main line volume.</td>
<td></td>
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<tr>
<td><strong>18.</strong> Getting the company ready: analysis and relationships that could help the work.</td>
<td></td>
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<tr>
<td><strong>19.</strong> Normally, when is the closing date of the books? Is it after the closing date of the fiscal year?</td>
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<tr>
<td><strong>20.</strong> When was the last inventory?</td>
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<tr>
<td><strong>21.</strong> Were adjustments recorded in the books?</td>
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<tr>
<td><strong>22.</strong> When was the last fixed asset inventory taken?</td>
<td></td>
</tr>
<tr>
<td><strong>23.</strong> Are books in line with the inventories?</td>
<td></td>
</tr>
</tbody>
</table>

INVOICE

Warning signs of an invoice:

1. No reasonable justification for customers presenting a historical volume of invoicing of merchandise or services with increases, in quantities or amount.

2. Customers presenting invoices for goods or services, with increases, without a reasonable justification for the economic activity, location or means of payment from the buyer.

3. Invoices with apparently false information of the buyer (name, address, identification, telephone numbers, etc.).

4. Invoices with apparently false data of the goods or services.

5. Invoices with apparently false buyer’s addresses or destinations of difficult location or access.

6. Invoices for goods or services issued to people (buyers) with no characteristics or conditions proving them to be the true recipients.

7. Goods or services invoiced that are timely paid but never delivered.

8. Goods invoiced for an amount much lower or higher than the commercial or market value.

9. Invoices for specialized services that are difficult to verify and that are paid in a timely manner.

10. Goods whose invoiced unit values appear for illogical amounts or without a reasonable justification (excessively lower or higher).

11. Goods or services that are invoiced but the buyer does not need them or does not have a reasonable justification for the acquisition.
12. Invoices used to collect the same goods or services more than once.

13. Invoices for goods or services in which the buyer has criminal, judicial or administrative records, or is included in national or international lists (designated as terrorists, drug traffickers, tax offenders, sanctioned public officials, fugitives, criminals or is wanted by the authorities).

14. Invoicing of goods or services with a buyer who registers the address or delivery site in a place that has been subject to any judicial measure, or has any administrative, civil, or judicial measure hindering its ownership or transportation.

15. Multiple invoices that correspond individually to a large number of goods that make up a single lot, in order to overvalue the individual amounts.

16. Invoices delivered blank or to be filled in by the buyer.

17. Invoices for significant amounts that are paid in cash by the buyer, when there is no reasonable justification; it is not the commercial custom, or it is done in instalments.

18. Invoices for significant amounts that are paid in cash by the buyer, in amounts exceeding the one stated in the invoice. The respective refund of the overpayment is then requested, without any reasonable justification other than a simple error.

3.10 INVESTIGATION TECHNIQUES

FORENSIC ACCOUNTING INTERVIEW

Although forensic accounting interview techniques do not have the rigor of a judicial interview or interrogation, it contributes to the development of internal investigations or gathering of statements. It aims at collecting key information from first hand sources: potential witnesses and/or suspects.

To be effective, the forensic accounting interview requires expert and suitable professionals who can handle the process, capable of generating adequate conditions and guaranteeing the rights of the people interviewed. Previously, the forensic interviewer is responsible for planning the interview and preparing of the avenues of inquiry and guiding questions based on the particular aspects of each case.

Similarly, it is advisable to record interviews with electronic devices (audio and/or video), to conduct the interview in a safe and adequate place, and to have enough time to cover all the questions. Preferably, each interview should include an assistant, who will take complementary notes, in addition to helping the interviewer to identify key aspects of the interviewee’s digital and analogue communication (digital communication is related to words and analogue communication gestures and behaviour). It should also be noted that an investigator conducting a forensic accounting investigation must devise an interview strategy or techniques aimed at gathering reliable evidence to better direct the investigation, support a prosecution and avoid questions that may hinder prosecutors’ own efforts to obtain testimonial evidence.
**INTERVIEW STEPS**

It is recommended to start the interview with welcome remarks, an introduction and explanation of the process. Then make an evaluation of the initial relationship, determining its friendly or hostile nature. To do this, the interviewer must remain in an active listening disposition and subsequently develop the dimensions of inquiry and the previously prepared questionnaire, following a logical sequence. Finally, when closing the interview, the interviewee should be allowed to provide additional information.

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**TYPE OF QUESTIONS**

Use five types of questions: open questions to obtain broad information, without limiting the responses of the interviewee; closed questions, unlike the previous ones, limit the answers to two or more specific options; advisory or opinion questions to inquire about the perception of the interviewee; verification or exploration questions with the aim of confirming the
Five types of questions to be used:

1. **Guiding**: An assertion is included
2. **Complex and compound**: Two or more at the same time
3. **Negative**: Includes a negation
4. **Consultative or opinion**: Interviewee’s perception
5. **Bait**: Hypothetical questions

Information or obtaining additional data; and the bait questions that pose hypothetical situations, to obtain relevant information that may be hidden.

Finally, during the forensic accounting interview, it is recommended to avoid asking guiding, complex, compound (two or more questions) and/or negative questions.
3.10.1 INVESTIGATION TECHNIQUES

Different useful preliminary investigation techniques can be applied to discover new information, including:

**ONSITE VERIFICATION TECHNIQUES**
- Observation
- Selective review
- Comparison
- Tracing

**VERBAL VERIFICATION TECHNIQUES**
- Inquiries/Interviews

**WRITTEN VERIFICATION TECHNIQUES**
- Analysis
- Reconciliations
- Confirmations

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In the event of requiring the intervention of the Judiciary, the following may be requested, with the order of a competent judge:

- The lifting of tax secrecy.
- The lifting of bank secrecy and tax information.

**DOCUMENT VERIFICATION TECHNIQUES**
- Verification
- Documentation

**PHYSICAL VERIFICATION TECHNIQUES**
- Inspection

**DIGITAL VERIFICATION TECHNIQUES**
- Data observation and analysis
- Selective review
- Reconciliations
- Comparison
- Tracking in communication systems
3.11 COMPLEX INVESTIGATIONS TECHNIQUES

These techniques are mentioned by way of reference, as they normally imply a heavy investment of physical and financial resources and strict monitoring of the laws that regulate these procedures in each of the countries.

PHYSICAL SURVEILLANCE
A useful technique to obtain general background intelligence and information about individuals/companies, habits, and relationships of suspects. Surveillance may be especially useful in financial investigations, in cases that involve the movement of large sums of money and by identifying “gatekeepers” involved in the development and implementation of money laundering plans. Surveillance is often used to identify where financial and other linked records are stored, and lead to asset discovery. Additionally, surveillance can help corroborate financial data and identify other targets and partners.

ELEMENTS TO BE CONSIDERED BY INVESTIGATORS

To hold as potential evidence that can benefit a financial investigation:

- **Financial Transactions:** bank records, receipts, documents relating to assets, commercial interests, commercial transactions, property, letters of credit, postal correspondence, banking correspondence, bank transfers, bank checks, information on mortgages, credit card information.
- **Technology:** mobile phones, tablets, USB Keys.
- **Proceeds of crime:** currency, gold, jewellery or other valuables.
TRASH RUNS
(SEARCHING FOR EVIDENCE IN THE TRASH/DISCARDED RECORDS OF CRIMINALS)
This technique can be an effective way of obtaining clues as to where assets are kept; helps develop probable cause for more enforcement action and evidence to use in a trial. Criminals frequently discard evidence, including financial records and correspondence that can be valuable to an investigation.

CONTROLLED DELIVERY
An effective investigation technique that includes the transport of smuggled goods, money or negotiable instruments to suspected criminals while under the direction or surveillance of law enforcement officials. Smuggling, money or negotiable instruments may be discovered following a seizure at ports of entry or by other means of investigation such as undercover operations.

Objectives of controlled deliveries include:

1. Identify, arrest, and convict offenders.
2. Disrupt and dismantle criminal organisations involved in smuggling money or negotiable instruments across borders.
3. Expand the scope of an investigation, identify more offenders and higher-level offenders and obtain more evidence.
4. Establish credible evidence that the suspects were knowingly in possession of smuggled goods or money.
5. Identify the offender’s assets for consideration in asset forfeiture.
Although controlled delivery can be a successful technique, there are serious risks that must be adequately addressed. On the one hand, there is a risk of losing the evidence in the course of controlled delivery. Countries should ensure that competent authorities are well trained in the use of this technique; that clear policy and procedure guidelines are set and followed; and that proper operational supervision is carried out at the managerial level.

INTERCEPTION OF COMMUNICATIONS
Electronic surveillance techniques, such as electronic interception of transfers, oral communications, electronic means, and the use of tracking devices can be very useful in financial investigations. This technique can help identify co-conspirators; provide insight into the criminal organisation’s operations; provide real-time information/evidence that can be acted upon using other investigative techniques; it can lead to the discovery of assets, financial records, and other evidence.

On this subject, the Rapid Reference Guide for the Investigation of Forest Crime\(^{26}\) states that “A prosecutor or police official may by the virtue of the regulatory instruments apply Resolution 4933-2014-MP-FN for cases of organized crime and article 230 of the CPP on interception of communications, intercept calls and other forms of communications”.

**These measures, which are extraordinary in nature, must be requested from a judge,** who determines in what way and for how long the interception is allowed.

An investigator may use this measure, especially during preliminary proceedings to advance the investigation with more

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information, gather intelligence and evidence of the crime committed and/or other serious crimes involved, collect and secure sources of evidence for the investigation process.

UNDERCOVER OPERATIONS

An investigative technique that can be effective in financial investigations, but also has inherent risks. Covert operations often allow investigators to access key evidence that cannot be obtained by other means.

In an undercover operation a law enforcement officer or field staff of a law enforcement authority takes covert action to obtain evidence or information. Conducting covert operations correctly often requires significant resources, extensive training, and considerable preparatory work. Resources, unique and diverse skill sets and inherent risks mean that this technique is generally used as the only resource, usually after other more traditional investigation techniques have failed.

Actions taken by law enforcement authorities during undercover operations must be in accordance with the basic principles of existing laws, policies, and procedures, and all undercover officers must be highly trained before engaging in undercover operations.²⁷

3.12 DIGITAL FORENSIC INVESTIGATIONS

Digital forensic efforts to uncover hidden accounts and income illegally obtained from the illegal trade in timber target a variety of areas, including:

**EMAILS**
Investigators can perform keyword searches using names of suspected accomplices, romantic partners, relatives, business deals, trade names, known code words, or any other word or words that may be of interest to investigators. They can also search for key information such as new account setup forms, details or confirmations related to bank transfers, mobile payments, details of new business ventures, or other case-specific information.

**ACCOUNTING SOFTWARE PROGRAMMES**
A suspect who is a business owner or key accounting employee may keep multiple books. Even if they are deleted, these can be recovered by digital forensics and lead to unknown accounts. Spreadsheets and other files: suspects often keep a record of account numbers and other information in spreadsheets or other files.

These include investigating information in computers, cellphones, digital files and applying intelligence and technological tools during the investigation.
BROWSING HISTORY
Most internet browsers record information related to website visits, as well as other internet activities, such as filling out web-based forms and temporary internet files. A digital forensic accounting specialist may discover visits to banking or brokerage websites that can lead to unidentified accounts. Internet activity can also display information related to online shopping and payment activity, which could be helpful in identifying expenses and other potential assets.

METADATA ANALYSIS
Artifacts contained in documents (Word, Excel, PDF), such as creation and modification times, username, and company name, can also help to uncover the crime.

REGISTRY ANALYSIS
Certain artifacts stored in the registry can be discovered, such as USB connection information, network, and login information, can also help in an investigation.

MOBILE DEVICES
Accounting specialists can analyse call logs, SMS messages, and in some cases emails and attachments. Also, users tend to use these devices to access and monitor various assets like financial accounts, online payments, etc.

ONLINE SOCIAL MEDIA ACTIVITY
An analysis of a suspect’s public profile and activity can uncover a hidden business or other interests, which can lead to other accounts or unknown income. Also, people frequently post information
and images of new assets (i.e., cars, boats, etc.) on social media sites. This can lead investigators to potential assets and also help document large expenses.

By preserving electronic evidence (computer hard drive, mobile device, etc.), a number of possible data sources may become available. This can include previously deleted files, multiple versions or iterations of files, indications of files, and accessed programmes. All of these elements could provide clues to additional sources of information or clues that the user is accessing or deleting data.²⁸

Specifically, digital forensic investigations focus on the use of information and communication technologies (ICTs) and the traces or fingerprints of those who use them. These records refer to the data left by ICT users, such as information on the employment situation, affiliations, geolocations, routines, thoughts, habits, preferences, sociodemographic variables, among others.

**Digital fingerprints are classified as active and passive.**
The former refers to personal information and comments and audiovisual aids shared through social networks, web pages, applications, bulletin boards and/or online forums.

Passive fingerprints are data or information obtained or provided involuntarily. For example: the browsing history of the different devices with Internet access.

In this way, and through digital forensic investigation, content and non-content data or metadata are obtained to provide large amounts of information about users and events. Content information relates to words written or spoken through audio files (videos, text messages, emails, and social media communications). Non-content data refers, for example, to the identity information of the issuing and receiving users of ICTs, their location or transactional data.

These data are stored on digital devices (such as smartphones, tablets, computers, printers or other devices with digital memory capacity), external storage devices (external hard drives or external USB drives), components, devices network or routers and servers.

Within the framework of an investigation so that the digital devices mentioned above can be presented as direct or circumstantial evidence before a competent court, they must be authenticated. To this end, the following information analysis are recommended, depending on the digital evidence:

Digital forensic investigations provide data that can provide great amount of information about users and their online activities.
**Content generated by one or more people:** emails, text messages and documents produced in word processors.

**Content generated by a digital device without user input:** data records.

**Content generated by people and digital devices** (combination of user input and calculations performed by device software): documents and spreadsheets in data analysis and visualization programs such as Microsoft Excel.

In addition, it is essential to recognize the challenges of authenticating digital evidence: including the volume/quantity of data, speed with which it is created and transferred, volatility when eliminated or overwritten, variability when being manipulated, easily altered or damaged, and veracity of the same.

**DIGITAL FORENSIC MODEL**

The Digital Forensic Model is divided into several steps as follows:
**IDENTIFICATION STEP**

Investigators define the types of evidence which need to be collected and investigated. They must consider the different digital devices (computers, external hard drives, smartphones, tablets, cameras, game consoles, among others), as well as public resources and private resources, the latter meaning social media platforms, web pages or discussion forums, as well as user activity records from internet service providers, business records from communication service providers and those user records and content stored through cloud services, respectively.\(^{29}\)

**COLLECTION STEP**

Investigators must first document the crime scene and the investigation process (through a possible plan) – identify the previous steps, actions during the collection of evidence and what will happen afterwards. Information about digital devices, their operational status (on, off and standby mode) and their physical characteristics such as brand, model, series, particular traits or specific damage shall be recorded.

Once the information and evidence gathering process has started, investigators and the first respondent will be the only ones with access to the crime scene; no third party will be able to access digital devices. Investigators must count with the necessary tools to disassemble devices that could be helping to eliminate evidence from the scene, as well as the material to label and package the evidence (smartphones, Faraday bags to block wireless signals to and from digital devices, power bank, etc.), among others.

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Regarding collection procedures, although these may vary depending on the type of digital device and the public and private resources in which the digital evidence resides, the Standard Operating Procedures (SOP) allows investigators to follow the policies and step by step to guarantee the admissibility of the evidence collected before the competent justice body. To deepen digital forensic practices related to videos, multimedia files, or mobile devices, it is recommended to consult the Scientific Working Group on Digital Evidence (SWGDE).

Finally, it is important to collect other items that could be relevant to the investigation: notes, notebooks with possible password or credential information online, routers, telephones, faxes, printers, etc.

**EXTRACTION STEP**

The retrieval of evidence from seized digital devices will be carried out in the forensic laboratory (static retrieval), except in those situations where an on-site extraction is required. In both cases, the extraction must not alter the integrity of the evidence, making sure that the data is not modified.

For this, there are two types of extraction: 1) Physical extraction, this means the acquisition of evidence from a specific location within the container digital device, through searches for keywords, headings or other types of identifiers. 2) The logical extraction, which includes the compilation of a broad set or the complete list of files that are currently in the digital device.

Among the recommendations for the implementation of this step, investigators shall previously review attributes and content of potential data sources, with the aim of reducing the volume of data and obtaining only the necessary information. Likewise, since seized digital devices are the main source of evidence, it is recommended not to work on the data of the primary source, for which, it is necessary to duplicate the content and
work on it. Finally, it is suggested to document the extraction process, including information on the digital devices, hardware and software used to retrieve the evidence, in addition to informing how and when it was carried out, and the reasons for obtaining it.\textsuperscript{30}

**ANALYSIS AND REPORTS**

The fourth step involves exploring and interpreting the digital evidence obtained (depending on the type of crime), and the subsequent communication of the results.

In analysis, data is retrieved from the device, information is examined, and events are reconstructed. For this, the forensic analyst must be informed of the objectives of the investigation and/or search, of the basic knowledge of the case and of any other information that could facilitate his work.

Once the analysis has started, the origin of the information or files must be determined (when and where it was created), as well as detecting possible changes, accesses, downloads, data uploads or connections with remote storage devices (clouds, for example).

**PRESERVATION STEP**

This step seeks to protect the integrity of digital evidence, which must be maintained at each step of the process. For this, the personnel who have interacted with the evidence (investigators, crime scene technicians and digital forensic experts) must show how they have handled it and make sure that it is not altered during the previous steps (of identification, collection and retrieval). The foregoing will depend on the type of digital device and the characteristics and circumstances of the case.\textsuperscript{31}


\textsuperscript{31} Ibidem
3.13 EVIDENCE AND CHAIN OF CUSTODY

FORENSIC EVIDENCE

Obtaining, corresponding validation and acceptance before the judicial courts is one of the critical points of the forensic examination, which is why it takes time and effort, unlike traditional accounting evidence. The latter supports IFFs related investigations, and can be of any kind, as long as it is linked to “matters classified by law”.

Forensic evidence is classified as: direct, circumstantial, documentary or secondary.

DIRECT EVIDENCE

Direct evidence proves the existence of facts, without any inference or presumption, through admissions or confessions made inside or outside the court or judicial body. All this is disclosed by the person or persons have known what happened first hand, i.e., “through their senses”, under oath.

CIRCUMSTANTIAL EVIDENCE

Circumstantial evidence is a legitimate means of proof (according to the courts) and, in many cases, the only tool available to determine the facts through inference. It includes taking probative actions for some material facts that, based on their relationship with others, confirm the presence of the main or ultimate fact. Circumstantial evidence, as well as direct evidence, must be relevant, competent, and of limited admissibility.
**Documentary Evidence**

Corresponds to that written and contained in documents (excludes oral evidence). In it, “the best proof of the content of a document is the document itself”. Although documentary evidence shows difficulties when stored and processed by digital means, both they and those presented on paper receive the same treatment for the purposes of the evidence. Therefore, it is recommended to be attentive to counterfeiting, which is its main obstacle, in addition to being another type of crime.

**Secondary Evidence**

Secondary evidence is taken as a substitute for documentary evidence, therefore, it does not satisfy the premise “the best proof of the content of a document is the document itself”, as this evidence may vary in nature, corroborated with copies and not with original documents (photocopies, scans, transcripts, photographs, schedules, summaries, notes, memos, diaries, working papers, etc.). This type of evidence must be directly linked to the fact under investigation.

**Chain of Custody**

Chain of custody is the process by which investigators preserve the crime or incident scene and evidence throughout the life cycle of a particular case. It includes information on who collected the evidence, where and how the evidence was collected, which individuals took possession of the evidence, and when they got hold of it.
In the chain of custody, the names, titles, and contact information of the individuals who identified, collected, and acquired the evidence should be documented, as well as anyone else to whom the evidence was transferred, details about the evidence that was transferred, the time and date of the transfer, and the purpose of the transfer.

The chain of custody guarantees the veracity of the information collected, beginning in the place or site where the evidence was found, followed by the packaging-shipment, and ending by order of the competent authority who will be in charge of certifying the chain of custody.

Similarly, certification is necessary in this process because it is the affirmation that the element found in the place, date and time indicated on the label, is the one that was collected by the judicial police and that it has arrived at the laboratory and has been examined by the expert or experts.  

**REPORTS**

The objective of reports is to disclose the results of the procedures carried out to confirm or rule out the hypothesis of fraud or financial crime. These documents provide information regarding transactions, assets, facts and natural or legal persons involved, as well as other elements of judgment for decision-making within the framework of a judicial or administrative proceeding.
Every report, in addition to being congruent and adequate to the case in hand, must be:

1. Truthful (based on facts).
2. Objective (not intended to impress or persuade readers).
3. Technical.
4. Simple and understandable (clear language).
5. Verifiable.
6. Punctual.
7. Timely (to the extent that it helps preserve evidence, recover assets, or confirm testimonies provided).
8. Accurate (relevant information).

Similarly, technical reports must have adequate coherence (organization of the information to convey the message), cohesion (grammatical and semantic consistency of the text) in its different sections or chapters through clear language, complete sentences and logical relationships that allow meet the needs of different readers. In turn, the documents must contain, at a minimum, the objective and scope sections, executive summary of the findings, glossary, body of the report, conclusions, recommendations, annexes (in which the evidence is included), references and bibliography (See “Forensic Accounting Report Outline”).
Its content should meet the needs of different readers, from a business executive, an auditor, a lawyer, a criminal investigator, a prosecutor or a judge.

It describes the findings that are used for administrative and even legal and criminal decisions.

In the Judiciary, forensic audit reports must respond to the initial objective (in terms of informing, describing, explaining, instructing, evaluating and/or recommending) and must indicate clear evidence to demonstrate the occurrence of the facts, possible links and the operations and goods or assets identified, in accordance with the development of the information, collection, and analysis steps.

As part of the process of preparing and submitting the forensic report, the following steps are recommended:

1. **PREPARE AND PLAN**
   Review and possibly adjust the objective taking into account the potential readers, the process of deciding what information will go into the report, the elaboration of the initial structure and the piloting of the report’s outline.

The logical and clear structure of the report, the presentation of results and conclusions, the accuracy of figures and data, the inclusion or not of certain annexes, as well as a verification of grammatical and spelling aspects should be assessed. With regard to the annexes, these (whether documentary or digital) must comply with adequate technical rigour, as they will eventually become evidence in the judicial and criminal proceedings.

In this way, the auditor or forensic investigator must ensure the accuracy of the elements of the report, as well as the handling and custody of evidence. Finally, it must include conclusions and recommendations based on the observation of evidence. In turn, the opinions set out in the report must be exclusively technical and must be set out within the framework of controls or opportunities for improvement.\(^{33}\)

INFORMATION MANAGEMENT AND FINDINGS
Process to decide on the inclusion of relevant sources of information, procedures used, interviews and testimonial obtained, case hypotheses, analyses carried out and evaluation of relevant results and findings.

EVALUATION OF RESULTS
Consists of confirming the reliability and importance of the results, based on the analysis of their precision (accuracy, updating and capacity to be verified), objectivity (information free from assumptions or assessments), integrity (complete information), and conviction (findings verifiable as many times as necessary through technical procedures). In this step, relevant findings should be decided and prioritised to be part of the report.

WRITING AND REVIEWING
This is a reflection of the previous work and fulfilment of the prior steps, it is recommended to write a draft document, following the outline initially agreed so that it may subsequently be validated through peer and expert review. It is essential to decide properly what to include, where to include it (annex or body of the report) and what not to include. To this end, three key questions should be asked:

- Is it necessary to disclose this information?
- Is this information necessary according to the outline of the report?
- Is it necessary to refer to this information many times?
3.14 SPECIAL MEASURES

FREEZING
Preventive measure by which the enforcement/control authority establishes that the goods must remain in a specific place and under the responsibility of the designated person in order to submit them for further review and investigative actions deemed necessary.

SEIZURE
Preventive measure which could be adopted by the Customs Authority that consists of the forced possession and transfer of the goods to the Tax Administration (SUNAT) warehouses, while its definitive legal situation is determined.

This measure is also set out in articles Art. 314-C of the Criminal Code and arts. from 316 to 320 of the Criminal Proceedings Code. Based on this measure, the judge will first seize specimens (timber forest products) of allegedly illicit origin and the devices used to commit the crime. Under no circumstances shall the specimens seized from the defendant be returned, as they are illegal objects or instruments.

ADMINISTRATIVE FREEZE
FIU-Peru is authorised, under Article 3, paragraph 11, Law 27693, Law establishing the Financial Intelligence Unit of Peru, to exceptionally order the freezing of funds in cases related to Money Laundering and Terrorism Financing Crimes, urgent based on circumstances or periculum in mora (danger in delaying the
measure), and provided that it is necessary due to the breadth and nature of the investigation. In these cases, the judge must be informed within twenty-four (24) hours of the measure being ordered. The judge may validate the measure or order its immediate revocation within due course.

**EXTINCTION OF PROPERTY PROCEEDING**

Through Legislative Decree 1373, the State proposes a special and autonomous proceeding, through which the courts may adjudicate on the ownership of objects, instruments, belongings and profits related to illicit activities. In accordance with current regulations, the property forfeiture proceedings falls on assets that come from or are intended for certain illicit activities and other activities with the capacity to generate money, assets, belongings or profits of illicit origin, or activities linked to organised crime.

The following specialized bodies have authority on forfeiture:

- **Forfeiture (Property Extinction) Prosecutor’s Office**, which has the role of investigating and thus bringing to trial cases of recovery of goods and assets of illicit origin and destination.

- **Judge specialized in forfeiture** (property extinction) the judicial district where the property under investigation is located.

- **Judge specialized in forfeiture (property extinction)** the judicial district where the first investigation by the Public Prosecutor’s Office begins if assets are located in several judicial districts.

- **If, after the commencement of the forfeiture proceeding**, there is knowledge of the existence of other assets linked to those that are the subject of this proceeding, located in different places, the judge who first heard the claim shall withhold jurisdiction.

34 Art. 8 Legislative Decree 1373 on forfeiture.
When goods are subject to illegal activities or are instruments, effects or proceeds of them.

When goods constitute an unjustified capital increase of an individual or legal entity, as there are no reasonable elements that could prove their legal source.

When goods of legal source have been used or destined to hide, cover-up or incorporate goods of illegal source, or when they are confused or mixed with illegal goods or are indistinguishable from them.

When goods are declared as abandoned or unclaimed and there is sufficient information proving their direct or indirect relation to illegal activities.

When goods or resources come from the alienation or exchange of others that have their direct or indirect origin in illegal activities or are subject, instruments, effects, or proceeds of them.

When goods or objects have been involved in criminal procedures and their origin, use, or illegal destination were not investigated; or, if they were, a final decision was not made, for whatever reason.

When goods are subject to inheritance due to death, and they fall within any of the previous cases.
ASSETS RECOVERY

Successful asset recovery requires a comprehensive action plan that encompasses a number of important steps and considerations. Competent authorities will have to collect and assess the facts to understand the case, form a team, identify key allies, contact foreign professionals (if a foreign link is established), deal with legal, practical and operational challenges, and ensure effective case management.

In addition, countries can consider other options, beyond criminal forfeiture, such as legal action without conviction or even as administrative measures. One of the biggest challenges in asset recovery investigations is to produce the evidence that connects the assets to criminal activities (asset-based forfeiture) or to demonstrate that the assets are a benefit derived from a crime committed by the recipient of the investigation (forfeiture based on value).

To establish this link, investigators must identify and trace assets to determine a connection to the crime or location of the assets. To achieve this, government agencies should consider creating specialized forfeiture units, made up of financial and tax investigators to identify and track assets for confiscation purposes. If this approach is taken, financial investigators dedicated to tracing and confiscating assets will need to work closely with their peers seeking criminal prosecution. If not, the consequences may be negative for the criminal case and that, in turn, is likely to affect forfeiture efforts.

Countries can consider other options, beyond criminal forfeiture, such as legal action without conviction or even as administrative measures.

Mechanisms must be established to allow competent authorities to administer and, when necessary, effectively dispose of assets that are frozen or seized, or that have been confiscated. These
mechanisms must be applicable both in the context of domestic legal actions and by virtue of requests from foreign countries.

Another challenge in asset recovery investigations is the lack of centralised oversight as each recovery case goes through various instances of the judicial system. The lack of centralised supervision of the proceedings can cause blockages in the criminal justice channels, which can lead to the fragmentation of each instance of proceedings, one-off treatment; hence the difficulty in coordinating financial investigation, seizures and confiscations from the beginning to end.

To overcome these difficulties, **countries should consider creating and using a national asset recovery database recording information on each case as it progresses through the criminal justice system.** As a result, information may be considered and analysed centrally and by all stakeholders who may apply statistical methodology in a uniform manner, thus allowing to spot blockages in the proceedings and, in turn, rapid solving of such problems.

Such a database provides a single source of historical information on asset recovery actions for use in ongoing investigations and also enables greater understanding and cooperation between competent authorities. This system often contributes to better coordination, allowing more assets to be successfully identified, seized, and confiscated. A national database is also an important tool because it helps to improve the effectiveness of the asset recovery system and gives a “joint action” approach to legal and operational proceedings.  

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Other additional measures set out in Peruvian laws, which are tools used by investigators and prosecutors, are highlighted in the Rapid Reference Guide for the Investigation of Forest Crime (UNODC. 2020) and in more detail in the Annexes:

- **Interdiction of illegal logging (Annex 4):** sets out the special confiscation, the destruction of the object of the crime, as well as the destruction and/or reduction of the commercial value.

- **Lifting of bank secrecy (Annex 7):** if in the course of the investigation, there are suspicions of irregular financial transactions or anomalous financial operations linked to a case of illegal trade in timber and the actors within it, a prosecutor may request the judge, if necessary, the lifting of bank secrecy, tax and stock exchange reserve. The procedure for using this measure is as follows:

If there are suspicions of irregular financial transactions, a prosecutor may request the judge to lift bank secrecy, tax and stock market activities for the purposes of the investigation.
**Prosecutor’s Petition.**
It must specify the following:

- **a)** the facts under investigation,
- **b)** sufficient crime evidence,
- **c)** the crime under investigation,
- **d)** the purpose of the measure,
- **e)** the rationale of the need of such measure,
- **f)** the identity of the subject(s) on which the measure shall apply,
- **g)** the period that the measure will cover.

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**Police Report**

This report will contain:

- **a)** the criminal act under investigation,
- **b)** the purpose of the measure,
- **c)** the reasons that warrant the measure,
- **d)** the evidence that must be provided to make the case,
- **e)** the identity of the subject or subjects, and
- **f)** the period that the measure will cover.

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**Court Order**

The court order shall include:

- **a)** the identity of the petitioner to confirm if they are authorized by law to request this measure,
- **b)** the criminal act,
- **c)** the crime under investigation,
- **d)** the evidence that they have and rationale of the petition,
- **e)** description of the reasons for its need, suitability, proportionality and purpose,
- **f)** the identity of the subject(s) (affected persons), including their identity documents, and
- **g)** the period that the measure will cover.

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**Execution of the Measure.**

Once the notice and approval of the court order is issued, the execution of the measure can be carried out by a prosecutor, with the support of the National Police of Peru. Upon receipt of the notice and/or transcript of the order granting the lifting measure, the prosecutor may take a series of actions, including contacting the other agencies (SBS, Sunat, etc.) to request the information/documents required.
section

04

BEST PRACTICES
International cooperation is essential for the success of financial investigations. These tend to extend beyond national borders, so it is important that the competent authorities focus on coordinating efforts between countries and different agencies, either formally or informally, and ensure that these are maintained for the duration of the case.

Establishing contact on a regular basis enables professionals to understand the foreign legal system and potential challenges, obtain additional clues, and devise a common strategy. It also gives the foreign jurisdiction the opportunity to prepare for its collaborative role.

To legally obtain evidence that is admissible in court, investigators and/or tax authorities must use existing international agreements that may be based on reciprocity, memoranda of understanding (MoU’s), and bilateral or multilateral agreements. Once the decision of a country is made to investigate which part of the case, mechanisms must be agreed to ensure that all relevant evidence is available in the competent country, so that it can be submitted in a criminal court following the due process of law.

It is also important, in conducting successful financial investigations, to establish personal connections with foreign peers. A phone call, an email, video conference, or face-to-face meeting will do a lot in moving the case to a successful conclusion.
For this reason, effective communication skills is vital in each of the following steps: obtaining information and intelligence, making strategic decisions, understanding the assistance requirements of the foreign jurisdiction, and following up on requests for assistance. It also helps reduce delays, especially when differences in terminology and legal systems can lead to misunderstandings.

To obtain important information quickly and with fewer formalities, **direct contact can be made with law enforcement agencies and peer financial intelligence units**, or liaison magistrates or local/regional attachés or law enforcement agencies (through interagency assistance). This assistance can contribute to faster identification of evidence and assets. In the same way, these contacts allow investigators to learn about the procedures and systems of the foreign jurisdiction, as well as to evaluate the various options to carry out investigations, procedures, and judicial proceedings in the criminal jurisdiction.

To achieve effective international cooperation, it is critical that financial investigators discuss issues and strategies with their foreign counterparts. These discussions should include the possibility of conducting joint investigations or providing information to foreign authorities so that they can carry out their own investigations. If the financial investigation is in its early stages and investigators are concerned about the integrity of the investigation, they can still contact their foreign peers and discuss “hypothesis” issues. These discussions allow all parties involved to better understand the parameters and requirements of an investigation without having to discuss too many specific details, which can be shared at a later stage, if necessary.
Legal and Ethical Obligations

Investigators must conduct a relevant and impartial investigation, avoid any bias, and include information to confirm or prove the hypothesis. Simultaneously, it must be timely to the extent that it helps preserve evidence, recover assets, or confirm testimonials provided. The opinions to strengthen or improve its implementation must be strictly technical. Along these lines, evidence management and custody should be a primary aspect to confirm what is stated in the report.

The code of ethics includes the behaviours that investigators must observe, including complying with legal orders; carrying out a thorough examination of the evidence in accordance with existing laws, regulations, procedures, and guidelines; and being aware of the prohibited behaviours such as withholding evidence and engaging in biased analysis or reporting of evidence, and/or misrepresenting information.

Investigator must prepare a case which is relevant and impartial to avoid any type of bias.

In handling digital evidence or information technologies, ethical conduct implies refraining from harming others, systems, and data, and respecting the rule of law and human rights.
Joint investigations can avoid duplication of efforts and a lack of information from “one-sided” investigations and improve efficiency by enabling officials from each competent agency involved to focus on different aspects of an investigation and gather new intelligence, depending on their experience and authority.

Strategies to combat financial crime and IFFs comprise of several key steps, including prevention, detection, investigation, and prosecution, and in some cases, recovery of proceeds/assets of crime. Depending on the circumstances, these strategies involve various government agencies with various models of cooperation to enable effective investigations, intelligence sharing and prosecutions.

**From national experiences in Peru, it is essential to continue fostering interagency cooperation between national authorities responsible for investigating forest crime and the complex related offences**, including the Environmental Prosecutor’s Office (FEMA), the National Superintendency of Customs and Tax Administration (SUNAT), the Environmental Police and the Financial Intelligence Unit of Peru (FIU-Peru) among others. Greater collaboration between criminal justice, customs, tax, and financial crime authorities is key to curbing the threats from IFFs and the crimes they expose to the forestry sector.

Interagency Investigation Teams act as an important mechanism for the authorities responsible for the
investigation and prosecution of forest crime - they enable joint work together with different specialized agencies in areas of mutual interest to detect crimes and offences. These working groups allow different authorities to bring together a diverse range of skills and experience with investigators and technical professionals with different backgrounds. This allows officials to obtain a multidimensional analysis and investigation of the crimes or cases involved. The separation of agencies responsible for environmental crime and financial crime cases requires new mechanisms to respond to the current sophisticated networks involved in forest crime.

In this scenario, many agencies are required to come together to tackle complex investigations through a multidisciplinary approach that includes both administrative authorities and the judicial sector. These authorities may be responsible for supporting the investigation of financial crimes (FISLAV, FIU, SUNAT), while others (FEMA, PNP) will carry out parallel investigations on the environmental side. Different Agencies have vital information to build a robust case and respond to all areas of related offences linked to forest crime.

It is important that authorities involved investigate all angles of the different crimes involved to determine the scale of illicit activities and ensure an adequate legal response.

In the case of IFF, it is important that authorities investigate all angles of related offences to determine the scale at which offenders are committing crimes and determine the maximum penalty to deter offenders from future illicit activities. An interagency investigation team, or a working group approach such as the example promoted in Peru, emphasizes on conducting parallel investigations of both forest crime, related offences and IFF cases.
At the same time, it allows the different agencies associated with that team to focus on building different parts of the investigation. The Interagency Investigation Team in Peru aims at strengthening interagency collaboration for joint investigations on cases of forest crime that are linked to illicit financial flows in a secure, organised, and efficient manner. **As a result, they contribute to:**

- **Improve the exchange of information** on forest crime cases among criminal justice authorities and administrative agencies.

- **Strengthen coordination, knowledge, and interagency capacities** on investigations of forest crime by consolidating technical knowledge and legal procedures.

- **Establish good practices on financial investigations** related to forest crime.

The experience of the Peruvian model consists of a joint working group structure of interagency cooperation. The Investigation Team acts as a coordination platform to ensure ongoing coordination among members which can meet several times a year, especially when it is necessary to share progress on operational work or other related areas, according to a work plan that allows team members to formulate a coordinated strategy and outline key actions, including reviewing possible intelligence and information from other agencies.

It is worth mentioning that the team can also include the presentation of the *modus operandis* of cases, actors, crimes, necessary intelligence and approve measures to manage an investigation (including through an investigation plan - 4.8).
Some mechanisms that can be built on to promote interagency collaboration on these investigations include:

- Establishing information exchange mechanisms on joint investigations.
- Establishing protocols promoting information/intelligence exchange under the joint approach.
- Establishing a process/plan by which disputes can be settled jointly in the best interest of the investigation and continued commitment towards parallel investigations in line with national institutional procedures.
- Competent authorities should consider the possibility of establishing written arrangements, such as memoranda of understanding or similar agreements, to formalise these processes.
National institutions request to meet and present possible information of a case to initiate a Joint Investigation (ICO) with the FIU. ICOs allow enhanced knowledge of money laundering crimes through the FIU information and analysis.

Authorities involved with the FIU agree to activate an ICO based on case information presented. The ICO will formally activate through an agreement requesting the formalization of the ICO.

Upon agreement to formally activate the ICO, authorities can provide information of the case of the predicate offense to the FIU to evaluate and analyze information of the actors to detect activities related to ML / TF.

The FIU evaluates and analyzes the information received to detect ML operations. The FIU upon completion of its analysis may issue a financial intelligence report (IIF) or other reports to ICO members. If money laundering activity is detected, the FIU will send intelligence products to specialized offices of the Public Prosecutors Office for investigations and sanctions (FISLAV, FECOR).

With the results of the IIF from the FIU, national authorities within the ICO can take their own sanctionary actions and also send complaints to the Prosecutors Offices for the predicate offences involved. The FIU will send its intelligence products to the MP (generally FISLAV or FECOR) if there is a detection of ML and authorities in the ICO process can continue to support the investigation with other related case information. The Prosecutors Offices will continue its investigation and will work with the Judiciary and the PNP for specialized investigations and field work to build a stronger case.

Public Prosecutors Office, Customs, Police, Controller (among other authorities) identify a predicate offence.
4.3.1 PARALLEL INVESTIGATIONS

Based on the experiences identified in Peru, parallel investigations represent an important collaborative opportunity to build cases, simultaneously, both on forestry and related crime cases (corruption, money laundering, tax evasion etc.). **Parallel investigations must be proactive and cooperative working through an environment of trust and transparency.** This approach brings together the expertise of both investigative backgrounds that is supplementary and ensures that all crimes are thoroughly investigated and can lead to much broader investigations. Carrying out an effective financial investigation parallel to a forest crime (illegal logging, illegal timber trafficking, etc.) means taking a proactive approach to law enforcement to identify the proceeds of crimes which are currently being investigated and their primary **driver:** the financial resource at the heart of the illegal timber trade.

Working together to successfully investigate and prosecute these offenders can deter the infiltration of illegal profits and assets into the economy and eliminate the main tool for future crimes. Therefore, parallel investigations ensure that the responsible authorities can identify all the different participants and actors involved in a forest crime enterprise. Additionally, having multiple investigators/agencies provides information on the hierarchy of the networks involved and discover their illicit activities/organized crime dynamics.
4.4 Global Trends in Forensic Accounting Investigations
4.4.1
BIG DATA

When it comes to financial forensics, traditional data analysis has been the standard to help guide trends of investigations and valuations. Big data is improving systems by providing access to large amounts of unstructured data that would otherwise require extremely manual and time-consuming work to analyse. **In addition, a fundamental premise of this tool in a first phase is the “5 V” model that characterizes all information that needs to be processed:**

1. **Volume**
2. **Variability**
3. **Velocity (Speed)**
4. **Veracity**
5. **Value**

Then, the second phase is made up of three elements called “E.T.C” (acronym in Spanish).

The data produced shows patterns of behaviour, trends and can be used to predict future illegal logging events and investigate IFF related cases.

**EXTRACTION (RETRIEVAL)**
Data mining is a process that involves retrieving data from various sources. Investigators often retrieve data in order to process it, migrate it to a data repository (such as a data warehouse or a data lake) or for further analyses.

**TRANSFORMATION**
Includes the standardisation, sorting, and purging of data and developing algorithms, currently known as machine learning (ML), which consists of the scientific study of algorithms and statistical models that computer systems use to perform a specific task without using explicit instructions, but are based on patterns and inference. This process is seen as a subset of artificial intelligence.

**UPLOAD**
Information loading: Storage and Data Warehouse.
4.4.2

ARTIFICIAL INTELLIGENCE

The technological power of Artificial Intelligence (AI) benefits auditors to the extent that the analysis of key details in an investigation no longer has to be done by hand, by one person or hundreds of them. The infinite paper trail has become electronic, so auditors today have to sift through thousands upon thousands of emails to find a small number of key messages.

However, with artificial intelligence, an auditor can ask a computer to display emails and documents where certain words or patterns appear for closer inspection. This not only reduces investigation time, but it also offers a more efficient process for clients and promotes audit quality.

Continuous advancement of audit data analysis is critical. Unlike working with a sample of transactions, data analytics can examine 100% of transactions at unimaginable speed and pace. Some features of AI are as follows:

- Uses a series of facts that are true and combines them with facts that are close to reality.
- Locate the scattered data in a diagram.
- It also creates algorithms to understand the correlation of data with reality: These algorithms can produce regressions, clusters, classifications, Bayesians (a method that allows drawing conclusions by combining what is known about the answer).
- Neural networks.
Developing a joint or interagency plan can serve as an important strategic and planning tool to guide investigations through a collaborative approach. A plan that encompasses various elements and draws on agency input to support a joint investigation can directly address the needs of each of the authorities involved in the legal processes of the investigation and provide vital information in an effective and efficient manner.

The Interagency Investigation Plan model applied in Peru was developed as a reference tool designed to support a joint investigation process based on the needs of each authority to analyze the investigation of forest crime cases that are linked to illicit financial flows. The document acts as a planning tool for the authorities involved to develop standards for their joint process of building cases in an efficient, organised and secure manner and share the necessary information during the case process. The tool serves for organising and documenting the work updates, establishing information needs and ways to obtain it, highlighting developments, goals and deadlines, assigning tasks, identifying priorities, and evaluating each step and the results.

The information gathered enables the authorities to understand the criminal actors modalities/operation and what crime (forestry and financial) was perpetrated and with what information/evidence to build the case.
In Peru, agencies identified the following areas as important elements for the interagency investigation plan for a joint investigation into financial crimes linked to the illegal timber trade:

Includes:

- **Summary of the case to be investigated**: briefly describe the case.

- **Background**: How did they learn about the case (source of information)? What previous information is available from similar cases? Are there any similar cases? Have the subjects involved been previously investigated?

- **Formulation of the hypothesis**: with the information continuously gathered, the hypothesis of the detected crime is formulated, considering the modus operandi. More than one hypothesis may be formulated, and a degree of complexity must be established. It should also include separate hypothesis in: (1) forest crime case and 2) financial crime case with a final hypothesis linking them.

- **Objective of the case and issues to be investigated**: description of the elements and clear objectives of the case to be investigated.

- **Risks**: description of the direct and indirect of the case, including, inter alia, risks that affect the team or the institutions that make up the team.

- **Other relevant factors**: observations of agencies that could be of use to the investigation.
3 INVESTIGATION STEPS

Determine the steps required by the different agencies to conduct a joint investigation effectively and efficiently.

- **Steps and activities to be carried out:** description of each step, activity and tasks to define the process to be followed to investigate the case (number of planning/coordination meetings jointly defined).

- **Roles and responsibilities per activity (at the level of institutions and specialists), contact details:** platform staff that will participate in the investigation of the case with their respective responsibilities.

- **Timeline:** on the activities to be carried out as a whole and by each agency individually.

4 RESULTS AND UPDATES

Jointly document the results of the work of each agency and as a whole as a result of the investigation and working group meetings at each step of the process. This may also include updates on each area of the plan that has been compiled, during the implementation of the inter-agency investigation.
ANNEXES
TÍTULO XIII del Código Penal
DELITOS AMBIENTALES

CAPÍTULO I
DELITOS DE CONTAMINACIÓN

Artículo 304.- Contaminación del ambiente
El que, infrigiendo leyes, reglamentos o límites máximos permisibles, pro cause o realice descargas, emisiones, emisiones de gases tóxicos, emisiones de ruido, filtraciones, vertimientos o radiaciones contaminantes en la atmósfera, el suelo, los suelos, las aguas terrestres, marítimas o subterráneas, que cause o pueda causar perjuicios, alteración o daño grave al ambiente o sus componentes, la calidad ambiental o la salud humana, será reprimido con pena privativa de libertad no menor de cuatro años ni mayor de seis años y con cien a seiscientos días-multa.

Si el agente actuó por culpa, la pena será privativa de libertad no mayor de tres años o prestación de servicios comunitarios de cuarenta a ochenta jornadas.

Artículo 305.- Formas agravadas
La pena privativa de libertad será no menor de cuatro años ni mayor de siete años y con trescientos a mil días-multa si el agente incurre en cualquiera de los siguientes supuestos:
1. Falsea u oculta información sobre el hecho contaminante, la cantidad o calidad de las descargas, emisiones, filtraciones, vertimientos o radiaciones contaminantes referidos en el artículo 304, a la autoridad competente o a la institución autorizada para realizar labores de fiscalización o auditoría ambiental.
2. Obstaculiza o impide la actividad fiscalizadora o de auditoría ordenada por la autoridad administrativa competente.
3. Actúa clandestinamente en el ejercicio de su actividad.
4. Si por efecto de la actividad contaminante se producen lesiones graves o muerte, la pena será:
   1. Privativa de libertad no menor de cinco años ni mayor de ocho años y con seiscientos a mil días-multa, en caso de lesiones graves.
   2. Privativa de libertad no menor de seis años ni mayor de diez años y con setecientos cincuenta a tres mil quinientos días-multa, en caso de muerte.

Artículo 306.- Incumplimiento de las normas relativas al manejo de residuos sólidos
El que, sin autorización o aprobación de la autoridad competente, establezca un vertedero o botadero de residuos sólidos que pueda perjudicar gravemente la calidad del ambiente, la salud humana o la integridad de los procesos ecológicos, será reprimido con pena privativa de libertad no mayor de cuatro años. Si el agente actuó por culpa, la pena será privativa de libertad no mayor de dos años.

Si el agente, contraviniendo leyes, reglamentos o disposiciones existentes, utiliza desechos sólidos para la alimentación de animales destinados al consumo humano, se aplicará la pena privativa de libertad no menor de tres años ni mayor de seis años y con doscientos sesenta a cuatrocientos cincuenta días-multa.

Artículo 307.- Tráfico ilegal de residuos peligrosos
El que ingrese ilegalmente al territorio nacional, use, emplee, coloque, traslade o disponga sin la debida autorización, residuos o desechos tóxicos o peligrosos para el ambiente, resultantes de un proceso de producción, extracción, transformación, utilización o consumo, será reprimido con pena privativa de libertad no menor de cuatro ni mayor de seis años y con trescientos a cuatrocientos días-multa.

Artículo 307-A.- Delito de minería ilegal
El que realice actividad de exploración, extracción, explotación u otro acto similar de recursos minerales metálicos y no metálicos sin contar con la autorización de la entidad administrativa competente que cause o pueda causar perjuicio, alteración o daño al ambiente y sus componentes, la calidad ambiental o la salud humana, será reprimido con pena privativa de libertad no menor de cuatro ni mayor de ocho años y con cien a seisientos días-multa. La misma pena será aplicada al que realice actividad de exploración, extracción, explotación u otro acto similar de recursos minerales metálicos y no metálicos que se encuentre fuera del proceso de formalización, que cause o pueda causar perjuicio, alteración o daño al ambiente y sus componentes, la calidad ambiental o la salud humana. Si el agente actuó por culpa, la pena será privativa de libertad, no mayor de tres o con prestación de servicios comunitarios de cuarenta a ochenta jornadas.
ANNEX 2
LIST OF PERUVIAN LEGAL FRAMEWORK

1. **Law 27693**, Law establishing the Financial Intelligence Unit-Peru (FIU-Peru), as amended from time to time.


3. **Law 30424**, Law regulating the administrative liability of legal entities for the crime of transnational bribery, as amended by Legislative Decree 1352, Legislative Decree extending the administrative liability of legal entities.

4. **Legislative Decree 1106**, Legislative Decree of Effective Combating against Money Laundering and other Crimes Related to Illegal Mining and Organised Crime, as amended from time to time.

5. **Legislative Decree 1249**, Legislative Decree establishing measures to strengthen the prevention, detection and punishment of money laundering and financing of terrorism.

6. **Decree-Law 25475**, Decree-Law that establishes punishments for terrorist offences and investigation and trial procedures, as amended from time to time.
7. **Supreme Decree 057-2011-PCM**, approving the National Plan to Combat Money Laundering and the Financing of Terrorism and creating CONTRALFT. [https://www.sbs.gob.pe/Portals/5/jer/LIST_INTERES/files/P%C3%B3litica_Plan_CONTRALAF.pdf](https://www.sbs.gob.pe/Portals/5/jer/LIST_INTERES/files/P%C3%B3litica_Plan_CONTRALAF.pdf)

8. **Supreme Decree 018-2006-JUS**, Regulation to Law 27693, Law establishing the Financial Intelligence Unit of Peru, FIU-Peru.

9. **Forestry and Wildlife Law 29763**.

10. **Customs Offences Law 28008**.

**ANNEX 3**

**TIMBER TRANSPORT DOCUMENTS**

**Sender’s Transport Form**

**COMERCIAL CLARA S.R.L.**

**Domicilio fiscal:** Av. del Parque Nº 1421 - San Borja - Lima  
**Punto de emisión:** Jr. Los Lirios Nº 5021 - Puente Piedra - Lima

**Fecha de inicio del traslado:** 24/05/2010  
**Punto de partida:**  
**Punto de llegada:** Según relación de direcciones en Panta- La Merced  
**Punto de Traslado:**

<table>
<thead>
<tr>
<th>Datos del bien transportado:</th>
</tr>
</thead>
<tbody>
<tr>
<td>DESCRIPCIÓN</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>10100117472 Com. Lito SRL  Fact. Nº 003-0052681 Calle Juan 152. Urb. Las Viñas</td>
</tr>
</tbody>
</table>

**Datos de la Unidad de Transporte (Transporte Privado):**  
**Marca y Placa:** Volvo WXG - 955  
**Licencia de conducir:** CA-007691

**Datos del Transportista (Transporte Público):**  
**RUC:**  
**Denominación, apellidos y nombres:**
**TRANSPORTES LARAVET S.A.**

**Domicilio fiscal:** Av. del Parque Nº 1421 - San Borja - Lima  
**Punto de emisión:** Jr. Los Lirios Nº 5021 - Puente Piedra - Lima  
**REGISTRO M.T.C.: 123456ABC**

**Punto de partida:** Puente Piedra, Lima  
**Punto de llegada:** Panta - La Libertad  
**Fecha de inicio del traslado:** 24/05/2010

**Información de la unidad de transporte y conductor:**

<table>
<thead>
<tr>
<th>PLACAS</th>
<th>CONSTANCIA DE INSCRIPCIÓN</th>
<th>LICENCIA DE CONDUCIR</th>
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<tbody>
<tr>
<td>Volvo WXG - 955</td>
<td>150325485</td>
<td>CFD- 1056817</td>
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</tbody>
</table>

**Datos del bien transportado:**

<table>
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<tr>
<th>DESCRIPCIÓN</th>
<th>CANTIDAD</th>
<th>UM</th>
<th>PESO TOTAL</th>
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<tr>
<td>1010017472 Com. Lito SRL Fact. Nº 003-0052681 Calle Juan 152. Urb. Las Viñas</td>
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<tr>
<td>Nombre Científico</td>
<td>Nombre común o comercial</td>
<td>Tipo de producto</td>
<td>Forma de embalaje o presentación del producto</td>
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Observaciones: ..................................................................................................................

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Nombres y Apellidos

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*Guía de Transporte Forestal*

**Gobierno Regional de Ucayali**

Gerencia Regional Forestal y de Fauna Silvestre

**Guía de Transporte Forestal**

013 - N° 326957

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Se invalida la GTFs cuando contiene enmendaduras y/o alteraciones.

La presente GTFs tiene carácter de declaración jurada y está sujeta a acciones penales contempladas en el numeral 32.3 del artículo N° 32 de la Ley 27444 (Ley de Procedimiento Administrativo General).
Timber export documents

1. Packing List
2. Commercial Invoice
3. Confirmation of Booking
4. Bill of lading
5. Single Customs Form
6. Phytosanitary Certificate
8. CITES Permit ([https://cites.org/esp/prog/Permit_system](https://cites.org/esp/prog/Permit_system))

![Modelo normalizado de permiso CITES](https://cites.org/sites/default/files/document/S-Res-12-03-R18.pdf)
ANNEX 4

TIMBER TRANSPORT DOCUMENTS PROTOCOL FOR INTERVENTION IN EXTRAORDINARY INTERDICTIOIN MEASURES AGAINST ILLEGAL LOGGING
(RESOLUTION OF THE PUBLIC PROSECUTOR’S OFFICE 1787-2016-MP-FN)

https://portal.mpfn.gob.pe/descargas/normas/r45879.pdf
ACTA DE INTERDICCIÓN EXTRAORDINARIA EN TALA ILEGAL
(En el marco del Decreto Legislativo N° 1220)

Siendo las _____ horas del día _____ de __________ del 20___, por disposición superior el (a) Dr. (a) ___________
Fiscal ___________ Especializado en Materia Ambiental del distrito fiscal de ____________
indicar si es un titular, área natural protegida, zonas reservadas, área de conservación regional, zona de amortiguamiento y demás
zonas del patrimonio forestal) denominada (o) ___________, ubicada en ____________, en el distrito de
departamento de ___________, provincia de ____________, cuyo titular es
interdicción extraordinaria contra la tala ilegal, y/o tráfico de productos forestales
maderables, dispuesta
indicar si es de oficio, en el marco de una carpeta fiscal o si es a solicitud de una entidad competente en materia de control
forestal).

I.- REPRESENTANTES DE INSTITUCIONES INTERVINIENTES

Policía Nacional del Perú

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Dirección General de Capitanías y Guardacostas

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https://www.mininter.gob.pe/sites/default/files/DL%201220%20TALA%20ILEGAL.pdf

ORGANIZED CRIME LAW (PERU)

193

Ley_30077_Ley_contra_el_Crimen_Organizado.pdf
ANNEX 6
GAFI RECOMMENDATIONS

ESTÁNDARES INTERNACIONALES
SOBRE LA LUCHA CONTRA EL LAVADO DE ACTIVOS
Y EL FINANCIAMIENTO
DEL TERRORISMO Y LA PROLIFERACIÓN

LAS RECOMENDACIONES DEL GAFI

FEBRERO 2012

ANNEX 7
MINISTER’S RESOLUTION 1217-2014-IN:
PROTOCOL FOR JOINT INVESTIGATIONS

ANNEX 8
UNITED NATIONS CONVENTIONS AND INSTRUMENTS ON MONEY LAUNDERING


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2. **Evaluación Sectorial de Exposición a los Riesgos de Lavado de Activos y Financiamiento del Terrorismo del Sector Maderero en el Perú, 2018.** Unidad de Inteligencia Financiera (UIF-Peru).

3. **Gafisud: Guía para las investigaciones financieras.** GAFI. Junio 2012. Documento original en inglés disponible en: 

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5. **Normas Contables: Normas Internacionales de Contabilidad Oficializadas Vigentes en el Perú – 2010:**

7. QUIPUKAMAYOC | Revista de la Facultad de Ciencias Contables

8. Técnicas contables de investigación del fraude y blanqueo de capitales.


c. Financiamiento para el aprovechamiento forestal y la producción de madera en la Amazonía peruana. GIZ-ProAmbiente 2016.
