



Financial
Intelligence Centre

FIC 2018/19 ANNUAL REPORT

16 October 2019

Areas covered

- Background on the FIC – mandate, role and function
- Financial overview
- Strategic outcomes
- Domestic and regional partnerships
- Tools, measures and processes available
- Looking ahead

Overview



Financial
Intelligence Centre

- Established to administer the Financial Intelligence Centre Act, 2001 (Act 38 of 2001)

- Started in February 2003; received first suspicious and unusual transaction report (STR) in same year

- Only entity authorised to receive and analyse suspicious and unusual transaction reports

- South Africa's national centre for gathering of transaction data and providing financial intelligence

- Unqualified audit by the Auditor-General of South Africa

- Funded from the National Budget, reports to the Minister of Finance and is accountable to Parliament

Operationalising FIC: Structure and resourcing



185

PERMANENT
STAFF

22
Support

163
Other

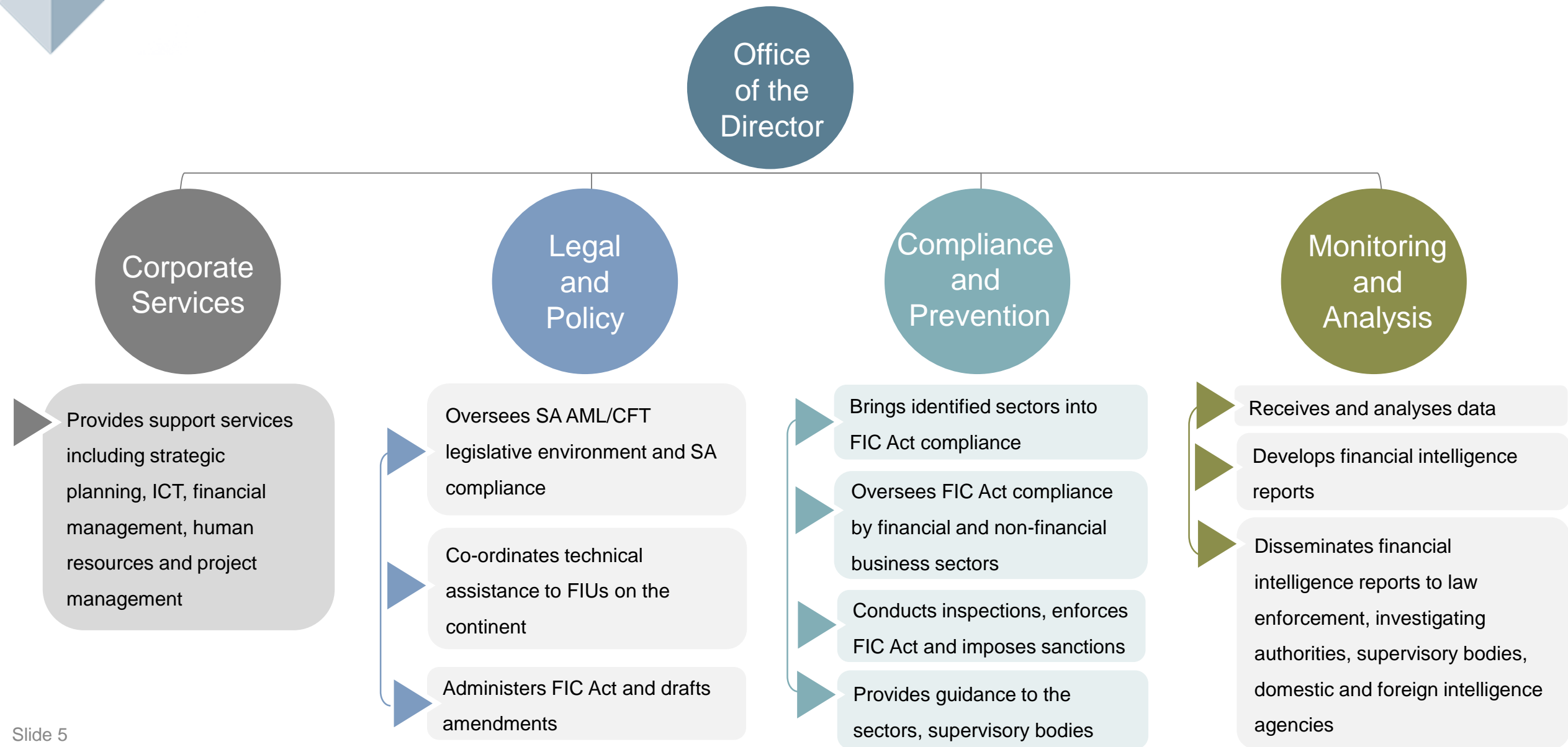


56%
FEMALES



44%
MALES

Operationalising FIC



STRATEGIC OUTCOME 1:

Improving collection of information and the enforcement of compliance with the FIC Act

1

Provides guidance to accountable and reporting institutions, monitors supervision by supervisory bodies, focuses on improving compliance with the FIC Act

Information gathering and reporting
Risk-based approach to compliance management and oversight

Administration

STRATEGIC OUTCOME 2:

Increased utilisation of FIC products and services

2



Provides unique services that entail assessment, analysis and interpretation of financial information to support law enforcement in their investigation, prosecutorial and forfeiture efforts

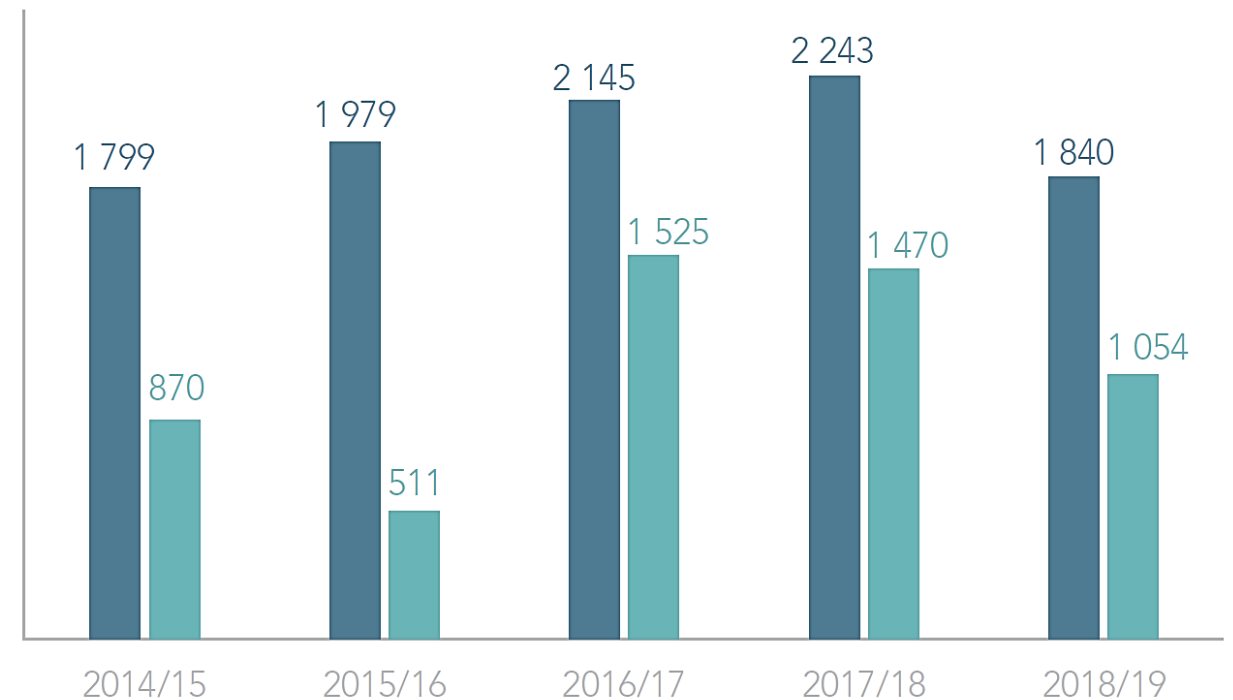
These services are performed to support efforts in the identification of the proceeds of crime, combating of money laundering and terrorist financing

This involves gathering and receiving information domestically and internationally through a network of information sources

Tools, measures and processes available to effect FIC's deliverables (cont.)

Financial intelligence reports

- **STRs fundamental** to FIC's analysis work and production of financial intelligence reports
- **1 840** produced upon **request** for information
- **1 054 proactively** disseminated to law enforcement, prosecutorial authorities, police service, investigative authorities and other competent authorities
- **Training** on use of financial intelligence reports



Financial intelligence requests and referrals, 2014/15 – 2018/19

STRATEGIC OUTCOME 3:

Promote national interest in maintaining the integrity of South Africa's financial system

3

This sub-programme administers the FIC Act and provides advice on matters of a strategic nature concerning money laundering and terrorist financing.

It also engages with international and regional inter-governmental bodies on behalf of South Africa, which formulate and promote policies on combating money laundering and terrorist financing, and set standards on these matters for countries.



STRATEGIC OUTCOME 4:

Improve and maintain good corporate governance for a sustainable operating environment


4



This programme covers internal units that enable the efficient, effective and economical functioning of the FIC's service delivery processes.

The enablement functional units are co-ordinated through the Corporate Services division but, are distinct from Administration.

The former provides delivery-related support while the latter provides overall organisational support.



Domestic, international and financial intelligence unit partnerships

DOMESTIC PARTNERSHIPS

MoUs signed with
SARB, SIU, SSA, SAFPS, PP,
FSCA, NPA, ICB, SARS

GLOBAL FOOTPRINT

Signed information exchange agreements with
Hong Kong and Qatar – bringing to 91 the
number of such agreements across the globe

INTERNATIONAL ENGAGEMENTS

- Lead South Africa's delegations to Financial Action Task Force and Eastern and Southern Africa Anti-Money Laundering Group
- Member of Egmont Group of Financial Intelligence Units

Tools, measures and processes available to effect FIC's deliverables

Obligations of Schedule 1 entities in terms of FIC Act

SCHEDULE 1

Financial and non-financial institutions
– banks, estate agents, gambling
institutions, lawyers, dealers in foreign
exchange etc.

OBLIGATION

- Register with the FIC
- Client identification and verification*
- Risk management and compliance programme*
- Record keeping
- Compliance officer
- Employee training on FIC Act responsibilities
- Regulatory reporting – CTR, STR, TPR

**Entities are required to apply a risk-based approach with the implementation of these compliance obligations.*

Tools, measures and processes available to effect FIC's deliverables (cont.)

Obligations of Schedule 2 and Schedule 3 entities in terms of FIC Act

SCHEDULE 2

Supervisory bodies including: South African Reserve Bank, Financial Sector Conduct Authority, Estate Agency Affairs Board, National Gambling Board, Legal Practitioners Council etc.

OBLIGATION

- FIC Act compliance inspections of sectors under their purview e.g. banks supervised by the South African Reserve Bank; lawyers supervised by the Legal Practitioners Council; estate agents supervised by Estate Agency Affairs Board etc.

SCHEDULE 3

Reporting institutions – motor vehicle dealers, Kruger rand dealers

OBLIGATION

- Register with the FIC
- Client identification and verification
- Regulatory reporting – CTR, STR

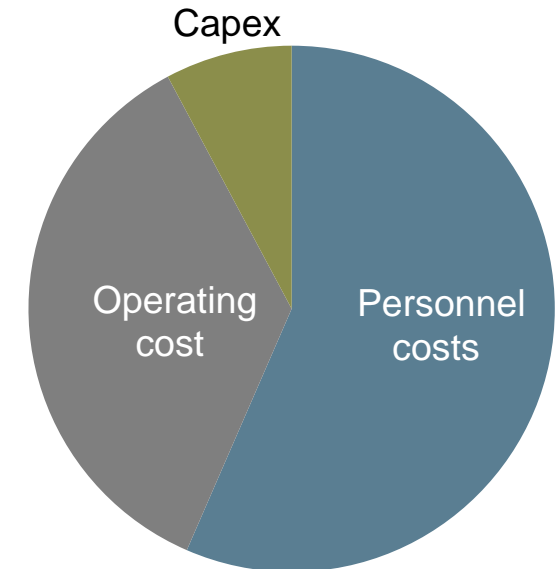
Tools, measures and processes available to effect FIC's deliverables (cont.)

SECTION 34	SECTION 27A	SECTION 35
<ul style="list-style-type: none">• Power to block funds suspected to be proceeds of crime• Authority to instruct institution not to proceed with a transaction for a period of 10 days• In interim, FIC can make inquiries regarding the transaction and where necessary can inform NDPP• Can share information with AFU, which can seize and take control of the funds if necessary – AFU seized R2.14 billion in 2018/19 as a result of FIC assistance• The FIC blocked more than R53.6 million as proceeds of crime	<ul style="list-style-type: none">• Introduced in the FIC Act's 2017 amendments• On authority of a warrant issued by a magistrate or judge• Authorises FIC to access any records, including financial records, kept by or on behalf of an accountable institution• AFU can use this as evidence• 16 successful section 27A warrants in 2018/19	<ul style="list-style-type: none">• Allows the FIC to approach a judge in chambers to obtain permission, to order an accountable institution to report to the FIC on transactions of clients suspected of money laundering or terrorist financing.• This is to expedite access to information by the FIC on suspected proceeds of crime, money laundering or terrorist financing

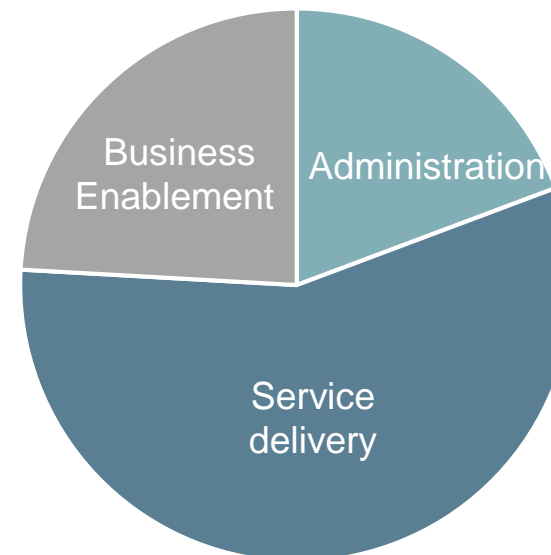
Financial overview 2018/19

ITEM	AMOUNT R'000
REVENUE	284 552
TOTAL EXPENDITURE	284 451
Total cost	262 261
Personnel costs	160 781
Operating cost	101 480
Capex	22 190
TOTAL COST PER BUDGET PROGRAMME	262 261
Administration	50 588
Service Delivery	148 448
Business Enablement	63 225

ANALYSIS OF EXPENDITURE



SPEND PER BUDGET PROGRAMME





Audit outcomes 2018/19

AUDIT OF FINANCIAL STATEMENTS

- Unqualified with findings
- Financial statements submitted free from material misstatements
- Improvement in procurement and contract management with no irregular expenditure identified during 2018/19 audit
 - All irregular expenditure disclosed in 2018/19 was identified in the prior years
- Matter of emphasis – R1.9 million
 - Irregular expenditure incurred in the prior year – awaiting condonation from the National Treasury

AUDIT OF ANNUAL PERFORMANCE REPORT

- Performance
 - Qualified opinion
- Source of information, evidence and method of circulation for achieving the planned indicators was not clearly defined

COMPLIANCE

- Strategic plan not signed by Executive Authority

Financial overview – irregular expenditure

INSURANCE	CSIR CONTRACT	POSSIBLE IRREGULAR EXPENDITURE
<ul style="list-style-type: none">• Contract was awarded for 3 years• AGSA opinion: Evaluation criteria not consistently applied• Evaluation criteria modified subsequently• Full contract value of R2.1m condoned by National Treasury	<ul style="list-style-type: none">• CSIR was appointed for a two-phase contract• Second phase was seen as an extension of first phase• AGSA opinion: FIC should have followed process to expand existing order• Process amended to always reflect full financial value of total contract at award stage.• Full contract value of R1.4m condoned by National Treasury	<ul style="list-style-type: none">• Transactions to the value of R608 029 were identified as possible irregular expenditure and are at different stages of the determination process• Awareness sessions to be held to reconfirm supply chain management processes.



Looking ahead

MUTUAL EVALUATION

- Review of South Africa's capability for identifying and combating ML/TF/PF
- IMF/FATF/ESAAMLG assessment team on site from 22 October 2019
- Draft report on 31 December 2019, final report expected in June 2020
- Outcome will provide a view of the integrity of South Africa's financial system to the rest of the world, and reflect on the reputations of the financial institutions that operate in it

FOCUS ON HIGH PRIORITY, PROACTIVE REPORTING

- Relies on selecting proactive financial intelligence
- Setting criteria for high, medium and low priority focus
- Focusing on improving quality of intelligence FIC provides



Looking ahead

TARGETED FINANCIAL SANCTIONS

- Implementation of financial sanctions related to UN Security Council resolutions
- Allows for termination of business relationship with any individual or entity that is on UN Security Council targeted financial sanctions register

REGULATORY REPORTING AMENDMENTS

- Cash threshold amount increases from R24 999.99 to R49 999.99
- Dispense with cash threshold aggregation reporting
- Increasing reporting period for CTRs from two three days



Looking ahead

ACHIEVING FOCUSED INFORMATION FLOW

- Bring together various authorities to focus resources and attention on matters
- Partnerships with business and authorities to ensure necessary information is at hand

EXPANDING ITEMS ON SCHEDULE 1

- Inclusion of additional items is intended to increase the scope and depth of information available for analysis and to assist criminal justice system partners



Looking ahead

FIT AND PROPER TESTING, LIFESTYLE AUDITS

- Conducting background financial review of entities and individuals who wish to register as financial service providers
- Play a role in an effective system for conducting lifestyle audits

MITIGATING MONEY LAUNDERING AND TERRORIST FINANCING RISK

- South Africa has adopted a risk-based approach to combating money laundering and terrorist financing
- Future policy-making will be based on an understanding of money laundering and terrorist financing risk
- This requires a robust process to identify, assess and understand money laundering and terrorist financing risks facing the country
- Government is in the process of completing the first cycle of risk assessment at a national and sectoral level



Looking ahead

KEY FINDINGS OF THE RISK ASSESSMENT PROCESS

- South Africa is a major financial centre on the African continent
- South African financial system plays a critical role in the sub-Saharan financial system, being a gateway for funds flowing to and from sub-Saharan countries
- Banks have more mature measures to mitigate money laundering and terrorist financing risks than non-financial institutions
- Prevalence of cash allows for anonymity and ease of flow of funds, while contributing to the masking of illicit activity
- Corruption and bribery weakens governance and management systems, which reduces accountability and transparency in regulatory reporting
- Corporate vehicles such as legal persons and trusts are used to mask the identity true beneficial owners who have interests in illicit financial flows.



Financial
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THANK YOU