

USE OF FRONT COMPANIES

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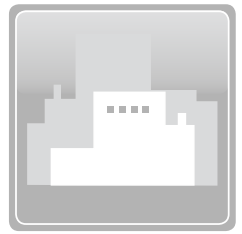
What is it?

Front companies are used to conceal the proceeds of illicit activities.

How it works

Criminals set up or use businesses to launder money. The proceeds of crime are used to fund the company's business activities, or they are combined with legitimate proceeds and deposited into the firm's bank account.

FRONT COMPANIES, ALSO KNOWN AS SHELL ORGANISATIONS, ARE USED TO SHIELD THE PARENT COMPANY FROM LEGAL LIABILITY



CASE STUDY: PUBLIC SECTOR FRAUD AND CORRUPTION

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The FIC assisted in a large fraud and corruption case involving the theft of millions of rands by public servants.

State employees tasked with managing a project diverted the funds to officials' personal projects. The subjects used front companies and their relatives to set up entities to receive grants from the fund. The proceeds of these illegal grants were used to buy properties and vehicles. Some of the proceeds were laundered through attorneys' trust accounts.

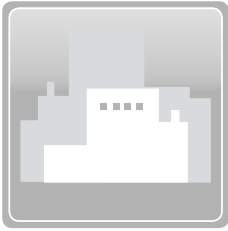
The money trail was well concealed and difficult to follow, but the FIC was able to trace the companies linked to the individuals, identify the various bank accounts involved, and analyse money flows to trace projects that benefited from the grants.

The information provided by the FIC enabled the investigation team to make a breakthrough in tracing the crime proceeds and uncovering more illegal activities related to the scheme. The agencies involved were able to collect evidence, preserve property and prosecute the guilty parties.

The FIC's involvement enabled the following:

- The subpoena of over 100 bank accounts and the subsequent quick gathering and analysis of the financial intelligence.
- Enhanced communication lines with banks.
- In-depth cash flow analysis by forensic auditors, which helped the investigation team to unravel the intricate scheme.

The case is currently in court.



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SA men in plastic banknote scam – Front company channelled millions of dollars in commissions from Nigerian contract⁷

An excerpt from the Mail & Guardian

29 November 2010

A group of South African businessmen is embroiled in an international investigation of multimillion-dollar commission payments made by an Australia-based banknote company.

Securrency International, which is jointly owned by the Reserve Bank of Australia and British company Innovia Films, is under investigation by the Australian Federal Police and Britain's Serious Fraud Office over commission payments of some \$50 million since 2003 to a network of politically connected agents employed to help secure contracts.

Investigators suspect some payments included bribes channelled to decision-makers.

One key leg of the investigation relates to payments flowing from the decision of the Nigerian central bank to adopt Securrency's "plastic" polymer-based notes in preference to "paper" money.

Evidence seen by the Mail & Guardian shows commission payments amounting to 12% of the net amount received by Securrency flowing from the Nigerian contract were paid to a front company set up in the Seychelles but apparently controlled by a group of South Africans.

The Seychelles company, SPT Limited, has two pro forma directors drawn from the Seychelles trust company that acts as the administrator, but includes one South African director, NAME REMOVED. The Seychelles administrator, the Mayfair Trust Group, would not comment.

⁷<http://amabhungane.co.za/article/2010-11-29-sa-men-in-plastic-banknote-scam>

