

SAI India at the 18th Annual Meeting of WGFACML

INSTANCES OF MONEY
LAUNDERING REPORTED DURING
AUDIT BY SAI INDIA



Structure of the Presentation

- Administrative Mechanism to Address Money Laundering in India
- 2 Efforts undertaken by India to address Money Laundering as per FATF.
- Role of SAI India and other agencies responsible for addressing Money Laundering.
- Discussing an Audit Report on
 Performance Audit on Assessment of
 Assessees of Gems & Jewellery Sector.



Administrative Mechanism

The
Prevention
of Money
Laundering
Act (PMLA),
2002, forms
the core
legal
framework
under which



Enforcement Directorate (ED) has the power:

- to conduct searches, seizures, arrests and attachment of property under the PMLA. Also to investigate & prosecute.



The Financial Intelligence Unit(FIU-IND) is:

 An independent body that receives, analyses, and disseminates information related to suspicious transaction and cash transaction. Coordinates and strengthens national and international efforts against money laundering



Regulators like the RBI, SEBI, and IRDAI also play a role in setting guidelines and ensuring compliance within their respective sectors.

Special courts are also designated to try offences under the PMLA.

India in FATF, Paris

1

A Mutual Evaluation Report of 2024 has found India to be compliant on the anti-money laundering and counter-terrorist financing (AML/CFT) framework. 2

Noted progress in financial inclusion, greater reliance on digital payment systems supporting financial transparency and effective use of financial intelligence both domestically and internationally.

3

Compliance requirements have been extended to include sectors like housing finance, stock exchanges, and cooperative banks for credible monitoring. Following the assessment, India is placed in "regular follow-up".

https://www.fatf-gafi.org/content/dam/fatf-gafi/mer/India-MER-2024.pdf.coredownload.inline.pdf

Role of SAI India and other Agencies.

Point 1

Coordinates with external departments like the Enforcement Directorate (ED), Central Board of Indirect Taxes & Customs (CBIC), Income Tax Department (ITD), Director General of Income Taxes (Investigation), Directorate of Revenue Intelligence & Director General of Income Taxes (Systems) for the various records and data related to the Assesses.

Point 2

A 360-degree analysis of these assesses pertaining to each sector is being done based on different risk parameters to estimate and selecting the sample.

Point 3

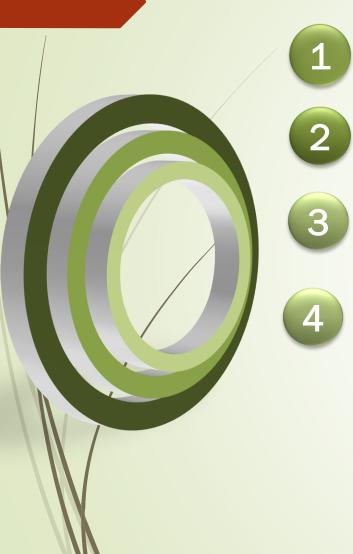
SOPs or instructions/ guidelines are prescribed by the CBDT for the complete assessment of assesses.

Point 4

List of suspected Hawala operators and list of assesses having issued bogus accommodation invoices maintained by the ITD is used by SAI India during audit. Cases taken up by department for scrutiny are also examined during audit.

CASE STUDY ON Money Laundering in Gems and Jewellery Sector in India. (2015-2025)

Overview of Gems & Jewellery Sector



- 2nd largest contributor to Foreign Exchange (after petroleum) 15% share in export. Employs 2.5 million manpower.
- 65% of the world's polished diamonds are manufactured in India in terms of value, 85% in terms of volume and 92% in pieces.
 - India is the largest consumer of gold as well as the largest player in diamond cutting and polishing. Contributes 6% to 7 % of the GDP
 - This sector also enjoys various duty exemptions and remissions in FTP and is a preferred tariff line under the various FTAs.



Segments of the Gems & Jewellery Sector

Audit of Gems & Jewellery Sector

Key Developments in India's Gems & Jewellery Sector

Audit of Gems & Jewellery Sector

2008

Introduction of 20:80 Scheme by RBI

2012-13

FATF Report on Diamond Price Overvaluation

October 2013

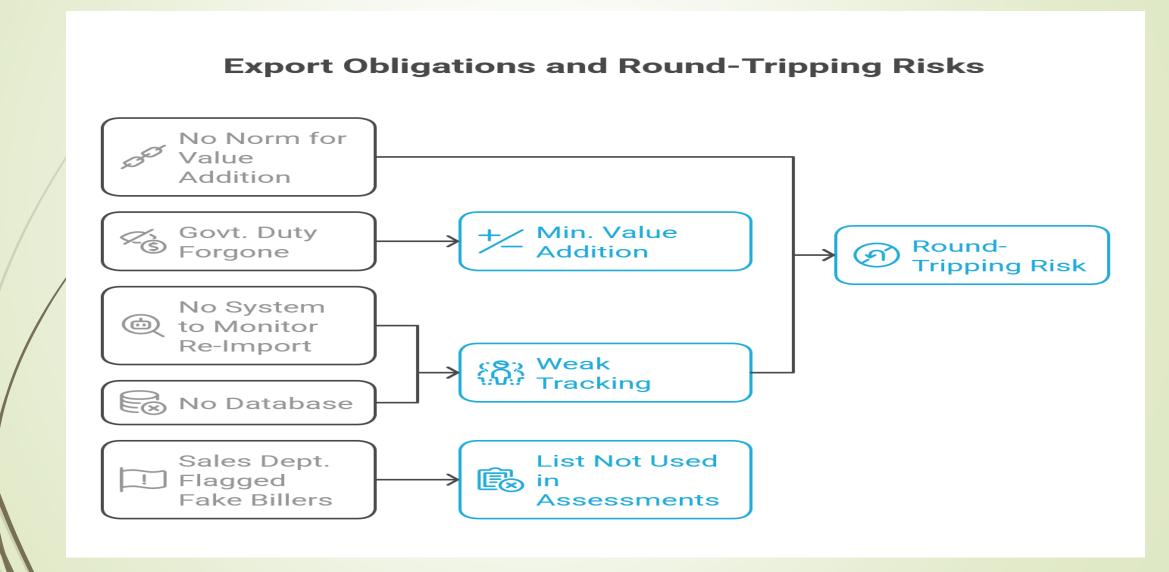
Multiple Issues Raised During Sector Audit

2015-2025

Issues Observed over the years.



Other Systemic Issues



Gems & Jewellery Sector in Focus

Gems & Jewellery Sector: Key Concerns & Recommendations



Concerns Identified

- · No reliable turnover data
- Deliberate underreporting to avoid:
 - Sales tax
 - Income tax
- Mis-invoicing in trade
 - Undervalued imports
 - · Overvalued exports
 - Used for financial outflows



Expert Recommendations

- Share trade data across tax departments
 - Enables detection of tax evasion



Emerging Issues

- Money laundering concerns
- High-profile example: Nirav Modi Case

MAJOR BANKING FRAUD: SUMMARY & IMPACT

NATURE OF THE FRAUD

- Large-scale issuance of unauhorized Letters of Underlaking (LoUs) and Foreigh Letters of Credit
- Used to obtain overseas credit without proper collatoral or regulatory compllance



Estimated loss: ₹ 11.400-14.000 crore



OPERATIONAL MODUS

- Exploited system loopholes at a key publicsector bank branch
- LoUs issued without entry into the bank's core systems (e.g. SWIFT not Integrated with CBS)
- Lack of oversight, collusion with internal officlals, and poor audit mechanisms enabled longterm fraud



LEGAL & JUDICIAL PROCEEDINGS

- · Perpetrators fied jurisdiction prior to discovery
- Arrests and extradition efforts ongoing through international cooperation
- Courts have denied ball repeatedly citing risk of evasion and seriousness of charges
- Domestic trials for remaining accused proceeding under economic offensels laws





RECOVERY & ENFORCEMENT

- Authorities seized and attached assets worth thousands of crores
- Over ₹ 9.300 crore restored to affected banks via asset liquidation
- Investigative agencies invoked Fugitive Economic Offenders Act to expedite recovvery and prosecution

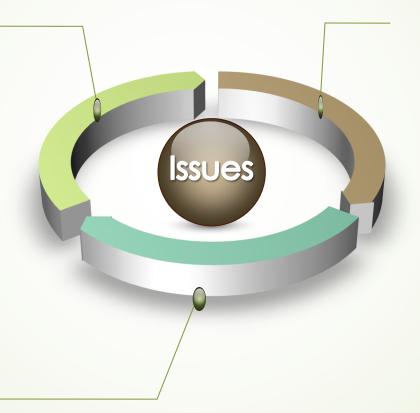
Trend of domestic production, imports and exports of rough diamonds

 India's share in the global production of diamonds is negligible. Further, the quantity of rough diamonds imported in India in all these years was higher than the quantity of rough diamonds mined globally.

Year	Domestic Production Quantity ('000 cts)	Import Quantity ('000 cts)	Export Quantity ('000 cts)	Global Production Quantity ('000 cts)	% of Export to Import	% of Import to Global production
2010	18.08	165219	32993	128317	19.97	128.76
2011	12.32	135067	37071	122829	27.45	109.96
2012	26.99	148896.8	34439	127966	23.13	116.36
2013	36.6	159429.1	48892	129841	30.67	122.79
2014	37.51	153137	45800	138146	29.91	110.85
2015	36.05	127374.5	38648	134356	30.34	94.80
2016	38.44	140739.7	43943	127399	31.22	110.47
2017	38.95	162195.5	46434	150924	28.63	107.47
2018	38.89	147791.4	46645	147104	31.56	100.47
2019	38.06	131244.6	44689	139391	34.05	94.16

Other Significant Issues

For the period between 2009-10 to 2019-20, 76% of total imports and 80% of total exports of rough diamonds were to three countries whose contribution in global diamond mining were negligible.



Exports of rough diamonds compared to imports were quite high in respect of these two countries was at 14.29 % and 15.20 % respectively. This required examination.

The exports of rough diamonds to third country stood at 6.54% only even though 47 % were imported from here.

Continued...

Case of Suspected round tripping of funds and over-invoicing of imports of Pearls

The data for the import and export of pearls in the last decade was compiled from the commerce ministry's website for these years.



- Imports of pearls were primarily being made from the three countries, whose contribution to global pearl production was negligible.
- The majority of these imports were made by Company 'X' group of companies.
- India's import of pearls during 2013-14 to 2017-18 was 3 to 10 times more than the average annual value of global pearl production when compared with FAO's statistics.

Issues related to Business Code

Business Code Issues



No Specific Codes

There were no specific codes for diamond/gold trading, jewellery manufacturing, gold refineries and diamond polishing.



Wrong Code Usage

Generic codes like
'Manufacturing Others' and 'Trading Others' were used
instead of specific
codes.



Impact

The lack of specific codes led to improper monitoring, irregular assessments, and entities avoiding scrutiny.



Stock Valuation Gaps

There were no checks on stock discrepancies, and ITR/TAR data was not cross-verified.

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360° Analysis: Gems & Jewellery Sector Assessments









High Turnover

High turnover with low costs for electricity, labor, and transport.

Impossible Output

Manufacturing output is impossible based on input and output materials.

Speculation Misuse

Claimed speculation loss without reported trading activity, indicating Hawala.

Assessment Oversight

No audit was conducted, and discrepancies were not examined.

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3

4

Legislative Changes based on Audit

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Section 10AA of the Act has been amended by inserting a new sub-section (4A) vide
Finance Act 2023 to fix the time limit of six months for bringing the exports proceeds in the country for claiming deduction under Section 10AA

To curb the practice of bringing unaccounted money of promoters / Directors by issuing shares at very high premium, the Finance Act, 2023 was amended thereby extending the provision to the consideration received from any person, including non-residents.

Also, the Act has been amended, allowing the Assessing Officer to direct the assessee to get their inventory valued by a cost accountant and furnish the inventory valuation report.

Other Recommendations by Audit

1

Genuineness of import of Gems & Jewellery needs to be ascertained in co-ordination with other Government Departments/ Agencies as the abnormal trends during 2013-14 to 2017-18, indicated the possibility of round-tripping and mis-invoicing.

A system for timely sharing of information among different units within the ITD to facilitate verification of the purchases, sales, debtors, creditors, unsecured loans and other inputs on related party transactions etc. in the Gems and Jewellery sector should be envisaged.

Thank You