

financial intelligence centre

annual report  
2006/2007



**fic**

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financial intelligence centre  
REPUBLIC OF SOUTH AFRICA

## CONTENTS

<b>Administrative information</b>	<b>1</b>
<b>Acronyms</b>	<b>2</b>
<b>Accounting authority's statement</b>	<b>3</b>
<b>Director's report</b>	<b>8</b>
<b>Performance report</b>	<b>54</b>
<b>Audit Committee report</b>	<b>60</b>
<b>Report of the Auditor-General</b>	<b>62</b>
<b>Statement of financial performance</b>	<b>67</b>
<b>Statement of financial position</b>	<b>68</b>
<b>Statement of changes in net assets</b>	<b>69</b>
<b>Cash flow statement</b>	<b>70</b>
<b>Accounting policies</b>	<b>71</b>
<b>Notes to the annual financial statements</b>	<b>78</b>
<b>Materiality and significant framework</b>	<b>86</b>



**financial intelligence centre**  
REPUBLIC OF SOUTH AFRICA

**Annual Report**  
**2006 – 2007**

**31 August 2007**

**Mr T A Manuel, MP**  
**Minister of Finance**

**Report of the Director of the Financial Intelligence Centre for the period**  
**01 April 2006 to 31 March 2007.**

**I have the honour to submit the Annual Report of the Financial Intelligence Centre.**

**M Michell**  
**Director**

**ADMINISTRATIVE INFORMATION**

**DIRECTOR**

Mr M Michell

**CHIEF FINANCIAL OFFICER**

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**BANKERS**

Standard Bank



## ACRONYMS

ADLA	Authorised Dealer in Foreign Exchange with Limited Authority
AFU	Asset Forfeiture Unit
AML/ CFT	Anti-Money Laundering/ Combating of Financing of Terrorism
BSD	Bank Supervision Department of the South African Reserve Bank
DSO	Directorate of Special Operations
EAAB	Estate Agency Affairs Board
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group <sup>1</sup>
FATF	Financial Action Task Force <sup>2</sup>
FIC ACT	Financial Intelligence Centre Act, No. 38 of 2001
FIU	Financial Intelligence Unit
FSB	Financial Services Board
FSRB	FATF-Style Regional Body
GIABA	Inter-Governmental Action Group Against Money Laundering, based in West Africa, the West African FATF-Style regional body <sup>3</sup>
MOU	Memorandum of Understanding
NGB	National Gambling Board
POC ACT	Prevention Of Organised Crime Act, No. 121 of 1998
POCDATARA ACT	Protection Of Constitutional Democracy Against Terrorist and Related Activities Act, No. 33 of 2004
SABRIC	South African Banking Risk Information Centre
SAPS	South African Police Services
SARS	South African Revenue Service
STR	Suspicious Transaction Report

<sup>1</sup> ESAAMLG comprises of the following 14 Member States, namely: the Republics of Botswana, Kenya, Malawi, Mozambique, Mauritius, Namibia, South Africa, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe and the Kingdom's of Lesotho and Swaziland.

<sup>2</sup> The FATF comprises the following members: Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, European Commission, Finland, France, Germany, Greece, Gulf Co-operation Council, Hong Kong, China, Iceland, Ireland, Italy, Japan, Kingdom of the Netherlands\*, Luxembourg, Mexico, New Zealand, Norway, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States. \**The Kingdom of the Netherlands: the Netherlands, the Netherlands Antilles and Aruba*. Countries with observer status are India and South Korea.

<sup>3</sup> GIABA comprises of the following 15 Member States, namely: Benin, Burkina-Faso, Cape Verde, Cote d'voire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Togo, Senegal and Sierra Leone.

## ACCOUNTING AUTHORITY'S STATEMENT

In describing the journey the Financial Intelligence Centre (the Centre) has travelled this financial year, we remind ourselves of the reason for the legislation and our establishment. Back in June 2004 the Honourable Mr Trevor A Manuel, MP, Minister of Finance told Parliament that:

*“...The Financial Intelligence Centre Act was passed by Parliament in November 2001 to provide us with another weapon to fight crime... The Act intends to minimise the chances of money resulting from criminal activities being introduced into the financial system – for example, into banks and insurance companies, or being used to buy property. Money launderers view the financial system as a device to transfer the proceeds of their crime and to legitimise their activities. When they involve the financial system in money laundering schemes, they necessarily involve the institutions that provide access to the system. This can lead to the involvement of financial institutions in criminal activity, even if unknowingly. It can result in the erosion of public confidence of our financial institutions and undermine the stability of the system. If financial institutions are indifferent to this, it may cause them to suffer losses through fraud and the effects of being associated with criminals. None of us – not the banks, not ordinary citizens – want this to happen.”*

Money laundering is the criminal's way of trying to ensure that, in the end, crime pays. It is necessitated by the requirement that criminals – be they drug traffickers, organised criminals, terrorists, arms traffickers, corrupt government officials or politicians, blackmailers, or credit card swindlers, amongst others – disguise the origin of their criminal money so that they can avoid detection and the risk of prosecution when they use it.

The Centre commenced operations on 3 February 2003 with its receipt of the first suspicious transaction reports. Thus it took the first step on a challenging journey to fulfill its mission, which is to –

## **ACCOUNTING AUTHORITY'S STATEMENT - continued**

*“Establish and maintain an effective policy framework and operational capacity to provide high quality, timeous financial intelligence for use in the fight against crime, money laundering and terror financing in order for South Africa to protect the integrity and stability of its financial system, develop economically and be a responsible global citizen”.*

The Centre has developed a set of six areas of strategic focus which will frame its work and take it forward towards achieving its mission. These areas are to:

- Provide information that is relevant, of high quality and boosts enforcement on a non-partisan basis;
- Support regular, high profile, enforcement successes;
- Strive to ensure full intergovernmental stakeholder participation;
- Operate within a compliant and supportive anti-money laundering and terrorist financing environment aimed at minimising threats;
- Endeavour for South Africa to meet the standards required in the area of anti-money laundering and combating of terrorist financing;
- Endeavour to become a sustainable and capable institution; and
- Become an employer of choice.

During the year under review considerable achievements attained by the Centre in its work illustrate the extent of its progress and provide clear signs that it is consolidating and maturing as an organisation. This progress is set out in the pages that follow. However, in summary, the following are some of the achievements of the Centre.

- Completed the year-long South African Presidency of the FATF in June 2006.
- Ensured that issues facing developing countries were heard within a FATF context. These included matters such as the introduction and acceptance of a more appropriate method of implementing AML/CFT systems in developing countries and linking the impact of corruption to the undermining of AML/ CFT efforts.

## **ACCOUNTING AUTHORITY'S STATEMENT - continued**

- Participated in the efficiency scrutiny and redefinition of the secretariat and activities of the ESAAMLG.
- Continued to capture, analyse and refer reports against clear business processes. A total of 21 466 STRs were received, which brings the total of such reports received by the Centre since it started receiving them to a total of 65 487 STRs.
- Hosted and held feedback sessions for accountable and reporting institutions, as well as law enforcement authorities, to inform them on the quality and impact of the reports.
- Monitored the compliance performance of the accountable and reporting institutions, the supervisory and other bodies, with a focus on the casinos, estate agents and authorised dealers in foreign exchange with limited authority.
- Undertook joint on-site inspections with the relevant supervisory bodies of banking institutions, estate agents and casinos.
- Continued the process to review the FIC Act.
- Finalised the draft Amendments to the FIC Act which introduces administrative powers for supervisory bodies.
- Provided various training programmes for a range of different constituencies.
- Completed the process to design, size and specify the business requirements for the Centre's new Information and Communications Technology (ICT) infrastructure.
- Continued with the objective of building a sustainable, values-based organisation, designed to achieve the Centre's long-term objectives. This includes all the human resource aspects, policies and functional systems.

## **ACCOUNTING AUTHORITY'S STATEMENT - continued**

The FIC Act , as one piece of legislation which interlinks with the POC Act and the POCDATARA Act, aims to protect South Africa's financial system, its institutions and its citizens from being abused by criminals and terrorists and their networks, while seeking to create tools for law enforcement to more effectively prevent money laundering and financing of terrorism activities.

The Centre has continued to make great progress in fulfilling its mandate during the year under review. This was possible because of the relationships with and the active support and involvement of many different stakeholders.

There has been a noticeable increase in the interaction with a growing range of diverse accountable and reporting institutions and businesses. This has had a positive effect on the compliance environment, while accepting that this area shall need long-term development before institutions will be fully compliant.

There has been a significant improvement in the relationship with the various supervisory bodies, who are better able and equipped to implement their responsibilities with respect to the FIC Act. The interaction with the various law enforcement authorities continues to improve.

The Centre has been reliant on the support given to it by the staff of the National Treasury. All these instances of support are acknowledged and gratefully accepted. However, we are fast outgrowing the facilities that have been available to us for the initial period in order to become established and we shall have to consider finding alternative premises. To this end we have started a project to determine our resource needs for the future and to initiated planning processes to enable the Centre to function independently.

**ACCOUNTING AUTHORITY'S STATEMENT - continued**

The Minister of Finance, Mr Trevor Manuel, MP and Deputy Minister of Finance, Mr Jabu Moleketi, MP, have as always provided us with political, strategic and practical guidance whenever it has been sought and have continuously encouraged all our endeavours.

Finally, the Centre's staff deserve special mention. Notwithstanding the rapid growth and the continuous recruitment of new staff, the organisation has grown as a family where every person finds her or his space and is able to dynamically contribute towards the total effort. Often this has been done in creative and unique ways. It has always required people working long hours and putting in extra effort. Everyone is driven by the sense of a common vision and set of objectives. This commitment is the basis for the Centre being able to make a difference, as together we work towards a common national future in which crime is significantly reduced.



Murray Michell  
Director  
20 July 2007



## **DIRECTOR'S REPORT**

### **INTRODUCTION**

#### **Background to the establishment of the Financial Intelligence Centre**

The establishment of the Centre is rooted in an international effort to combat organised crime and money laundering. The purpose of building the Centre and of implementing the measures contained in the FIC Act and the POC Act, which criminalises the act of money laundering, was to create measures and tools to assist in breaking up organised crime. By doing so, the country's authorities would be able to ensure the sound health of a financial system by preventing it from being contaminated and undermined by funds from criminal activities. Also, countries recognised during the 1980s that the solution to the money laundering problem would not be found by individual countries working in isolation; instead it would require extensive international cooperation.

South Africa introduced several measures over the years in keeping with international efforts. It enacted the Drugs and Drug Trafficking Act 1992, which introduced a money laundering offence on the statute book. This was followed by the Proceeds of Crime Act 1996 that introduced a range of offences and criminalised money laundering for the first time.

In 1996, the FATF, the international standards setting body to combat money laundering, called on all member countries to require financial institutions to report suspicious transactions to a central FIU. These FIUs were designed to collect and analyse financial information on proceeds of crime and money laundering activities, before disseminating reports to relevant authorities to investigate and prosecute the criminal acts.

The South African Law Commission (as it then was) reported in 1996 on proposed legislative controls in keeping with the FATF recommendations. South Africa has since then developed a comprehensive legal structure to combat money laundering. The main statutes are the POC Act, which establishes a range of money laundering offences and the FIC Act, which imposes control measures on financial and other institutions.

## **DIRECTOR'S REPORT** - continued

In the aftermath of the September 11, 2001 attack on the World Trade Centre, the FATF developed a set of 9 Special Recommendations on Terrorist Financing. These require all countries to criminalise and take measures to combat terror financing. These provisions were incorporated into the provisions of the POCDATARA Act.

This body of legislation recognises the extent to which the problem of money laundering poses a threat to the integrity of the country's financial system and makes the Minister of Finance responsible for money laundering policy measures. Moreover, the international standard to combat money laundering is integrated into the standards set for other parts of the financial system, such as those for the banking and insurance sectors and for the integrated assessment of these. The legislation provides for a regulatory framework that applies to intermediaries to the financial system, such as financial advisors, accountants, lawyers and others.

The Centre became operational on 3 February 2003. The focus of much of its activities since then has been to develop and create a solid conceptual platform and policy framework and the business processes which would provide a basis for its work in the long term. The Centre has started a long journey to create an organisation based on best practice and ability to access support and resources to ensure that it is able to achieve its mandate, which is to identify the proceeds of criminal activities and to assist business and law enforcement authorities to combat money laundering. This process for the financial year 2006/07 is set out in the pages that follow.

The establishment process has been rapid and complex, while the area of financial intelligence is new for most participants. South Africa has obligations to meet in a fast changing global environment, as well as a responsibility to its citizens to assist in the struggle to reduce the domestic crime rate. This has impacted considerably on the various participants across the anti-money laundering spectrum. As a result, people and resources have been stretched and many important stakeholders have struggled to catch up. In this situation it has been important for the Centre to balance the need to expand into its new role and responsibilities, while continuously considering issues of institutionalising its work and addressing issues of sustainability.



## **DIRECTOR'S REPORT - continued**

Therefore the Centre is committed to using the next three years to undertake a dual process: '*consolidate and grow*'. A similar document, written in three years time, is likely to see a vastly expanded organisation undertaking new functions, and working in new and different ways with its stakeholders.

The Centre's leadership has applied itself to internal sustainability issues in order to both consolidate and ensure the organisation is 'fit to grow'. The leadership believes that, with an intense focus on the six medium term objectives as it moves ahead, the Centre will strike a balance enabling it to emerge as a stronger organisation and better able to contribute to the integrity and success of the South African economy.

### **The challenge ahead**

The amount of money flowing through the global financial system each year is huge and has an enormous impact on economies. Money laundering has a corrosive effect on a country's economy, government and social well-being.

This unlawful practice distorts business decisions, increases the risk of bank failures, takes control of economic policy away from the government, harms a country's reputation and exposes its people to drug trafficking, smuggling, and other criminal activity.

The Minister of Finance, in his Speech of 28 March 2007 on "The economic front in the face of crime", stated:

*"... I believe the matter of the relationship between the economy and crime will become evermore important as we chart the future of our democracy...."*

*We know, for instance, that crime imposes costs on business. Insurance premia, security costs and losses to thefts and robberies, to say nothing of the reduction to productivity that follows whenever an employee is victimised ...these are all costs that businesses incur.*

## **DIRECTOR'S REPORT - continued**

*Each of them makes our businesses less competitive in the global market place. Crime also imposes costs on households who spend more on security than they should have to. I for one would far rather see households saving the money they are currently spending on security systems and high walls.*

*We often mention crime as a factor that constrains economic growth and the potential of entrepreneurs, yet we know little about how much crime constrains growth and by what mechanisms it limits growth and development...”.*

The legal framework is now firmly in place to combat all forms of money laundering. The task now is for the Centre and all other relevant entities and citizens to give full effect to this. Effective coordinated action on this front will assist in the effort to ensure growth and development.

It was always envisaged that the Centre would play a support role in the battle against organised crime, international terror financing and money laundering. So in our journey ahead, we will seek to build on the successes made thus far. We shall continue in our efforts to develop strategic partnerships with like-minded government agencies, supervisory and regulatory bodies and the private sector and to thereby ensure that South Africa has an effective national strategy to combat money laundering and terror financing.

## **STRATEGIC OBJECTIVES**

The Centre has adopted six medium term strategic objectives. These strategic objectives, along with the Centre's mandate, will provide the primary framework for its short- and medium-term planning. The strategic objectives therefore also provide a basis for medium-term accountability to the Minister.

## **DIRECTOR'S REPORT - continued**

### **INFORMATION FROM THE FINANCIAL INTELLIGENCE CENTRE MUST BE RELEVANT, OF HIGH QUALITY AND BOOST ENFORCEMENT ON A NON-PARTISAN BASIS**

The Centre should provide to stakeholders, both domestic law enforcement, as well as international financial intelligence units, information of the utmost integrity and of the highest quality, thus enabling immediate, thorough and successful investigations. Accuracy and speed will need to be twinned and neither should be achieved at the expense of the other. Performance targets should be met despite increases in the scope and scale of the information being received.

### **THE FINANCIAL INTELLIGENCE CENTRE SUPPORTS REGULAR, HIGH PROFILE, ENFORCEMENT SUCCESSES**

The Centre should provide active analytic and other support to investigations and projects to enable successes. This means that the Centre's analytic capability should be located close to investigations and should provide active backup to these. The Centre will track investigations in order to measure and quantify its impact. Further assistance over and beyond the initial referral or response will be required to ensure that investigations lead to prosecutions and prosecutions turn into convictions.

### **THE FINANCIAL INTELLIGENCE CENTRE IS A SUSTAINABLE AND CAPABLE INSTITUTION**

The Centre has done well in a short time, but remains vulnerable in certain areas and remains overly dependent on the core establishment team who has been associated with its growth. Systems and skills need to be strengthened, procedures and processes refined and a performance culture must be entrenched. Critical to this is the extraction and integration of the expertise and knowledge of founding staff. The Centre should become a learning organisation that seeks to integrate the knowledge of its entire staff as a platform for future direction and activities.

## **DIRECTOR'S REPORT - continued**

Since the Centre's success is also dependent on its partners, it will also have to become a teaching organisation, constantly sharing information and 'know-how' in order to ensure higher standards across the sector of government players and private stakeholders.

### **THE FINANCIAL INTELLIGENCE CENTRE HAS FULL INTER-GOVERNMENTAL STAKEHOLDER PARTICIPATION**

The Centre should play its role as the institution primarily responsible for developing a coordinated and integrated approach to the development of a comprehensive anti-money laundering and terrorist financing environment.

This environment will require the full participation of the various stakeholders within government, enabling each of these to contribute their skills and facilities to a common objective.

### **THE FINANCIAL INTELLIGENCE CENTRE OPERATES WITHIN A COMPLIANT AND SUPPORTIVE AML/ CFT ENVIRONMENT PREDICTING AND MINIMISING THREATS**

The Centre will seek to promote full compliance by accountable and reporting institutions and individuals whereby they effectively implement control measures and effective compliance approaches to minimise, if not eliminate money laundering and terrorist financing through their institutions and employees on a voluntary basis.

### **SOUTH AFRICA IS VIEWED AS A REGIONAL CHAMPION AND INTERNATIONAL LEADER**

As a result of the successes achieved in the dynamic and integrated pursuit of its AML/ CFT objectives, South Africa will gain an enhanced reputation in the field of AML/ CFT standards implementation. The impact and results of this will be to improve the perceptions of the country's financial stability and as a destination for foreign investment. Increased investment will bring with it a reduction of pressure on the fiscus and free up funds which may be utilised for allocation to development – housing, health, education.

These objectives are premised on the Centre's vision, mission and values.

## **DIRECTOR'S REPORT - continued**

### **MISSION, VISION AND VALUES**

#### **Mission**

*To establish and maintain an effective policy framework and operational capacity to provide high quality, timeous financial intelligence for use in the fight against crime, money laundering and terror financing in order for South Africa to protect the integrity and stability of its financial system, develop economically and be a responsible global citizen.*

#### **Vision**

*The Financial Intelligence Centre will strive to be the leading player in the aggressive combating of money laundering and terror financing to reduce crime for the benefit of South African citizens today and in the future. The Centre will earn the trust, respect and support of our stakeholders for the quality of our information, be recognised for the sustainability of our organisation with the loyalty and achievements of skilled staff and the success of our efforts.*

#### **Values**

The values of the Financial Intelligence Centre provide the platform for its future success. The Centre seeks to ensure that all staff incorporate and utilise these values as a reference for all of their work and activities. The Centre's adopted values are:

- *In the spirit of Ubuntu, demonstrate integrity in everything that we do (with amongst others, respect, honesty, trust, discipline, humility and loyalty);*
- *Demonstrate pride and discipline in our work, accepting accountability and being prepared to 'go the extra mile';*
- *Strive for excellence and professionalism by effectively making a difference in executing our mandate by offering solutions, while not presenting problems only;*
- *Value individuals and allow space for creativity and growth;*
- *Optimise our relationship with stakeholders and partners; and*
- *Ensure the security of organisational assets and information.*

**DIRECTOR'S REPORT - continued**

The Centre will be undertaking a serious effort to ensure that these values are integrated into all aspects of its operations.

**ORGANISATIONAL STRUCTURE**

**DIRECTOR**

Oversees policy and strategic direction, is FIC Accounting Authority

- Communication/ Press liaison
- Strategic Research

**COMPLIANCE AND PREVENTION**

**Liaises and Inspects for compliance of:**

- Accountable Institutions
- Supervisory Bodies
- Non-supervised Accountable Institutions
- Capacity Building, such as develop the 'FIC Academy'

**Public Awareness:**

- Provide awareness and training

**MONITORING AND ANALYSIS**

**Analyses and refers:**

- Collects and stores STRs and other reports
- Analyses data and adds value
- Develops referrals to law enforcement
- Exchanges information with international FIU's and law enforcement agencies
- Maintain statistics

**LEGAL AND POLICY**

**Administers Act and develops coherent policy framework:**

- Develops legislation
- Liaises with standard setter, FATF and in ESAAMLG
- Monitors typologies and trends
- Liaises with National Treasury and other relevant government departments
- Liaises with MLAC and provides it with admin support

**ADMINISTRATION AND SUPPORT SERVICES**

**Provides various support functions and services to the Centre, including:**

- |   |   |
|---|---|
| ● Office Management                         | ● Procurement                             |
| ● Financial and Administrative Management   | ● In-house staff training and development |
| ● Registry and document storage services    | ● In-house legal services                 |
| ● Marketing                                 | ● Human Resources                         |
| ● Information and Communications Technology | ● Security services                       |



## **DIRECTOR'S REPORT** - continued

The work of the **Legal and Policy** department covers three major areas of responsibility. It administers the FIC Act; engages with international and regional policy forming and standard-setting organisations (such as the FATF) and provides policy advice on matters of a strategic nature concerning money laundering and terrorist financing.

The work of the **Compliance and Prevention** department is to focus on compliance oversight of the FIC Act. A core function is to inform, advise and collaborate with the supervisory bodies to ensure their effective supervision of compliance. Another is to liaise with accountable and reporting institutions to assist them in applying and implementing the compliance provisions within their respective institutions. The preventative focus includes a strong public awareness outlook for the general public and the provision of training to affected entities. The work of this department requires a close liaison with our colleagues inside the Centre on compliance-related issues and externally with the supervisory bodies and accountable institutions.

The **Monitoring and Analysis** department receives data and reports from the reporting and accountable institutions. The department is responsible for storing the information, analysing it and if necessary, disseminating reports to the law enforcement authorities, intelligence agencies and the revenue service based on an analysis of the information at its disposal. The department also holds the relationship with the law enforcement authorities and conducts feedback sessions and training of various kinds – such as that for authorised officers or for financial investigators.

The **Administration and Support Services** provide the infrastructure to support and enable our work in the Centre. The primary functions within this division include those of office management, financial and administrative management, procurement and supply chain management, human resources, registry and document storage services, in-house staff training and development, security services, marketing, in-house legal services and information and communication technology.

## **DIRECTOR'S REPORT - continued**

The **Director's office** is responsible for the policy and strategic direction of the organisation, communication and press liaison, as well as initiating and overseeing special projects that might be initiated from time to time.

## **LEGAL AND POLICY DEPARTMENT**

### **FIC Act implementation**

The Centre is responsible for the implementation of the FIC Act, which it does through its Legal and Policy department. The Department has responsibility for administering the FIC Act, developing policy advice regarding strategic legal matters and liaising with international and regional standards setting organisations.

The Department is responsible for initiating the promulgation of regulations and exemptions under the FIC Act, as well as ensuring that the Act and its regulations and exemptions remain current by initiating amendments to these when necessary.

In this regard the Centre advised the Minister on the promulgation of an exemption from the reporting obligations under the FIC Act in relation to a Small Business Tax Amnesty, which the Minister announced during 2006. It also assisted in the process of promulgating the proposed exemption by developing the relevant Government Notices and facilitating its publication in the Government Gazette.

### **Amendments to FIC Act**

The Centre is involved in a process to improve various aspects of the FIC Act. This exercise entails two parallel processes, namely:

- A process to enhance the compliance and administrative enforcement structure under the Act; and
- A broader review of the Act in the light of changed international standards and lessons learnt from experience in the implementation of the Act over the past three years.



## **DIRECTOR'S REPORT** - continued

### **Administrative enforcement**

A proposed Bill has been developed to amend the FIC Act in order to address deficiencies relating to the supervision of compliance with the Act. It provides for detailed procedures for the administrative adjudication and sanctioning of non-compliance with the FIC Act, as well as extended powers for supervisors to address compliance failures appropriately and proportionally. The proposed Bill also contains provisions that will allow the Centre to inspect the compliance status of accountable institutions.

The proposed Bill was published for comment, in conjunction with a consultation document, during November 2006. A substantial number of comments on the consultation document and proposed Bill were received, evaluated and incorporated into a revised draft of the proposed Amendment Bill. The completed proposed Amendment Bill and a draft Memorandum of Objects and Cabinet Memorandum will be submitted to the National Treasury early in the next financial year.

### **FIC Act Review**

The process to undertake a broader review of the Act will be undertaken in a number of phases. During the first phase the provisions relating to customer due diligence, the scope of the Act and the reporting obligations under the Act will come under review.

The research into these matters has already commenced. Initial recommendations to update various references in the Schedules to the Act to outdated legislation have been completed. These will be incorporated with recommendations to expand the range of institutions included in these Schedules in order to broaden the scope of the Act.

### **Prepare for Mutual Evaluation**

As a member of the FATF, South Africa will undergo an assessment (a mutual evaluation) of its system to combat money laundering and terrorist financing. This evaluation will be undertaken by the FATF and will be led by a team of assessors from a number of FATF member countries.

## **DIRECTOR'S REPORT - continued**

The objective of the mutual evaluation will be to assess the adequacy of the South African legal framework to combat money laundering and terrorist financing, as measured against the international standard of the FATF's 40 Recommendations on Money Laundering and 9 Special Recommendations on Terrorist Financing, as well as the effective implementation of the South African legal framework by its competent authorities.

The Centre has embarked on a process to raise awareness of the evaluation process and the applicable standards among the South African authorities which will be assessed in the course of the mutual evaluation process. This process also entails assisting those authorities to prepare for their role in the evaluation process.

A workshop to initiate a process to prepare for South Africa's FATF mutual evaluation was held in August 2006. The workshop demonstrated the need for mechanisms to facilitate coordination among the various Government Departments and agencies involved in dealing with money laundering and terrorist financing. It also illustrated the need for greater awareness among Departments and agencies of their responsibilities in relation to money laundering and terrorist financing.

The process also entails a mock review and gap analysis (which commenced with the completion of a mutual evaluation questionnaire) and a number of high-level meetings with officials from various Departments and agencies.

In the course of the process, reports are made to Cabinet on the progress of preparation by Government stakeholders which was held in August 2006, highlighting the early concerns for the Centre in relation to the mutual evaluation.

### **Policy formulation**

The Centre is responsible for formulating policies concerning the combating of money laundering and terrorist financing. This relates, in the first place, to the implementation of the Act and the Centre's expectation in relation to compliance with the Act and the carrying out of responsibilities under the Act.

## **DIRECTOR'S REPORT** - continued

This function, to a large extent, requires legal interpretation by the Centre of the provisions of the Act, which is then communicated in a number of ways, including through Guidance Notes.

The Centre's role in formulating policy on the combating of money laundering and terrorist financing also entails contributing to policy related discussions on related matters which may impact on the effective implementation of measures to combat money laundering and terrorist financing. In this regard the Centre was involved in a number of processes with a view to promote the issue of combating money laundering and terrorist financing.

The Centre participated in a number of discussions with the National Treasury on a range of issues. These included issues such as access to financial services and the impact which the implementation of measures to combat money laundering and terrorist financing may have on such access. It also included commenting on the Department of Justice and Constitutional Development on planned amendments to the Regulation of Interception of Communications and Provision of Communication-Related Information Act and the proposed corporatisation of the Post Bank.

The Centre provided substantive input on matters relating to the combating of money laundering to the Department of Public Service Administration on policy documents and strategic preparations for the Global Forum V on Corruption which was held in South Africa in April 2007.

On a number of occasions the Centre provided advice to the Minister, as well as other Government agencies on issues relating to terrorist financing and the designation process of the United Nations Security Council.

### **International engagements**

The Centre is responsible for South Africa's membership in three international organisations, namely the ESAAMLG, the FATF and the Egmont Group of financial intelligence units.

## **DIRECTOR'S REPORT - continued**

### **ESAAMLG**

The ESAAMLG is a regional body established in Arusha, Tanzania in 1999 representing the objectives of the FATF in that region. It is thus referred to as a FATF-Style Regional Body (a FSRB). The organisation's secretariat is based in Dar-es-Salaam, Tanzania. The ESAAMLG consists of fourteen member countries, namely: the Republics of Botswana, Kenya, Malawi, Mozambique, Mauritius, Namibia, South Africa, Seychelles, Tanzania, Uganda, Zambia and Zimbabwe and the Kingdom's of Lesotho and Swaziland. The basis for the grouping is that all members are committed to implementing the FATF recommendations within their jurisdiction and to supporting one another in this quest. However, only three countries, namely Mauritius, South Africa and Zimbabwe have developed comprehensive AML/ CFT regimes.

All ESAAMLG members subscribe to a Memorandum of Understanding which sets out the basis on which countries agree to become members by:

- Giving effective political endorsement of the measures to eliminate money laundering and the financing of terrorism;
- Agreeing to implement the FATF 40 + 9 Recommendations to combat money laundering and financing of terrorism; and
- Agreeing to undergo Mutual Evaluations in order to assess the extent to which a country has implemented these measures.

The ESAAMLG conducted a Development Strategy Implementation (DSI) assessment of Lesotho during July 2006. This was a pilot exercise to test the method in which such assessments may be undertaken in accordance with a decision of the ESAAMLG Task Force of Senior Officials. The exercise consisted of a series of meetings over a period of a week with representatives from public and private sector institutions in Lesotho. The objective of the exercise was to assess what steps Lesotho would have to undertake in the short term to initiate a process of implementation of measures to combat money laundering and terrorist financing and to assist the authorities of Lesotho to determine where they may benefit most from technical assistance. The Centre participated in this exercise by providing two observers to the process to assist with advice and guidance to the panel of evaluators.

## **DIRECTOR'S REPORT** - continued

The ESAAMLG embarked on a process to review the efficiency of its Secretariat and to develop recommendations as to how this may be improved. This process entailed a substantial period of study and comparison with the Secretariats of similar bodies. It resulted in the delivery of a report with recommendations to the Task Force of Senior Officials in March 2007. The Centre participated in this process by providing a person to coordinate and guide the Committee which was established to undertake the study.

The ESAAMLG is looking at improving its process for conducting mutual evaluations and increasing the number of evaluations it carries out. One of the steps taken towards this objective is the establishment of a working group to consider issues concerning mutual evaluations, DSI assessments and collaboration with the international financing institutions and FATF concerning the various forms of evaluation of systems to combat money laundering and terrorist financing. The Centre participates in this process by providing input and guidance during discussions of this working group.

## **FATF**

South Africa held the presidency of the FATF until June 2006 in the person of Professor Kader Asmal. In this capacity, Professor Asmal undertook a high-level mission to India as part of the process to ascertain India's readiness to become a member of the FATF. Professor Asmal was accompanied on this mission by members of the Centre. The Centre also provided other professional support to the FATF President which entailed regular preparation of briefing notes and other documents.

The Centre participated in the meetings of the FATF including the plenary meetings in June and October 2006 and February 2007. During these meetings a number of important issues for the FATF were discussed such as new membership of countries such as China, India and South Korea, ways to implement a risk-based approach as envisaged in the 40 Recommendations and measures to curb trade-based money laundering.

The Centre also provided people to participate in the FATF mutual evaluations of the United Kingdom and Canada, which commenced during this financial year and will be completed in the course of the 2007/ 2008 financial year.



## **DIRECTOR'S REPORT - continued**

### **Other**

The Centre hosted a number of delegations from foreign countries to share our experience with them on establishing a financial intelligence unit and the implementation of a framework to combat money laundering and terrorist financing. These include delegations from GIABA, Namibia, Tanzania, Mozambique and Indonesia.

## **MONITORING AND ANALYSIS DEPARTMENT**

The Monitoring and Analysis department of the Centre is responsible for receiving, storing and analysing reports submitted to the Centre by accountable institutions as defined by the FIC Act. This function is at the heart of the Centre's work. If, after an analysis process, the Department is satisfied that the information meets the relevant criteria, it will disseminate a referral to a law enforcement authority, or the intelligence agencies, or the South African Revenue Service to carry out an investigation or prosecution.

As the Centre matures and its database of information becomes richer, the value of the disseminations made to law enforcement agencies becomes more evident. It is useful to note that seldom does a single suspicious transaction report result in a single referral to law enforcement. The more usual scenario is that reports accumulate within the database and then a series of relationships and links, derived from several different reports, are generated. It is this that results in a referral disseminated to law enforcement – the information is systematically drawn from numerous sources.

For example, the Centre recently created a possible money laundering profile gathered from several different STRs reported by different accountable institutions. However, these reports displayed similar characteristics in location, the type of transaction, the type of account used and also displayed typical indicators of money laundering.

This information was passed on to law enforcement agencies which subsequently led to several arrests for charges under the POC Act and assets worth many millions were frozen.

## **DIRECTOR'S REPORT - continued**

The Centre has managed to pass on valuable information to law enforcement agencies in relation to on-going investigations. However, it is in the nature of this work that the Centre itself will never be able to explain or advertise its contribution to these cases or claim any victory or contribution in arrests made or assets frozen. This is in order to protect those that report suspicious transactions to the Centre and is enshrined in the FIC Act. We rely on law enforcement to take the information provided to them, gather evidence of any crimes that may have been committed and then bring these suspects to court.

It is in the spirit of this partnership that is being constructed between the Centre and law enforcement agencies that the Centre has presented training sessions to members of the various law enforcement and intelligence agencies in the area of financial investigation and in the use of information provided by the Centre. The Centre has also recently presented its training module on suspicious transaction reports, money laundering and asset forfeiture (in partnership with the Asset Forfeiture Unit) to members of the SABRIC.

This department has developed a strategic analysis capacity which recently produced its first report on indicating trends, possible local typologies, geographic tendencies and focus areas and other information which might be useful to law enforcement and intelligence agencies. The aim of the department is to undertake intensive feedback sessions with the various agencies in a workshop to test the findings of this report, as well as receive feedback on the cases already referred to law enforcement agencies. All this information will then be used in subsequent feedback sessions to the accountable institutions.

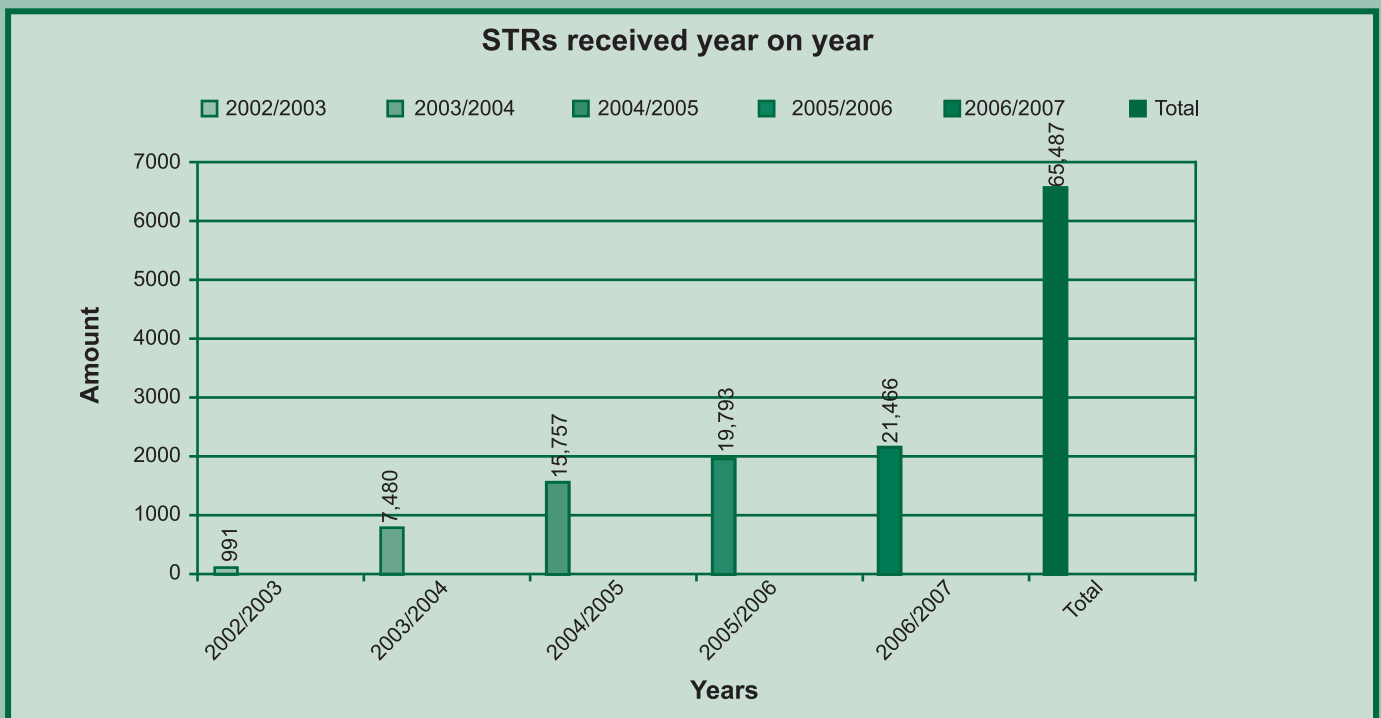
Whilst conducting the strategic analysis exercise and in various operational interactions with law enforcement agencies, a number of non-compliance matters in relation to the FIC Act have been identified.

There shall be rigorous pursuit of these in partnership with investigative authorities, the National Prosecution Service and the relevant Supervisory Bodies in order to meet the strategic objectives.

**DIRECTOR'S REPORT - continued**

**Suspicious Transaction Reports (STRs)**

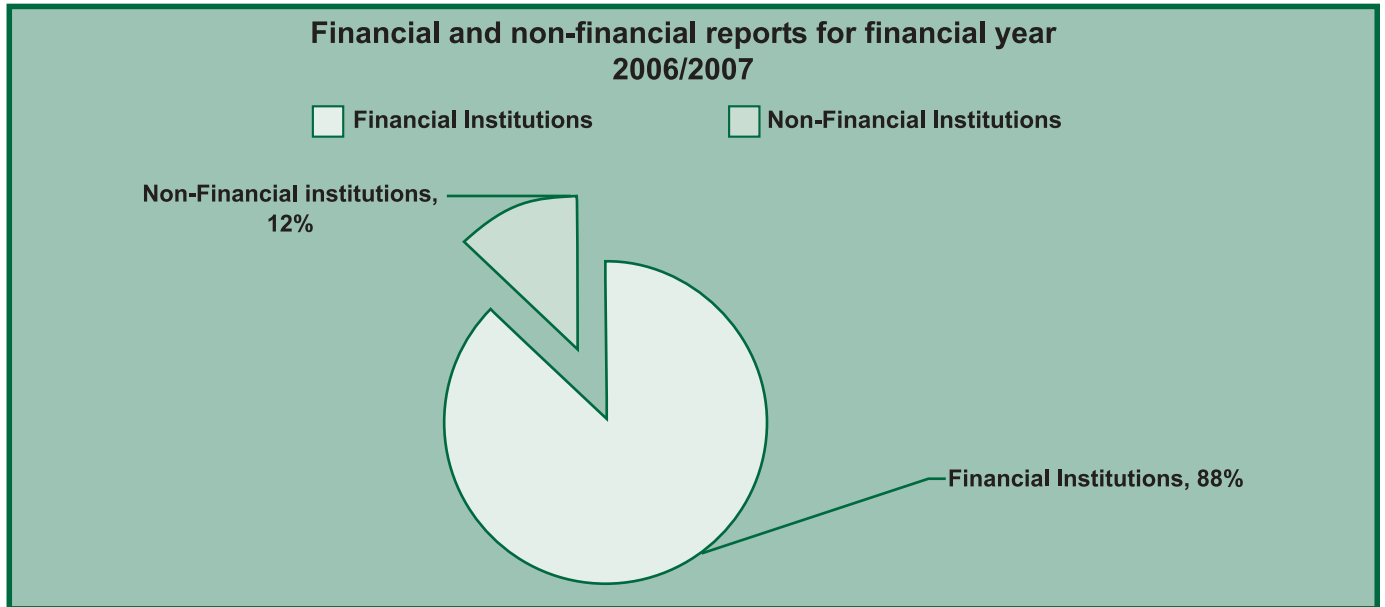
The number of STRs received annually has increased steadily since the Centre started functioning on 3 February 2003. During this financial year the Centre has received 21 466 STRs. The Centre has received an accumulated amount of 65 487 STRs since it started receiving reports.



The vast majority of the reports were received from financial service providers such as banks, brokers, foreign exchange dealers, insurance providers, investment managers and services and money remitters (18 799 reports) constituting 88% of all reports. The other 12% (2 667 reports) were received from other sectors such as casinos, estate agents, coin dealers, companies, accountants and auditors, attorneys, car dealers and individuals. This marks a 7% increase of reports from this sector since the previous financial year.



**DIRECTOR'S REPORT - continued**

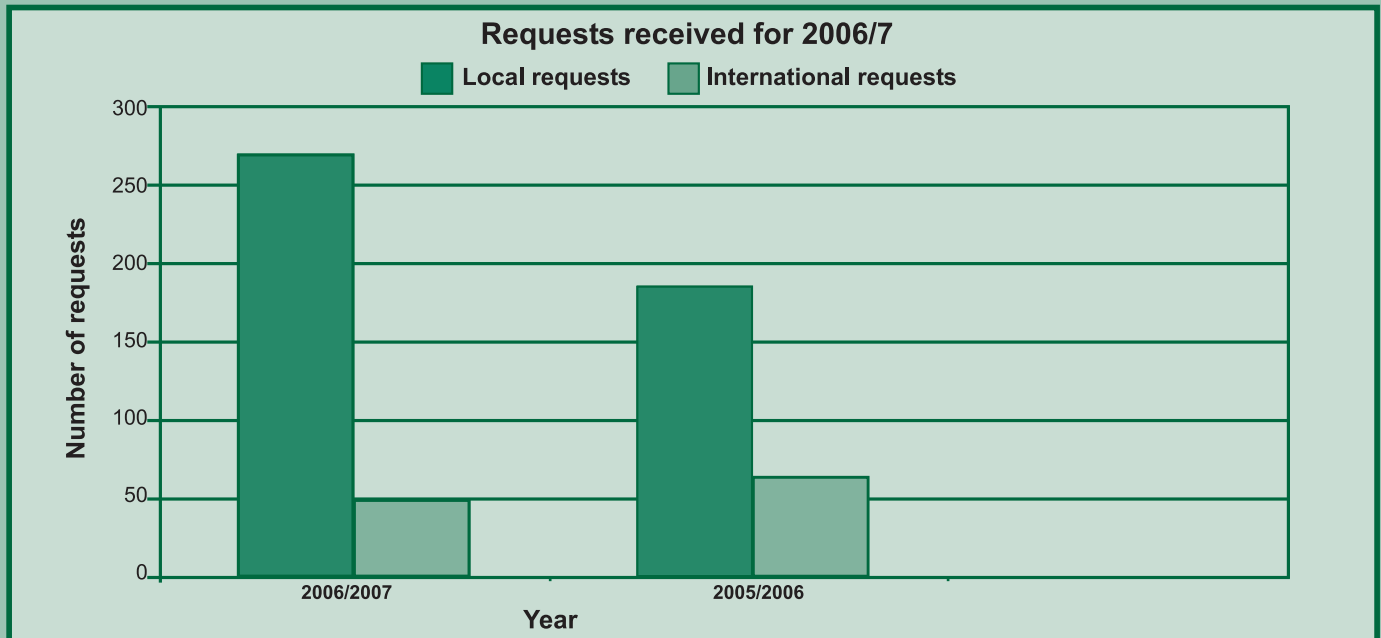


The Centre has spent time developing an electronic tool enabling it to receive cash threshold reports, cash cross-border reports and electronic funds transfer reports. The first two pilot projects have already been initiated in a process, which will continue into the next financial year.

During the year under review the Centre disseminated **549** referrals or products to law enforcement and intelligence agencies for further investigation, with a value in excess of **R1,4 billion**.

In addition to receiving reports from accountable institutions, the Centre received requests for information from local and international agencies. In this financial year the Centre received a total of **318** local and international requests. This figure is made up of 269 local requests and 49 international requests.

**DIRECTOR'S REPORT - continued**



From time to time the Centre identifies transactions that it reasonably believes are the proceeds of crime as a result of the analysis of the STRs and through interaction with law enforcement and intelligence agencies. The Centre has on several occasions assisted the AFU with the freezing of assets generated as proceeds of crime.

**External Training**

During the year under review the Department has attempted to meet as many requests as possible to provide training. Opportunities were created for the staff to attend training with other law enforcement authorities, as well as agencies such as SABRIC in order to develop their understanding of the general AML/CFT issues and also the specifics of each of the particular sectors participating in the training programme.

During the year under review the Department has made presentations and conducted several training programmes focused on the functioning of this department and financial investigation. These presentations and programmes have been presented to participants from the following agencies and institutions:

- Directorate of Special Operations;
- South African Police Services;
- Asset Forfeiture Unit;

## **DIRECTOR'S REPORT - continued**

- National Intelligence Agency;
- South African Revenue Service;
- South African Banking Risks and Information Centre;
- Independent Complaints Directorate;
- South African Reserve Bank;
- Different delegations from the following countries: Republics of Mozambique, Tanzania, Namibia and the GIABA in West Africa, in which presentations were done on the role and functions of the Monitoring and Analysis Department;
- Banks training; and
- University of Johannesburg as part of the certificate programme on money laundering.

## **COMPLIANCE AND PREVENTION DEPARTMENT**

The Centre is statutorily authorised to provide guidance to accountable and reporting institutions and to monitor the supervision of supervisory bodies of their responsibilities under the FIC Act. This is the responsibility of the Centre's Compliance and Prevention department and involves close liaison with supervisory bodies and accountable institutions.

The core function in this responsibility is to inform, advise and collaborate with the supervisory bodies to ensure their effective supervision of compliance with the FIC Act. The Centre has continued to forge and consolidate relationships with the various supervisors and much progress has been made by the various supervisors in developing increased compliance. This department also liaises with accountable and reporting institutions to guide them in applying and implementing the compliance provisions of the Act, which includes training, while our preventive focus includes an awareness outlook for the general public.

### **Banking**

The Bank Supervision Department (BSD) of the South African Reserve Bank is responsible for overseeing compliance of the FIC Act in the banking sector and has made significant progress in this regard.

## **DIRECTOR'S REPORT - continued**

The BSD now requires that the internal audit function in banks include AML/ CFT compliance functions and that they deal with AML/ CFT matters. As a result, the internal audit function is required to report to the supervisor on issues, such as:

- Internal audit functions in respect of AML/ CFT implementation within a bank;
- Important internal audit findings in relation to AML/ CFT;
- Reports issued, actions taken to disclose the most important findings;
- Ongoing interaction with the bank's audit committee and the control officer responsible for AML/ CFT;
- The internal audit plan and the allocation of resources;
- The compliance status in respect of AML/ CFT requirements;
- Train staff in AML/ CFT matters and provide the Supervisor with copies of training material and manuals; and
- Expose the directors to enhanced AML/ CFT training.

On 30 September 2006 the deadline came into force for the enforcement of the identification and verification of banks' clients who they had classed as low-risk for money laundering purposes. All future transactions were to be stopped in the case of clients not having participated in the process. The BSD required that all banks provide it with figures confirming that banks had implemented the requirements.

The introduction of new technology and innovation enables the development of new banking products, but also introduces new elements of AML/ CFT risk. In July 2006 the BSD issued a circular to provide banks with guidance on the deployment of cell-phone banking technology and introduced further frameworks for the use thereof.

The BSD, in keeping with the FATF recommendations, is monitoring that South African banks operating across the region, implement the standards in those countries. However, the drawback in the short term is that this sometimes means that these banks are more AML/ CFT compliant than the domestic institutions and therefore face increased competition from those that are not.

## **DIRECTOR'S REPORT** - continued

The Centre has sought to complement the work of the BSD by engaging the top five banks in monthly meetings on their AML/CFT and FIC Act obligations and compliance issues. The Centre has further complemented the work of the BSD by interacting regularly with several of the smaller domestic and foreign banks in respect of their AML/CFT and FIC Act obligations. The response has been tremendously positive and we are looking forward to a strengthened and fruitful working relationship.

It is the view of the Centre that the banking sector has made significant progress in developing and applying its AML/CFT obligations. The report of the BSD can be accessed on its website, [www.reservebank.co.za](http://www.reservebank.co.za)

### **Non-Banking Financial services**

The Centre and the FSB signed a Memorandum of Understanding to set out areas of cooperation in February 2007. Together with the FSB, a series of engagements with different role-players in the insurance industry, including the Life Office's Association in order to clarify the compliance obligations of the sector in respect of AML/CFT, have been held.

In early 2007 the Registrar of Long-term Insurance of the FSB issued a Directive to the industry on its compliance with the FIC Act and in particular, with exemption 4 to the Act. The aim of the directive was to set out the Registrar's requirement that, as a result of the exemption, additional information should be supplied to him by insurers. He instructed long-term insurers to keep statistics developed as a result of the exemption and of any related STRs to be supplied to his office on a quarterly basis. In addition he required that insurers should keep evidence of the basis of their satisfaction that records, as required by the exemption, had been kept properly. Finally, he also required that insurers should submit their information in a prescribed manner.

Although the Centre always seeks a degree of self-motivation by accountable institutions in implementing the Act, the four-year experience of monitoring this has

## **DIRECTOR'S REPORT - continued**

taught us that there are some industries that still need to demonstrate further levels of compliance. The Minister of Finance highlighted this in the 2006 budget speech by stating:

*“...the FIC will be closely scrutinising the casino and gambling sector and estate agents in the coming period.”*

During the year under review, the focus was therefore on compliance matters of the gambling industry and estate agents. This has been achieved by working more closely with the NGB and the EAAB and although much progress has already been achieved in this regard, it is believed there remains much more to be done before there is full compliance of the FIC Act in these industries.

Together with the NGB, compliance officers from the Centre participated in joint inspections of 29 casinos in the Western Cape, KwaZulu Natal and Gauteng Provinces. All casinos were required to report on their internal rules and provide the contact details of their compliance officers. There is close workings with the NGB to further enhance AML/CFT compliance in this sector.

The Compliance and Prevention department has worked closely with the EAAB to identify and help develop the role of the EAAB in respect of AML/CFT compliance monitoring. A two-week investigation has been conducted of the EAAB's complaint files to determine if any of the complaints submitted to the EAAB have been reported to the Centre, as well as to establish a trend analysis of the types of suspicious transactions that Estate Agents submitted.

There was participation in joint inspections by the EAAB of various estate agencies throughout the country. We have also called for the internal rules and appointed officers from estate agencies in three provinces. Many estate agencies have been asked to submit their rules for assessment. While many have done so, it was noticed that a number remain unaware of their obligations in terms of the FIC Act.



## **DIRECTOR'S REPORT** - continued

This poses a challenge for the Centre in the period ahead. In response to this situation, a range continuous training is provided to estate agencies. In early 2006, notices were published in major newspapers designed to raise awareness amongst estate agencies reminding them of their FICA compliance obligations under the FIC Act. The articles were also published in the EAAB's industry magazine.

The Centre has conducted joint inspections of those persons and businesses who have permission to conduct the business of an Authorised Dealer in Foreign Exchange with Limited Authority together with the South African Reserve Bank's Exchange Control Department. Fifteen ADLA's in the Western Cape and KwaZulu Natal Provinces were inspected as part of this process.

### **Training stakeholders**

The Compliance and Prevention department conducted several training and awareness programmes during the year for a range of different accountable institutions and other bodies. For example, focusing on estate agents, there was participation in a national compliance roadshow and presentations made to a total of 1,406 estate agents in various provinces. This was reinforced by a training workshop for 43 estate agents in Vereeniging in August 2006.

In March 2007 training programmes were held with 210 bookmakers and totalisators and regulators in the Western Cape and KwaZulu Natal. Training was also provided to members of the Institute of Auctioneers.

The Centre participated in the FATF's Working Group on Evaluations and Implementation which established an Electronic Advisory Group on the Risk-Based Approach process to AML/ CFT. The group's task has been to develop a consistent approach to interpreting and implementing a risk-based approach to AML/CFT and it will publish a document summarising the results of its study during 2007. South Africa will consider the new proposals and then develop a process which takes into account our domestic regulatory environment and the criminal trends, before deciding on the appropriate risk-based approach to AML/CFT. The Centre is considering a series of workshops followed by a conference during the next financial year to take this process forward.

## **DIRECTOR'S REPORT - continued**

### **Public Awareness and Media Releases**

In December 2006 the Centre issued and distributed pamphlets informing the public about money laundering and terror financing.

The Department prepared and released a publication for banking clients highlighting the 30 September 2006 deadline for banks to identify their low risk customers. This was reinforced through interviews conducted by various radio stations on this issue. In addition, interviews were also held during the year with Thetha FM, Jozi FM, East Rand Radio and Soshanguve Radio in which the FIC Act, the functions of the Centre, reporting of suspicious transactions and money laundering matters were discussed.

A pamphlet entitled "Fighting crime" was widely distributed through the Post Office in which the negative effects of money laundering were raised with members of the public and calling on people to report suspicious transactions.



## DIRECTOR'S REPORT - continued



### A FIGHT AGAINST MONEY LAUNDERING

*Money laundering is bad for South Africa. Help stop the occurrence of this crime.*

#### WHAT IS MONEY LAUNDERING?

Money laundering involves criminals turning the "dirty" money they make from fraud, drug trafficking, vehicle hijacking, smuggling, robbery, etc. into "clean" money. Sometimes this is done by using false identities, or using the names of innocent people like you or I. Parliament passed the Financial Intelligence Centre Act, Act 38 of 2001 ("FICA") to fight these abuses.

#### WHAT IS THE FINANCIAL INTELLIGENCE CENTRE?

The Financial Intelligence Centre ("FIC") was established to combat money laundering activities and financing of terrorism.

#### MONEY LAUNDERING IS BAD FOR BUSINESS

Any business or person who aids money laundering can suffer immense damage to their reputation. Clients and prospective investors will not want to be associated with such institutions.

#### MONEY LAUNDERING IS BAD FOR DEVELOPMENT

Countries that attract money launderers and criminals may find it difficult to create conditions for sustainable development and achieve long-term economic growth.

#### FOR MORE INFORMATION

Contact us at:

Tel: +27 12 309 9200

Fax: +27 12 315 5828

E-mail: [fic\\_feedback@treasury.gov.za](mailto:fic_feedback@treasury.gov.za)

Or visit our web site: <http://www.fic.gov.za>

### A FIGHT AGAINST MONEY LAUNDERING

*Money laundering is bad for South Africa. Help stop the occurrence of this crime.*

#### WHY DO I HAVE TO PROVE MY IDENTITY?

As a client of a Bank, Life Insurance Company, Attorney, Investment Manager, Estate Agent, Casino or any other entity regulated by the FICA, you may from time to time be required to confirm your identity. The information, which these businesses may reasonably expect from you, can include some form of verification of an address. This helps to protect you from identity theft and fraud.

#### WHEN DO INSTITUTIONS CHECK IDENTITIES?

Institutions verify the identity of new customers. They also have to update their information concerning the identities of existing clients, even if these parties were clients before the identity checks became law.

#### WHAT CAN I DO TO HELP?

All South Africans need to work together to make it difficult for criminals to enter the South African financial system.

You are encouraged to take a stand and help us fight crime by:

- Providing the necessary documents to your financial institution; and
  - Reporting suspicious transactions which involve the proceeds of crime.
- Should you wish to report a suspicious transaction, you may do so on the FIC's

web site: <http://www.fic.gov.za>

If you cannot make a report electronically, then you may fax it to the FIC on (012) 315 5828 or hand deliver it to the FIC at 240 Vermeulen Street, Pretoria.



**DIRECTOR'S REPORT - continued**

**Public Queries**

In this financial year, the Centre received and responded to a total of 469 public queries through the public “feedback box” (See table below). Of these queries, 65 related to so-called “419” scams and 404 were FIC Act-related.

Queries	April 2006	May 2006	June 2006	July 2006	Aug 2006	Sept 2006	Oct 2006	Nov 2006	Dec 2006	Jan 2007	Feb 2007	Mar 2007	TOTAL
FIC	15	26	31	36	31	47	28	36	19	79	26	31	404
“419”s	27	09	03	01	03	04	02	00	05	04	02	04	65
<b>TOTALS</b>	<b>42</b>	<b>35</b>	<b>34</b>	<b>37</b>	<b>33</b>	<b>52</b>	<b>30</b>	<b>35</b>	<b>24</b>	<b>86</b>	<b>36</b>	<b>40</b>	<b>469</b>

These queries concerned practical challenges that accountable institutions and ordinary people are confronted with in respect of the FIC Act. These queries and responses have formed the basis for the Centre’s Frequently Asked Questions (FAQs), which are posted on our website.

In recognition of the shortage of compliance monitoring skills available, a pilot programme was initiated to contract interns into the department. The aim of this programme is to provide a year on-the-job training for recently qualified graduates.

As this was the first time the Centre embarked on such a project, interns and mentors had a lot to learn. A programme coordinator was appointed to administer and coordinate the programme within the department. The challenge ahead is to improve on this programme and make it a sustainable feature of our developmental focus in the years ahead.

**ADMINISTRATION AND SUPPORT SERVICES**

**INFORMATION AND COMMUNICATION TECHNOLOGY DEPARTMENT**

The Information and Communications Technology (ICT) department prides itself on not only being responsive, but proactive in its approach to the needs of its users.

During the year under review the department continued to focus on two interrelated elements: maintaining and enhancing the existing ICT infrastructure and designing and sizing the future ICT systems of the Centre.

## **DIRECTOR'S REPORT - continued**

The department developed certain in-house solutions to enhance the work of the Centre's analytic capability. It also ensures that all queries were attended to and solved with minimal disruption to the work of the Centre's staff.

Security of the Centre's ICT systems will always be of concern as threats have increased and become more sophisticated. Thus the Centre's computing resources and network requires constant vigilance with the resulting expenditure of valuable resources. Despite these threats, the Centre has maintained the integrity of its network infrastructure. Effective security requires active participation from all the Centre's users. ICT security is key for every computing environment and there is therefore a need to maintain restrictions to enhance security which shapes the way users work. The future system will require additional security measures and users will need to adapt to a changed ICT environment next year. The Centre undertook an extensive ICT security risk assessment of the current systems environment and initiated a project to define security architecture and policies. The implementation of these has been given high priority and will be incorporated into the design and build for the new ICT system.

At the beginning of 2007 the ICT Department accompanied other officials from the Centre on a trip to the Financial Transactions Reports Analysis Centre in Canada to inspect and learn from its ICT capability and models.

This follows on from previous visits to the Austrac in Australia and the National Crime Intelligence Service in the United Kingdom. These visits have proven to be invaluable, during which we were received with openness and generosity, confirmed that the direction we have taken to develop our IT systems remains correct and in keeping with international best practice. The design and sizing phase of the new system was being conducted. The results will be subject to an intense scrutiny and verification process during the first half of the next financial year, before the building and roll-out process starts. The verification process will involve several outside agencies to ensure the business processes, results and dependencies have been fully considered and incorporated.

## **DIRECTOR'S REPORT - continued**

Although the process to build the new system will be complex and require many resources, the result will be a powerful computing capability and an invaluable asset to the law enforcement authorities in South Africa.

Upcoming projects to be undertaken by the ICT department include planning for and preparing to enable the Centre to receive reporting streams such as those for cash threshold transactions, cross border transactions, electronic fund transfers and developing ways in which the identities of financial institution clients can be more efficiently verified. We are also considering the introduction of new technologies, such as voice over internet protocol.

## **HUMAN RESOURCES**

The Human Resources section within the Centre has focused on recruitment and development-pathing of current and new staff within the Centre. We have also introduced the Employee Assistance Programme to promote the emotional and mental health of employees.

During the year under review the Centre has continued to grow in size with the number of staff contracted to it. This continues to present numerous challenges. Not least is the need for the Centre to develop staff members in order to help them to perform their jobs more effectively. However, finding training related to certain of the core areas of the Centre's responsibilities and work, such as analysis and compliance monitoring of reports made to the Centre, remains a challenge. The skills required are not easily available and therefore the Centre is seeking creative training processes to make acquisition of these skills possible.

It also remains a challenge for us to equip staff with career-pathing and individual development opportunities within the Centre so that these trained officials are not lost to the Centre upon completion of training. Thus we continue to focus on developing a learning development framework and talent management strategy.



## **DIRECTOR'S REPORT - continued**

These initiatives will facilitate an environment where staff possess the capabilities that enable them to plot their career path while enhancing the performance of the Centre. This will enable the Centre to develop an enhanced ability to retain staff members, while also ensuring that they are able to contribute optimally and ensure the attainment of its objectives. We believe this is an important component of our vision which is to create a sustainable organisation in which the Centre becomes an employer of choice.

A second area of focus for the forthcoming year, which flows out of our work this year, will be to seek ways in which we may create further cohesion within the organisation. The Centre is a fledgling organisation which has yet to develop its own, unique culture. We shall do this through improving communication between all staff members, creating integrated teams from across different units within the Centre to focus on specific projects and to find ways of capturing the vast array of information that is gained through the various interactions with various stakeholders. The intention is that over the next three years the Centre should develop a unique set of values applicable to its mandate and objectives, along with an organisational culture which enables and makes these values possible.

## **FINANCIAL MANAGEMENT**

As the FIC's growth rate accelerated during the year under review, this posed challenges to the finance department. Additional support services had to be carried out with the limited resources available to the department and in relation to the growing responsibilities and tasks. The needs that had to be fulfilled were not only limited to internal stakeholders, but also from various external stakeholders.

## **DIRECTOR'S REPORT** - continued

Major milestones achieved during the year under review towards improved governance included the:

- Appointment of Internal Auditors;
- Appointment of Audit Committee;
- Improvement of supply chain management services; and
- Improvement of financial management services.

### **Internal Auditors**

An open tender procurement process was followed to appoint a preferred service provider whose primary task is to offer internal audit services to the FIC. KPMG was appointed as the preferred supplier in October 2006 for the duration of three years.

The internal auditors have submitted a three-year strategic plan to the Audit Committee for approval. Since their appointment until the reporting date, the internal auditors have performed some internal audit work and issued reports. The Centre welcomes their role as assurance providers on the effectiveness on internal controls and other related activities.

### **Audit Committee**

We are excited to announce the appointment, on 01 March 2007, of the first members of the Audit Committee. All the members of the committee are non-executive members.

The members are from different backgrounds, bringing into the Centre diverse and specialised skills that are needed. The experience ranges from professional accounting practitioners, academic/s in the field of corporate governance and writers of a corporate governance journal, both private and the public sector exposure and other competencies required by their demanding positions.

The Centre has high expectations for the oversight role that Audit Committee members are going to play and looks forward to future interaction and cooperation with them.

## **DIRECTOR'S REPORT** - continued

### **Supply chain management**

Services from this unit have improved significantly since the appointment of a procurement specialist whose task it is to assist the Centre with the establishment of a fully functional supply chain management unit. A roll-out plan is under development on the best and most practical way of structuring this unit, enabling it to fulfill the organisation's provisioning needs. This has become an important development as a result of the Centre's growth this year and the subsequent increase in procurement requirements.

The current procurement system has also been enhanced to more adequately support the business requirements although further work remains necessary.

Various practice notes have been issued to assist all the staff members of the Centre to procure goods or services.

Major procurement contracts were secured amounting to at least R15m during the year under review. The Centre has made an offer to lease premises in Centurion to meet its current and future accommodation needs, thus committing an estimated amount of R7.2m for duration of two years.

### **Financial management**

The Centre did not receive its vote allocation from National Treasury during the year under review. The purpose of the non-allocation was to enforce the depletion of the accumulated surplus that has been carried over since inception of the Centre to 31 March 2006, amounting to R72,8m. We have succeeded in utilising the funds, in accordance with planned strategic activities and brought down the balance at 31 March 2007 to R32,5m. The actual expenditure incurred during the year under review is in line with the submitted budgets to National Treasury and is also reflective of growth experienced within the Centre.

The non-transfer of funds from the National Treasury has resulted in the Centre showing a deficit of R40,321m changed for the year under review. This does not have an impact on the going-concern principle.



**DIRECTOR'S REPORT - continued**

The key management of the FIC have been remunerated as follows:

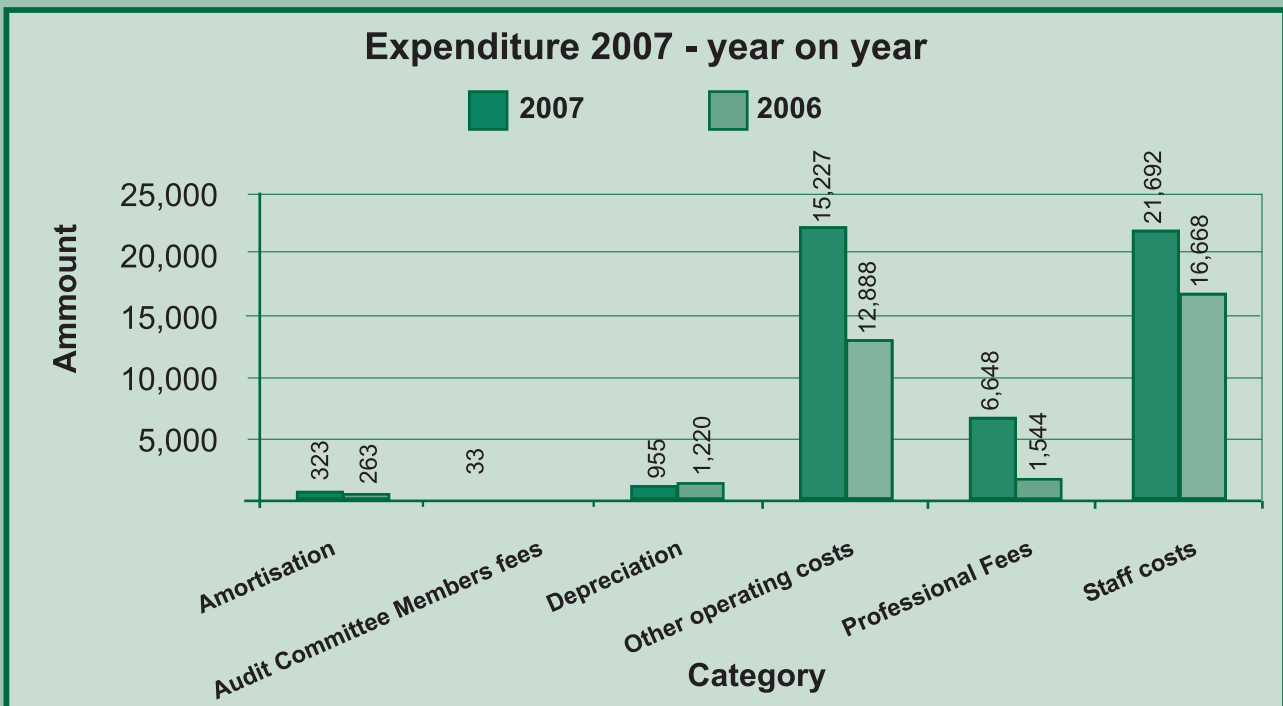
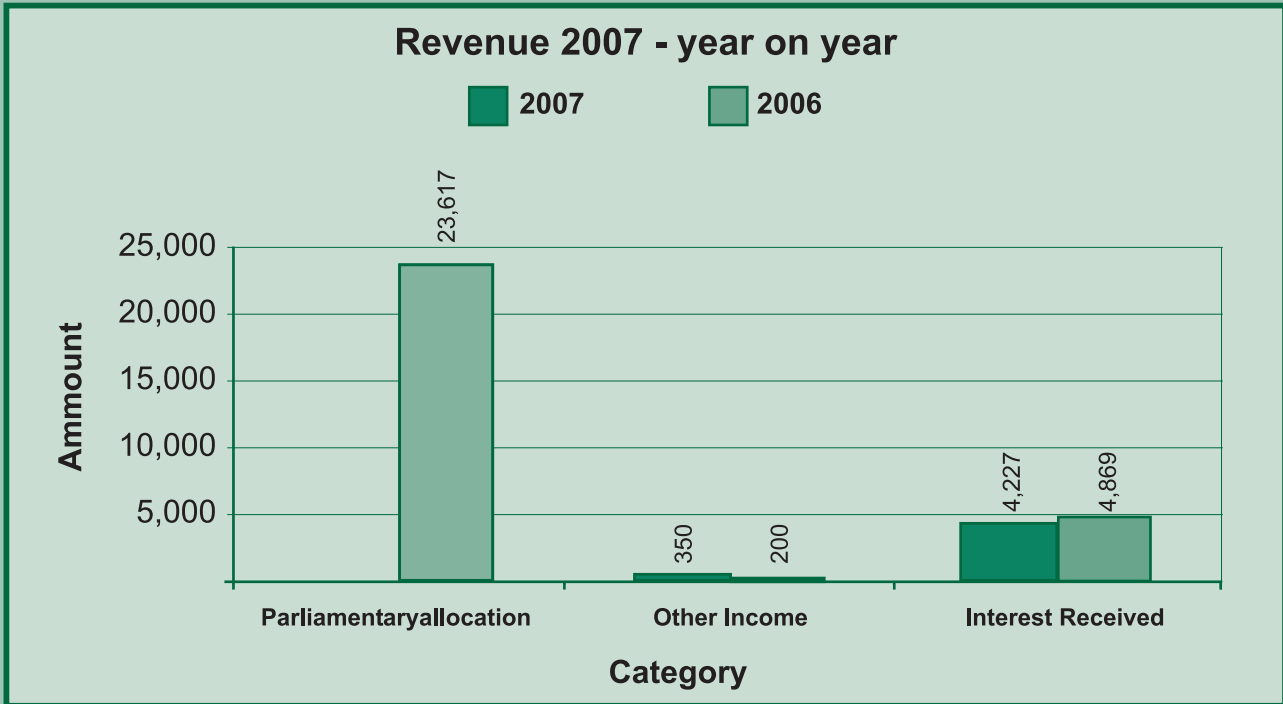
<b>Management</b>	<b>Cash component (incl. bonus)</b>	<b>Medical Aid</b>	<b>Providend fund and group life</b>	<b>TOTAL</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Director	879,067	18,000	-	898,446
Senior Managers	2,375,201	36,000	78,072	2,493,409
Managers	2,536,134	67,950	117,868	2,727,466

**DIRECTOR'S REPORT - continued**

**FINANCIAL HIGHLIGHTS**

<b>Revenue</b>	<b>2007 R'000</b>	<b>%</b>	<b>2006 R'000</b>	<b>%</b>
Parliamentary allocation	-	-	23 617	82.33%
Other Income	350	7.65%	200	0.70%
Interest Received	4 227	92.35%	4 869	16.97%
	<u><b>4 577</b></u>	<u><b>100.00%</b></u>	<u><b>28 686</b></u>	<u><b>100.00%</b></u>
<b>Expenditure</b>				
Amortisation	323	0.71%	263	0.81%
Audit Committee Members fees	33	0.07%	-	-
Depreciation	955	2.13%	1 220	3.74%
Other operating costs	15 227	33.93%	12 888	39.55%
Professional Fees	6 648	14.82%	1 544	4.74%
Staff costs	21 692	48.34%	16 668	51.16%
	<u><b>44 878</b></u>	<u><b>100.00%</b></u>	<u><b>32 583</b></u>	<u><b>100.00%</b></u>
Operating expenditure (excl non-cash items)	43 060		30 834	
Capital expenditure	3 832		2 787	
<b>Total cash outflow</b>	<u><b>46 442</b></u>		<u><b>33 621</b></u>	
<b>Total cash outflow % to Parliamentary allocation</b>	<b>(100.00%)</b>		<b>142%</b>	

**DIRECTOR'S REPORT - continued**



## **DIRECTOR'S REPORT - continued**

### **CONCLUSION**

The key objective remains to continuously make the Centre more efficient and capable and thereby achieve its mission and objectives.

The Financial Intelligence Centre is a key component in the development of a comprehensive and effective anti-money laundering and combating of the financing of terrorism systems in this country. However, the system requires the interaction of numerous different organisations from the private and the public sector to assume their responsibilities before an AML/ CFT system can be said to be operating efficiently.

We wish to ensure that the Centre is able to provide information to law enforcement authorities to support regular high impact enforcement successes. This implies that the accountable institutions have increased their levels of compliance and therefore the Centre should be receiving regular reports from them. The Centre itself needs to provide regular speedy information to the law enforcement authorities so that they are able to investigate and prosecute criminal activities.

This will not be possible unless the FIC continues to build solid and open relationships with the various institutions: the accountable institutions, supervisory bodies and law enforcement authorities.

The Centre also needs to ensure that it has been placed on a trajectory in which it becomes a sustainable and capable organisation.

When we reach that point, the Centre will be able to live up to the objectives and mandate for its establishment. It will then be that an entire system will be functioning properly in South Africa and that we shall meet the target set for us.

## **DIRECTOR'S REPORT - continued**

Numerous challenges continue to face the Centre. These are summarised below and form the basis of our work plan for next year.

- There are a series of amendments to the FIC Act which will enhance the compliance and administrative enforcement structure of the Act. We anticipate that the National Treasury will introduce the Bill into Parliament during the next financial year.
- We shall introduce capacity and organisational development processes within the Centre to enable us to carry out our responsibilities as set out in the Amendment Bill so that we may reduce the lead time required for implementation once it has been accepted.
- The Legal and Policy department will continue to review the FIC Act during next year and initiate a consultation process.
- We have started a preparation process for South Africa's Mutual Evaluation to be conducted by the Financial Action Task Force, to be held in 2008. As this involves an assessment of the AML/ CFT system, it is important that all relevant stakeholders become fully involved in this process.
- South Africa will continue to provide support to other countries within the region that are introducing legislation or seeking to implement it. This included helping them build their financial intelligence units.
- The FIC will build its capacity to effectively monitor the compliance of accountable institutions and to do so we will conduct inspections, either as a joint process with supervisory bodies, or where there is no such body, then independently.
- The information at the disposal of the Centre is of importance only so far as accountable institutions are making quality reports and that these may be referred to investigation. Therefore it is very important for the Centre

## **DIRECTOR'S REPORT - continued**

to continue building relationships with the supervisory bodies whose task it is to oversee compliance and that reports are being made, and the law enforcement community whose task it is to investigate and prosecute on the basis on the information.

- The Centre will seek to enhance its report receiving processes as well as the analysis process to ensure that a continuously improved product can be referred to the investigating authorities. We shall also finalise the processes enabling the Centre to receive the new reporting streams, such as cash threshold reports, once the new FIC IT systems goes live the following year.
- We also intend being more proactive in the processes of analysis to ensure that we adopt a more targeted approach as a result of our relationships with the investigating authorities.
- We need to develop the capability to identify money laundering threats to more effectively target our resources, thereby enhancing further our ability to assist the investigating authorities.
- It goes without saying that the Centre needs to continue recruiting and developing our staff. To this end, talent management processes and training become a critical intervention which we shall introduce next year on a systematic basis.
- We shall continue to consolidate the Centre's business processes, including all systems, policies and procedures, as well as ensure we maintain an efficient financial and supply chain management system.

## **DIRECTOR'S REPORT - continued**

Another big challenge remains the project to build the new ICT systems. The first phase was completed in this year and next we shall move into the development phase. Because the system will be the foundation and the means for the Centre to be able to do its work, it needs to be sustained over a number of years. We have therefore taken a considered decision that it is better to ensure that weaknesses have been identified “up-front”. Before the system goes live it requires rigorous testing to ensure that weaknesses can be identified and remedied.

- Next year we shall need to move into additional premises to those provided by National Treasury. This is so that we can expand particularly the analytic and ICT functions. This will introduce a level of risk into the Centre’s operations, as thus far the National Treasury has been the backbone upon which the FIC has been able to build. A new location will mean the Centre functioning independently and it will need to maintain all services on a continuous basis.



## DIRECTOR'S REPORT - continued

### Annex 1

#### The Financial Action Task Force

##### OVERVIEW

The Financial Action Task Force (FATF) is an inter-governmental body whose purpose is to establish international standards, and develop and promote policies, both at national and international levels, to combat money laundering (ML) and terrorist financing (TF). The FATF is a policy-making body which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas. The FATF also regularly examines methods and techniques of money laundering and terrorist financing to ensure the continued relevance of its policies and standards. Since its inception, the FATF has operated under a finite lifespan and requires a specific decision of the Task Force to continue. The mandate of FATF was most recently renewed in May 2004 at the FATF ministerial meeting for an 8-year period (2004-2012).

The FATF was established in July 1989 by a G-7 Summit in Paris, initially to examine and develop measures to combat money laundering. The FATF currently comprises thirty-three members; 31 member jurisdictions and two regional organisations (the European Commission and the Gulf Co-operation Council), representing most major financial centers in all parts of the globe<sup>4</sup>.

In performing its work, the FATF collaborates closely with a number of partners, international and regional organisations that are involved in combating money laundering and terrorist financing. The FATF has developed strong partnerships with these organisations in order to constitute a global network of organisations against money laundering and terrorist financing. The primary FATF partners are the 8 FATF-Style Regional Bodies, which play an important leadership role in their respective regions. In addition, the FATF has developed close and productive partnerships with the Offshore Group of Banking Supervisors (OGBS) and several international organisations, in particular, the International Monetary Fund, the World Bank, the United Nations and the Egmont Group of financial intelligence units.

The first task of the FATF upon its establishment was to establish the international standard for combating money laundering and terrorist financing. The FATF issued its first set of international anti-money laundering standards in 1990 — the *Forty Recommendations on Money Laundering*. In October 2001, in response to the September 11 attacks in the United States, the FATF expanded its mandate and issued *Eight Special Recommendations* to deal with the issue of terrorist financing.

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<sup>4</sup> The thirty-one [thirty-two] member jurisdictions of the FATF are: Argentina; Australia; Austria; Belgium; Brazil; Canada; Denmark; Finland; France; Germany; Greece; Hong Kong, China; Iceland; Ireland; Italy; Japan; Luxembourg; Mexico; the Kingdom of the Netherlands; New Zealand; Norway; Portugal; the Russian Federation; Singapore; South Africa; Spain; Sweden; Switzerland; Turkey; the United Kingdom; and the United States.

## **DIRECTOR'S REPORT** - continued

The FATF standards have been endorsed directly by more than 170 jurisdictions around the world, as well as by the Boards of the International Monetary Fund (IMF) and the World Bank (WB). In July 2005, the United Nations (UN) Security Council in its Resolution 1617 stated that it “strongly urges all Member States to implement the comprehensive international standards embodied in the Financial Action Task Force’s (FATF) Forty Recommendations on Money Laundering and the FATF Nine Special Recommendations on Terrorist Financing”.

Consistent with its mandate, today’s priority of the FATF is to ensure global action to combat money laundering and terrorist financing, and concrete implementation of its *40 + 9 Recommendations* throughout the world. Starting with its own members, the FATF monitors countries' progress in implementing AML/CFT measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of the FATF *40 + 9 Recommendations* globally.

All decisions of the FATF are taken by its 33 Members, in plenary meetings, by consensus. In order to ensure that it functions efficiently, the plenary is assisted by the FATF Secretariat and chaired by the FATF President. The Secretariat supports the work of the Task Force. Although the FATF Secretariat is housed at the Headquarters of the Organisation for Economic Co-operation and development (OECD) in Paris, France, the FATF is a fully independent body.

### **FATF Working Committees**

The FATF’s Working Group on Evaluations and Implementation (WGEI) assists the plenary through monitoring, co-coordinating and reviewing the mutual evaluation processes and procedures, and taking steps, as appropriate, to enhance the quality, consistency and transparency of the evaluation/ assessment reports of the FATF, associate members, FSRBs, the OGBS, the IMF and the WB. The WGEI serves as a point of contact between the FATF, the FSRBs, the OGBS and the International Financial Institutions (IFIs) on matters related to the WGEI mandate. It fosters dialogue with the private sector concerning issues related to the implementation of the FATF Recommendations, including overseeing the work of the Electronic Advisory Group on the Risk-Based Approach. The WGEI develops interpretation and guidance to the FATF standards and changes to the AML/CFT Methodology 2004 as necessary and presents these to the FATF plenary for consideration. The WGEI also defines and coordinates the process of training new assessors in the use of the AML/CFT Methodology 2004. During the year the WGEI has focused on projects to improve the quality and consistency of mutual evaluation reports and has refined the mutual evaluation methodology, which was most recently updated in February 2007.

## **DIRECTOR'S REPORT - continued**

The Working Group on Terrorist Financing and Money Laundering (WGTM) is also involved in the FATF's continuing refinement of the standards. The WGTM assists the plenary by considering work carried out by the Working Group on Typologies (WGTYP) and where appropriate developing and proposing interpretation or guidance to the FATF standards,

The study of money laundering and terrorist financing methods and trends – typologies – plays a key role in the FATF standard-setting process. The Working Group on Typologies (WGTYP) gathers and studies information on current money laundering and terrorist financing methods and trends and to make this information available to support FATF policy-making.

In October 2006 the plenary considered issues arising from the FATF typologies report on trade-based money laundering, which was issued in July 2006 and agreed to explore whether the risks of trade-based money laundering are being adequately addressed by the existing FATF standards and measures. This project is being conducted by a small group of delegations with assistance from the World Customs Organisation, the Egmont Group of financial intelligence units and the FSRBs and it will identify any gaps in the standards and explore ways to address them.

### **The 2006-2007 typologies exercise**

The FATF-XVIII experts' meeting on typologies was held jointly in Shanghai, China, in November 2006. The four workshops for the Shanghai meeting included: ML/TF through the real estate sector; laundering the proceeds of VAT "carousel" fraud; terrorist financing typologies and laundering the proceeds of illegal narcotics trafficking.

### **Typologies reports released**

In October 2006 the FATF issued two reports on money laundering methods and vulnerabilities in specific sectors: *New Payment Methods* and *Misuse of Corporate Vehicles*. The research on new payment methods (prepaid cards, Internet payment systems, mobile payments, and digital precious metals) found that, while there is a legitimate market demand for these payment methods, money laundering and terrorist financing vulnerabilities exist. Specifically, cross-border providers of new payment methods may pose more risk than providers operating within a jurisdiction. The report recommends continued vigilance to detect the impact of evolving technologies on cross-border and domestic regulatory frameworks. The study on corporate vehicles found evidence of their misuse for money laundering / terrorist financing.

The report identifies a number of risk factors and concludes that this misuse could be significantly reduced if governments have access to information about the beneficial owner, the source of assets, and the business objective of the company or trust.

Two further reports were released in February 2007: *Laundering the Proceeds of VAT Carousel Fraud* and *Complex Money Laundering Techniques: a Regional View*.

## **DIRECTOR'S REPORT - continued**

The report on VAT carousel fraud examines the methods used for laundering of the proceeds resulting from this type of fraud, which is essentially an abuse of common duty areas to generate illegal profits. The fraud entails the use of a contrived chain of transactions to steal government revenues through the VAT reclaim system. *Complex Money Laundering Techniques: a Regional View* examines ML and TF schemes in South America. It identifies five primary methods: a) illicit foreign currency arbitrage transactions; b) structured international remittances; c) black market peso exchange; d) international loan simulation and capitalisation of legitimate companies with illegal funds; and e) physical transportation of the proceeds of crime.

In June 2007 the FATF will release two more typologys reports: ML/TF through the Real Estate Sector and Laundering the Proceeds of Illegal Narcotics Trafficking.

### **The mutual evaluation process**

The mutual evaluation process represents a key component of the FATF's work as it is through this process that the FATF monitors the implementation of the FATF 40 + 9 *Recommendations* in its member jurisdictions, and assesses the overall effectiveness of AML/CFT systems.

Each member country is examined in turn by the FATF. The scope and purpose of these evaluations is to assess whether the necessary laws, regulations or other measures required under the new standards are in force and in effect, that there has been a full and proper implementation of all necessary measures and that the system in place is effective. The FATF has developed comprehensive and detailed procedures to conduct its mutual evaluations, and these help to ensure fair, proper and consistent evaluations. The evaluations are based on the FATF 40 + 9 *Recommendations* and performed using the *AML/CFT Methodology of 2004*. The *Handbook for Countries and Assessors* lays out the necessary instructions and guidance for all countries and bodies that are conducting assessments.

### **Evaluator training**

The FATF provides five-day training evaluator programmes for prospective assessors from governments which are members of the FATF and/ or of one of the regional bodies. These courses ensure that there is a large pool of trained assessors available to participate in the evaluations. As far as possible, the assessment bodies use assessors who have completed a training course. Similar courses are delivered by each of the assessor bodies to ensure that all potential assessors have been trained in the same way and have achieved the same level of knowledge. Training materials are updated from time to time when the standards or evaluation methodology change. In 2006-2007 the FATF participated in four evaluator training sessions organised by assessor bodies.

All information on the Financial Action Task Force can be accessed on its website: [www.fatf-gafi.org](http://www.fatf-gafi.org)



**DIRECTOR'S REPORT** - continued

**Annex 2**

**The Egmont Group of Financial Intelligence Units**

The Egmont Group began in 1995 as a collection of a small handful of entities, today referred to as financial intelligence units (FIUs), seeking to explore ways of cooperation among themselves. The FIU concept has grown over the years and is now an important component of the international community's approach to combating money laundering and terrorist financing. The FIU should be a centralised unit within a country to detect criminal financial activity and ensure adherence to laws against financial crimes, including terrorist financing and money laundering.

Since its inception in 1995 the Egmont Group has grown dramatically from 14 units to a recognised membership of 100 FIUs. It is now evolving toward a structure of independent units working closely together to strengthen not only their own countries' AML/CFT regime, but to strengthen the global firewall against economic resistance to money launderers and terrorist financiers.

The goal of the Egmont Group is to provide a forum for FIUs around the world to improve support to their respective governments in the fight against money laundering, terrorist financing and other financial crimes. This support includes expanding and systematising the exchange of financial intelligence information, improving expertise and capabilities of personnel employed by such organisations, and fostering better and more secure communication among FIUs through the application of technology. The Egmont Group's secure Internet system permits members to communicate with one another via secure e-mail, requesting and sharing case information as well as posting and assessing information regarding trends, analytical tools and technological developments.

The Egmont Committee comprises a group of 14 members and is an intermediary group between the 100 Heads of member FIUs and the five Egmont Working Groups. This Committee addresses the administrative and operational issues facing Egmont and is comprised of seven permanent members and seven regional representatives based on continental groupings (i.e. Asia, Europe, the Americas, Africa and Oceania). In addition to the Committee there are five Working Groups: Legal, Operational, Training, Information Technology and Outreach.

The Legal Working Group reviews the candidacy of potential members and handles all legal aspects and matters of principle within the Egmont Group. The Training Working Group looks at ways to communicate more effectively, identifies training opportunities for FIU personnel and examines new software applications that might facilitate analytical work. The Outreach Working Group concentrates on expanding and developing the FIU global network by identifying countries that have established or are establishing FIUs. Outreach is responsible for making initial contact with potential candidate FIUs, and conducts assessments to determine if an FIU is ready for Egmont membership. The Operational Working Group is designed to foster increased cooperation among the operational divisions of the member FIUs and coordinate the development of studies and typologies-using data collected by the FIUs on a variety of subjects useful to law enforcement. The Information Technology (IT) Working Group promotes collaboration and information sharing on IT matters among the Egmont membership. The Committee and the Working Groups meet at a minimum three times per year, including the annual plenary session.

## **DIRECTOR'S REPORT - continued**

To meet an ever-growing demand in terms of volume and complexity, the Egmont Group decided at its Annual General Meeting in June 2005 that a change was necessary to allow Egmont to meet its objectives and continue to grow and adapt to emerging trends. Consensual agreement by all Egmont members was reached for the creation of an Egmont Secretariat, the first step for Egmont to sustain, and more importantly enhance, its role in the global fight against money laundering and terrorist financing. With Egmont's input and expertise in increasing demand by other players on the global stage, the creation of the Secretariat will allow for consistent and active collaboration with other international organizations. The new Egmont Secretariat is to be located in Toronto, Canada, and the processes has begun with its establishment and staffing. The Secretariat is expected to be fully operational by 2008.

The 100 members of the Egmont Group are the financial intelligence units from: Albania, Andorra, Anguilla, Antigua and Barbuda, Argentina, Aruba, Australia, Austria, Bahamas, Bahrain, Barbados, Belgium, Belize, Bermuda, Bolivia, Bosnia and Herzegovina, Brazil, British Virgin Islands, Bulgaria, Canada, Cayman Islands, Chile, Colombia, Cook Islands, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominica, Egypt, El Salvador, Estonia, Finland, France, Georgia, Germany, Gibraltar, Greece, Grenada, Guatemala, Guernsey, Honduras, Hong Kong, Hungary, Iceland, Indonesia, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Latvia, Lebanon, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Marshall Islands, Mauritius, Mexico, Monaco, Montenegro, Netherlands, Netherlands Antilles, New Zealand, Norway, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russia, San Marino, Serbia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, St. Kitts & Nevis, St. Vincent & the Grenadines, Sweden, Switzerland, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Vanuatu and Venezuela.

## PERFORMANCE REPORT FOR THE YEAR ENDED 31 MARCH 2007

Objectives	Key Performance Areas	Key Performance Indicators	Target	Achievement
FIC is a sustainable and capable institution	Provide optimum physical environment for success	Identify new office premises for expanded staffing and operations	Identify premises by Q3	<b>Identified suitable premises at Centurion and secured it for two years ending 30 April 2009</b>
			Identify permanent premises by Q3	<b>Approved plans for permanent office site beyond 2009</b>
		Develop move planner Prepare implement moving plan requirements	Appoint a move planner by Q3	<b>Appointed a moving planner FIC for a duration of two years ending 16 April 2009</b>
		Move FIC into new premises	Occupation date by Q2 of 2007/2008	<b>Planned occupation date 1 September 2007</b>
	Ensure secure and effective IT	Finalise design specifications for FIC IT systems	Completed design by Q3	<b>Newly approved FICCITS roadmap</b>
			Developed TOR by Q3	<b>Completed terms of reference for Data Lab for FIC</b>
	Ensure Effective Capacity	Build internal capacity and recruit staff	Develop a remuneration framework by Q4	<b>Company appointed to review the FIC remuneration framework</b>
			Establish a wellness centre Q3	<b>Company appointed to provide the wellness service to FIC staff</b>
			Develop an induction programme and talent management by Q3	<b>Request for quotations was issued for FIC Induction programme and talent management</b>
	Support Delivery of Services	Ensure necessary policies, systems and procedures are effected for managing budgets and expenditure of the FIC	Completion by Q4 of the following: <ul style="list-style-type: none"> <li>• System enhancement</li> </ul>	<b>Enhanced the quotation system addressing:</b> <ul style="list-style-type: none"> <li>• Compliance to Supply Chain Management policy and</li> <li>• Compliance to approved and allocated budget</li> </ul>



**PERFORMANCE REPORT FOR THE YEAR ENDED 31 MARCH 2007 - continued**

Objectives	Key Performance Areas	Key Performance Indicators	Target	Achievement
			<ul style="list-style-type: none"> <li>Budgeting system</li> </ul>	<ul style="list-style-type: none"> <li>Implemented an electronic version for departmental budget.</li> <li>Finalised Budget manual 30 June 2006.</li> <li>Distributed departmental budgets for 2007/2008</li> </ul>
Information from FIC (proceeds of crime / ML & TF) is recognised by FIC Law Enforcement as relevant and of high quality	Effectively manage domestic and international exchange of information – Intelligence	Number of critical databases enabling access to information	Access granted to identified data bases	<b>6 Local databases</b> <b>1 Mission critical international database</b>
	Effectively manage domestic and international exchange of information – All other	Feedback requests to Law Enforcement Agencies and other stakeholders	Exchange information as requested	<b>Requests received:</b> <ul style="list-style-type: none"> <li>269 local</li> <li>49 international</li> </ul> <b>Assisted Asset Forfeiture Unit with freezing of R692 000</b> <b>There were 549 referrals to law enforcement for investigation to the value or R1,409billion</b>
		Conclude various Memorandum Of Understanding (MOU) with both internal and external stakeholders	Maintain operational MOU country profiles – continuous  Complete MOU's with 80 % of identified countries  Complete identification process of African FIU's for assistance and MOU's by end Q3	<b>Maintained MOU's with 10 Egmont member countries and with non-Egmont member, Zimbabwe</b>  <b>Identified 9 countries to pursue MOUs with</b>
Stakeholders (intergovernmental & law enforcement authorities) have an increased understanding of FIC mandate,	Participate in international bodies and fora to engage with policy and implementation practices	Regularly attend meetings of the Financial Action task Force, the Eastern and Southern Africa Anti Money Laundering Group and the Egmont Group of	Attend 3 FATF Plenary meetings	<b>Attended 3 FATF Plenary meetings:</b> <ul style="list-style-type: none"> <li>2 Mutual Evaluation Trainings and</li> <li>Trends and Typologies workshop</li> </ul>

## PERFORMANCE REPORT FOR THE YEAR ENDED 31 MARCH 2007 - continued

Objectives	Key Performance Areas	Key Performance Indicators	Target	Achievement
functions and responsibilities		Financial Intelligence Units	Undertake 1 mutual evaluation per annum	<p><b>Participated in the Mutual Evaluation of United Kingdom and Canada</b></p> <p><b>Participated in 1x ESAAMLG Mutual Evaluation (Seychelles)</b></p> <p><b>Participated in 1x Development Strategy Implementation assessment of Lesotho</b></p> <p><b>Attended 2 General meetings of Esaamlg.</b></p> <p><b>Led the Review of the Secretariat functions for the Esaamlg.</b></p> <p><b>Participated in the following Esaamlg processes:</b></p> <ul style="list-style-type: none"> <li>• Typologies Workshop</li> <li>• Detection of Cross border cash movement training</li> </ul>
	Provide advice to Minister of Finance, Cabinet and government stakeholders	<p>Finalise strategy regarding information sharing internationally and integration of Egmont procedures into FIC operational policies and procedures</p> <p>Comment and provide advice to the Minister on all matters affecting AML/CFT policy and implementation thereof, including documents, reports, draft legislation, cabinet memoranda, etc</p>	<p>Attend tri-annual Egmont meetings and provision of technical assistance and training for two African FIU's</p> <p>Issue briefing notes to the Minister on AML/CFT matters</p>	<p><b>Attended 3 Egmont meetings for:</b></p> <ul style="list-style-type: none"> <li>• Plenary and</li> <li>• 2 Working Group meetings</li> </ul> <p><b>Presented at Interpol Regional Conference and technical assistance to FIU in Zimbabwe</b></p> <p><b>Prepared 18 briefing notes for the Minister</b></p> <p><b>Responded to requests for information for follow-up in particular United Nations designation processes</b></p>
There is an increased awareness of AML/CFT vulnerabilities and threats and need for prevention, in stakeholders and the public	Monitor compliance performance of reporting institutions, supervisory bodies and other bodies (Monitoring, Preventing, Enforcement)	Liaise with Supervisory bodies, providing feedback and conducting training	Provide training to all reporting institutions, supervisory bodies and other bodies	<p><b>Provided training to the following stakeholders:</b></p> <ul style="list-style-type: none"> <li>• 43 Estate Agents</li> <li>• Institute of Auctioneers</li> <li>• Estimated of 210 bookmakers and totalisators and regulators</li> <li>• Presentations to 1,406 estate agents in various provinces</li> </ul>

**PERFORMANCE REPORT FOR THE YEAR ENDED 31 MARCH 2007 - continued**

Objectives	Key Performance Areas	Key Performance Indicators	Target	Achievement
		Conduct on-site visits, compliance reviews and joint inspections	<p>Completion of on-site visit framework end Q2</p> <p>Completion of inspection framework and operations manual end Q4</p> <p>Planned 8 on site visits / compliance reviews</p> <p>Planned 4 joint inspections</p>	<p><b>Draft completed for review</b></p> <p><b>Draft completed for review</b></p> <p><b>On site visits / compliance reviews as follows:</b></p> <ul style="list-style-type: none"> <li>• 6 Accountable institutions accompanied by the Financial Services Board</li> <li>• 42 Stakeholders</li> </ul> <p><b>Participated in the following joint inspections with:</b></p> <ul style="list-style-type: none"> <li>• National Gambling Board – 29 Casino inspections</li> <li>• Estate Agents Affairs Board – 12 Estate Agent inspections and South African Reserve Bank – 15 ADLA inspections</li> </ul>
		Develop FIC Inspectorate	Amend legislation by end Q4	<ul style="list-style-type: none"> <li>• <b>Proposed Bill was published in November 2006 for comments.</b></li> </ul>
	Develop and implement Risk-based compliance framework	Develop policies paper after studying international situation and best practices	Amendments by Q4	<b>Proposed Bill was published in November 2006 for comments.</b>
	Develop and implement Communication and Marketing strategy	Develop Communication and Marketing plan, including public awareness of AML/CFT threats	<p>To develop a communication unit within FIC by Q4 as follows:</p> <ul style="list-style-type: none"> <li>• Appoint 12 Staff members beginning with the head of the unit</li> <li>• Develop a corporate image for the FIC by Q4</li> </ul>	<p><b>Advertised and interviewed for the position of head of communication</b></p> <p><b>Terms of Reference were developed for branding and corporate image by an independent consultant.</b></p>
		Implement C & M strategy	Planned 8 public awareness initiatives	<b>The following notices were made to all relevant low risk customer for the banks</b>

## PERFORMANCE REPORT FOR THE YEAR ENDED 31 MARCH 2007 - continued

Objectives	Key Performance Areas	Key Performance Indicators	Target	Achievement
		Conduct public awareness campaign aimed at preventing AML/CFT		<b>stakeholders:</b> <ul style="list-style-type: none"> <li>• FICA compliance obligations of Estate Agents in both media and EAAB booklet</li> <li>• 30 September deadline for low risk customer for the banks</li> <li>• Fighting crime notice in the media for the general public</li> <li>• Distributed pamphlets to the general public about the FIC</li> <li>• Printed and distributed CAP information business cards</li> <li>• Arranged Radio interviews with the following radio stations:               <ul style="list-style-type: none"> <li>- Thetha FM;</li> <li>- Jozi FM;</li> <li>- East Rand Radio and</li> <li>- Soshanguve Radio</li> </ul>               Discussing the Centre's functions, suspicious transactions and other money laundering issues.             </li> </ul>
Institutions that may be vulnerable to be exploited by criminal or terror networks have a culture of compliance	Implement all financial institutions reporting requirements	Designed systems and procedures for implementation of reporting obligations <ul style="list-style-type: none"> <li>- Cross-border</li> <li>- Electronic funds transfer</li> <li>- Cash threshold reporting</li> </ul>	Approval of FICCITS roadmap by Q4	<b>The new approved FICCITS roadmap</b>
		Liaise closely with relevant stakeholders to ensure reporting	MLAC meet at least once a year as prescribed by FICA	<b>Regular Steering Group Committee meetings for FICCITS projects</b>  <b>Money Laundering Advisory Committee meetings</b>
The combating of AML/CFT relies on the Legal framework (which is robust, relevant and adequate)	Undertake legislative amendments of FICA	Develop issues paper	Publish by Q4	<b>FICA Amendment Bill was published for comments in November 2006</b>
		Consultation process	Consultation completed by Q3	<b>Completed</b>

**PERFORMANCE REPORT FOR THE YEAR ENDED 31 MARCH 2007 - continued**

Objectives	Key Performance Areas	Key Performance Indicators	Target	Achievement
	Undertake strategic research and typologies for risk management and alignment in the sector and in order to impact on policy development and in order to impact on policy development	Develop criteria to enable commissioning of research for policy objectives and provide typologies input	Establish TOR for research by Q2	<b>Process is underway</b>
	Interpretation of Core legislation	Consultation process	Responses to queries as raised by all stakeholders	<b>Responded to queries</b>
The FIC meets and lives up to international obligations, commitments, required of FIC & RSA and SA is a respected member of the International AML/CFT community	Prepare for Mutual Evaluation	Hold workshops with key stakeholder  Receive Mutual Evaluation Questionnaires from all stakeholders	Planned 3 workshops by Q3  Assess completed questionnaires by Q4	<b>Hosted 1 internal workshop within FIC, 1 public sector workshop and 1 private sector workshop</b>  <b>Met individually with different respondents</b>

## **AUDIT COMMITTEE REPORT**

### **Report of the Audit Committee**

We are pleased to present our report for the financial year ended 31 March 2007.

### **Audit Committee Members and attendance**

The Audit Committee consisted of the three non-exucutive members listed hereunder and held one meeting for the financial year under review.

Name of Member	Meetings attended
Mr CD Kneale	1 of 1
Mr B Lengane	1 of 1
Ms N Khumalo	1 of 1

### **Audit Committee responsibility**

The Audit Committee reports that it has complied with its responsibilities arising from section 38(1)(a) of the PFMA and Treasury Regulation 3.1.13. The Audit Committee has adopted an appropriate formal Terms of Reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

### **The effectiveness of internal control**

The Audit Committee confirms that, based on reports from the Auditor-General and the internal Auditors, it believes that the internal controls of the Financial Intelligence Centre are effective.



## Evaluation of Financial Statements

The Audit Committee has:

- a) Reviewed and discussed the audited annual financial statements to be included in the annual report with the Auditor-General and the Accounting Officer;
- b) Reviewed the Auditor-General's management letter and management's response thereto; and
- c) Reviewed accounting policies and practices.



CLIVE D KNEALE

**Chairperson: Audit Committee  
Financial Intelligence Centre**

13 August 2007

## **REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE FINANCIAL INTELLIGENCE CENTRE FOR THE YEAR ENDED 31 MARCH 2007**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the accompanying financial statements of the Financial Intelligence Centre which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes, as set out on pages 67 to 85.

#### **Responsibility of the accounting authority for the financial statements**

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statements and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001) (FIC Act). This responsibility includes:
  - opinion on these financial statements based on my audit.
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error selecting and applying appropriate accounting policies making accounting estimates that are reasonable in the circumstances.

**REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE  
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE  
FINANCIAL INTELLIGENCE CENTRE FOR THE YEAR ENDED 31 MARCH  
2007 - continued**

**Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 15 of the FIC Act, my responsibility is to express an
4. I conducted my audit in accordance with the International Standards on Auditing and General Notices 645, 647 and 648 of 2007, issued in Government Gazette No. 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE FINANCIAL INTELLIGENCE CENTRE FOR THE YEAR ENDED 31 MARCH 2007 - continued**

**Basis of accounting**

8. The Financial Intelligence Centre's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in the accounting policies to the financial statements.

**Opinion**

9. In my opinion the financial statements present fairly, in all material respects, the financial position of the Financial Intelligence Centre as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as set out in the accounting policies to the financial statements, and in the manner required by the PFMA.

**OTHER MATTERS**

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

10. Material non-compliance with applicable legislation

The Strategic Plan does not include a materiality and significance framework as referred to in Treasury Regulation 28.3.1.

**OTHER REPORTING RESPONSIBILITIES**

**Reporting on performance information**

11. I have audited the performance information as set out on pages 54 to 59.

**Responsibilities of the accounting authority**

12. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

**Responsibility of the Auditor-General**

13. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007*.

**REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE FINANCIAL INTELLIGENCE CENTRE FOR THE YEAR ENDED 31 MARCH 2007 - continued**

14. In terms of the foregoing, my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
15. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings.

**Audit findings**

16. The key performance areas reported in this year's annual report do not in all instances agree to those disclosed in the Strategic Plan.

**APPRECIATION**

17. The assistance rendered by the staff of the Financial Intelligence Centre during the audit is sincerely appreciated.



G O Randall *for* Auditor-General

Pretoria

31 July 2007



## ANNUAL FINANCIAL STATEMENTS 31 March 2007

The Annual Financial Statements for the year ended 31 March 2007, set out in pages 67 to 90 have been approved by the Accounting Authority in terms of section 21 (1) of the Public Finance Management Act, No 1 of 1999 on 31 May 2007, and are signed on their behalf by :



Murray Michell – Director



Alice Puoane - CFO

**ANNUAL FINANCIAL STATEMENTS**

**Statement of financial performance for the year ended 31 March 2007**

	Note	2007 R'000	2006 R'000
<b>Revenue</b>		<b>350</b>	<b>23 817</b>
Parliamentary allocation	1	-	23 617
Other Income	2	350	200
<b>Expenses</b>		<b>44 878</b>	<b>32 583</b>
Amortisation	6	323	263
Audit Committee Members fees	5	33	-
Depreciation	7	955	1 220
Other operating costs	3	21 875	14 432
Staff costs	4	21 692	16 668
<b>Deficit from operations</b>		<b>(44 528)</b>	<b>(8 766)</b>
Interest received		4 227	4 869
Profit / (Loss) on forex		(20)	(1)
<b>Net deficit for the year</b>		<b>(40 321)</b>	<b>(3 898)</b>



**ANNUAL FINANCIAL STATEMENTS**  
**Statement of financial position as at 31 March 2007**

	Note	2007 R'000	2006 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>5 652</b>	<b>3 112</b>
Intangible assets	6	2 760	214
Property, plant and equipment	7	2 892	2 898
<b>Current assets</b>		<b>32 345</b>	<b>72 060</b>
Accounts Receivables	8	176	113
Prepayments	9	402	124
Cash and cash equivalents	10	31 767	71 823
<b>TOTAL ASSETS</b>		<b>37 997</b>	<b>75 172</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>		<b>5 476</b>	<b>2 330</b>
Accounts payable	11	3 080	643
Provisions	12	2 396	1 687
<b>TOTAL LIABILITIES</b>		<b>5 476</b>	<b>2 330</b>
<b>NET ASSETS</b>		<b>32 521</b>	<b>72 842</b>
Accumulated surplus		32 521	72 842

**ANNUAL FINANCIAL STATEMENTS**

**Statement of changes in net assets for the year ended 31 March 2007**

	<b>Accumulated Surplus R'000</b>
<b>Balance at 31 March 2005</b>	<b>76 740</b>
Net deficit for the year 2006	<u>(3 898)</u>
<b>Balance at 31 March 2006</b>	<b>72 842</b>
Net deficit for the year 2007	<u>(40 321)</u>
<b>Balance at 31 March 2007</b>	<b><u>32 521</u></b>

**ANNUAL FINANCIAL STATEMENTS**  
**Cash Flow Statement for the year ended 31 March 2007**

<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>Note</b>	<b>2007 R'000</b>	<b>2006 R'000</b>
Cash receipts		5	24 325
Cash paid to suppliers and employees		(40 456)	(31 353)
<b>Cash utilised in operations</b>	<b>14</b>	<b>(40 451)</b>	<b>(7 028)</b>
Interest received		4 227	4 869
<b>Net cash outflow from operating activities</b>		<b>(36 224)</b>	<b>(2 159)</b>
<b>CASH UTILISED IN INVESTING ACTIVITIES</b>			
Additions to intangible assets	<b>6</b>	(2 869)	(89)
Additions to property, plant and equipment	<b>7</b>	(963)	(2 698)
<b>Net cash outflow from investing activities</b>		<b>(3 832)</b>	<b>(2 787)</b>
<b>Net decrease in cash and cash equivalent</b>		<b>(40 056)</b>	<b>(4 946)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>71 823</b>	<b>76 769</b>
<b>Cash and cash equivalents at end of year</b>	<b>10</b>	<b>31 767</b>	<b>71 823</b>

## ANNUAL FINANCIAL STATEMENTS

Accounting policies to the Annual Financial Statements for the year ended 31 March 2007

### BASIS OF PREPARATION

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP)

#### Standard of GRAP

GRAP 1: Presentation of financial statements  
 GRAP 2: Cash flow statements  
 GRAP3: Accounting policies, changes in accounting estimates and errors

#### Replaced Statement of GAAP

AC101: Presentation of financial statements  
 AC118: Cash Flow Statements  
 AC103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in the items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following changes in the presentation of the financial statements:

#### 1. Terminology differences:

##### Standard of GRAP

Statement of financial performance  
 Statement of financial position  
 Statement of changes in net assets  
 Net assets  
 Surplus/deficit  
 Accumulated surplus/deficit  
 Contributions from owners  
 Distributions to owners

##### Replaced Statement of GAAP

Income statement  
 Balance Sheet  
 Statement of changes in equity  
 Equity  
 Profit/loss  
 Retained earnings  
 Share capital  
 Dividends

2. The cash flow statement can only be prepared in accordance with the direct method.
3. Specific information has been presented separately on the statement of financial position such as:
  - a. Receivables from non-exchange transactions, including taxes and transfers;
  - b. Taxes and transfers payable;
  - c. Trade and other payables from non-exchange transactions;

## **ANNUAL FINANCIAL STATEMENTS**

### **Accounting policies to the Annual Financial Statements for the year ended 31 March 2007 - continued**

4. Amount and nature of any restrictions on cash balances is required.

Paragraph 11 – 15 of GRAP 1 has not been implemented due to the fact that the budget reporting standard has not been developed by the local standard setter and the international standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

Revenue is recognised on an accrual basis and represents the amounts received and receivable by the FIC. Initial recognition of revenue does not include uncollectible amounts in the estimate.

In terms of section 14 of the Financial Intelligence Centre Act, 2001 (Act no 38 of 2001), FIC will be funded by:

- Money appropriated annually by Parliament;
- Government grants; and
- Legally acquired donations approved by the Minister of Finance.

## **FINANCIAL INSTRUMENTS**

The financial instruments recognised in the statement of financial position consist of cash at bank and cash equivalents, accounts receivable and accounts payable.

### **Initial recognition**

Financial instruments are recognised in the statement of financial position when the FIC becomes a party to the contractual provisions of a financial instrument.

### **Initial measurement**

Financial instruments are initially recognised at fair value.

### **Subsequent measurement**

Subsequent to initial measurement, financial instruments are measured at fair value according to the following classifications:

- Cash and cash equivalents are measured at fair value;

## **ANNUAL FINANCIAL STATEMENTS**

### **Accounting policies to the Annual Financial Statements for the year ended 31 March 2007 - continued**

- A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate, and
- Accounts payable are subject to normal trade credit terms and relatively short payment cycle.

## **LEASES**

Leases are classified as operating leases where substantially all the risks and rewards of ownership are not transferred to the lessee and, therefore remain with the lessor. Operating lease expenses are charged against surplus on a straight line basis over the term of the lease.

## **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life. The review of the estimated useful life is performed annually both internally and externally. The estimated useful lives are as follows:

- |                       |             |
|-----------------------|-------------|
| - Computer equipment  | 3 - 4 years |
| - Furniture           | 6 years     |
| - Office equipment    | 5 years     |
| - Fixtures & fittings | 5 - 6 years |

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining the operating profit.



## **ANNUAL FINANCIAL STATEMENTS**

### **Accounting policies to the Annual Financial Statements for the year ended 31 March 2007 - continued**

The FIC recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred, if it is probable that additional future economic benefits embodied within the part will flow to the company and the cost of such item can be measured reliably. All other costs are recognised in the income statement as an expense when incurred.

At each financial position date, the FIC reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount of property, plant and equipment is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately

## **ANNUAL FINANCIAL STATEMENTS**

### **Accounting policies to the Annual Financial Statements for the year ended 31 March 2007 -continued**

#### **INTANGIBLE ASSETS**

Intangible assets comprise of identifiable, non-monetary assets without assets physical substance. An intangible asset is recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. After initial recognition, intangible assets shall be carried at their respective costs less any accumulated amortization and any accumulated impairment losses.

The review of the estimated useful life is performed annually both internally and externally. Amortisation is calculated on a straight line basis to allocate the depreciable amount of the intangible assets on a systematic basis over the useful life. The estimated useful life is as follows:

- Computer software and development 2 - 3 years

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expenses as incurred

#### **TAXATION**

The Financial Intelligence Centre is exempt from income tax in terms of provisions of section 10(1)(cA)(I) of the Income Tax Act.

#### **REVENUE RECOGNITION**

##### **Income**

Revenue is recognised on an accrual basis and represents the amounts received and receivable by the FIC. Initial recognition of revenue does not include uncollectible amounts in the estimate.

In terms of section 14 of the Financial Intelligence Centre Act, 2001 (Act No 38 of 2001), FIC will be funded by:

- Money appropriated annually by Parliament;
- Government grants; and
- Legally acquired donations approved by the Minister of Finance.

For the year ending 31 March 2007, the Financial Intelligence Centre received no Parliamentary allocation, which resulted in a reported net deficit of R40 321. National Treasury deemed that the surplus funds of R32 521 (2006: R72 842), which relates to Parliamentary allocation of prior years, should be utilised before more funds are allocated.

## **ANNUAL FINANCIAL STATEMENTS**

### **Accounting policies to the Annual Financial Statements for the year ended 31 March 2007 -continued**

An agreement was reached with the National Treasury that the FIC should exhaust the accumulated surplus before any other additional funds can be transferred, and this was effected on 01 April 2006. Therefore no funds were allocated to the Financial Intelligence Centre during the current year.

#### **Interest income**

Interest is recognised on a time proportion basis as it accrues, unless collectability is in doubt.

#### **EMPLOYEE BENEFITS**

##### **Short term employee benefits**

The cost of short term employee benefits is recognised during the period in which the employee renders the related service. The provisions for employee entitlements to salaries, performance bonuses and annual leave represent the amounts that the Centre has a present obligation to pay as a result of services provided by employees. The provision has been calculated at undiscounted amounts based on the current salary rates.

##### **Termination of benefits**

Termination benefits are recognised as an expense when the FIC is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the FIC has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be reliably be estimated.

##### **Retirement benefit**

The FIC contributes to a defined contribution fund in respect of employment services, the contributions are recognised in the staff costs in the year to which they relate.

#### **ACCUMULATED SURPLUS**

The FIC is allocated an annual budget by Parliament to fund its activities as defined by the Financial Intelligence Centre Act. It has to apply for retention of its surplus from the National Treasury.

#### **CASH AND CASH EQUIVALENTS**

Cash includes cash on hand and cash with banks. For the purposes of cash flow statement, cash and cash equivalents comprise cash on hand and cash held in the bank.

## **ANNUAL FINANCIAL STATEMENTS**

### **Accounting policies to the Annual Financial Statements for the year ended 31 March 2007 -continued**

#### **PROVISIONS**

Provisions are recognised when the FIC has a present legal or constructive obligation as result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### **FOREIGN CURRENCY TRANSACTIONS**

Transactions in foreign currencies are converted into the South African rands at the rate of exchange ruling at the date of such transaction. Balances outstanding on the foreign currency monetary items at the end of the financial year are translated to South African rands at the rates ruling at that date.

Exchange gains and losses on settlement of foreign currency monetary liabilities during the period are recognised in the statement of financial performance.

#### **GOING CONCERN.**

For the year ending 31 March 2007, the Financial Intelligence Centre received no Parliamentary allocation, which resulted in a reported net deficit of R40 321. National Treasury deemed that the surplus funds of R32 521 (2006: R72 842), which relates to Parliamentary allocation of prior years, should be utilised before more funds are allocated. An agreement was reached with the National Treasury that the FIC should exhaust the accumulated surplus before any other additional funds can be transferred, and this was effected on 01 April 2006. Therefore no funds were allocated to the Financial Intelligence Centre during the current year.

There is no indication that the Financial Intelligence Centre will not receive the necessary Parliamentary allocation, and therefore the Annual Financial Statements have been prepared in accordance with accounting policies applicable to going concern.

#### **COMPARATIVES**

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

**ANNUAL FINANCIAL STATEMENTS**  
**Notes to the Annual Financial Statements for the year ended**  
**31 March 2007**

	2007 R'000	2006 R'000
<b>1. PARLIAMENTARY ALLOCATION</b>		
Parliamentary allocation	<u>-</u>	<u>23 617</u>
Parliament allocates an amount to the Financial Intelligence Centre in terms of an approved budget submission.		
<b>2. OTHER INCOME</b>		
Recoveries	<u>350</u>	<u>200</u>
<b>3. OTHER OPERATING COSTS</b>		
Administration fees	113	125
Audit fees	772	302
- External	582	302
- Internal	190	-
Advertising	25	159
Advisory services	2	7
Bank charges	34	34
Cleaning expenses	13	9
Computer costs	2 684	2 064
Conferences	70	64
Courier & postage	29	6
FATF Presidency	-	1 389
FIC Academy	338	-
Office consumable and refreshments	359	232
Printing & stationery	210	226
Insurance	264	86
Lease costs	436	107
Loss on disposal	12	-
Legal fees	-	10
Media, subscriptions and library	815	583
Membership fees	258	195
Public Awareness	999	1 029
Professional fees	<u>6 648</u>	<u>1 544</u>
<b>Balance c/fwd</b>	<b>14 081</b>	<b>8 171</b>

## ANNUAL FINANCIAL STATEMENTS

### Notes to the Annual Financial Statements for the year ended 31 March 2007 - continued

	2007 R'000	2006 R'000
<b>Balance b/fwd</b>	<b>14 081</b>	<b>8 171</b>
Rent paid	388	332
Research costs	-	236
RSC Levies	18	47
Recruitment & placement cost	461	586
Telephones, fax and internet	640	418
Subsistence and accommodation - local	222	313
Subsistence and accommodation - overseas	770	583
Travel – local	1 016	754
Travel - international	2 300	1 732
Staff training	1 415	683
Workshop	61	21
Written off small assets	7	25
Parking – staff	165	16
Redeployment costs	211	223
Refurbishment costs	-	149
Repairs & maintenance	44	108
Water & electricity	76	35
	<b><u>21 875</u></b>	<b><u>14 432</u></b>
<b>4. STAFF COSTS</b>		
Salary costs	17 529	13 428
Bonus performance	1 377	1 332
Group life	282	204
Medical aid contributions	857	547
Provident fund	1 549	1 107
Unemployment Insurance Fund	77	50
Workmen Compensation	21	-
	<b><u>21 692</u></b>	<b><u>16 668</u></b>
<b>5. AUDIT COMMITTEE MEMBERS FEES</b>		
Chairperson: C Kneale	15	-
Other members: B Lengane	10	-
N Khumalo	8	-
	<b><u>33</u></b>	<b><u>-</u></b>



**ANNUAL FINANCIAL STATEMENTS**  
**Notes to the Annual Financial Statements for the year ended**  
**31 March 2007 - continued**

	<b>2007</b>	<b>2006</b>
	<b>R'000</b>	<b>R'000</b>
<b>6. INTANGIBLE ASSETS</b>		
<b>31 March 2007</b>		
Net carrying value - opening	214	388
Cost – opening	557	468
Accumulated amortisation - opening	(343)	(80)
Additions	2 869	89
Amortisation	(323)	(263)
Net carrying value - closing	2 760	214
Cost – closing	3 426	557
Accumulated amortisation - closing	(666)	(343)

**Change in estimate of useful life**

During the year ended 31 March 2007 the company conducted a review of the useful life of its equipment, which resulted in changes in the expected usage of certain items of Intangible assets. Computer software, which management intended to use for two years, is now expected to be used for a period of three years from the date of purchase. As a result the expected useful life of these assets increased. The effect of these changes on amortisation expense, in the current and future periods is as follows:

	<b>2007</b>
	<b>R'000</b>
Decrease in amortisation expense:	199

## ANNUAL FINANCIAL STATEMENTS

### Notes to the Annual Financial Statements for the year ended 31 March 2007 - continued

#### 7. PROPERTY, PLANT AND EQUIPMENT

	Computer Hardware	Office Equipment	Fixtures & Fittings	Furniture	Total
	R'000	R'000	R'000	R'000	R'000
<b>31 March 2007</b>					
Cost – opening	2 391	973	1 279	481	5 124
Accumulated depreciation - opening	(1 726)	(218)	(220)	(62)	(2 226)
Net carrying value - opening	665	755	1 059	419	2 898
Additions	705	167	88	-	960
Reallocation – cost	6	(3)	-	-	3
Reallocation – accumulated depreciation	(2)	(2)	-	-	(4)
Cost – disposal	(487)	(2)	-	-	(489)
Accumulated depreciation - disposal	478	1	-	-	479
Disposal - carrying value	(9)	(1)	-	-	(10)
Depreciation	(449)	(207)	(223)	(76)	(955)
Cost – closing	2 615	1 135	1 367	481	5 598
Accumulated depreciation - closing	(1 699)	(426)	(443)	(138)	(2 706)
<b>Net carrying value - closing</b>	<b>916</b>	<b>709</b>	<b>924</b>	<b>343</b>	<b>2 892</b>
<b>31 March 2006</b>					
Cost – opening	1 985	508	73	-	2 556
Accumulated depreciation - opening	(1 091)	(54)	(1)	-	(1 146)
Net carrying value - opening	894	454	72	-	1 420
Additions	546	465	1 206	481	2 698
Cost – disposal	(140)	-	-	-	(140)
Accumulated depreciation - disposal	140	-	-	-	140
Net carrying value - opening	-	-	-	-	-
Depreciation	(775)	(164)	(219)	(62)	(1 220)
Cost – closing	2 391	973	1 279	481	5 124
Accumulated depreciation - closing	(1 726)	(218)	(220)	(62)	(2 226)
<b>Net carrying value - closing</b>	<b>665</b>	<b>755</b>	<b>1 059</b>	<b>419</b>	<b>2 898</b>

Reallocations are due to corrections of prior year classification errors, removing printers from office equipment and printing and stationery to the correct classification of computer hardware.

**ANNUAL FINANCIAL STATEMENTS**  
**Notes to the Annual Financial Statements for the year ended**  
**31 March 2007 - continued**

	2007 R'000	2006 R'000
<b>8. ACCOUNTS RECEIVABLE</b>		
Interest receivable	21	29
Staff debtors	-	5
Deposits	47	18
Salary Related Debtors	13	20
Sundry Debtors	95	41
	<u>176</u>	<u>113</u>
<b>9. PREPAYMENTS</b>		
Subscriptions	388	22
Insurance	-	52
Membership fees	14	50
	<u>402</u>	<u>124</u>
<b>10. CASH AND CASH EQUIVALENTS</b>		
Cash at bank	4 764	2 998
Cash on deposit	27 002	68 823
Cash on hand	1	2
	<u>31 767</u>	<u>71 823</u>
<p>For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and cash held in the banks. The effective interest rates on cash at bank were between 6 % and 8%.</p>		
<b>11. ACCOUNTS PAYABLE</b>		
Accruals	2 396	637
Salary related accruals	650	6
Board Member fees	33	-
	<u>3 079</u>	<u>643</u>

**ANNUAL FINANCIAL STATEMENTS**  
**Notes to the Annual Financial Statements for the year ended**  
**31 March 2007 - continued**

	<b>2007</b>	<b>2006</b>
	<b>R'000</b>	<b>R'000</b>
<b>12. PROVISIONS</b>		
<b>Provision for Leave</b>		
An obligation might arise if an employee is retrenched, dismissed or resigns subsequent to year end due to annual leave days accruing at reporting date to employees at BCEA rates. The discounted amount of this provision is R840,000.		
<b>Provision for Performance Bonus</b>		
A legal obligation arises subsequent to the annual performance appraisal of employees in accordance with the FIC's approved performance management policy. The appraisals are carried out during the last quarter of the financial year. The discounted amount of this provision is R1,410,000.		
Provision for Leave	895	355
Opening balance	355	89
Movement in provision	540	266
Provision for performance bonuses	1 502	1 332
	<b>2 397</b>	<b>1 687</b>
<b>13 RETIREMENT BENEFITS</b>		
Employees of the FIC are members of Liberty Life Umbrella Provident fund. This fund is a defined contribution fund and it is governed by the Pension Fund Act, 1956 as amended. The contribution rate by the employer is 11.25% (2006:11.25%) and is calculated on retirement funding income.		
Provident Fund contributions	1 549	1 107
<b>14. RECONCILIATION OF SURPLUS TO CASH GENERATED BY OPERATIONS</b>		
<b>Deficit for the year</b>	<b>(40 321)</b>	<b>(3 898)</b>
Adjustments for:		
Amortisation	323	263
Depreciation	955	1 220
Correction of depreciation	4	-
Leave provision	540	266
Interest received	(4 227)	(4 869)
Loss on disposal	10	-
<b>Operating deficit before working capital changes</b>	<b>(42 716)</b>	<b>(7 018)</b>
<b>Working capital changes:</b>		
(Increase) / decrease in accounts receivable	(341)	508
Increase /(decrease) in accounts payable	2 606	(518)
<b>Cash utilised in operations</b>	<b>(40 451)</b>	<b>7 028</b>

**ANNUAL FINANCIAL STATEMENTS**  
**Notes to the Annual Financial Statements for the year ended**  
**31 March 2007 - continued**

	2007 R'000	2006 R'000
<b>15. OPERATING LEASE</b>		
Not later than one year	248	76
Later than one year and not later than five years	263	60
	<u>511</u>	<u>136</u>

The operating lease expenses are the following:

**Photocopy equipment 1 – Minolta EP6001:**

The operating lease is the rental of photocopying equipment. The lease agreement was entered into effective 1 August 2003 and was estimated to be operational for a period of three years, expiring on 30 April 2005. Thereafter this agreement will remain in force for further 12 (twelve) month period unless terminated by either party giving the other not less than 30 (thirty) days written notice by registered post. The lease contract was not renewed and runs on a month to month basis.

**Photocopy equipment 2 – Konica Bizhub 600:**

The operating lease is the rental of photocopy equipment. This agreement commenced on 30 November 2006, which was a replacement of one with an expiry date of 31 May 2007. The duration of the contract is 36(thirty six) months ending 30 November 2009.

**Photocopy equipment 3 - Konica Minolta DI552:**

The operating lease is the rental of photocopy equipment. The lease agreement was entered to effective 15 June 2005 and will be operational for a period of three years, expiring 15 June 2008. Thereafter shall continue for a further period of one year subject to six months written notice, which notice shall expire at the end of the original term or at the end of any subsequent anniversary of the original term. The remaining contract period is 14(fourteen) months.

**Photocopy equipment 3 – 2 x Konica Bizhub C450:**

The operating lease is the rental of photocopy equipment. This agreement commenced on 30 November 2006, with a duration of is 36(thirty six) months ending 30 November 2009. The remaining contract period is 32 (thirty two) months.

**16. ACCUMULATED SURPLUS**

Approval to retain the accumulated surplus for the financial year ended 31 March 2005 was received on 28 March 2006 from National Treasury for the amount of R76 million.

**ANNUAL FINANCIAL STATEMENTS**  
**Notes to the Annual Financial Statements for the year ended**  
**31 March 2007 - continued**

**17. RELATED PARTY TRANSACTIONS**

During the year under review the FIC entered into various transactions with related parties.

	<b>Transactions R'000 2007</b>	<b>Transactions R'000 2006</b>
<b>1. State Controlled Entities</b>		
<b>Receiving Services</b>	<b>244</b>	<b>222</b>
Telkom	244	222
<b>Leases</b>	<b>464</b>	<b>332</b>
SARS	464	332
<b>2. Key Management Personnel</b>		
<b>Total Cost to Company</b>	<b>6 117</b>	<b>3 820</b>
Cost to Company: Director	896	793
Cost to Company: Managers	5 221	3 027



**FINANCIAL INTELLIGENCE CENTRE (FIC)  
MATERIALITY AND SIGNIFICANT FRAMEWORK  
31 March 2007**

**1. BACKGROUND**

This document was developed to give effect to the May 2002 amendment to the Treasury Regulations, whereby the following new requirement was placed on public entities:

Section 28.1.5 –

*“For purposes of material [sections 50(1), 55(2) and 66(1) of the Public Finance Management Act (PFMA)] and significant [section 54(2) of the PFMA], the accounting authority must develop and agree a framework of acceptable levels of materiality and significance with the relevant executive authority.”*

SAAS 320.03 defines materiality as follows:

*“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point, rather than being a primary qualitative characteristic which information must have if it is to be useful.”*

Accordingly, we will be dealing with this framework under two main categories, being quantitative and qualitative aspects. The policy set out hereunder will be appropriately presented in the annual report as required.

**2. QUANTITATIVE ASPECTS**

**2.1 MATERIALITY LEVEL**

We have assessed the level of a material loss as R44 878.00 being 0.1% of the expenditure.

Different levels of materiality can be set for different classes of transactions. We have however taken the approach of setting a relatively conservative materiality level that will be used for all classes of transactions.

In determining the said materiality value we also took cognisance of the following factors:

**2.1.1 Nature of the FIC’s business**

FIC is four years in existence as at period under review and has evolved to such an extent that it is no longer revenue driven but currently operational cost driven. Thus the materiality value was based on expenditure.

**2.1.2 The Supply Chain Management prescripts**

**Statutory requirements**

The FIC is a statutory body that has been formed to give effect to the Financial Intelligence Centre Act, and has been listed as a Public Finance Management Act (PFMA) Schedule 3A public entity. We accordingly decided to give preference to a relatively low level of materiality due to it being so closely governed by various acts and the public accountability and responsibility it has to stakeholders.

**FINANCIAL INTELLIGENCE CENTRE (FIC)  
MATERIALITY AND SIGNIFICANT FRAMEWORK  
31 March 2007  
- continued**

In assessing the control, risk of the FIC, and concluding a low materiality level at 0.1% cognisance was given to the following factors:

- The Director and the CFO are still closely involved in the day to day operations of the FIC, authorise, and approve all purchases and payments,
- The function of financial management and procurement is both carried out by internal permanent staff members and consultants from reputable firms.

**1. QUALITATIVE ASPECTS**

Items or transactions may be material not due to the amounts involved, but on qualitative grounds. These qualitative grounds may include amongst other the following:

- Any new ventures that the FIC may enter into.
- Unusual transactions entered into that are not of a repetitive nature and are disclosable purely due to the nature thereof due to knowledge thereof affecting the decision making of the user of the financial statements.
- Transactions entered into that could result in reputational risk to the FIC.
- Any fraudulent or dishonest behavior of an officer or staff of the FIC at senior or management level.

**FINANCIAL INTELLIGENCE CENTRE (FIC)  
MATERIALITY AND SIGNIFICANT FRAMEWORK  
31 March 2007  
- continued**

**4. APPLICATION OF THE FIC MATERIALITY FRAMEWORK TO THE PFMA**

Procedures/processes required by legislation or regulation (e.g. PFMA and the Treasury Regulations). The table below indicates the FIC's application of materiality on the relevant sections of the PFMA.

**STATUTORY APPLICATION OF THE MATERIALITY FRAMEWORK**

PFMA SECTION	QUANTITATIVE ASPECTS	QUALITATIVE ASPECTS
<p><b>Section 50 (1)</b> The accounting authority for a public entity must –</p> <ul style="list-style-type: none"> <li>on request, disclose to the executive authority responsible for that public entity or the legislature to which the public entity is accountable, all material facts, including those reasonably discoverable, which in any way influence the decision or actions of the executive authority or that legislature; and</li> </ul> <p><b>Section 55</b> Annual report and financial statements The annual report and financial statements referred to in subsection (1)(d) must–</p> <ul style="list-style-type: none"> <li>fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;</li> <li>Include particulars of any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year.</li> <li>Any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure;</li> </ul>	<p>Any facts discovered which in aggregate exceed the materiality figure, which will be calculated on a yearly basis in terms of paragraph 2.1.</p> <p>Losses through criminal conduct – all losses that are legally confirmed and if the amount exceeds the materiality level.</p> <p>Losses through irregular/fruitless /wasteful expenditure where transactions/actions are legally confirmed – if the amount exceeds the materiality level as determined in section 2.1.</p>	<p>Any item or event of which specific disclosure is required by Law.</p> <p>Any facts discovered by which its omission or misstatement, in the opinion of FIC, could influence the decisions or actions of the executive authority or legislature.</p> <p>The following will be taken into account in measuring materiality for presentation: Disclosure requirements, Compliance with legislative requirements, regulations and policies, Possible unauthorized expenditure that must be listed and reported.</p>

**FINANCIAL INTELLIGENCE CENTRE (FIC)  
 MATERIALITY AND SIGNIFICANT FRAMEWORK  
 31 March 2007  
 - continued**

PFMA SECTION	QUANTITATIVE ASPECTS	QUALITATIVE ASPECTS
<p><b>Section 66 (1)</b>            Restrictions on borrowing, guarantees and other commitments</p> <p>1) An institution to which this Act applies may not borrow money or issue a guarantee, indemnity or security, or enter into any other transaction that binds or may bind that institution or the Revenue Fund to any future financial commitment, unless such borrowing, guarantee, indemnity, security or other transaction- is authorised by this Act, and in the case of public entities, is also authorised by other legislation not in conflict with this Act</p>	<p>All transactions not in compliance with S66 (1).</p>	
<p><b>Section 54</b>            Information to be submitted by accounting authorities</p> <p>Before a public entity concludes any of the following transactions, the accounting authority for the public entity must promptly and in writing inform the relevant treasury of the transaction and submit relevant particulars of the transaction to its executive authority for approval of the transaction:</p> <p>establishment or participation in the establishment of a company</p> <p>participation in a significant partnership, trust, unincorporated joint venture or similar arrangement;</p>	<p>Any establishment or participation in the establishment of a company, irrespective of the amount</p> <p>Any partnership, trust, unincorporated venture or similar arrangement, irrespective of amount</p>	

**FINANCIAL INTELLIGENCE CENTRE (FIC)  
MATERIALITY AND SIGNIFICANT FRAMEWORK  
31 March 2007**

- continued

PFMA SECTION	QUANTITATIVE ASPECTS	QUALITATIVE ASPECTS
acquisition or disposal of a significant shareholding in a company;	Any acquisition or disposal of shareholding, irrespective of amount.	
acquisition or disposal of a significant asset;	Asset acquisition or disposals that exceed R10 million in value.	
Commencement or cessation of a significant business activity.	Any commencement or cessation of significant activity, irrespective of amount.	









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**REPUBLIC OF SOUTH AFRICA**