



Financial  
Intelligence Centre

# Annual Report

2017/18

# FINANCIAL INTELLIGENCE CENTRE

Annual Report 2017/18

STRENGTHENING FINANCIAL INTEGRITY TO GROW THE ECONOMY:  
REFLECTING ON 15 YEARS OF THE FIC

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# SUBMISSION OF THE ANNUAL REPORT TO THE EXECUTIVE AUTHORITY

To the Minister of Finance, Mr Nhlanhla Nene

I have the honour of submitting to you the annual report of the Financial Intelligence Centre for the financial year  
1 April 2017 to 31 March 2018.



**Adv Xolisile J Khanyile**

Director and Accounting Authority

**PART A:**  
GENERAL  
INFORMATION

# GENERAL INFORMATION

## FIC general information

Registered name:	Financial Intelligence Centre
Postal address:	Private Bag X177, Centurion, 0046
Telephone number:	+27 12 641 6000
Website:	www.fic.gov.za
External auditor:	Auditor-General of South Africa
Bankers:	Standard Bank, Pretoria

## Abbreviations/acronyms

ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FIC Act	Financial Intelligence Centre Act, 2001 (Act 38 of 2001)
ICT	Information and communications technology
MoU	Memorandum of understanding
PFMA	Public Finance Management Act, 1999 (Act 1 of 1999)

# FOREWORD BY THE MINISTER

*As much as the National Treasury was established to ensure that public finances are transparent, accountable and that sound financial controls are in place, it is ingrained in the Financial Intelligence Centre's DNA, through its founding legislation, to safeguard the integrity of our financial system.*

Since its inception in 2003, the FIC has steadily negotiated the terrain of implementing a system to combat money laundering and the financing of terrorism in South Africa. Along the way, the FIC has been guiding neighbours on the continent to become proficient in this arena as well.

The FIC has been instrumental in putting in place measures to ensure that South Africa's policies and legislation against money laundering and terrorist financing remain world class. The amendments to the FIC Act in 2017 bear testimony to this. As the impact of the innovations brought about by these amendments grows, South Africa will have a more transparent financial system, the economy will be more inclusive and financial institutions will have more agility in applying customer due diligence.

The FIC, its law enforcement partners and accountable institutions are the coalface of combating criminal exploitation of our financial system. As the spectre of financial crime becomes increasingly sophisticated, insidious and techno savvy it requires forward-thinking, innovative and responsive solutions. The FIC is well attuned to this, while it maintains the regulatory and enforcement relationships with accountable and reporting institutions and business, in support of the criminal justice system.

The financial intelligence reports produced by the FIC are critical to the work of the FIC-led Inter-Agency Working Group on Illicit Financial Flows. The members of the group include, among others, the South African Revenue Service; the National Prosecuting Authority; the Directorate for Priority Crime Investigation (the Hawks); the South African Reserve Bank and the Financial Sector Conduct Authority. Members have been tasked with stemming the flow of funds illicitly leaving our shores. The FIC's delivery in this space speaks to the heart of maintaining the integrity of our financial system, and helping to ensure South Africa's growth and development now and in the future.

In 2019, the effectiveness of South Africa's system to combat money laundering and terrorist financing will be put to the test when the Financial Action Task Force conducts a peer review of the country against international benchmarks. The FIC will be co-ordinating government's preparation for this evaluation, which will involve a broad range of role players, from law enforcement agencies and supervisors to financial institutions. Much is at stake. Our peers, the domestic and foreign investment community and many others will be participating in and/or watching this process with keen interest and attention.

It is indeed an auspicious and busy 15<sup>th</sup> year for the team at the FIC this year. We wish them the best of luck and offer them our fullest support.



**Nhlanhla Nene, MP**  
Minister of Finance

## DIRECTOR'S OVERVIEW

### 15 years of safeguarding financial integrity in South Africa

*This year marks a milestone for the FIC. It is 15 years since the organisation was established as South Africa's national centre for gathering and analysing financial data for the purpose of producing financial intelligence reports. These reports assist law enforcement authorities, investigative agencies and other competent authorities in the pursuit of crime.*

The FIC identifies the proceeds of crime and assists in combating money laundering and the financing of terrorism. In so doing, it protects the integrity of South Africa's financial system and contributes to growth and development.

Much has changed in South Africa's economic landscape over the past decade and a half. There have been sweeping changes in the global economy and in financial regulation. Technology has progressed rapidly, which has ushered in new types of crime and also new ways to identify crime. The FIC works continuously to adapt to the shifting nature of financial intelligence and technology.

### Forging strong partnerships

The FIC's effectiveness in helping to maintain a robust financial system that is resistant to financial crime and corruption relies on its national and international relationships. The organisation is part of a financial intelligence network under the auspices of the Egmont Group of Financial Intelligence Units, which the FIC joined in 2003.

To date, the FIC has signed 89 memoranda of understanding (MoUs) with financial intelligence units in other countries. It has provided technical assistance to 16 countries over the last 15 years, including 10 countries in this reporting period.

The FIC represents South Africa in organisations that promote the formulation of policies to prevent money laundering and terrorist financing, namely the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), which South Africa joined in 2002, and the Financial Action Task Force (FATF), which South Africa joined in 2003.

As the only African member country of the FATF, South Africa has become a source of knowledge and guidance for the region in the anti-money laundering and combating of terrorist financing space.

The FIC's relationships with law enforcement agencies, prosecutorial authorities, investigative agencies, supervisory bodies and other agencies and authorities in South Africa and abroad are pivotal to delivering on its mandate.

The FIC works closely with the private sector and its various partners in government, including the Anti-Corruption Task Team and the Justice, Crime Prevention and Security Cluster.

In the 2017/18 financial year, the FIC became a member of the newly established Inter-Agency Working Group on Illicit Financial Flows, which includes the following members:

- National Prosecuting Authority
- Asset Forfeiture Unit of the National Prosecuting Authority
- Special Investigation Unit
- Directorate for Priority Crime Investigation (the Hawks)
- South African Revenue Service
- South African Reserve Bank
- Financial Services Board (which has since been renamed the Financial Sector Conduct Authority).

Members work together using their jurisdictional mandates and areas of expertise to stem illicit financial flows from South Africa. In 2017/18, the working group:

- Developed a working definition of illicit financial flows
- Identified and agreed on primary objectives
- Began implementing an approved work plan
- Initiated risk management
- Began monitoring statistics on illicit financial flows
- Established a case approval mechanism
- Developed a mechanism for providing strategic and policy feedback to working group principals.

The working group was established following a presentation to the Finance and the Trade and Industry and Minerals parliamentary portfolio committees in March 2017. Feedback obtained during the operations of this working group will be used to demonstrate the effectiveness of the South African criminal justice system in using financial intelligence to detect or combat crime.

#### What are illicit financial flows?

*Enormous financial flows of capital and cash move around the world every day. The bulk of these flows originate in legitimate trade and institutional arrangements.*

*A portion is the result of activities that may be ethically questionable but legal. Another component reflects the proceeds of criminal activity. Over the past several years, both the illegal flows and those which are legal but unethical have come to be termed "illicit".*



### Contributing to the fight against crime

The FIC's financial intelligence reports are a valuable tool for supporting law enforcement agencies and other competent authorities in their criminal investigations or follow-up actions, thereby contributing to the criminal justice system. The FIC does not conduct its own investigations or prosecutions.

Appreciation and awareness of the value that the FIC's financial intelligence reports add to criminal investigations has risen dramatically over the past 15 years. Demand for these products during the investigation and prosecution of crimes over the years has increased, with the number of investigations the FIC having contributed to climbing from 161 in 2003/04 to 2 243 in 2017/18 (see Figure 1).

The FIC referred 1 470 matters for further investigation during the reporting period to domestic and foreign authorities. It assisted with 2 243 requests for information in 2017/18 (2016/17: 2 145). Throughout this report we highlight investigations the FIC contributed to that were concluded in 2017/18. We supported investigations involving a range of different types of crime during the reporting period. Fraud was the most prevalent, followed by tax-related crime, narcotics, money laundering and corruption. Central to the FIC's work of protecting the integrity of South Africa's financial system is assisting in the fight against corruption in the private and public sectors.

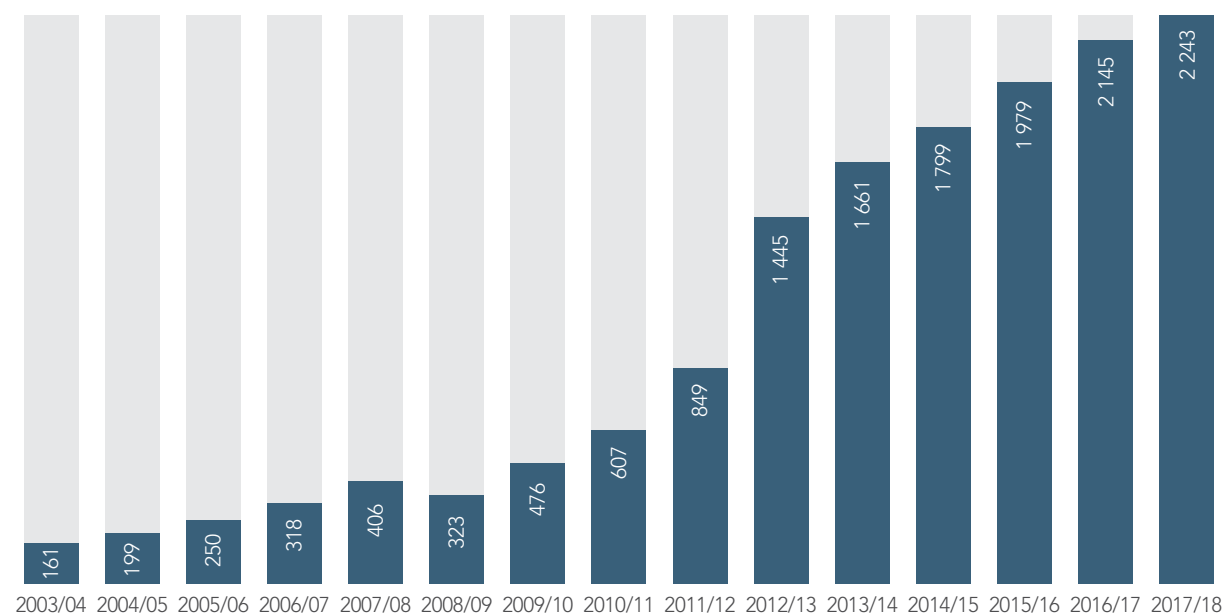


Figure 1: Number of criminal investigations contributed to per financial year, 2003/04 – 2017/18

Over the past 15 years, the FIC has blocked close to R1.13 billion as suspected proceeds of crime (including more than R55 million blocked in 2017/18). We have also contributed to 170 judicial actions since our inception (37 in 2017/18) by providing affidavits on matters presented during court proceedings.

### A sound legislative foundation

The FIC was established following the promulgation of the Financial Intelligence Centre Act, 2001 (Act 38 of 2001). In 2010 amendments to the FIC Act came into effect, which enhanced the enforcement structures and powers in the FIC Act. The main objective of the amendments was to provide an enforcement framework within which administrative penalties under the FIC Act could be applied.



### FATF's monitoring following South Africa's previous mutual evaluation ended

In line with the requirements for all FATF members, South Africa has participated in regular peer reviews to test the extent to which the country's implementation of measures to combat money laundering and terror financing meet global standards. The FATF last conducted such an evaluation of South Africa in 2009. Following this, the country had to provide regular updates on the steps it was taking to address shortcomings that had been identified in the evaluation.

When the FATF started its next cycle of evaluations in 2014, it increased pressure on all countries, including South Africa, that had not yet fixed the shortcomings identified in their previous mutual evaluations. This meant that South Africa was required to report to every FATF Plenary on the progress made in addressing deficiencies identified in 2009.

Following South Africa's amendments to the FIC Act, the withdrawal of exemptions and substantial amendments to the Money Laundering and Terrorist Financing Regulations, the FATF agreed that the country had addressed the shortcomings satisfactorily, and removed South Africa from the follow-up process in November 2017.

The amendments included a broad range of powers to assist the FIC and supervisory bodies with determining when compliance failures occur, as well as an appeal procedure concerning sanctions imposed by the FIC or a supervisory body.

In 2010 the FIC also began receiving cash threshold reports on all cash transactions of R24 999.99 and above.

Since 2011/12, the FIC and supervisory bodies have conducted more than 8 000 FIC Act inspections, including 133 FIC own inspections and 69 joint inspections in 2017/18.

At the end of 2017/18, 40 799 accountable and reporting institutions had registered with the FIC (2016/17: 38 841), demonstrating continued improvement in levels of compliance with the FIC Act and its requirements.

In 2017, new amendments to the FIC Act were promulgated to create greater transparency in the financial system and to advance the fight against corruption, money laundering and the financing of terrorism. The amendments to the FIC Act ensure that South Africa continues to meet international standards and best practices in line with the FATF's Recommendations and various United Nations Conventions and Security Council Resolutions.

The amendments target four key areas:

- Adopting a risk-based approach when establishing the identity of a client
- Identifying who really owns and benefits from corporate vehicles
- Improving the management of relationships with prominent influential persons
- Imposing United Nations Security Council financial sanctions.

With these improvements, accountable institutions will be able to offer services to a broader range of customers, promoting greater financial inclusion in South Africa.

Implementing the new amendments to the FIC Act was a key focus during the reporting period. The amendments introduced a paradigm shift in how the requirements of the FIC Act will be complied with in future. Due to the significant changes in the compliance landscape under the Act, the FIC conducted a range of information dissemination and awareness-raising initiatives, issued guidance notes and hosted stakeholder consultations.

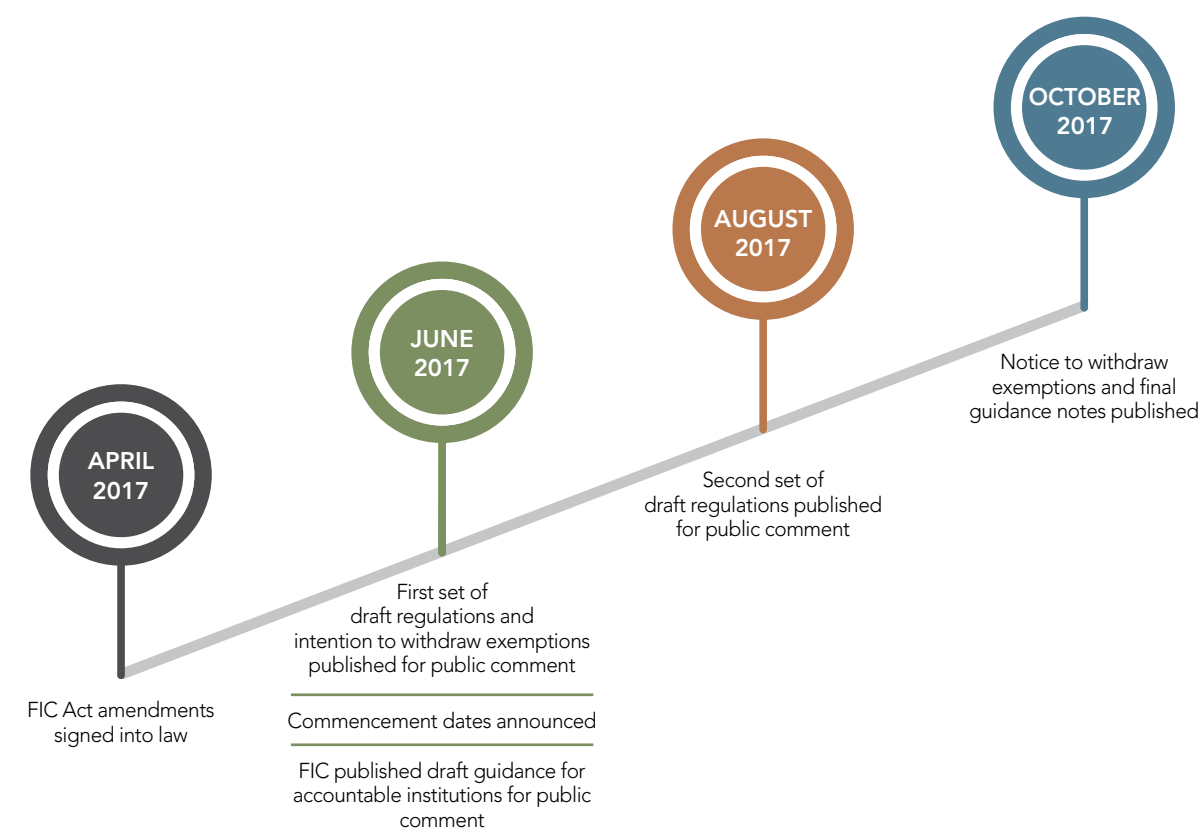


Figure 2: FIC Act amendment developments, 2017/18

## Operational highlights

Of the FIC's 20 performance targets for 2017/18, it exceeded 10 and achieved four. Six targets were not met during the financial year. The performance details are set out in the programme sections of this report.

Central to the FIC's operational work during the year was the modernisation and upgrade of its information and communications technology (ICT) systems. It is critical that the organisation's internal systems remain secure and stable. To this end, the FIC conducted an ICT security risk assessment in 2017/18. The FIC has taken appropriate measures to ensure the safety and security of information entrusted to it.

The FIC's work requires highly skilled employees in ICT and other technical areas. We are committed to developing the skills and capabilities of our employees through our learning and development strategy, career development framework, and talent management policy framework. During 2017/18, we completed 51 technical skills learning interventions, supported seven employees in obtaining professional certifications and awarded 12 bursaries. The FIC had 199 employees (including four graduates and 10 fixed term employees) at the end of the reporting period.

Our team is small and highly capable but growing recognition of our work and increasing responsibilities in terms of the amended FIC Act are putting additional strain on the organisation's resources. The FIC is funded from the national budget, with funds voted as part of the National Treasury budget. During the year under review, we spent or committed all of our available funds. Certain capital expenditure was delayed because funds had to be reprioritised for the implementation of the amendments to the FIC Act.

The FIC continues to fulfil its mandate despite the mounting pressure on its human resources and budget, but a more sustainable solution is needed for the longer term.

The FIC received an unqualified audit opinion for the 2017/18 financial year.

## Looking ahead

In the 15 years since the FIC was established, the demand for the financial intelligence reports it develops has grown and evolved. In the years ahead, these reports will become an increasingly significant policy tool for promoting economic development and reinforcing the integrity of the financial system.

We remain mindful of advances in technology, such as the rise of virtual currencies and how these can be distorted and abused for criminal intent. We will continue to increase the FIC's capabilities and its agility in being able to respond to changes in our environment.

In the year ahead, we will focus on strengthening our domestic and international partnerships, and raising awareness about our work and its value as part of the criminal justice system. On the immediate horizon is the upcoming International Monetary Fund/FATF/ESAAMLG assessment of South Africa's anti-money laundering, counter terror financing and proliferation of financing regime and systems, set to take place in 2019. Our preparations for this evaluation are well under way and will be the dominant theme of our work in the next financial year.

On behalf of the FIC I would like to thank my predecessor, Murray Michell, who steered the organisation with integrity and commitment for 14 years before concluding his term at the end of 2017. We wish him well after his many years of service at the FIC.

I would also like to thank the FIC's employees for their dedication, skill and time. It is thanks to their hard work that the FIC is the organisation it is today. We will continue to protect the integrity of South Africa's financial system and support economic growth for the next 15 years and beyond.



**Adv Xolisile J Khanyile**  
Director  
Financial Intelligence Centre  
31 July 2018

## STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF THE ACCURACY OF THE ANNUAL REPORT

To the best of my knowledge and belief, I confirm the following:

All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the Auditor-General.

The annual report is complete, accurate and free of any material omissions.

The report has been prepared in accordance with the annual report guidelines issued by the National Treasury.

The annual financial statements have been prepared in accordance with applicable standards.

The accounting authority is responsible for the preparation of the annual financial statements and for the judgements made in this information.

The accounting authority is responsible for establishing and implementing a system of internal control to provide reasonable assurance as to the integrity and reliability of the performance information, human resources information and the annual financial statements.

The external auditors are engaged to express an independent opinion on the annual financial statements.

In my opinion, the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the entity for the financial year ended 31 March 2018.

Yours faithfully



**Adv Xolisile J Khanyile**  
Director  
31 July 2018



# STRATEGIC OVERVIEW



## Vision

The FIC strives for a safer future for all South Africans in which the financial system has integrity and transparency to support economic growth and social development.



## Mission

The FIC promotes increasing levels of compliance with the FIC Act in an efficient and cost-effective manner, enabling it to provide high quality, timely financial intelligence for use in the fight against crime and the protection of national security.



## Values

The FIC seeks to achieve its mandate through the employment of highly capable employees who are committed to the highest standards of excellence and professional service delivery in the fulfilment of their responsibilities.

# LEGISLATIVE AND OTHER MANDATES

*The FIC was established in terms of the Financial Intelligence Centre Act, 2001 (Act 38 of 2001). The FIC Act works in concert with the Prevention of Organised Crime Act, 1998 (Act 121 of 1998), the Protection of Constitutional Democracy Against Terrorist and Related Activities Act, 2004 (Act 33 of 2004), the South African Police Service Act, 1995 (Act 68 of 1995) and the National Strategic Intelligence Act, 1994 (Act 39 of 1994).*

The FIC Act established the FIC and placed obligations on financial institutions and other businesses deemed vulnerable to money laundering and terrorist financing. The Prevention of Organised Crime Act introduced the crime of money laundering and provides for the confiscation and forfeiture of the proceeds of crime. The Protection of Constitutional Democracy Against Terrorist and Related Activities Act introduced measures to address the financing of acts of terrorism.

The FIC Act established the FIC to:

- Identify the proceeds of unlawful activities
- Combat money laundering activities
- Combat the financing of terrorist and related activities
- Share information with law enforcement authorities, supervisory bodies, intelligence services, the South African Revenue Service and other local and international agencies
- Supervise and enforce compliance with the FIC Act
- Facilitate effective supervision and enforcement by supervisory bodies.

The FIC Act requires all businesses to report suspicious or unusual financial transactions to the FIC. It introduces a regulatory framework of compliance control measures requiring certain categories of business (defined as accountable institutions in terms of the FIC Act) to know who they are doing business with, to keep records of their customers' transactions, to appoint compliance officers, to train their employees on how to comply with the Act and to submit regulatory reports to the FIC. It also requires that affected institutions and individuals register with the FIC and reflect their compliance structures.

## Institutions required to register with the FIC

The FIC Act requires all accountable and reporting institutions to register with the FIC. An accountable or reporting institution is an individual or an institution that, by virtue of the business it conducts, falls within the ambit of Schedule 1 or 3 of the FIC Act.

In some instances, a group of companies or a legal entity may contain more than one accountable or reporting institution. For example, there may be different entities in a financial conglomerate or divisions in a legal entity. Conglomerates must ensure that all accountable and/or reporting institutions in the group are registered under the correct Schedule of the FIC Act. In some instances, institutions must register per branch. The FIC's Public Compliance Communication 5B explains the registration requirements for all accountable and reporting institutions.

The FIC Act assigns certain roles, responsibilities and powers to supervisory bodies to support the objectives of combating money laundering and preventing the financing of terrorist and related activities. The FIC has signed MoUs, which govern how supervisory bodies relate to the FIC and how they in turn engage with the entities that report to them in terms of FIC Act compliance requirements.

The FIC's primary activities, as set out in its founding legislation, are to:

- Process, analyse, interpret and retain information disclosed to and obtained by the FIC.
- Inform, advise, co-operate with and make its financial intelligence products available to investigating authorities, supervisory bodies, intelligence services and the South African Revenue Service to facilitate the country's administration and enforcement of laws.
- Exchange information with similar bodies in other countries.
- Monitor and give guidance to accountable and reporting institutions, supervisory bodies and individuals regarding their compliance with the FIC Act.
- Supervise and enforce compliance with the FIC Act in affected institutions and by individuals not regulated or supervised by a supervisory body, or where the supervisory body is unable to act.
- Implement a registration system for all affected institutions and individuals.
- Annually review the implementation of the FIC Act and report on this to the Minister of Finance.

In executing its mandate, the FIC seeks to:

- Protect the integrity of the financial system by making it more difficult for criminals to hide their illicit proceeds in the formal financial sector and cutting off the resources available to terrorists.
- Develop policy options for the Minister of Finance based on an assessment of the available financial intelligence.
- Contribute to the global framework against money laundering and the financing of terrorism.

In identifying the proceeds of crime and assisting in combating money laundering and the financing of terrorism, the FIC fulfils its primary role of protecting the integrity of South Africa's financial system.

To ensure that South Africa’s legal framework against money laundering and terror financing continues to meet international standards and best practice, the FIC and the National Treasury drafted amendments to the FIC Act to:

- Introduce more transparency in the financial system
- Introduce more flexibility for financial institutions
- Improve the FIC’s capacity to analyse information.

The amendments to the FIC Act were signed into law on 26 April 2017. Based on an implementation roadmap set out by the Minister of Finance, some of the Act’s sections came into effect on 13 June 2017 and others on 2 October 2017. The remaining provisions will come into effect in 2018/19 when the mechanisms required for these sections are developed and in place. These include the provisions relating to the financial sanctions in terms of the United Nations Security Council Resolutions.

The main focus of the amendments is to make the financial system more transparent by strengthening customer due diligence measures, thereby making it more difficult for criminals to hide their illicit proceeds in the formal financial sector. Customer due diligence refers to the knowledge that an accountable institution has about its customer and its understanding of the business that the customer is conducting with it.

The FIC Act now requires accountable institutions to apply a full range of customer due diligence measures, including:

- Establishing and verifying the customer’s identity by applying a risk-based approach.
- Identifying beneficial owners of customers that are not natural persons.
- Understanding the purpose and the intended nature of business relationships with customers.
- Conducting ongoing due diligence on their relationships with their customers.
- Applying additional scrutiny to relationships with individuals entrusted with prominent roles in the public or private sector.



### Guidance issued on foreign and domestic prominent influential persons

According to global standards, financial institutions should pay close attention to people in prominent positions in the public sector. The FIC Act amendments have adopted this measure and broadened this scope to include people in the private sector who do business with government (those in senior positions responsible for high-value procurement contracts).

As a starting point, it is important that accountable institutions have effective measures in place to know who their clients are and understand their business, particularly those in prominent positions.

The FIC issued a guidance note (Guidance Note 7) that includes a detailed discussion on foreign and domestic prominent influential persons, including definitions of these terms and a list detailing where an accountable institution may search to identify such domestic individuals.

Being classified as a domestic prominent individual does not automatically deem a person high risk in the eyes of a bank, but financial institutions must take their clients’ status into consideration when determining their risk. However, a foreign prominent public official will automatically be considered high risk.

Accountable institutions must conduct enhanced due diligence for both categories of prominent individuals, and involve senior management before taking them on as clients.

This does not presume that people in prominent positions (domestic or foreign) are involved in financial crime or associated with illicit financial flows. Institutions will maintain relationships with these customers, while ensuring they manage potential risks.

The new features of the FIC Act make it simpler for customers to satisfy accountable institutions’ due diligence processes. The improvements will help institutions strengthen their internal compliance regimes and concentrate their resources more effectively on addressing risks.

This risk-based approach to customer due diligence enables accountable institutions to take proactive steps to mitigate money laundering and terrorist financing risks for their businesses and identify transactions that seem unusual, based on their understanding of their customers. Ultimately, this will improve the ability of accountable institutions to report information to the FIC.

With these improvements, accountable institutions are able to explore more innovative ways of offering financial services to a broader range of customers, and bring previously excluded sectors of society into the formal economy. This will improve the efficacy of measures to combat the financing of terrorism and money laundering, while promoting financial inclusion.



### Are accountable institutions ready for the FIC Act amendments?

Various provisions of the FIC Amendment Act started on different dates. Some of the sections that came into operation on 2 October 2017 relate to the following:

- Customer due diligence measures
- Record-keeping requirements
- Risk management and compliance
- Governance and training.

The FIC surveyed accountable institutions to assess their state of readiness to comply with these new requirements during October 2017. Accountable institutions were asked to indicate when they would be fully compliant with the amendments to the FIC Act and what obstacles they anticipated to becoming fully compliant.

The FIC received 1 223 responses from accountable institutions. Based on the responses received, the FIC and supervisory bodies determined that administrative sanctions on these new provisions of the FIC Act would be imposed from 2 April 2019. Administrative enforcement of the sections not affected by the amendments (such as reporting and registration) would continue as normal.

Accountable institutions are encouraged to comply with the amendments as soon as possible to ensure there is sufficient time to demonstrate their compliance. Inspections in terms of the FIC Act will continue in the meantime, allowing the FIC to guide and advise accountable institutions on the Act’s new provisions.

Implementing these amendments will take time and the FIC is aware that a transitional period is needed before full compliance with the new Act can be achieved. It regularly consults with relevant stakeholders and accountable institutions to provide guidance and monitor progress. For more information on the Act’s implementation, please see the Director’s Overview and the section on sub-programme 2.3 in this report.

# ORGANISATIONAL STRUCTURE

The FIC is a statutory body that operates outside the public service, but within the public administration, as envisaged in section 195 of the Constitution. It is registered as a Schedule 3A national public entity in terms of the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA). The Director of the FIC, who is also the accounting authority, reports directly to the Minister of Finance and to Parliament.

The FIC is composed of five divisions:

- Office of the Director
- Legal and Policy
- Compliance and Prevention
- Monitoring and Analysis
- Corporate Services

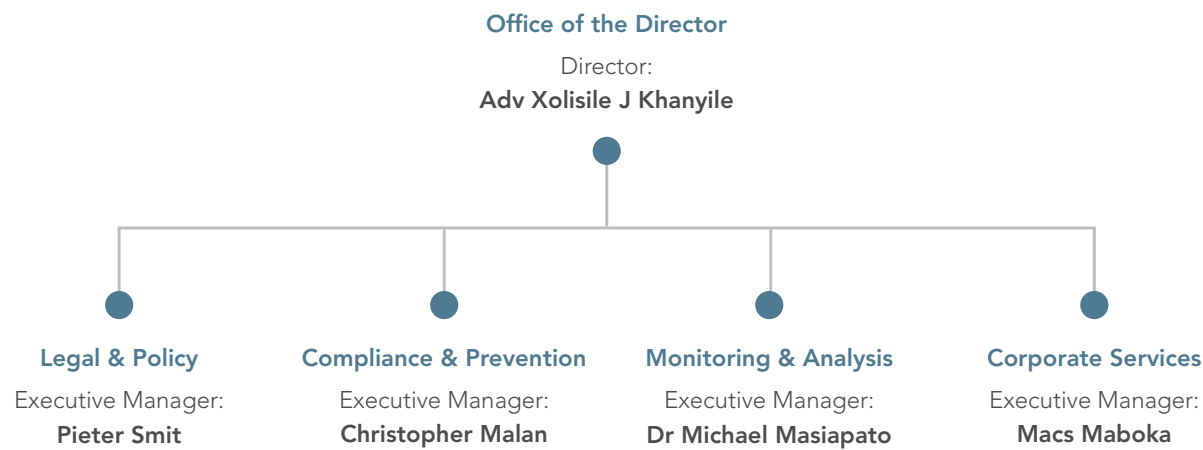


Figure 3: FIC structure

## Office of the Director

The Director is responsible for the FIC's strategy and stakeholder relationships, and represents South Africa in international bodies such as the FATF, the ESAAMLG and the Egmont Group.

## Legal and Policy

The Legal and Policy division is responsible for:

- Administering the FIC Act, including helping to draft amendments as necessary.
- Engaging with international and regional inter-governmental bodies.
- Co-ordinating the FIC's technical assistance to countries in eastern and southern Africa.
- Providing strategic policy advice on money laundering and terror financing, including improvements to the legislative framework.

## Compliance and Prevention

The Compliance and Prevention division is responsible for overseeing supervision and compliance with the FIC Act. This division co-ordinates the framework that ensures effective and efficient oversight by supervisory bodies and the FIC.

The division conducts inspections, both on its own and in support of supervisory bodies, to determine the level of compliance with the FIC Act. It monitors and gives guidance to accountable and reporting institutions, supervisory bodies and others regarding their FIC Act obligations.

It also manages a registration system for all accountable and reporting institutions.

The division develops and issues guidance in consultation with Legal and Policy, provides training to supervisory bodies, and enhances compliance awareness to combat money laundering and the financing of terrorism by engaging with affected entities.

## Monitoring and Analysis

The Monitoring and Analysis division receives and analyses data to identify the proceeds of crime, money laundering and the financing of terrorism.

The division works closely with law enforcement authorities, intelligence agencies, the South African Revenue Service, other competent authorities and the private sector to combat crime, and provides support for investigations on request. The division's work also contributes to enhanced international co-operation.

## Corporate Services

The Corporate Services division provides the FIC with support services to enable the organisation to operate efficiently.

The division's primary functions are financial and administrative management; supply chain management; facilities management; human resources; corporate legal services; planning, monitoring and evaluation; ICT and enterprise architecture; and project management.



### The rise of virtual currencies

The first successful virtual currency, Bitcoin, has existed since 2009. Since then, more than 1 000 rival virtual currencies have emerged, referred to as altcoins.

Due to their availability, ease of use, anonymity and decentralised nature, virtual currencies can be exploited for financial crime and potential or financing of terrorist and related activities. This includes investment schemes that have seen investors around the world lose significant amounts of money.

Some financial advisers remain sceptical, but diehard proponents of the technology argue that virtual currencies will displace traditional national currencies and keep increasing in value.

## AUDITOR-GENERAL'S REPORT: PREDETERMINED OBJECTIVES

*The audit conclusion of the Auditor-General of South Africa on the FIC's performance against predetermined objectives is in Part E of this report.*

## SITUATIONAL ANALYSIS

### Service delivery environment

The FIC continued to experience increased demand for its services in 2017/18, including more requests for collaboration from a range of investigation agencies and prosecuting authorities.

The FIC exceeded 10 of its 20 performance targets and met four of them in the reporting period, while six targets were not met.

### Organisational environment

During the reporting period, the Minister of Finance appointed Advocate Xolisile J Khanyile as Director of the FIC, following the end of the previous Director's term. Dr Michael Masiapato was appointed as head of the Monitoring and Analysis division in 2017/18. This transition in executive leadership has been seamless and the FIC continues to realise its strategic objectives.

The amount of data the FIC receives, stores and produces continues to increase. Much of this information is of a sensitive nature, and it is critical that this information is kept confidential. During 2017/18, the FIC implemented a series of initiatives following an ICT security risk assessment. For more detail on the measures put in place, please see the section on programme 3 in this report.

### Key policy developments and legislative changes

Shortly after Parliament's adoption of the FIC Act Amendment Bill in 2016/17, the Bill was signed into law on 26 April 2017 and gazetted on 2 May 2017. During 2017/18, many of the amendments to the FIC Act came into effect as part of a phased implementation process. For more information on the implementation of the FIC Amendment Act, 2017 (Act 1 of 2017), please see the Director's Overview and the section on sub-programme 2.3 in this report.

## PART B: PERFORMANCE INFORMATION

# STRATEGIC OUTCOMES

The FIC is guided by four strategic outcomes in its work to realise its vision, mission and values:

- Improving the collection of information and the enforcement of compliance with the FIC Act.
- Better utilisation of financial intelligence.
- Promoting national interest in maintaining the integrity of South Africa’s financial system.
- Ensuring a safe, secure, compliant and efficient operating environment.

The FIC’s work directly contributes to two of South Africa’s national priorities:

- Outcome 3: All people in South Africa are and feel safe
- Outcome 11: Create a better South Africa, a better Africa and a better world.

## Link between outcomes and budget programmes

The FIC budget has three programme areas. The budget structure follows the conventional functional approach, however, the FIC aims to make the link between its budget and outcomes increasingly visible in its strategic and operational processes in future. The FIC will also explore new methods to measure the impact of its activities.

**Budget programme 1: Administration.** This programme provides strategic leadership and internal services to ensure that the organisation is managed efficiently, effectively and economically. Administration-related objectives can be traced within the objectives and targets that are set in the other two FIC budget programmes.

**Budget programme 2: Delivery of intelligence on financial crime and FIC Act-related regulatory services.** This programme is directly linked to the FIC’s predetermined objectives under strategic outcomes 1 (pages 22–23), 2 (pages 32–33) and 3 (pages 38–39).

**Budget programme 3: Enablement of financial intelligence capabilities.** This programme is directly linked to the predetermined objectives under strategic outcome 4 (pages 46–47).

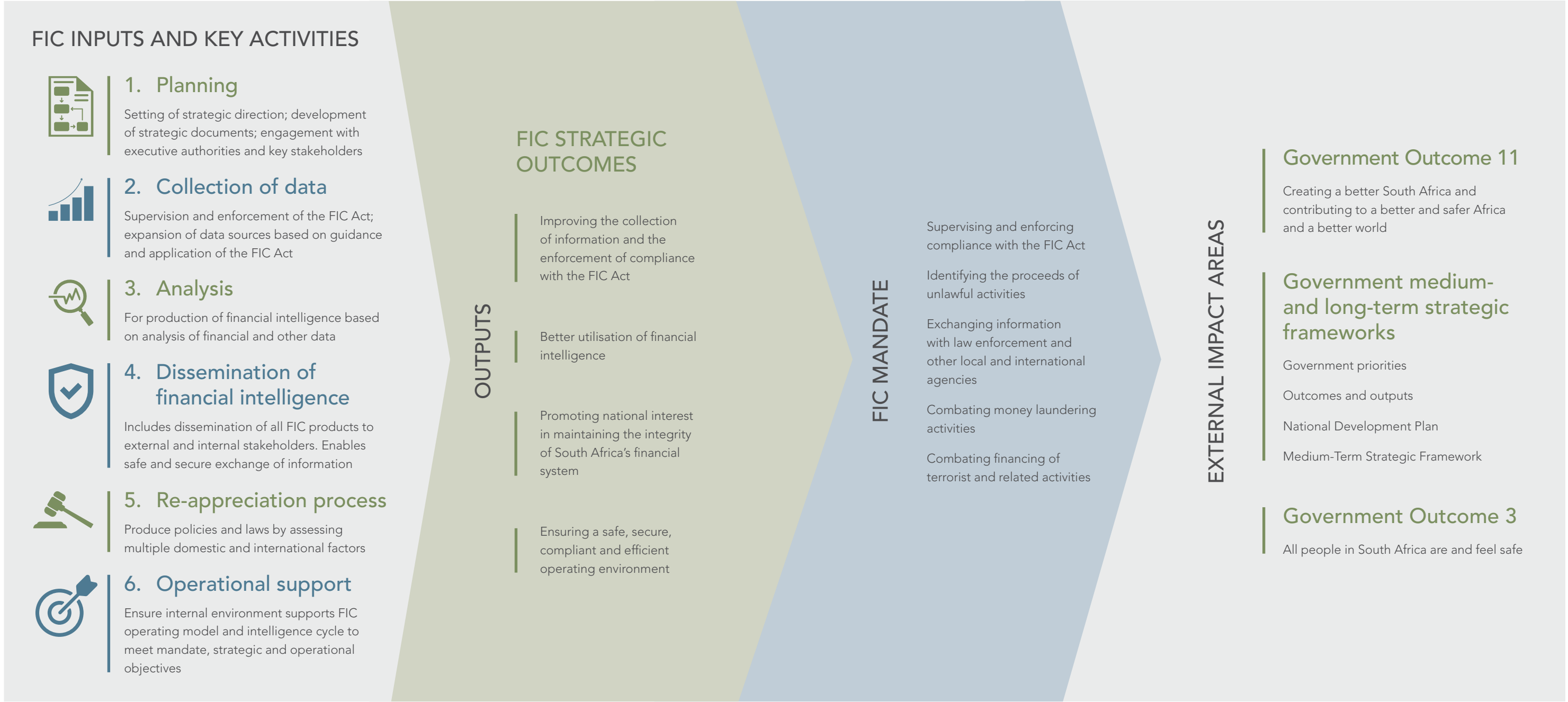


Figure 4: FIC operating model



# PERFORMANCE INFORMATION BY PROGRAMME

## Budget Programme 2: Delivery of intelligence on financial crime and FIC Act-related regulatory services

**Sub-programme 2.1:** Compliance and Prevention focuses on providing guidance to accountable and reporting institutions and monitoring supervisory bodies as they discharge their responsibilities under the relevant legislation. It focuses on improving compliance with the FIC Act through the following activities:

- Information gathering and reporting
- A risk-based approach to compliance management and oversight
- Carrying out administrative activities
- Assisting in criminal prosecutions relating to non-compliance.

During 2017/18, the FIC exceeded all of its targets under this sub-programme. Highlights for the year include:

- Conducting 17 awareness sessions among accountable and reporting institutions, including six roadshows across the nine provinces, and participation in 28 awareness sessions at the request of supervisory bodies and stakeholders.
- Issuing guidance and user guides that addressed concerns regarding the amended FIC Act.
- Conducting 133 FIC own inspections and supporting 69 joint inspections.
- Holding four registration events in Gauteng, KwaZulu-Natal and the Western Cape.
- Conducting a series of information sessions with institutions to help them register with the FIC and to use the FIC's registration and reporting system.

Strategic outcome 1: Improving the collection of information and the enforcement of compliance with the FIC Act								
Strategic objective	Performance indicator		Actual achievement 2016/17	Planned target 2017/18	Actual performance 2017/18		Performance status	Comment on deviations
Improved compliance through supervision.	1.1.1	Number of FIC inspection reports issued.	132	132 <sup>1</sup>	133		Target exceeded (+1).	Improved planning of inspections resulted in exceeding the target.
	1.1.2	Percentage response to supervisory body requests to participate in joint inspections.	New indicator.	60% <sup>2</sup>	73%		Target exceeded (+13%).	Improved co-ordination between the FIC and supervisory bodies in conducting supported inspections resulted in availability of inspectors to support requests received.  95 supervisory body invitations received, of which 69 inspections were supported by the FIC.
Improved collection of information for compliance with the FIC Act.	1.2.1	Percentage of identified compliance matters addressed through guidance products issued.	1 (KPI changed from number to percentage from 2017/18 onwards).	80%	100%		Target exceeded (+20%).	3 guidance products approved in the latter part of 2016/17 financial year were issued in 2017/18.  5 additional guidance products and directives were identified on 20 June 2017 to address compliance matters totalling 8 guidance products issued in the financial year.  All the guidance products identified were issued as they were crucial to implement the FIC Amendment Act.
	1.2.2	Number of FIC identified compliance awareness initiatives.	46	16 <sup>3</sup>	17		Target exceeded (+1).	16 sessions were paid for by the FIC and the additional 1 session was free.
	1.2.3	Percentage response to invitations to participate in stakeholders' compliance awareness initiatives.	New indicator.	80% <sup>4</sup>	90%		Target exceeded (+10%).	Received more than anticipated invitations to participate in stakeholder compliance awareness initiatives and staff were available to support the majority of invitations due to timely invitations received and sharing of awareness plans, at costs within the budget.  Received 31 invitations and participated in 28 compliance awareness initiatives.
	1.2.4	Number of media publications issued.	11	12	14		Target exceeded [+2].	11 publications were paid for by the FIC and 3 publications were free of charge.

1 Current focus will be on improving the quality of inspections conducted and not projecting increases in the quantity of inspection reports issued.  
2 The FIC will respond to at least 60% of requests received; capped at a maximum of 70 joint inspections.

3 The KPI measures compliance awareness initiatives excluding invitations to participate in stakeholder compliance awareness initiatives.  
4 New KPI that reports on the FIC's response to invitations to participate in stakeholder compliance awareness initiatives

Accountable and reporting institutions registered

As required by the FIC Act, all accountable and reporting institutions must register with the FIC. The number of institutions registered with the FIC increased from 38 841 at the end of 2016/17 to 40 799 at the end of 2017/18, demonstrating continued improvement in levels of compliance with the FIC Act and its requirements.

Table 1: Accountable and reporting institutions registered at 31 March 2018

Schedule 1: Item no.		Total registrations at 31 March 2017	Total registrations at 31 March 2018
	Business entity with a reporting obligation in terms of Section 29 of the FIC Act	38	91
1	Attorneys	12 698	13 322
2	Trust companies	154	173
3	Estate agents	9 999	10 242
4	Authorised user of an exchange	198	184
5	Unit trusts (collective investment scheme managers)	79	85
6	Banks	40	41
7	Mutual banks	4	4
8	Long-term insurers	162	89
9	Gambling	2 311	3 130
10	Foreign exchange	413	362
11	Money lenders against securities	63	73
12	Investment advisors or intermediaries	8 466	8 556
13	Issuers of travellers' cheques and money orders	162	165
14	Postbank	1	1
15*	.....		
16	Ithala Bank	2	1
17*	.....		
18*	.....		
19	Money remitters	281	265
Schedule 3: Item no.			
1	Motor vehicle dealers	3 578	3 809
2	Kruger rand dealers	192	206
Grand total		38 841	40 799

\* Items 15, 17 and 18 were deleted from Schedule 1 to the FIC Act in 2010.

Attorneys and estate agents register with the FIC based on the number of main businesses and branch offices, rather than the individual practitioners active in each office or branch. Therefore, the number of registrations in these sectors does not reflect the total number of practitioners subject to the FIC Act.

Inspections and sanctions

The amendments to the FIC Act in 2010 introduced the power to inspect accountable and reporting institutions and to enforce non-compliance with the FIC Act administratively.

The purpose of an inspection is to assess the state of compliance with statutory requirements as prescribed in the FIC Act. Supervisory bodies are responsible for FIC Act compliance oversight of accountable institutions in their particular business sectors. For example, the Bank Supervision Department of the South African Reserve Bank is the supervisory body for the banking sector. This means the Reserve Bank conducts inspections to assess banks' compliance with the FIC Act and helps them comply with the requirements and obligations of the Act.

The first compliance inspections in terms of the FIC Act were done in August 2011 and the FIC has conducted a total of 1 054 inspections since then. These inspections were conducted on motor vehicle dealers, Kruger rand dealers, trust companies and administrators of trusts, entities that lend money against security of securities, Postbank, the Post Office and Ithala Development Finance Corporation Limited.

The FIC's inspectors help supervisory bodies fulfil their inspection responsibilities by providing training and conducting joint inspections. In 2017/18, the FIC conducted 133 inspections and 69 joint inspections with supervisory bodies.

Table 2: FIC Act inspections by supervisory bodies and the FIC in 2017/18

Total number of FIC Act inspections conducted per business sector	
FIC own inspections conducted per business sector	
Business sectors inspected	Inspections conducted
Trust companies and administrators	7
Motor vehicle dealers	101
Kruger rand dealers	18
Ithala Development Finance Corporation	1
Postbank	1
Entities that lend money against the security of securities	4
Post Office as money remitters	1
Subtotal	133
FIC/supervisory body inspections conducted per business sector	
Gambling institutions	24
Financial Services Board	24
South African Reserve Bank: Bank Supervision Department	1
Authorised users of an exchange	8
South African Reserve Bank: Financial Surveillance Department	12
Subtotal (supported inspections)	69
Supervisory body own inspections conducted per supervisory body	
Financial Services Board: Financial Advisory and Intermediary Services division	154
Financial Services Board: Long-term Insurance division	1*
Financial Services Board: Collective Investment Schemes Managers division	20*
Financial Services Conduct Authority: Capital Markets division	31
South African Reserve Bank: Prudential Authority	6
South African Reserve Bank: Financial Surveillance Department	76
Estate Agency Affairs Board	108
Independent Regulatory Board of Auditors	1
Provincial Licensing Authority: Gauteng Province	9*
Provincial Licensing Authority: Mpumalanga Province	17
Provincial Licensing Authority: Limpopo Province	18*
Provincial Licensing Authority: Free State Province	8*
Provincial Licensing Authority: KwaZulu-Natal Province	22
Provincial Licensing Authority: Eastern Cape Province	73
Provincial Licensing Authority: Western Cape Province	21*
Provincial Licensing Authority: North West Province	160
Provincial Licensing Authority: Northern Cape Province	1*
Subtotal	726
Grand total**	859

\* Inspections figures with an asterisk in the table above have not been verified or confirmed in writing by the supervisory body.

\*\* Denotes total of FIC own and supervisory body own inspections conducted.

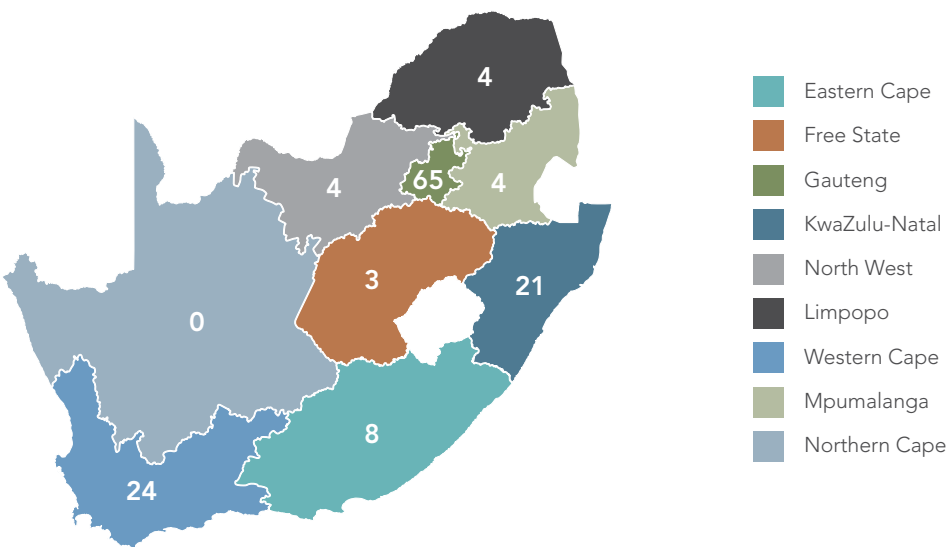


Figure 5: The FIC’s own inspections – provincial overview

The most common issue found during the FIC’s own inspections was that institutions were not reporting all cash transactions above the threshold of R24 999.99. This was mostly a result of lack of diligence on the part of inspected institutions.

The FIC or a supervisory body may impose an administrative sanction if it finds that an accountable or reporting institution or any person with an obligation to comply with the FIC Act and its directives has not complied.

The FIC imposed the first administrative sanction in terms of the FIC Act in March 2015. It has subsequently issued sanctions against 46 institutions. As a result, institutions have paid more than R2.3 million in fines. The supervisory bodies have imposed a total of 24 sanctions on institutions that failed to comply with the FIC Act, leading to fines of more than R224 million.

The amendments in 2010 also made provision for an Appeal Board to adjudicate appeals by institutions aggrieved by the sanctions imposed by the FIC and supervisory bodies. The board was established in 2011 and has, since its inception to end 31 March 2018, adjudicated four matters where FIC imposed sanctions. In total, the Appeal Board has adjudicated seven matters.

The FIC issued 18 financial sanctions against non-compliant dealers in motor vehicles (13) and Kruger rands (five) during the reporting period. The penalties issued were in proportion to the nature, seriousness and extent of the non-compliance, taking into account mitigating factors and the total value of the transaction not reported. Seventeen of these sanctions, to the total value of more than R4 million, are detailed in Table 3. The 18<sup>th</sup> sanction is not disclosed as it is under appeal, the outcome of which is pending.



### Case study: The Zama Zamas

The FIC helped a law enforcement agency identify several syndicate members in Virginia and Welkom in the Free State who were obtaining gold-bearing material from the Zama Zamas (illegal miners) engaged in using their own technique to process the gold. This gold was being sold to various refineries in Gauteng.

The FIC conducted analysis and confirmed that the subjects made small regular payments to various persons in the Free State to pay the low level operators in the syndicate, “runners”, who acted as intermediaries between the illegal miners and the refineries.

The law enforcement investigation team located the runners and the premises they used to process the gold-bearing material. A search and seizure warrant led to the authorities confiscating equipment and two gold nuggets. Four subjects were arrested.

Table 3: Sanctions issued by the FIC in 2017/18

Entity	Sanction
Scoin Trading (Pty) Ltd t/a The South African Gold Coin Exchange	R176 060
Henque 1881 CC t/a Henque Motors	R15 275 50% suspended for 3 years and a directive to take remedial action
Mr Kruger East Holdings – Moreleta Park	R30 531 50% suspended for 3 years and a directive to take remedial action
3DNA Architecture and Design t/a Gold Buyers	R49 288 50% suspended for 3 years and a directive to take remedial action
Arthlene Ondernemings CC t/a Auto Unique	R68 659 50% suspended for 3 years and a directive to take remedial action
Bidvest McCarthy (Pty) Ltd t/a Chrysler Jeep Dodge - Centurion	R288 663 50% suspended for 3 years and a directive to take remedial action
Tom Campher Motors	R60 100
Abilia Trading t/a Gold Vault	R5 000 Entire amount suspended for 3 years and a directive to take remedial action
Auto 1 Automotive t/a Nissan Uitenhage	R93 060 50% suspended for 3 years and a directive to take remedial action
Global Autohaus	R349 091 50% suspended for 3 years and a directive to take remedial action
Peng Investments (Pty) Ltd t/a Leo Haese	R415 530 50% suspended for 3 years and a directive to take remedial action
Tadocube (Pty) Ltd t/a Jaguar Land Rover Hillcrest	R556 723 50% suspended for 3 years and a directive to take remedial action
Gold Traders Mossel Bay	R13 120 50% suspended for 3 years and a directive to take remedial action
European Automotive Imports (Pty) Ltd t/a Maserati	R176 000 50% suspended for 3 years and a directive to take remedial action
Mystic Cars (Pty) Ltd	R180 000 R40 000 payable immediately with R120 000 suspended for 3 years and a directive to take remedial action
Nissan Mthatha	R60 000 50% suspended for 3 years and a directive to take remedial action
SMG Auto Cape Town (Pty) Ltd	R1 600 000 R400 000 payable immediately with R1 200 000 suspended for 3 years and a directive to take remedial action



During 2017/18, the Reserve Bank, in consultation with the FIC, imposed four administrative sanctions to the value of more than R77 million against non-compliant institutions. An appeal has been lodged against one of these sanctions, the outcome of which is pending. The table below details the nature and extent of the remaining three administrative sanctions.

Table 4: Sanctions issued by the South African Reserve Bank in 2017/18

Supervisory body	Entity	Sanction
South African Reserve Bank: Financial Surveillance Department	Sikhona Forex	R130 000 reprimand and directive to take remedial action
South African Reserve Bank: Bank Supervision Department	China Construction Bank	R75 000 000 reprimand and directive to take remedial action R55 000 000 payable immediately with R20 000 000 suspended for 1 year
South African Reserve Bank: Bank Supervision Department	VBS Bank	R2 500 000 reprimand and directive to take remedial action R500 000 payable immediately with R2 000 000 suspended for 1 year

Improving awareness of compliance, registration and reporting to the FIC

An important part of the FIC’s work is raising awareness on FIC Act requirements and obligations among general business as well as accountable and reporting institutions.

Awareness-raising initiatives

To streamline compliance queries and support its business processes, the FIC developed an internal public query process in 2011/12. In November 2011, the FIC launched an internet-based platform that allowed the general public to submit queries on compliance-related matters directly via the FIC website. In November 2012, to assist the public with FIC Act compliance queries, the FIC established an automated contact centre. The queries continue to provide the FIC with a better understanding of the needs, challenges and concerns of its stakeholders. This information has often been used to determine the topics for guidance, publications and discussion at awareness events.

During 2017/18, the FIC continued to raise awareness about registration and reporting suspicious or unusual transactions, undertaking several awareness initiatives and publishing user guides and demonstration videos. It hosted four registration events in Gauteng, KwaZulu-Natal and the Western Cape for accountable and reporting institutions. During these events, the FIC helped reporting entities capture, update and/or confirm their registration information.

The FIC conducted six roadshows to raise compliance awareness among regulated businesses. The roadshows, which attracted about 1 600 participants overall, covered topics including FIC Act compliance, amendments and enforcement; registration and reporting; as well as how financial intelligence is used to combat crime.

In addition to the roadshows, the FIC conducted 28 compliance awareness sessions at the invitation of various supervisory bodies and stakeholders, and published 14 media articles. The focus of the articles was on raising awareness of reporting suspicious or unusual transactions among attorneys, estate agents, motor vehicle dealers and financial service providers.

The FIC hosted six telematics learning sessions during the year, which were broadcast to dedicated learning centres. More than 1 700 registered entities attended and 3 000 additional viewers accessed the sessions via live streaming.

The FIC responded to 8 161 written queries and 22 930 telephonic queries from the public during 2017/18. The exceptionally high call volumes was attributed to the FIC’s campaign to increase registrations and its letters to notify entities that were not correctly registered.

On-site visits

In addition to inspections, the FIC visited selected accountable and reporting institutions during the reporting period as part of its effort to build relationships, to create awareness and assist with registration and other compliance-related issues.

The FIC visited 53 non-financial institutions, including 35 motor vehicle dealers, 13 estate agents, three Kruger rand dealers and two attorneys. The institutions reported that the visits improved their understanding of compliance requirements and reporting procedures. The FIC aims to continue this approach in 2018/19.

Guidance products

The FIC develops guidance products to provide practical information on complying with the FIC Act. From June 2017, the FIC started a consultation process with accountable institutions, supervisory bodies and other affected entities on the implementation of the Act’s amendments. During these consultations, the FIC published draft guidance notes on its website and invited feedback. The comments received were carefully considered and the guidance products were updated where necessary.

During 2017/18, the FIC issued eight guidance products, predominantly focused on the amendments to the FIC Act. In addition, existing guidance products were updated to align with the amendments. The FIC also drafted seven user guides on each type of regulatory report. These guides assist reporting entities by providing step-by-step guidance on submitting reports to the FIC.

Table 5: Guidance products issued in 2017/18

	Public compliance communications and guidance notes	Guidance product name
1	PCC05B	Updated guidance on registration with the FIC
2	PCC37	Obligations of reporting institutions in terms of the FIC Act
3	PCC38	On responding to requests from the FIC in terms of section 27, 32, 34 and 35 of the FIC Act
4	Guidance Note 4A	Updated guidance on reporting suspicious and unusual activities and transactions to the FIC in terms of section 29 of the FIC Act
5	Guidance Note 5B	Updated guidance on cash threshold reporting to the FIC in terms of section 28 of the FIC Act
6	Guidance Note 6	Guidance on terrorist financing and terrorist property reporting obligations in terms of section 28A of the FIC Act
7	Guidance Note 7	Guidance to assist accountable institutions to implement the Financial Intelligence Centre Amendment Act, 2017
8	PCC38A	Updated guidance on responding to requests from the FIC in terms of section 27, 32, 34 and 35 of the FIC Act



Case study: Theft and money laundering

The FIC received a request regarding a subject who allegedly stole about R460 million from her employer over a period of eight years. She reportedly duplicated payments to legitimate clients and service providers, paying money directly into her deceased husband’s bank account.

Through financial profiling, the FIC established that funds were going into the husband’s bank account and then used to buy luxury vehicles and several properties. The money was also used to fund gambling activities and family holidays, and given to family members.

The FIC’s analysis of the husband’s bank statements revealed funds paid to an insurance company in large monthly instalments and, at times, frequent payments during the month too. It was established that the premiums were paid with the stolen proceeds of crime.

The FIC issued a directive in terms of section 34 of the FIC Act to prevent the subject from accessing these investment products, which represented the proceeds of crime, to the value of about R21 million. The subject was subsequently arrested and the Asset Forfeiture Unit proceeded to attach or preserve several assets worth millions under the Prevention of Organised Crime Act.

Table 6: Regulatory reporting, 1 April 2017 to 31 March 2018

Schedule 1: Item no.		Cash threshold reports & cash threshold aggregation reports*	Section 29 reports**	Terrorist property reports	Total
	Business entity with a reporting obligation in terms of section 29 of the FIC Act	40	97		137
1	Attorneys	2 396	123		2 519
2	Trust companies	344	7		351
3	Estate agents	8 285	22		8 307
4	Authorised user of an exchange	31 498	127		31 625
5	Unit trusts (collective investment scheme managers)	860	64		924
6	Banks	4 188 068	209 020	1	4 397 089
7	Mutual banks	3 939	78		4 017
8	Long-term insurers	1 757	110		1 867
9	Gambling	376 989	1 893		378 882
10	Foreign exchange agent or company	147 229	43 145		190 374
11	Money lenders against securities	339	8		347
12	Investment advisors or intermediaries	26 462	1 164		27 626
13	Issuers of travellers' cheques and money orders	5 640	148		5 788
14	Postbank	29 920	60		29 980
15***	.....				
16	Ithala Development Finance Corporation	328			328
17***	.....				
18***	.....				
19	Money remitters	21 329	65 429		86 758
Schedule 3: Item no.					
1	Motor vehicle dealers	37 536	9 118		46 654
2	Kruger rand dealers	1 458	26		1 484
Grand total		4 884 417	330 639	1	5 215 057

\* Cash threshold aggregation reports are used to report a single client that has performed multiple transactions above the threshold amount of R24 999.99 within the defined aggregation period.

\*\* Section 29 reports include all suspicious or unusual transaction reports, suspicious activity reports, terrorist financing activity reports and terrorist financing transaction reports.

\*\*\*Items 15, 17 and 18 were deleted from Schedule 1 to the FIC Act in 2010.



Case study: Trafficking Thai women

The FIC was asked to assist with an investigation involving women of Thai origin entering South Africa illegally to work in a brothel. Situated in Durban North, the brothel was allegedly disguised as a bed-and-breakfast establishment and run by a Community Policing Forum member and his wife, who was also of Thai origin. Following a tip-off, law enforcement authorities raided the property and arrested the couple and 12 Thai women.

Between 2007 and 2017, the FIC had received several alerts linked to the key subject, where he was reported for remitting funds as “gifts” to a single recipient in Thailand. More than R4 million was sent to this person over that period. This information supported the allegations against the subject.

Regulatory reporting

The FIC’s efforts to ensure compliance and raise awareness among accountable and reporting institutions have led to consistent increases in the number and quality of regulatory reports received.

A total of 3 394 accountable and reporting institutions submitted a combined total of just over 5.2 million reports during 2017/18 (5 million reports in 2016/17). This 4 percent increase in the number of reports received indicates an improved awareness of the reporting requirements among accountable and reporting institutions.

The FIC received 4.88 million cash threshold reports, up from 4.7 million in 2016/17, which is an increase of 3.8 percent on the previous financial year.

A total of 330 639 suspicious or unusual transaction reports were submitted to the FIC in 2017/18 (2016/17: 358 412). These reports are categorised as section 29 reports in the table below as they are received in terms of this section of the FIC Act. Between 2002/03 and 2017/18, the FIC has received a cumulative total of more than 1.8 million suspicious or unusual transaction reports. The FIC received one terrorist property report in the reporting period.

**What is a regulatory report?**

Under the FIC Act, accountable and reporting institutions are required to report certain information to the FIC:

- Cash threshold reporting – on transactions above the cash threshold of R24 999.99.
- Terrorist property reporting – property associated with terrorist and related activities.
- Suspicious or unusual transaction reporting – transactions that are unusual or arouse suspicion in terms of money laundering or terror financing activities.

**Case study: Uncovering hydroponic cannabis syndicates**

The FIC supported a law enforcement investigation between 2014 and 2017 that resulted in the successful pursuit and capture of a large syndicate on charges relating to murder, attempted murder, kidnapping, VAT fraud, and cloning of stolen motor vehicles. The South African Revenue Service and the Asset Forfeiture Unit confiscated about R486 million from the syndicate.

During this investigation, the FIC analysed reports and financial transactions that led to the identification of another large foreign syndicate that was hydroponically cultivating cannabis. The syndicate was operating both domestically and internationally.

During 2017/18, the FIC identified individuals running hydroponic operations in the North West, Gauteng and the Free State provinces. Four of these illicit operations were successfully disrupted and the subjects were arrested. Equipment valued at approximately R5 million was seized.

The FIC’s analysis of financial data helped identify various properties purchased with the suspected proceeds of crime in the KwaZulu-Natal South Coast region. In early 2018, the FIC provided a law enforcement agency with information that helped uncover eight hydroponic cannabis laboratories in KwaZulu-Natal. Four foreign nationals and three South Africans were arrested. The authorities made additional arrests in Gauteng and confiscated equipment, vehicles and cannabis products to the value of about R26 million.

## Programme 2: Delivery of intelligence on financial crime and FIC Act-related regulatory services

**Sub-programme 2.2:** The work of Monitoring and Analysis entails gathering and receiving information domestically and internationally. It interprets financial information to support law enforcement authorities, investigating agencies, prosecutorial authorities and other competent authorities in their efforts to prove crime and involves in-depth planning and co-ordination.

In providing these services, Monitoring and Analysis primarily focuses on producing financial intelligence products that typically:

- Identifies crimes and perpetrators
- Identifies assets derived from the proceeds of crime
- Provides operational intelligence that assists in decision-making and planning on topical or defined issues
- Provides strategic intelligence that contributes to shaping policy and positions.

Strategic outcome 2: Increased utilisation of FIC products and services								
Strategic objective	Performance indicator		Actual achievement 2016/17	Planned target 2017/18	Actual performance 2017/18		Performance status	Comment on deviations
Utilisation of financial intelligence increased.	2.1.1	Number of public awareness reports on the utilisation of financial intelligence. <sup>5</sup>	New indicator.	2	2		Target achieved.	N/A
	2.1.2	Percentage of identified stakeholder engagements conducted for utilisation of FIC products.	25 (KPI changed from number to percentage from 2017/18 onwards).	80%	132%		Target exceeded (+52%).	There was more than anticipated demand or opportunity for training and FIC staff were available to address that.  33 out of 25 identified stakeholder engagements conducted.
Financial intelligence cycle effectively managed.	2.2.1	Percentage of reports analysed <sup>6</sup> from available terror-related property reports <sup>7</sup> .	New indicator.	100%	100%.		Target achieved.	The utilisation of Statistical Analysis System (SAS) tool ensures that all integrated reports are assessed and analysed. The system is automated.  26 reports were received and analysed using analytical tools and processes.
	2.2.2	Percentage of reports analysed from available suspicious transaction reports. <sup>8</sup>	New indicator.	80%	99.7%		Target exceeded (+19.7%).	The utilisation of SAS tool ensures that all integrated reports are assessed and analysed. The system is automated.  331 200 reports were received and 330 145 were analysed using analytical tools and processes.
	2.2.3	Percentage of reports analysed from available cash threshold reports. <sup>9</sup>	New indicator.	60%	88%		Target exceeded (+28%).	The utilisation of SAS tool ensures that all integrated reports are assessed and analysed. The system is automated.  2 980 722 reports were received and 2 622 089 were analysed using analytical tools and processes.

5 Public awareness reports: Education and outreach to citizens on proceeds of crime and alerts/awareness on emerging scams.  
6 KPI 2.2.1–2.2.3: Analysis of the available incoming reports before the information is referred externally for financial purposes.  
7 KPI 2.2.1: Including terrorist financing activity reports, terrorist financing transaction reports and terrorist property reports.

8 KPI 2.2.2: Including suspicious activity reports, suspicious transaction reports and suspicious transaction reports batches.  
9 KPI 2.2.3: Including cash threshold reports and cash threshold reports aggregation.

### Using financial intelligence reports to protect South Africa's financial system

The FIC exceeded three targets and achieved two under this programme. The FIC works with international and national partners in law enforcement, intelligence and prosecution to protect the integrity of the financial system. It does so by producing high quality financial intelligence for authorised requestors. The FIC effectively manages the financial intelligence cycle, analysing financial information received from accountable and reporting institutions and other businesses, to produce financial intelligence reports. FIC financial intelligence reports assist in crime detection, investigation and prosecution, and the demand for such reports continues to rise.



### The FIC enhances its fight against pyramid and Ponzi schemes

The FIC, working with the banking sector, the Asset Forfeiture Unit and the South African Police Service, is enhancing its efforts to effectively combat pyramid and Ponzi schemes.

Section 27A replaced section 26 with the amendments to the FIC Act. Section 27A authorises a representative of the FIC to access any records kept by or on behalf of an accountable institution in terms of section 22, 22A or 24 of the FIC Act, on authority of a warrant. The FIC is using this power to gain lawful access to financial records of identified pyramid and Ponzi schemes via a warrant. The Asset Forfeiture Unit can use this evidence to apply for the preservation of schemes’ proceeds and the South African Police Service can use it to investigate, arrest and charge the perpetrators.

During 2017/18, the FIC applied for four warrants. It provided the evidence obtained to the Asset Forfeiture Unit, resulting in about R73.3 million being seized from pyramid and Ponzi schemes. This evidence also helped the South African Police Service in its criminal investigations.

### Contributions to investigations

The number of criminal investigations the FIC has contributed to (domestic and international requests) has steadily climbed over the past 15 years, from 161 in 2003/04 to 2 243 in 2017/18. The FIC contributed to investigations involving a range of different types of crime during the reporting period. Fraud was the most prevalent crime type in 2017/18, followed by tax-related crime narcotics, money laundering and corruption. Fighting corruption, in both the private and public sector, is central to the FIC’s work to protect the integrity of South Africa’s financial system. The FIC continued to assist law enforcement and other competent authorities in their ongoing investigations in this area in 2017/18 and referred 1 470 matters (2016/17: 1 525) for further investigation during the reporting period.

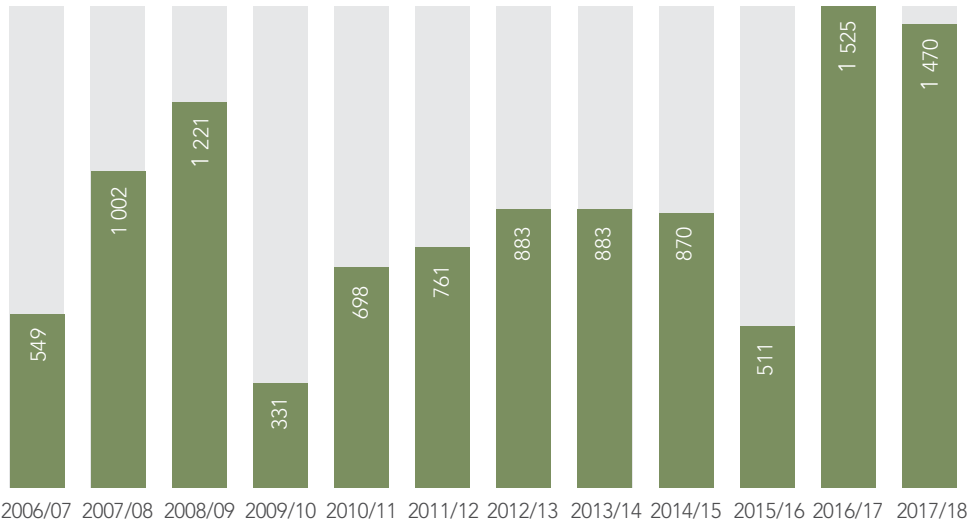


Figure 6: Referrals disseminated, 2006/07 – 2017/18

Crime type		Referrals	Requests	Combined
	Arms and ammunition	50	13	63
	Contravention of Banks Act	21	15	36
	Corruption	23	216	239
	Crimes against the state	4	11	15
	Cyber hacking	2	8	10
	Environmental crimes	24	88	112
	Exchange control contraventions	22	12	34
	Fraud	403	670	1 073
	Hijacking	0	15	15
	Illegal gambling	14	3	17
	Human trafficking	7	41	48
	Illicit cigarettes	0	14	14
	Kidnapping	6	6	12
	Money laundering	149	164	313
	Murder	0	18	18
	Narcotics	39	302	341
	Non-ferrous metals	0	27	27
	Other	9	68	77
	Precious metals and stones	0	43	43
	Racketeering	0	8	8
	Robbery	1	65	66
	Tax crimes	621	295	916
	Terrorism	75	75	150
	Theft	0	66	66
		1 470	2 243	3 713

Figure 7: Investigation requests and referrals by crime category, 2017/18

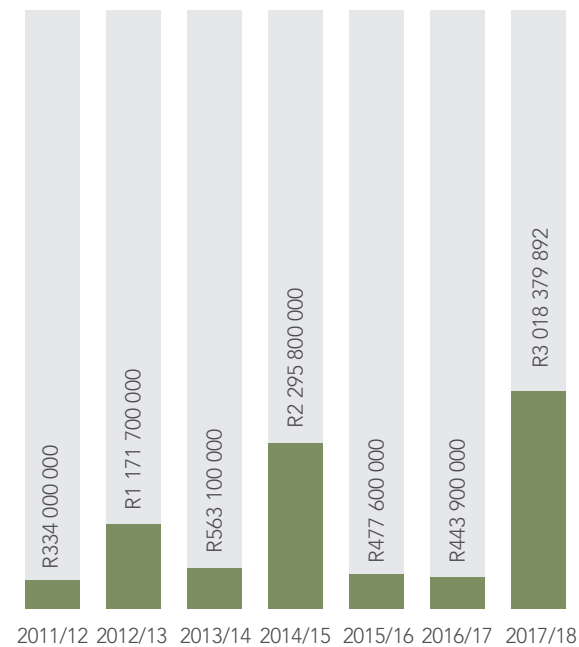


Figure 8: Value of proceeds of crime recovered, 2011/12 – 2017/18

The FIC contributed to the recovery of more than R3 billion (2016/17: R443.9 million) in criminal proceeds during the reporting period. Since 2011/12, the FIC has helped recover more than R8.3 billion in proceeds.

The FIC blocks funds that are reasonably suspected to be associated with the proceeds of crime and shares this information with the Asset Forfeiture Unit. The blocking of funds is primarily dependent on third party requests. After sharing information with the Asset Forfeiture Unit, the unit is able to seize and take control of the proceeds. During 2017/18, more than R55 million was blocked as suspected proceeds of crime. Since 2003, the FIC blocked close to R1.13 billion as suspected proceeds of crime.

The FIC also contributed to 37 judicial actions in 2017/18 (2016/17: 26).

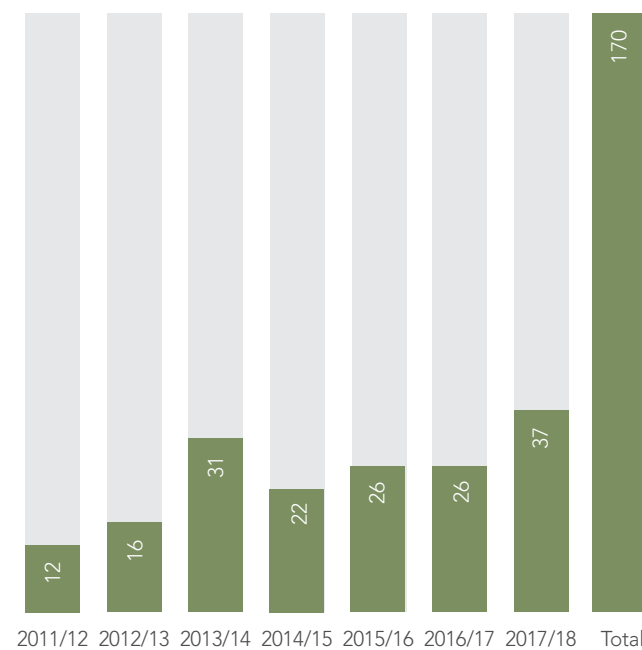


Figure 9: Contribution to judicial actions, 2011/12 – 2017/18

Between 2011/12 and 2017/18, FIC assisted in freezing more than R989 million in suspected proceeds of crime under section 34 directives.

The FIC can use a section 34 directive to instruct an institution not to proceed with a transaction, a proposed transaction or any other transaction related to that proposed transaction for a period of not more than 10 days. This is to allow the FIC to make the necessary inquiries concerning the transactions and, where necessary, to inform and advise an investigating authority or the National Director of Public Prosecutions.

### Case study: Foreign national nabbed for mutilation

FIC was approached by a law enforcement agency during 2015 to assist in investigating allegations of a foreign national's involvement in female genital mutilation.

The FIC identified a banking relationship between the subject and a banking institution, as well as various transactions of interest. It identified:

- Personal and business bank accounts
- Funds being transferred from foreign jurisdictions
- Multiple cross-border payments via the banking institution's international banking division
- Various historical cash threshold transactions and cross-border transactions.

The FIC supported the multi-agency investigation over a period of over 24 months, culminating in the subject being sentenced in March 2018 to two life imprisonment terms for rape and conspiracy to commit murder. He was also given a fine of R5 000 or six month's imprisonment for providing false information in order to remain in South Africa.

## Strengthening partnerships and raising awareness

An important part of increasing the use of FIC's intelligence products lies in improving stakeholder relationships and raising awareness of how these products can assist in detecting crime and add value to investigations. The FIC held 33 stakeholder engagements on the use of financial intelligence during 2017/18.

The information that the FIC shares with law enforcement authorities and other partners needs to be timely, comprehensive and tailored to the needs of the investigating and prosecutorial authority. Improvement in this area relies on the FIC receiving feedback on the information it produces. The FIC has therefore implemented an electronic feedback system that allows authorised users to access and evaluate the value of the financial intelligence products, and provide feedback on how this information is used.

At a broader level, the FIC works to raise awareness about common financial crimes and how citizens can avoid becoming victims of scams. It published two public awareness reports during the financial year as part of its contribution to making the country's financial system intolerant to abuse and to ensure the safety and security of South Africans. One of these reports was an online publication that detailed various types of cybercrimes.

During the period under review, the FIC conducted detailed analysis to inform accountable institutions about the risks and vulnerabilities in their sectors.

The sectoral reports have:

- Increased knowledge and awareness of the anti-money laundering and counter-terrorist financing regimes
- Increased awareness of the obligations of the various sectors under the amended FIC Act
- Improved understanding of risk-mitigating procedures.



Programme 2: Delivery of intelligence on financial crime and FIC Act-related regulatory services

**Sub-programme 2.3:** Legal and Policy focuses on administration and provides advice on matters of a strategic nature concerning money laundering and terrorist financing. This division also engages with international and regional inter-governmental bodies on behalf of South Africa. These bodies formulate and promote policies on combating money laundering and terrorist financing, and set standards in this regard for countries.

Legal and Policy has facilitated the promulgation of previous amendments to the FIC Act and monitors the actions by relevant South African authorities to implement Recommendations from the FATF’s mutual evaluation assessment report. In this way, the FIC helps fulfil international responsibilities in terms of the FATF’s standards and United Nations instruments.

Strategic outcome 3: Promoting national interest in maintaining the integrity of SA’s financial system								
Strategic objective	Performance indicator		Actual achievement 2016/17	Planned target 2017/18	Actual performance 2017/18		Performance status	Comment on deviations
Technical support to countries in the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) region.	3.1.1	Percentage response to requests for technical assistance from countries within the ESAAMLG region.	80% technical assistance requests responded to.	Response to 80% requests for technical assistance.	58%		Target not achieved.	Technical assistance was delivered in response to all requests received (12 out of 12) but some of the responses were excluded, ending with Actual of 7 responses out of 12 requests due to evidence deemed incomplete. In previous years, registers and related information were accepted as summarised evidence. Going forward more comprehensive evidence will be provided to ensure actual achievements are proven.
Participation in policy-making activities of regional and inter-governmental organisations.	3.2.1	Percentage of identified policy-making activities attended within regional and inter-governmental organisations.	Attended and participated in Financial Action Task Force (FATF) meetings [6] and ESAAMLG meetings [2].	100%	100%		Target achieved.	FATF: 6, ESAAMLG: 2.
Improve compliance with FATF standards.	3.3.1	Completion of response to FATF recommendations on anti-money laundering and counter terror financing (AML/CFT) risk assessment for South Africa.	Report approved by the FIC Director reflecting level of implementation of FATF standards.	Concept to undertake AML/CFT risk assessment for South Africa approved by the FIC Director.	Target not achieved.		Target not achieved.	Draft Concept Document is being prepared for the Director’s approval.  The delay was due to the final draft of the Concept Document being subjected to an internal review before submitting it to the Director for approval.  It is envisaged that the approval process will be completed by the end of April 2018.
Improve AML/CFT legislative framework.	3.4.1	Progress report on development of amendments to the FIC Act.	Report approved by the FIC Director reflecting development of FIC Act amendments.	Proposed amendment to the FIC Act schedules approved by the FIC Director.	Target not achieved.		Target not achieved.	Consultations in the course of March 2018 have indicated that certain potential supervisory bodies will not be ready to assume responsibility for supervision of compliance by new categories of business.  This led to further reflection on the proposal within the FIC and further consultation with potential supervisory bodies before a proposal could be finalised for the Director’s consideration.  It is envisaged that the process to develop a proposal for the Director’s consideration will be finalised by the end of May 2018.

Partnering to combat financial crime

The FIC works with financial intelligence units and other stakeholders around the world to strengthen global efforts to combat money laundering and the financing of terrorism. One of the ways this collaboration is formalised is through memoranda of understanding.

MoUs allow the FIC to exchange information with financial intelligence units globally, strengthening South Africa’s ability to assist and request assistance from international partners regarding financial crimes. The FIC continued to reinforce its international collaboration during 2017/18. To date, it has signed MoUs with 89 jurisdictions, including five in the reporting period (Lithuania, Montenegro, Romania, Russia and Spain).

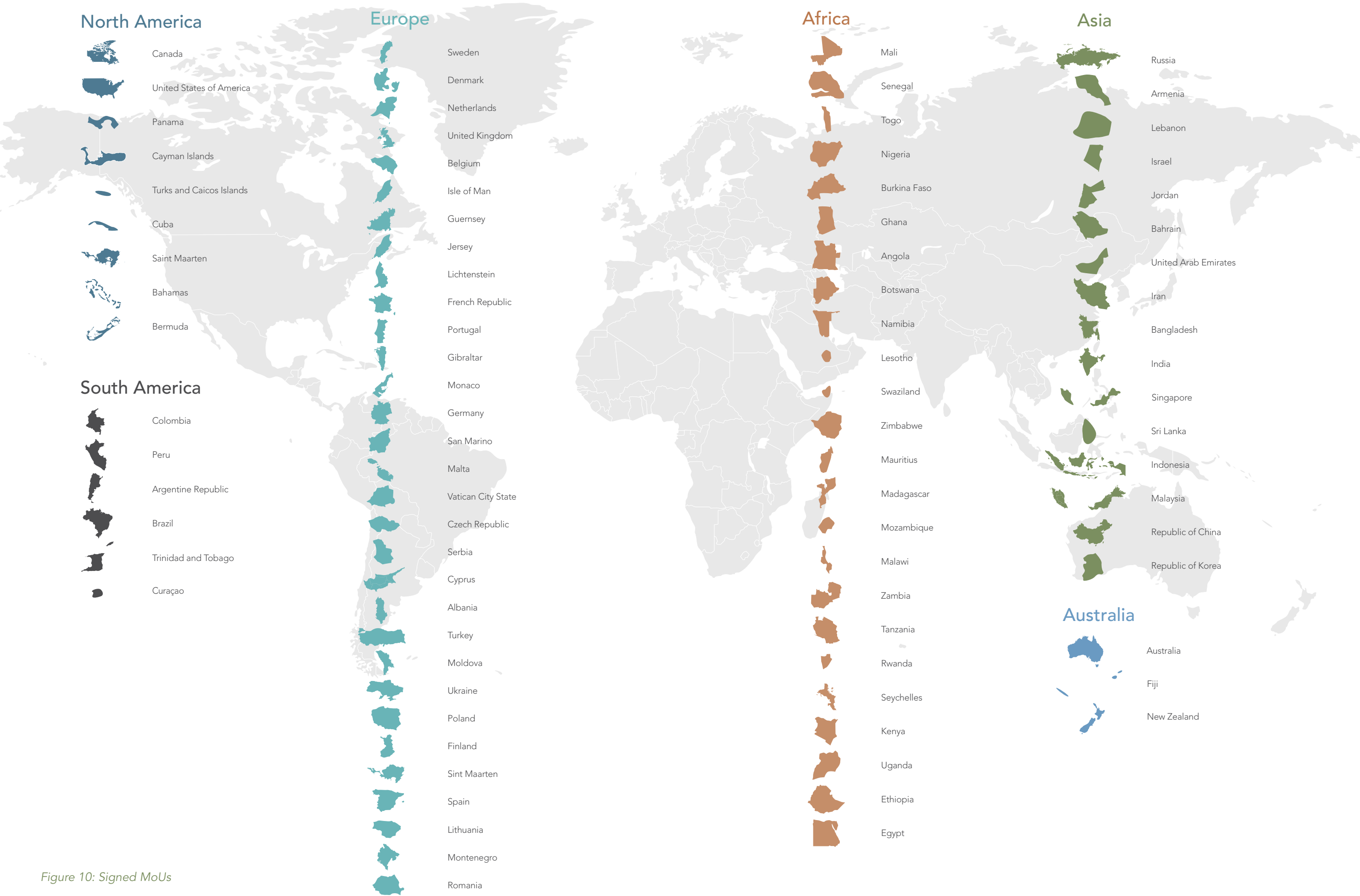


Figure 10: Signed MoUs



### Increasing international co-operation through MoUs

As a first step in signing an MoU, the FIC reviews the money laundering legislation of the candidate jurisdiction. Once the FIC's Legal and Policy division gives its approval, a draft MoU is prepared and sent to the candidate jurisdiction. If the candidate country accepts the terms and conditions of the proposed MoU, the agreement can be signed.

When choosing an MoU candidate country, the FIC takes the following into consideration:

- Various FATF recommendations in the jurisdiction and its mutual evaluation report.
- Terrorist financing offences.
- The jurisdiction's laws on criminalisation of predicate offences such as tax evasion.
- The jurisdiction's legal provisions on access to information and how it compares with South African law.
- The volume of financial flows between the jurisdictions. This is significant when it comes to tax evasion and priority crimes.
- Media reports on South African individuals and entities implicated in crimes in the jurisdiction.

### The Egmont Group

The FIC is a member of the Egmont Group of Financial Intelligence Units, which extends its ability to share information with counterparts around the world. During 2017/18, the FIC continued to actively participate in the Egmont Group, drawing on the vast experience of those involved, and providing its own input.

The FIC co-sponsors a majority of the ESAAMLG financial intelligence units to help them become Egmont Group members. Working with a co-sponsor, the FIC has advanced the membership process for two financial intelligence units. This was achieved during the March 2018 Egmont Working Group meetings. The Egmont heads of the financial intelligence units will decide on the membership of the two financial intelligence units at the Egmont Group Plenary meeting to be held in September 2018.

At a policy-making level South Africa is part of a global network of close to 200 countries that aim to combat money laundering and the financing of terrorism. The global network consists of the members of the FATF, the ESAAMLG and eight other FATF-style regional bodies. During 2017/18, the FIC continued to lead South Africa's delegations at meetings with the FATF and ESAAMLG.

### ESAAMLG

In 2017/18, the FIC continued to strengthen its regional partnerships, which are crucial to combating cross-border financial crimes regularly taking place between South Africa, its neighbours and across the continent.

The FIC participated in all ESAAMLG meetings and provided substantial support for its activities. For example, the FIC hosted delegates from ESAAMLG member countries in discussions to draft terms of reference for a knowledge-sharing programme that will help financial intelligence units place analysts with each other in secondment positions.

The FIC supported the ESAAMLG's mutual evaluation programme by enabling an official from the South African Reserve Bank to participate as an assessor in the mutual evaluation of Botswana. In addition, the FIC continues to support the ESAAMLG Secretariat through the part-time secondment of a FIC official to lead and mentor teams conducting mutual evaluations of the ESAAMLG member countries.

The FIC received requests for technical assistance from countries in the ESAAMLG region. It participated in technical assistance missions to Angola, Botswana, Ethiopia, Lesotho, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe to build capacity in these countries.

The FIC helps financial intelligence units develop their tactical and strategic analysis capabilities. It advises them on the use of analytical tools to mine the data they receive, and identify money laundering and/or terror financing trends. This assistance supports the financial intelligence units towards producing relevant and reliable financial intelligence that can be disseminated to appropriate law enforcement agencies.

FIC's support is particularly helpful to financial intelligence units in the ESAAMLG region that are working towards Egmont Group membership. One such example was an on-site Egmont readiness visit to Ethiopia's financial intelligence unit to help it progress towards becoming a member of the Egmont Group.

### The FATF

The FIC continues to prepare for the next round of International Monetary Fund/FATF/ESAAMLG assessment of South Africa's anti-money laundering, counter terror financing and proliferation of financing regime and system, which is expected to take place in 2019. Central to these preparations is the implementation of the amendments to the FIC Act, which was a key focus for the FIC during 2017/18. The amendments ensure South Africa is in line with the FATF Recommendations from the previous mutual evaluation, conducted in 2009, and global best practice.

The FIC worked over the intervening years on updating and amending the FIC Act and its regulations to bring the Act in line with international standards and policies on anti-money laundering and counter terrorism financing.



### Paving the way for international fund transfer reporting

During the period under review, the FIC has been preparing for the implementation of section 31 of the FIC Act, which deals with any cross-border flow of funds, into and out of the country on behalf of, or on the instruction of, another person. This section of the Act is in line with FATF Recommendation 16 on wire transfers.

Once implemented, certain accountable institutions will be required to report information to the FIC concerning the cross-border transfers of funds and the parties involved in the form of a new report type called an international fund transfer report.

Section 31 of the FIC Act is only applicable to accountable institutions that are involved in cross-border money transfers and institutions which are licensed by the Reserve Bank to perform such transactions.

The FIC has been engaging with these institutions since September 2016 to explain these reporting requirements and address any issues that these entities may encounter. The accountable institutions have also been given access to a registration and reporting testing environment to practice the working of the new report type. The FIC has engaged with supervisory bodies including the Reserve Bank's Financial Surveillance and National Payment Systems departments, as well as other stakeholders like the Payment Association of South Africa, to understand the cross-border information that the applicable institutions have and how this information is reported in existing payment systems.

This new reporting stream is intended to go live around March/April 2019 and further supports South Africa's commitment to the implementation of the FATF Recommendations.



## Amendments to the FIC Act

The amendments target four areas key to protecting the integrity of South Africa's financial system:

- Adopting a risk-based approach to customer due diligence
- Identifying who really owns and benefits from companies
- Improving the management of relationships with prominent influential persons
- Imposing United Nations Security Council financial sanctions.

Following the signing of the FIC Amendment Act into law on 26 April 2017, the FIC has been working to implement the amendments based on a roadmap set out by the Minister of Finance. The roadmap aims to assist supervisory bodies and accountable institutions on the next steps in bringing the various sections of the Act into operation.

The majority of the provisions of the FIC Amendment Act came into operation during 2017 (on 13 June and 2 October 2017). The provisions that are now in force include:

- Extending the list of institutions with which the FIC may share information.
- Dealing with the constitutional invalidity of the previous provision on inspections.
- Decriminalising certain conduct under the FIC Act by making compliance failures subject to administrative sanctions.
- Extending the obligations on accountable institutions by requiring them to identify the beneficial owners of their clients.
- Managing relationships with prominent persons and carrying out ongoing due diligence on their business relationships.
- Introducing a requirement to apply a risk-based approach when establishing the identity of a client.

Giving effect to these provisions required substantial amendments to regulations and withdrawal of exemptions that were made redundant by the implementation of a risk-based approach. To put the amendments to the FIC Act into practice, the FIC worked closely with the National Treasury, the South African Reserve Bank and the Financial Services Board to conduct the necessary public consultation on these changes and prepare the draft amendment and withdrawal notices for the Minister of Finance to table in Parliament and publish in the Government Gazette. The FIC also developed the necessary guidance to support compliance with the new requirements that applied to accountable institutions. This ultimately led to the issuing of Guidance Note 7 on the implementation of various aspects of the FIC Act in October 2017.

Some sections of the FIC Amendment Act are expected to come into operation in 2018/19 when the mechanisms required for these sections are developed and in place. These relate to the implementation of targeted financial sanctions in terms of the United Nations Security Council Resolutions.

The sanctions will restrict individuals and entities listed by the United Nations Security Council from accessing funds or property, or receiving financial services relating to such funds and property. Accountable institutions will not be allowed to transact with these sanctioned individuals or entities. The FIC will be responsible for administering the measures requiring accountable institutions to freeze property or transactions that are subject to these resolutions.

## Broadening the list of business sectors under the FIC Act

During the reporting period, the FIC began a consultation process with a range of business sectors that may be included as accountable institutions in future. This will strengthen the FIC's ability to combat financial crime and protect the integrity of the financial system.

Consultations were held with the following sectors:

- Trust and company service providers
- Co-operative banks
- Short-term insurers
- Credit providers
- High-value goods dealers
- Virtual currency exchanges.

During these consultations it became apparent that more discussion was needed to determine the scope of the changes that will be made to include new categories of business as accountable institutions and to prepare some of these sectors for their compliance responsibilities. This process will be finalised in 2018/19.

## Assessing South Africa's money laundering and terror financing risks

Understanding money laundering and terror financing risks is an essential part of developing and implementing a national response to such threats.

Once these risks are properly understood, countries can apply a risk-based approach, implementing measures that correspond to the level of risk. This approach, which is central to the FATF's recommendations, enables countries to prioritise and allocate their resources efficiently.

During the reporting period, the FIC developed a proposal to conduct an assessment of the money laundering and terror financing risks facing South Africa. The proposal is based on guidance from international policy development and standard-setting bodies, as well as international best practice. The proposal is undergoing final review and on completion will be used as the basis for a money laundering and terrorist financing risk assessment, which is expected to start in the next financial year.



### Case study: Supplying food to the Zama Zamas

The FIC was asked to support an investigation into a syndicate illegally supplying food to Zama Zamas (illegal miners) in Welkom in the Free State. Law enforcement authorities identified a vehicle transporting food intended for the Zama Zamas. The food supplier would get a "shopping list" from a legal miner in contact with the illegal miners. The supplier would then take the prepacked bags filled with clothes, batteries, food and toiletries and toss them down to Zama Zamas through a ventilation shaft on specific days. The FIC helped the investigators locate the house where the food and other products were packaged by women and children.

The FIC analysed the syndicate's spending patterns and bank statements. The syndicate would buy items from a motor parts dealer in a specific area and, not long thereafter, buy fast food to the value of about R45 000. The syndicate also made purchases at a local clothing retailer. This information led the investigation team to identify the syndicate members using video footage from various shopping centres.

Eleven subjects were arrested and the Asset Forfeiture Unit obtained a preservation order on the vehicles that were used. The criminal case is currently pending in Welkom.

Programme 3: Enablement of financial intelligence capabilities

This programme comprises some parts of Corporate Services, including ICT, human resources, facilities and projects.

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 that is not necessarily part of service delivery processes. The primary focus of the budget programme is on enhancing the FIC's ability to deliver services to internal clients and other identified stakeholders, enabling it to become a sustainable and capable organisation.

Building a secure and efficient organisation

Every day the FIC receives and holds vast amounts of information in support of its mandate. The FIC ensures that its systems are running optimally and available to receive registrations and reports. It is critical that this information is kept safe and secure. This was a key focus for the FIC's ICT business unit during the reporting period.

Measures to improve the security of information and modernise the FIC's systems included:

- Conducting an ICT environment security risk assessment.
- Procuring an ICT security and incident management service to monitor threats.
- Deploying an ICT vulnerability management solution for the prevention of network threats such as hacking, viruses or malware. More than 500 vulnerabilities were identified and addressed during 2017/18. Periodic scans lower the FIC's ICT risk significantly.
- Implementing a system that allows employees to access and transfer information securely, without the use of external USB drives, for example.
- Ensuring all communication is encrypted, and conducting regular user training and awareness raising.
- Identifying an off-site business recovery location.

Strategic outcome 4: Ensuring a safe, secure, compliant and efficient operating environment								
Strategic objective	Performance indicator		Actual achievement 2016/17	Planned target 2017/18		Actual performance 2017/18	Performance status	Comment on deviations
ICT platform and business systems modernised.	4.1.1	Implementation of the ICT platform and business systems initiatives.	Upgraded anti-money laundering analytics solution stabilised in operations with additional enhancements.	Analytics case management system is functional to service law enforcement requirements.		Target achieved.	Target achieved.	Analytical case management system is functional for law enforcement agencies to request information from the FIC.
				Regulatory Statistical Reporting System is functional to service supervisory bodies' requirements.		Target not achieved.	Target not achieved.	The web statistical toolbox is not yet delivered by the UNODC (United Nations Office on Drugs and Crime) and therefore the testing is delayed.  Delivery date of the web statistical toolbox by UNODC is scheduled for August 2018.
Internal control requirements complied with.	4.2.1	Percentage completion of internal control action plans.	AG findings resolved.	100% completion of corrective actions for resolution of AG findings.		83%	Target not achieved.	Corrective action on 2 of the findings was completed late but significant progress was made on the 2 procedure-related findings under the supply chain management function (total findings were 12).  Additional verification will be done in 2018/19 and the already implemented controls are expected to pass as amounting to 100% resolution of the 2 findings.
The right people employed for delivery of FIC objectives.	4.3.1	Average percentage of the approved staff positions occupied.	New indicator.	Average 90% of the approved staff positions occupied.		95%	Target exceeded (+5%).	Vacant posts were filled faster than anticipated. A total headcount of 206 employees comprising permanent, contract and graduate trainees.
Staff capabilities enhanced.	4.4.1	Percentage of training budget allocation spent.	New indicator.	95% of allocated budget spent.		66%	Target not achieved.	The initial budget of R1 958 224 was reduced to R1 758 224 (R200 000) due to savings being realised, the difference was re-directed to other budget items that had shortfalls. The total 29% or R603 984 variance was due to:  1. Postponed training which will take place during April and May 2019; the funds will be rolled over for this purpose. 2. Bursary applications lower than expected from staff.  R1 154 236 was spent of the total budget of R1 758 224. Training budget spend was R1 027 537 and R126 700 for bursaries.



Case study: Cyber fraud

The FIC received an alert when a person in a neighbouring jurisdiction was defrauded of a large amount of money that was transferred to a South Africa financial institution. Some funds were transferred to a virtual currency exchange and subsequently converted into a basket of virtual currencies, including Bitcoin. Some funds were irrecoverable because they were transferred to another virtual currency exchange in a foreign jurisdiction.

The FIC froze the account held with the virtual currency exchange using a section 34 directive. It also provided an affidavit that led to the Asset Forfeiture Unit obtaining a preservation order from the High Court in Johannesburg.

During the reporting period, the organisation implemented an analytics case management system, which allows law enforcement agencies to request information from the FIC, thereby improving collaboration.

Work to enhance and stabilise the FIC’s registration and reporting system continued in 2017/18. The FIC also created training videos on how to use the registration and reporting platform, which are available on YouTube.

Ensuring the FIC has an up-to-date and secure ICT environment requires a highly skilled ICT team. The organisation invests in training and development to ensure employees are motivated and kept abreast of technological advances. As part of the FIC’s technical assistance, it has shared its ICT expertise with countries that are establishing financial intelligence units.

In addition to developing the skills of ICT employees, the FIC strives to enhance the capabilities of all of its employees. In October 2012, the FIC began implementing its two-year graduate programme with the aim of helping graduates gain skills the FIC requires. The programme has helped prepare young South Africans for a career in compliance and anti-money laundering.

As part of the FIC’s intention to nurture its own technical skills, the FIC continued to implement its learning and development strategy, which was adopted in 2015/16. This includes implementing a career development framework, strengthening the FIC’s talent management policy framework, and laying the foundation for talent reviews and succession planning. The focus for 2017/18 was on ensuring the credibility of the performance management system.



Case study: Foreign nationals drug bust

The FIC assisted a law enforcement agency in a significant narcotics seizure to the value of about R500 million. Financial intelligence established that the foreign nationals under investigation had significant interests in several business entities in South Africa. Some of these entities owned a number of motor vehicles used for a car hire business, while another owned and sold motorcycles.

The FIC established that the foreign nationals were using their personal and business entity accounts to facilitate the smuggling of drugs out of South Africa. Their accounts showed significant transactional activity that indicated the co-mingling of money derived from lawful activities with funds derived from unlawful activities (i.e. as in money laundering).



Case study: Cracking a virtual currency Ponzi scheme

The FIC identified what appeared to be an alleged Ponzi scheme run by an individual marketing a “new virtual currency”. This product was marketed as Africa’s first virtual currency and investors were promised huge returns on their investments.

The FIC’s analysis of the individual’s bank statements revealed that there was no virtual currency and that this was indeed a Ponzi scheme.

A restraining order was issued for more than R2.8 million in proceeds from the alleged scheme, and the FIC assisted the Asset Forfeiture Unit in obtaining a preservation order relating to fixed property worth more than R4 million that was bought using the proceeds of the scheme.

During 2017/18, the FIC:

- Completed 51 technical skills learning interventions
- Supported seven employees in obtaining professional certifications
- Awarded 12 bursaries.

The FIC had 199 employees (including four graduates and 10 fixed term employees) at the end of the reporting period. The organisation remains committed to employee equity.

The FIC continued to maintain and improve internal controls and administration standards.

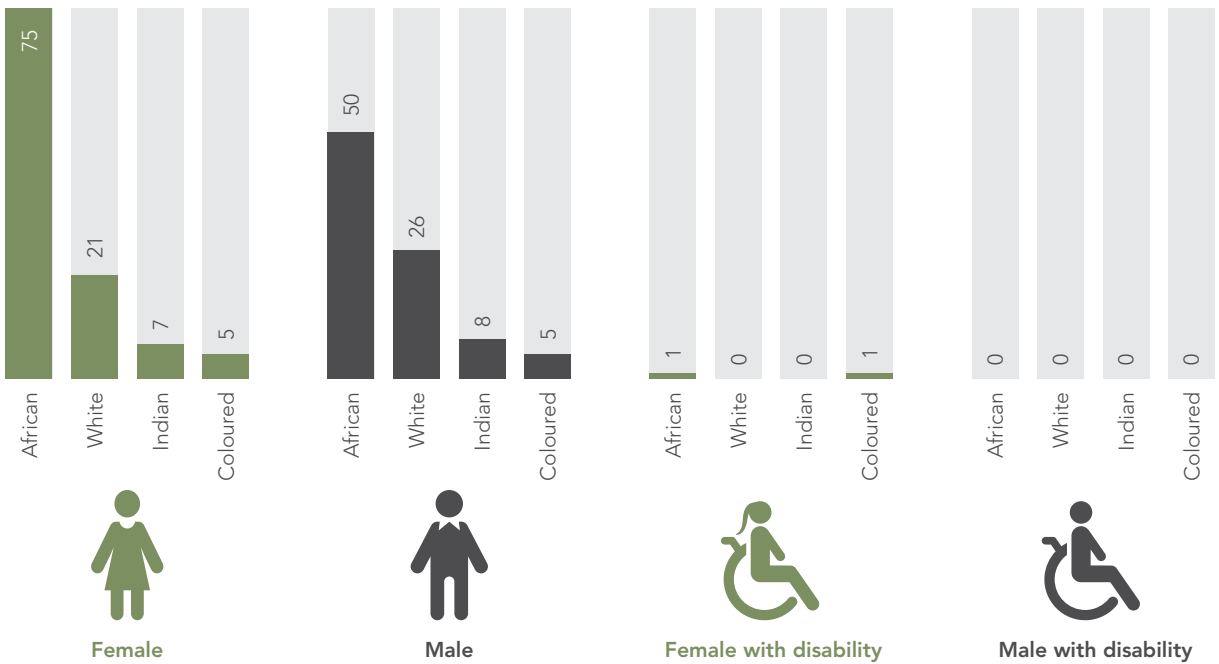


Figure 11: FIC employee profile, 2017/18.

## PART C: GOVERNANCE

### INTRODUCTION

*The FIC has adopted a corporate governance model that is underpinned by the values of authenticity, ethics, integrity and accountability. It is also aligned with the organisation's four strategic outcomes.*

The approach is in keeping with the provisions of King IV, which require the alignment of human behavioural traits with the effective implementation of corporate governance, and an outcomes-based model for long-term organisational sustainability and effective stakeholder engagement.

The FIC follows best practice and legislative requirements that apply to Schedule 3A national public entities. The governance structures tasked with ensuring that the FIC meets its strategic objectives and operates in line with its mandate are the:

- Executive Committee
- Joint Operations Committee (replaced by a Management Forum)
- Audit Committee
- Risk Committee
- Information and Communications Technology Corporate Governance Committee.

### ACCOUNTING AUTHORITY

*The Director of the FIC is the accounting authority and reports directly to the Minister of Finance and to Parliament.*

In addition to the regular oversight responsibilities exercised by the FIC Executive Committee, an executive structure has been established to promptly resolve any issues raised by the Auditor-General of South Africa's annual audit findings. The chairperson is a FIC executive member who reports to the Executive Committee.

### ENTERPRISE RISK MANAGEMENT

*The FIC subscribes to the National Treasury's Risk Management Framework and other international best practices to identify, analyse, monitor and communicate internal and external risks. This approach ensures that risks are continuously identified, assessed yearly and shared with relevant stakeholders.*

The risk management function aims to:

- Integrate risk concerns into the FIC's daily decision-making and implementation processes.
- Identify and manage risks in line with the FIC's strategy and objectives.
- Improve the FIC's ability to prevent or respond to critical risk issues by executing risk management plans and recommendations, and by monitoring their implementation.
- Comply with appropriate risk management practices in terms of corporate governance guidelines and King IV.
- Create a risk-aware culture and embed risk-based approaches in operational, tactical and strategic decision-making within the FIC.

The FIC has adopted an enterprise-wide approach to managing risk, which is defined in an enterprise risk management framework. The FIC recognises that the complex financial sector environment requires risk management processes and strategies that can evolve over time and which are subject to ongoing review and modification.

The principles of the enterprise risk management framework are embodied in King IV and the ISO 31000 and Committee of Sponsoring Organisations of the Treadway Commission frameworks. In fulfilling its enterprise-wide risk management responsibilities, the FIC uses top-down and bottom-up approaches in addressing risk. The top-down approach entails risk workshops with the Executive, Audit and the Risk committees and the accounting authority. The bottom-up process entails implementing risk management processes, developing operational risk registers and taking action at an operational level to mitigate risks.

Achievements in mitigating strategic risks include:

- Gazetting the amended FIC Act. Most of the Act’s provisions came into effect during 2017, see earlier sections of this report for details on these provisions.
- Updating business impact analysis plans for FIC’s business continuity management.
- Updating the regulatory reporting user guides to assist accountable and reporting institutions.
- Engaging with supervisory bodies in the designated non-financial businesses and professions sector.
- Completing the compliance audit assessment.
- Creating registration and reporting training manuals and presentations to help entities comply with the amended FIC Act.
- Completing the ICT environment security assessment and putting in place a 24/7 service to monitor threats.
- Participating in and influencing local and international bodies on reforms within the FIC’s line of work, and ensuring that South Africa keeps abreast of developments.

Risk profile

The FIC’s corporate risk profile provides an overview of the organisation’s principal risks and risk landscape.

No.	Principal risk	Inherent risk	Residual risk
1	Non-compliance with the FIC Act.	High	Priority 3
2	Inadequate use of FIC products and services by external stakeholders (including law enforcement agencies).	High	Priority 3
3	Inadequate human resources capacity.	High	Priority 3
4	Inadequate protection and management of information, records, communication and FIC work environment.	High	Priority 3
5	Inadequate delivery of ICT services to support FIC operations.	Extremely high	Priority 2
6	Inadequate business continuity management framework (plans, processes and infrastructure).	Moderate	Priority 3

Major risk categories

The FIC continuously enhances and updates its enterprise risk management framework to ensure that the identification and management of risks are embedded in the organisation’s corporate governance structures, strategic and annual performance planning, reporting processes, policies, values and culture.

Risk category	Strategic outcomes	Risks	Controls
Regulatory compliance and legal.	Implementation and maintenance practices.	Non-compliance with laws and regulations.	Ongoing tracking of existing legislation and introduction of new legislation.  Automated tracking of changes in legislation in place.  Regulatory universe in place reviewed annually.  Staff trained on key legislation.  Audits on FIC’s compliance conducted.
Operational risk:  (i) Business continuity management.	Ensuring a safe, secure, compliant and efficient operating environment.	Inadequate business continuity management framework (plans, processes and infrastructure).	Business continuity management and disaster recovery plans in place.  Crisis and emergency management and recovery teams in place.  Occupational Health and Safety Committee in place.
(ii) ICT.	Ensuring a safe, secure, compliant and efficient operating environment.	Inadequate delivery of ICT services to support FIC operations.	Security incident and event management solution implemented.  ICT environment security risk assessment done.

Risk governance and combined assurance

The FIC has also adopted a combined assurance methodology in line with King IV to ensure a more integrated approach to managing risks. This methodology is carried out through collaboration between management, risk management, compliance and internal audit. These internal assurance providers participate in the annual review of the enterprise risk management framework.

INTERNAL CONTROL

The FIC appointed an external service provider to manage the internal audit function during the reporting period. The FIC subscribes to a risk-based audit method. The internal audit service provider submits a three-year rolling plan to the FIC through the Audit Committee for each financial year.

The internal audit service provider conducted an enterprise risk management effectiveness review and business continuity management audits during 2017/18. The findings were shared with management and action plans developed to address identified shortcomings. Management tracks the findings and reports to the Audit Committee quarterly.

The ongoing assessment of the FIC’s compliance with regulations ensured that identified gaps were addressed. For the period under review, there were no significant gaps regarding compliance with regulations. The medium-term focus includes continued compliance with existing regulations and addressing compliance with amended or new regulations. Examples to be covered in the FIC’s future reports range from new information management regulations to human resource regulations, at national or international levels.

BUSINESS CONTINUITY MANAGEMENT AND DISASTER RECOVERY

The FIC has a crisis management team in place, as per its business continuity management strategy. During the year under review, the FIC conducted workshops to educate employees about business continuity management and business impact analysis plans. It held one crisis simulation and nine ICT disaster recovery exercises to assess its readiness to respond to disasters.

FRAUD AND CORRUPTION

The corruption prevention, detection and investigation framework and its associated implementation plan was developed and approved by the accounting authority during 2017/18.

The FIC has a dedicated, anti-corruption hotline call-in service which is available to the public at all times. Calls to the hotline are dealt with anonymously and reference numbers are issued to callers. No corruption cases were received by the hotline service during the period under review.

MINIMISING CONFLICT OF INTEREST

All employees are required to declare external interests, irrespective of whether these generate regular income or not. Employees are required to secure the consent of the Director of the FIC at least once every year for any external remunerative work. The FIC has a policy and procedure in place regarding the receipt of gifts, donations and sponsorships to prevent internal fraud and corruption.

The FIC continues to update and align its policies and procedures to comply with the Public Administration Management Act, 2014 (Act 11 of 2014). It has also updated employment contracts for all employees joining the organisation.



# CODE OF ETHICS AND CONDUCT

The FIC has adopted a code of ethics and conduct, which it reviews regularly. Frequent training sessions and information-sharing initiatives are held to remind employees of their commitment and obligations. Breaches of the code are dealt with swiftly and decisively.

# HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

The Occupational Health and Safety Committee met four times in the 2017/18 financial year and two minor incidents, which required no further action, were reported.

# AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2018.

## Background

The composition of the Audit Committee during the year under review was:

Name	Qualifications	Date of appointment	Contract end date
Mr R N Theunissen	B. Acc.; CA(SA); R.A.; Diploma in Criminal Justice & Forensic Auditing (RAU)	30 March 2015	31 July 2018
Mr P Phili	B Com (Acc.); B Com Hons; CA (SA); Cert of Advanced Auditing (RAU/UCT); M. Com	30 March 2015	31 July 2018
Ms P N Sibiya	B Com (Acc.); CA (SA); Cert Theory in Accounting (UKZN)	30 March 2015	31 July 2018

The meetings held and attendances at the meetings during the year under review were as follows:

Meeting date	26 April 2017	25 May 2017	28 July 2017	30 October 2017	8 February 2018
Attendance:					
Mr R N Theunissen	√	√	√	√	√
Mr P Phili	X	√	√	√	√
Ms P N Sibiya	√	√	√	√	√

## Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from Section 51(1)(a)(ii) of the Public Finance Management Act and Treasury Regulation 27.1. The Audit Committee also reports that it has adopted formal terms of reference as the Audit Committee Charter, regulated the affairs in compliance with the charter and discharged all the responsibilities contained therein.

## The effectiveness of internal control

The internal audit function is outsourced and the outsourced internal audit representatives attended all Audit Committee meetings.

Based on the assessment of the work done for the year under review the committee believes that the internal audit function has provided professional, independent and objective assurance to the operations of the FIC and has added value to the operations of the FIC.

Internal audit reports were concluded and discussed with management and action plans were monitored for implementation on a continual basis.

## In-year management and monthly/quarterly report

The Audit Committee has had sight of the quarterly reports submitted to the Executive Authority, the Minister of Finance, during the year under review and can confirm that the entity reported monthly and quarterly to the National Treasury as is required by the PFMA.

# General

The Audit Committee is responsible for, and fulfilled, the following responsibilities:

- Reviewed the accounting practices adopted by the entity
- Reviewed the accounting policies adopted by the entity and proposed changes in accounting policies and practices, and recommended any changes considered appropriate
- Reviewed and recommended disclosed financial information
- Considered the programmes introduced to improve the overall ethics of the entity and reviewed reports from management and the internal auditors relating to material issues
- Monitored ethical conduct by the entity, its executives and senior management
- Monitored the entity's compliance with all applicable legislation and regulations
- Reported in terms of any unauthorised and fruitless and wasteful and irregular expenditure in terms of the PFMA
- Ensured co-operation between the external auditor and internal audit by clarifying and co-ordinating their roles and functions and that the combined assurance received is appropriate to address all significant risks
- Considered the King Code of Governance recommendations and their applicability to the entity
- Assisted management in carrying out its risk management and ICT responsibilities
- Receiving and dealing appropriately with any complaints and/or allegations of wrongdoing, including fraud. No such complaints were received during the year under review or to the date of this report.

The internal auditors and external auditors had and have direct access to the chairman of the committee and its members. The committee's agendas provided for confidential one-on-one in-committee meetings with the members.

# Risk management

The FIC has a Risk Committee which compromises 3 independent members and meets quarterly.

The Risk Committee formally reports to the Audit Committee in terms of its activities and the FIC's management of risk. Internal audit adopts a risk-based approach and the Audit Committee approved the internal audit plan for the year under review.

The Risk Committee considers that the FIC's risk management is effective.

# Evaluation of financial statements

The Audit Committee has reviewed the annual financial statements prepared by the FIC.

# Auditor's report

The FIC's implementation plan for audit issues raised in the prior year has been reviewed by the Audit Committee, which is satisfied that the matters are being adequately resolved.

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.



**Robin Neill Theunissen**  
Chairperson of the Audit Committee  
Financial Intelligence Centre

30 July 2018

# INTRODUCTION

During the reporting period, the FIC developed and reviewed policies to strengthen the human resources governance framework and risk management. It hosted a range of employee wellness and awareness sessions. Employees have also created a FIC social club to provide a platform for socialising and networking within the organisation.

The FIC reviewed its employee performance management process during 2017/18 to ensure it is credible and effective. The insights drawn from the review will inform changes to the performance management system to be undertaken in 2018/19.

Attracting and retaining employees remains a challenge. When coupled with budgetary constraints, the FIC’s ability to increase its technical skills is limited. As the FIC’s responsibilities expand and the value of its work is increasingly recognised, the organisation will have to do more with its limited resources. In addition, constantly evolving technology means that the FIC needs to re-skill its employees to be able to address changing demands.

In 2018/19, the focus will be on articulating the employee value proposition to improve attraction and retention of talented employees. Human resources will conduct a skills audit to facilitate capacity planning and career mobility.

# HUMAN RESOURCES OVERSIGHT STATISTICS

## Personnel cost by programme/activity/objective 2017/18

Programme/activity/objective	Total expenditure for the entity (R)	Personnel expenditure (R)	Personnel exp. as a % of total exp.	No. of employees	Average personnel cost per employee (R)
Total expenditure	250 908 000	156 771 000	62.5	222*	706 176

\* During the financial year the FIC remunerated 222 employees. At the end of the reporting period, the FIC had a staff complement of 199 employees including 4 graduate trainees and 10 fixed-term contract employees linked to projects.

## Personnel cost by salary band 2017/18

Level	Personnel expenditure (R)	% of personnel exp. to total personnel cost	No. of employees	Average personnel cost per employee (R)
Top management	10 494 054	6.7	7*	1 499 151
Senior management	19 396 351	12.4	12	1 616 363
Professional qualified	27 970 263	17.8	25	1 118 811
Skilled	85 021 747	54.2	134	634 491
Semi-skilled	13 750 442	8.8	43	319 778
Unskilled	138 144	0.1	1	138 144
TOTAL	156 771 000	100	222**	5 326 736

\* During the course of the financial year, 7 executives were remunerated.

\*\* During the course of the financial year, the FIC remunerated 222 employees. At the end of the reporting period, the FIC had a staff complement of 199 employees including 4 graduate trainees and 10 fixed-term contract employees linked to projects.

## Performance rewards 2017/18

Level	Performance rewards (R)	Personnel expenditure (R)	% of performance rewards to total personnel
Top management	569 411	10 494 054	6.7
Senior management	1 068 236	19 396 351	12.4
Professional qualified	1 300 621	27 970 263	17.8
Skilled	3 740 154	85 021 747	54.2
Semi-skilled	515 039	13 750 442	8.8
Unskilled	6 530	138 144	0.1
TOTAL	7 199 991	156 771 000	100

## Training costs 2017/18

Programme/activity/objective	Training expenditure (R)	Training expenditure as a % of personnel cost	No. of employees trained	Avg training cost per employee (R)
Staff training	1 794 031	1.1	229	7 834
Bursaries	58 600	0.0	12	4 883
TOTAL	1 852 631	1.1		12 717

## Employment and vacancies

Programme/activity/objective	No. of employees 2016/17	Approved posts	No. of employees 2017/18	Vacancies	% of vacancies
Top management	5	5	5	0	0.0
Senior management	13	12	12	0	0.0
Professional qualified	24	25	24	1	0.5
Skilled	114	128	108	20	9.7
Semi-skilled	36	35	35	0	0.0
Unskilled	1	1	1	0	0.0
TOTAL	193	206	185*	21	10.2

\* At the end of the reporting period, the FIC had a staff complement of 185, excluding its 4 graduate trainees and 10 fixed-term contract employees linked to projects.



## Employment changes 2017/18\*

Salary band	Employment at beginning of period	Appointments	Terminations	Employment at end of the period
Top management	5	2	2	5
Senior management	13	0	1	12
Professional qualified	24	0	0	24
Skilled	114	22	28	108
Semi-skilled	36	0	1	35
Unskilled	1	0	0	1
<b>TOTAL</b>	<b>193</b>	<b>24</b>	<b>32</b>	<b>185**</b>

\* All senior management and technical skills positions were filled. Filling positions requiring compliance skills is a challenge as these skills remain scarce in the labour market.

\*\* At the end of the reporting period, the FIC had a staff complement of 185, excluding its 4 graduate trainees and 10 fixed-term contract employees linked to projects.

## Reasons for staff leaving 2017/18\*

Reason	Number	% of total no. of staff leaving
Death	0	0.0
Resignation	27	13.1
Dismissal	2	1.0
Retirement	0	0.0
Ill health	0	0.0
Expiry of contract	3	1.5
<b>TOTAL</b>	<b>32</b>	<b>15.6</b>

\* During the reporting period a talent management framework was developed to provide a structure within which to manage the risks of staff attrition, skills shortages, retention, engagement, growth, development and performance.

## Labour relations: misconduct and disciplinary action 2017/18

Nature of disciplinary action	Number
Verbal warning	1
Written warning	2
Final written warning	2
Dismissal	2

## Equity target and employment equity status 2017/18

Levels	Male							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	1	1	1	1	1	1	2	2
Senior management	4	3	0	1	1	1	2	1
Professional qualified	4	3	0	1	2	2	6	8
Skilled	38	39	5	7	5	2	16	18
Semi-skilled	7	5	1	0	0	0	0	0
Unskilled	1	1	0	0	0	0	0	0
<b>TOTAL</b>	<b>55</b>	<b>52</b>	<b>7</b>	<b>10</b>	<b>9</b>	<b>6</b>	<b>26</b>	<b>29</b>

Levels	Female							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	0	0	0	0	0	0	0	0
Senior management	2	2	0	0	1	1	2	2
Professional qualified	5	3	1	2	1	1	4	4
Skilled	45	39	3	4	5	7	8	10
Semi-skilled	36	25	1	1	0	1	5	4
Unskilled	0	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>88</b>	<b>69</b>	<b>5</b>	<b>7</b>	<b>7</b>	<b>10</b>	<b>19</b>	<b>20</b>

Levels	Disabled staff			
	Male		Female	
	Current	Target	Current	Target
Top management			0	
Senior management			0	
Professional qualified			0	
Skilled			1	
Semi-skilled			1	
Unskilled			0	
<b>TOTAL</b>			<b>2</b>	

There are no significant variances between targets and current performance. Due to a moratorium placed on vacancies for the past few years, the FIC's targets were based on the staff complement threshold. The FIC's premises cannot accommodate all types of disabilities, but it will continue to make efforts to increase the number of employees with disabilities.

# INDEX

The reports and statements set out below comprise the annual financial statements presented to the users:

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## PART C: FINANCIAL INFORMATION

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL INTELLIGENCE CENTRE

## Report on the audit of the financial statements

### Opinion

- 1. I have audited the financial statements of the Financial Intelligence Centre set out on pages 72 to 97, which comprise the statement of financial position as at 31 March 2018, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
- 2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial Intelligence Centre as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act 1 of 1999) (PFMA).

### Basis for opinion

- 3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
- 4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
- 5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matter

- 6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Irregular expenditure

- 7. As disclosed in note 30 to the financial statements, the public entity incurred irregular expenditure of R2 728 000, as it did not follow a proper tender process.

### Responsibilities of accounting authority for the financial statements

- 8. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- 9. In preparing the financial statements, the accounting authority is responsible for assessing the Financial Intelligence Centre's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the financial statements

- 10. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
- 11. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

- 12. In accordance with the Public Audit Act of South Africa, 2004 (Act 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
- 13. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
- 14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programme presented in the annual performance report of the public entity for the year ended 31 March 2018.

Programme	Pages in the annual performance report
Programme 2: Delivery of intelligence on financial crime and FIC Act-related regulatory services	22–23, 32–33 and 38–39

- 15. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

16. The material findings in respect of the usefulness and reliability of the selected programme are as follows:

Programme 2: Delivery of intelligence on financial crime and FIC Act-related regulatory services

Various indicators

17. The source information and method of calculation for achieving the planned indicator was not clearly defined.

Indicator	Planned target
Indicator 1.1.1 Number of FIC inspection reports issued	132
Indicator 1.1.2: Percentage response to supervisory body requests to participate in joint inspections	60%
Indicator 1.2.1: Percentage of identified compliance matters addressed through guidance products issued	80%
Indicator 1.2.3: Percentage response to invitations to participate in stakeholders' compliance awareness initiatives	80%
Indicator 2.1.2: Percentage of identified stakeholder engagements conducted for utilisation of FIC products	80%
Indicator 2.2.1: Percentage of reports analysed from available terror-related property reports	100%
Indicator 2.2.2: Percentage of reports analysed from available suspicious transaction reports	80%
Indicator 2.2.3: Percentage of reports analysed from available cash threshold reports	60%
Indicator 3.3.1: Completion of response to FATF recommendations on AML/CFT risk assessment for South Africa	Concept to undertake AML/CFT risk assessment for South Africa approved by the FIC Director

Percentage of identified stakeholder engagements conducted for utilisation of FIC products

18. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target 80%. This was due to the limitations on the scope of my work and I could not confirm the completeness of the denominator of the target. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 80% as reported in the annual performance report.

Other matters

19. I draw attention to the matters below.

Achievement of planned targets

20. Refer to the annual performance report on pages 22–23, 32–33 and 38–39 for information on the achievement of planned targets for the year and explanations provided for the under/over achievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 17 to 18 of this report.

Adjustment of material misstatements

21. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of delivery of intelligence on financial crime and FIC Act-related regulatory services. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

22. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

23. The material findings on compliance with specific matters in key legislations are as follows:

Procurement and contract management

24. A contract was extended without the approval of the National Treasury, contrary to National Treasury Instruction Note 3 of 2016-17.

Expenditure Management

25. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R2 728 000 as disclosed in note 30 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. All of the irregular expenditure was as a result of the entity not complying with the supply chain management processes.

Strategic planning and performance management

26. The strategic plan for 2017-18 to 2021-22 was not submitted for approval by the executive authority, as required by treasury regulation 30.1.1.

Other information

27. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

28. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

29. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

30. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

31. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
32. The accounting authority did not take adequate steps to ensure compliance with the supply chain management processes as well as the requirements of the National Treasury's framework for managing programme performance information and the preparation of the entity's strategic documents. Furthermore, the accounting authority did not prioritise the renewal of the service level agreement with the United Nations Office on Drugs and Crime which is currently outdated. This will have an impact on the public entity's operations since it relies on the ICT systems currently in place.
33. Management did not adequately review the performance information which resulted in misstatements being identified during the audit process. Management did not ensure that the information produced from the ICT systems are valid, accurate and complete when reporting.

Auditor – General

Pretoria

31 July 2018



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected programmes and on the public entity's compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit 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 public entity's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority
  - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Financial Intelligence Centre's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

# ACCOUNTING AUTHORITY'S RESPONSIBILITY AND APPROVAL STATEMENT

The accounting authority of the Financial Intelligence Centre (FIC) is pleased to submit the report, together with the FIC's annual financial statements, for the year ended 31 March 2018.

The accounting authority acknowledges responsibility for the preparation and integrity of the financial statements and related information included in the annual report. In order for the accounting authority to discharge these responsibilities, as well as those bestowed on her in terms of the PFMA and other applicable legislation, she has developed and maintains a system of internal controls, designed to provide reasonable assurance regarding the achievement of objectives.

## 1. Establishment, mandate and operations of the FIC

The FIC was established in terms of the Financial Intelligence Centre Act, 2001 (Act 38 of 2001). The mandate of the FIC is to identify the proceeds of crime, combat money laundering and the financing of terrorism.

The FIC Act works in concert with the Prevention of Organised Crime Act, 1998 (Act 121 of 1998), the Protection of Democracy Against Terrorist and Related Activities Act, 2004 (Act 33 of 2004).

The FIC Act established the FIC and placed obligations on financial institutions and other businesses deemed vulnerable to money laundering and terrorist financing. The Prevention of Organised Crime Act introduced the crime of money laundering. The Protection of Constitutional Democracy Against Terrorist and Related Activities Act introduced measures to address the financing of acts of terrorism.

## 2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 3. Internal controls

Internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable, but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with best business practice, as well as policies and procedures established by the accounting authority and independent oversight by the Audit and Risk Committees. The system contains self-monitoring mechanisms and actions are taken to correct deficiencies as they are identified.

## 4. Accounting policies

The financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as per the prescribed framework by National Treasury, and directives issued by the Accounting Standards Board.

## 5. Corporate governance

### General

The accounting authority is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting authority supports the highest standards of corporate governance and the ongoing development of best practice.

### Audit Committee

The Audit Committee comprised three members for the year ended 31 March 2018 and met five times during the year, in accordance with its approved terms of reference that requires a minimum of four meetings.

### Risk Committee

The Risk Committee comprised three members for the year ended 31 March 2018 and met four times during the year, in accordance with its approved terms of reference that requires a minimum of four meetings.

### Internal audit

The FIC has outsourced its internal audit function, which reports functionally to the Audit Committee.

## 6. Review of the financial statements

The financial results are contained in the annual financial statements. In my opinion, the annual financial statements fairly reflect the operations of the FIC for the financial year ended 31 March 2018 and its financial position as at that date.

## 7. Subsequent events

The accounting authority is not aware of any matter or circumstance arising between 31 March 2018 and the date of this report, not dealt with in the annual financial statements, which would significantly affect the operations or results of the FIC.

## 8. Bankers

Standard Bank of South Africa Limited.

## 9. Auditors

Auditor-General of South Africa.



**Adv Xolisile J Khanyile**  
Director: Financial Intelligence Centre  
Accounting Authority

31 July 2018

## STATEMENT OF FINANCIAL POSITION

as at 31 March 2018

	Notes	2018 R'000	2017 R'000
<b>ASSETS</b>			
<b>Current assets</b>			
Inventories	3	92	80
Receivables from exchange transactions	4	449	783
Prepayments	5	4 510	3 860
Deposits	6	1 505	20
Cash and cash equivalents	7	96 122	76 740
		<b>102 678</b>	<b>81 483</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	43 404	49 415
Intangible assets	9	28 345	28 014
Deposits – long-term receivables	6	-	1 353
		<b>71 749</b>	<b>78 782</b>
<b>TOTAL ASSETS</b>		<b>174 427</b>	<b>160 265</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Finance lease obligation	10	844	737
Payables from exchange transactions	11	16 215	16 897
Provisions	12	10 159	7 200
Third party deposits	13	50	40
Operating lease	15	3 980	-
Income received in advance – Criminal Assets Recovery Account	14	-	8 043
		<b>31 248</b>	<b>32 917</b>
<b>Non-current liabilities</b>			
Finance lease obligation	10	588	1 322
Operating lease	15	242	8 260
		<b>830</b>	<b>9 582</b>
<b>TOTAL LIABILITIES</b>		<b>32 078</b>	<b>42 499</b>
<b>NET ASSETS</b>		<b>142 349</b>	<b>117 766</b>
<b>ACCUMULATED SURPLUS</b>		<b>142 349</b>	<b>117 766</b>

## STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2018 R'000	2017 R'000
<b>Revenue</b>			
Non-exchange revenue	16	270 191	256 372
Other income	17	77	193
Interest received	18	4 980	3 544
		<b>275 248</b>	<b>260 109</b>
<b>Expenditure</b>			
Personnel costs	19	(156 771)	(145 040)
Depreciation and amortisation	20	(22 706)	(22 824)
Finance costs	21	(189)	(443)
Impairment of financial assets	22	(24)	4 138
General expenses	23	(71 218)	(68 610)
<b>Total expenditure</b>		<b>(250 908)</b>	<b>(232 779)</b>
<b>Operating surplus</b>		<b>24 340</b>	<b>27 330</b>
Profit/(Loss) on disposal of assets	34	242	(181)
Profit/(Loss) on foreign exchange		1	(29)
<b>Surplus for the year</b>		<b>24 583</b>	<b>27 120</b>



## STATEMENT OF CHANGES IN NET ASSETS

Notes	Accumulated surplus R'000	Total net assets R'000
<b>Opening balance on 1 April 2015</b>	<b>89 714</b>	<b>89 714</b>
Surplus for the 2016 financial year	932	932
<b>Balance on 1 April 2016</b>	<b>90 646</b>	<b>90 646</b>
Surplus for the 2017 financial year	27 120	27 120
<b>Balance at 1 April 2017</b>	<b>117 766</b>	<b>117 766</b>
Surplus for the year	24 583	24 583
<b>Balance at 31 March 2018</b>	<b>142 349</b>	<b>142 349</b>

## CASH FLOW STATEMENT

Notes	2018 R'000	2017 R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Receipts</b>		
Cash receipts from grants	270 191	256 372
Interest income	4 767	3 364
Goods sold	25	-
Insurance receipts	67	25
	275 050	259 761
<b>Payments</b>		
Suppliers and employees	(229 237)	(214 188)
Finance costs	(189)	(88)
	(229 426)	(214 276)
<b>Net cash flows from operating activities</b>	<b>45 624</b>	<b>45 485</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(5 753)	(5 847)
Proceeds from sale of property, plant and equipment	1 010	9
Purchase of other intangible assets	(12 320)	(12 129)
<b>Net cash flows from investing activities</b>	<b>(17 063)</b>	<b>(17 967)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Deposits paid by third parties	10	-
Repayment of CARA funds	(8 044)	-
Finance lease payments	(1 146)	(293)
<b>Net cash flows from financing activities</b>	<b>(9 180)</b>	<b>(293)</b>
<b>Net increase in cash and cash equivalents</b>	<b>19 381</b>	<b>27 225</b>
Cash and cash equivalents at the beginning of the year	76 740	49 544
Effect of exchange rate movement on cash balances	1	(29)
<b>Cash and cash equivalents at the end of the year</b>	<b>96 122</b>	<b>76 740</b>

## ACCOUNTING POLICIES

### 1. Basis of presentation

The annual financial statements comply with Standards of Generally Recognised Accounting Practice (GRAP) and are prepared on the accrual basis, using the historical cost basis, unless indicated otherwise. Management has used assessments and estimates in preparing the annual financial statements, based on the best information available at the time of preparation. The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

The financial statements have been prepared in accordance with the Standards of GRAP, including any interpretations, guidelines and directives issued by the Accounting Standards Board.

South African Rand was used as the reporting currency in the preparation of the annual financial statements.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

#### 1.1 Offsetting

Assets, liabilities, revenue and expenses have not been offset except where offsetting is required or permitted by GRAP.

#### 1.2 Financial Instruments

##### Classification

The financial instruments recognised in the statement of financial position consist of cash at the bank and cash equivalents, receivables, trade and other payables and lease liabilities.

##### Initial recognition and measurement

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

Financial instruments are initially recognised at fair value that includes transaction costs.

##### Subsequent measurement

Subsequent to initial measurement, financial instruments are measured at amortised costs using the effective interest rate method according to the following:

##### Amortised cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation, using the effective interest method of the difference between that initial amount and the maturity amount minus any reduction for impairment or uncollectible amounts.

##### Financial liabilities held at amortised cost

Finance lease liabilities are included in financial liabilities held at amortised cost.

##### Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and by allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.



Receivables

Receivables are stated at amortised cost, which due to their short term nature, closely approximate their fair value.

Long-term receivables

Long-term receivables are initially recorded at fair value and subsequently measured at amortised cost.

Trade and other payables

Trade payables are initially measured at fair value and subsequently measured at amortised cost, which due to their short-term nature, closely approximate their fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash with banks that are readily convertible to a known amount of cash and are stated at amortised cost, which, due to their short-term nature, closely approximate their fair value.

1.3 Leases

Leases are classified as either finance or operating leases.

Finance leases

Finance leases are leases that substantially transfer all risks and rewards associated with ownership of the asset to the FIC. Title may or may not transfer.

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased assets or, if lower, the present value of the minimum lease payments. The corresponding liability to the FIC is included in the statement of financial position as a finance lease obligation. The cash equivalent cost is the lower of the fair value of the asset and the present value of the minimum lease payments at inception of the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability, using the effective interest rate method. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets subject to finance lease agreements are capitalised at their cash cost and depreciated on the straight-line basis over the duration of the lease contract.

Operating leases

Operating leases are those leases that do not fall in the scope of the definition of a finance lease.

Rentals payable under operating leases are charged to surplus or deficit on a straight-line basis, over the term of the lease.

Lease incentives are recognised on a straight-line basis as a reduction of the lease payments over the term of the lease.

1.4 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. 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 of the asset.

The carrying amount of an item in property, plant and equipment is recognised on disposal or when no future economic benefits or service potential is expected from its use. The gain or loss arising from the derecognition is included in the surplus or deficit when the item of property, plant and equipment is derecognised.

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 or service potential

embodied within the part that will flow to the FIC and the cost of such item can be measured reliably. All other costs are recognised in the statement of financial performance as and when the expense is incurred.

At each financial position date, the FIC assesses whether there is any indication or aspect about the residual value and useful life of an asset that has changed since the preceding reporting period. If any such indications exist, the expected useful life and/or residual value is revised accordingly.

The recoverable service amount of property, plant and equipment is the greater of an asset's fair value less costs to sell and its value in use. Value in use is the present value of the asset's remaining service potential determined by the depreciated replacement cost approach.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of financial performance.

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 is increased to its recoverable service potential, 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 in prior years. A reversal of an impairment loss is recognised immediately in surplus or deficit.

The review of the estimated useful life, residual value and depreciation method is performed annually. The estimated useful lives are as follows:

Item	Average useful life
Furniture	5 to 15 years
Leasehold improvements	Over the lease period
Computer hardware	3 to 5 years
Fixtures and fittings	5 to 10 years
Motor vehicles	10 to 15 years
Office equipment	2 to 5 years
Security equipment	10 years

1.5 Intangible assets

Intangible assets comprise identifiable, non-monetary assets without physical substance. An intangible asset is recognised when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the FIC and the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Subsequent to initial recognition, intangible assets shall be carried at their respective costs less any accumulated amortisation and any accumulated impairment losses. The cost of intangible assets with finite useful lives are amortised over the estimated useful lives. All other licences are amortised over the underlying contract period.

The review of the estimated useful life, residual value and amortisation methods are performed annually.

Amortisation is calculated on a straight-line basis to allocate the depreciable amount of the intangible asset on a systematic basis over the useful life. Amortisation commences when the asset is ready for its intended use.

The estimated useful lives are as follows:

Item	Useful life
Computer software	6 years
Computer licences	1 to 7 years

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits or service potential embodied in the specific assets to which it relates. All other expenditure is expensed.

An intangible asset is derecognised when the asset is disposed of or when there is no further economic benefit or further service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying amount, and is recognised as a surplus or deficit in the statement of financial performance.

## 1.6 Taxation

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

## 1.7 Revenue recognition

### Non-exchange revenue

A transfer is recognised as revenue to the extent that there is no further obligation arising from the receipt of the transfer payment.

### Transfer from the National Treasury

The transfer from the National Treasury is recognised when the resources that have been transferred meet the criteria for recognition as an asset.

### Finance income

Finance income comprises interest received on funds invested. Interest is recognised on a time proportion basis as it accrues, using the effective interest rate method.

## 1.8 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 FIC has a present obligation to pay, as a result of services provided by employees. Providing for the staff benefits has been calculated at undiscounted amounts based on the current salary rates, because of their short-term nature.

### Termination benefits

Termination benefits are recognised as an expense when the FIC is committed, without a 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 estimated.

### Retirement benefits

The FIC contributes to a defined contribution fund in respect of employees. The contributions are included in staff costs in the year to which they relate.

## 1.9 Provisions

Provisions are recognised when:

- The FIC has a present obligation as a result of a past event
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation
- A reliable estimate can be made of the obligation.

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.

## 1.10 Translation of foreign currencies

### Foreign currency transactions

Transactions in foreign currencies are converted into South African rand at the rate of exchange ruling at the date of such transactions. Balances outstanding on the foreign currency monetary items at the end of the reporting period are translated into South African rand at the rates ruling at that date.

Foreign exchange differences on settlement of foreign currency monetary liabilities during the reporting period are recognised in the statement of financial performance.

## 1.11 Inventory

### Initial recognition and measurement

Inventory is stated at cost on initial recognition and measured at the lower of cost or current replacement costs, and comprises mainly printing and stationery supplies consumed or distributed in the rendering of services.

## 1.12 Finance cost

Finance cost comprises interest expenses on borrowings, changes in fair value of financial assets at fair value through profit and loss and impairment losses recognised on financial assets. All borrowing costs are recognised in the statement of financial performance using the effective interest rate method.

## 1.13 Critical accounting estimates and judgements

Management makes estimates and assumptions concerning the future in applying its accounting policies. The resulting accounting estimates may, by definition, not equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are detailed in the notes to the financial statements, where applicable. Management continually evaluates estimates and judgements based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## 1.14 Comparative figures

Comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements, unless another Standard of GRAP requires or permits otherwise. Comparative information is reclassified when the presentation or reclassification of current period items are amended, disclosing the nature, amount and reason for the reclassification.

## 1.15 Accounting for non-exchange transactions

### Recognition of revenue from non-exchange transactions

An inflow of resources from a non-exchange transaction, recognised as an asset, is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As a present obligation of a recognised liability, in respect of an inflow of resources from a non-exchange transaction, recognised as an asset, is satisfied, the carrying amount of the liability is reduced and an amount equal to the reduction is recognised as revenue.

A present obligation arising from a non-exchange transaction that meets the definition of a liability is recognised as a liability when:

- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

Non-exchange transactions are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

Non-exchange transactions that become receivables as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

1.16 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

Fruitless and wasteful expenditure is recognised as expenditure in the statement of financial performance according to the nature of the payment. If the expenditure is recoverable it is treated as an asset until it is recovered from the responsible person or written off as irrecoverable in the statement of financial performance.

1.17 Irregular expenditure

Irregular expenditure is expenditure incurred in contravention of or not in accordance with a requirement of any applicable legislation.

Irregular expenditure is recorded in the notes to the financial statements when confirmed. The amount recorded is equal to the value of the irregularity unless it is impracticable to determine, in which case reasons for this are provided in the note.

Irregular expenditure is removed from the note when it is either condoned by the relevant authority or transferred to receivables for recovery.

2. New standards and interpretations

Standards and interpretations issued, but not yet effective and/or not applicable

The FIC has not implemented the following approved Standards of GRAP, as the Minister of Finance has not yet determined an effective date:

GRAP 108:	Statutory receivables
GRAP 32:	Service concession arrangements: Grantor
GRAP 20:	Related parties

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. Inventories

	2018 R'000	2017 R'000
Consumables on hand	92	80

Consumables comprise stationery on hand.

At the end of the reporting period, redundant cartridges to the value of R16 000 were written off.

4. Receivables from exchange transactions

	2018 R'000	2017 R'000
Sundry debtors – ex-staff	54	4
Staff debtors	8	62
Accrued interest – bank	414	353
Impairment of debtor	(27)	(4)
Receivable relating to Cape Town lease incentive	-	314
Debtors for insurance receipts	-	54
	449	783
<b>Reconciliation for impairment</b>		
Opening balance	(4)	(273)
Increase in provision for bad debts	(23)	(2)
Amounts written off	-	271
	(27)	(4)

5. Prepayments

	2018 R'000	2017 R'000
Subscriptions	87	114
Membership and professional fees	1 306	108
Staff training	129	151
Motor vehicle maintenance agreement	213	84
Computer licences and support	2 560	3 391
Recruitment advertising	206	-
Postage	1	-
E-Tolls	8	-
Office equipment, repairs and maintenance	-	2
Advertising and publications	-	6
Furniture and fittings	-	4
	4 510	3 860

## 6. Deposits

	2018 R'000	2017 R'000
<b>Current deposits</b>		
Deposits paid on goods to be delivered	-	20
Electricity	224	-
Byls Bridge Office Park	1 281	-
	<b>1 505</b>	<b>20</b>
<b>Non-current deposits</b>		
Electricity	-	201
Byls Bridge Office Park	-	1 152
	<b>-</b>	<b>1 353</b>

The FIC has entered into a 60-month lease contract for its current office premises. The lease commenced on 1 December 2013 and terminates on 30 November 2018.

Refundable deposits were paid for electricity usage and the office rent. These deposits will be refunded at the end of the lease term and are disclosed at their amortised values. Refer to note 18.

## 7. Cash and cash equivalents

	2018 R'000	2017 R'000
<b>Cash and cash equivalents consist of:</b>		
Cash on hand	4	2
Cash at bank	96 118	76 630
Foreign denominated cash	-	108
	<b>96 122</b>	<b>76 740</b>

## 8. Property, plant and equipment

	2018			2017		
	Cost R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Furniture	8 679	(5 818)	2 861	8 326	(5 547)	2 779
Motor vehicles	3 767	(2 107)	1 660	5 244	(2 898)	2 346
Office equipment	10 064	(5 752)	4 312	8 137	(4 200)	3 937
Computer hardware	55 722	(39 921)	15 801	53 973	(33 790)	20 183
Fixtures and fittings	5 165	(4 865)	300	5 075	(4 146)	929
Security equipment	340	(137)	203	340	(104)	236
Leasehold improvements	39 237	(20 970)	18 267	38 398	(19 393)	19 005
<b>Total</b>	<b>122 974</b>	<b>(79 570)</b>	<b>43 404</b>	<b>119 493</b>	<b>(70 078)</b>	<b>49 415</b>

## RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT – 2018

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Furniture	2 779	386	(5)	(299)	2 861
Motor vehicles	2 346	-	(657)	(29)	1 660
Office equipment	3 937	1 978	(24)	(1 579)	4 312
Computer hardware	20 183	2 667	(82)	(6 967)	15 801
Fixtures and fittings	929	102	(1)	(730)	300
Security equipment	236	-	-	(33)	203
Leasehold improvements	19 005	839	-	(1 577)	18 267
	<b>49 415</b>	<b>5 972</b>	<b>(769)</b>	<b>(11 214)</b>	<b>43 404</b>

## RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT – 2017

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Depreciation R'000	Total R'000
Furniture	2 748	294	-	-	(263)	2 779
Motor vehicles	2 387	-	-	-	(41)	2 346
Office equipment	2 204	2 704	-	-	(971)	3 937
Computer hardware	24 297	4 704	(89)	-	(8 729)	20 183
Fixtures and fittings	1 802	-	-	(182)	(691)	929
Security equipment	270	-	-	-	(34)	236
Leasehold improvements	22 390	477	(1 520)	182	(2 524)	19 005
	<b>56 098</b>	<b>8 179</b>	<b>(1 609)</b>	<b>-</b>	<b>(13 253)</b>	<b>49 415</b>

## ASSETS SUBJECT TO FINANCE LEASES (INCLUDED IN PROPERTY, PLANT AND EQUIPMENT)

	2018 R'000	2017 R'000
Office equipment at net carrying value	1 332	2 022

The leased office equipment is encumbered as set out in note 10.

Leasehold improvements relates to the set up and installation cost of the leased premises.

The useful life of certain assets has been reassessed, resulting in an increase in the carrying value of property, plant and equipment to the value of R1.9 million (2017: R5.9 million). Refer to note 35.

## 9. Intangible assets

	2018			2017		
	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000
Computer software	36 404	(14 119)	22 285	29 175	(10 013)	19 162
Computer licences	25 094	(19 034)	6 060	20 500	(11 648)	8 852
<b>Total</b>	<b>61 498</b>	<b>(33 153)</b>	<b>28 345</b>	<b>49 675</b>	<b>(21 661)</b>	<b>28 014</b>

### RECONCILIATION OF INTANGIBLE ASSETS – 2018

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Amortisation R'000	Total R'000
Computer software	19 162	7 977	(497)	(251)	(4 106)	22 285
Computer licences	8 852	4 343	-	251	(7 386)	6 060
	<b>28 014</b>	<b>12 320</b>	<b>(497)</b>	<b>-</b>	<b>(11 492)</b>	<b>28 345</b>

### RECONCILIATION OF INTANGIBLE ASSETS – 2017

	Opening balance R'000	Additions R'000	Disposals R'000	Amortisation R'000	Total R'000
Computer software	15 189	7 239	(101)	(3 165)	19 162
Computer licences	10 369	4 889	-	(6 406)	8 852
	<b>25 558</b>	<b>12 128</b>	<b>(101)</b>	<b>(9 571)</b>	<b>28 014</b>

During the financial year, a transfer of R251 000 was made from computer software to computer licences. There will be no impact on the amortisation charge, as amortisation for these licences only commenced during the year under review.

#### 9.1 Intangible assets projects

A change in organisational requirements has led to the operationalisation of an intangible asset with a carrying value of R497 000. The intangible asset formed part of computer software in developmental stages.

Included in the carrying value of software is an amount of R4.7 million relating to four projects that are in a developmental stage. Due to a postponed commitment by a service provider and the limitations of a related software solution, one of these projects with a carrying value of R2.7 million has taken a significantly longer period of time to complete than initially expected.

## 10. Finance lease obligation

	2018 R'000	2017 R'000
<b>Minimum lease payments due</b>		
- within one year	954	917
- in second to fifth year inclusive	612	1 447
	1 566	2 364
less: future finance charges	(134)	(305)
<b>Present value of minimum lease payments</b>	<b>1 432</b>	<b>2 059</b>
<b>Present value of minimum lease payments due</b>		
- within one year	844	737
- in second to fifth year inclusive	588	1 322
	<b>1 432</b>	<b>2 059</b>
Non-current liabilities	588	1 322
Current liabilities	844	737
	<b>1 432</b>	<b>2 059</b>

The finance leases are secured over the leased assets. Refer to note 8.

During the year, two lease agreements with monthly repayments of R12 000 and R4 000 came to an end on 31 May 2017 and 30 November 2017 respectively. The annual effective interest rate for both these lease agreements was 9.25%.

In the current year, two new lease agreements with a combined monthly repayment instalment of R7 000 and an annual effective interest rate of 10.5% were entered into for a 24-month period. One lease will come to an end on 31 May 2019 and the other on 30 November 2019.

The finance lease obligation takes into consideration the future lease payments from 1 April 2018 at a VAT rate of 15%. Refer to note 23.5.

## 11. Trade and other payables

	2018 R'000	2017 R'000
Trade payables	6 117	6 754
Accrued leave pay	5 044	5 461
Payroll payables	5 054	4 682
	<b>16 215</b>	<b>16 897</b>

## 12. Provisions

### RECONCILIATION OF PROVISIONS – 2018

	Opening balance R'000	Additions R'000	Paid during the year R'000	Total R'000
Provision for employee bonuses	7 200	10 159	(7 200)	10 159

**RECONCILIATION OF PROVISIONS – 2017**

	Opening balance R'000	Additions R'000	Paid during the year R'000	Reversed during the year R'000	Total R'000
Provision – decommissioning of leasehold improvements – Refer to note 21	5 305	355	-	(5 660)	-
Provision for bonus	9 468	7 200	(8 806)	(662)	7 200
	<b>14 773</b>	<b>7 555</b>	<b>(8 806)</b>	<b>(6 322)</b>	<b>7 200</b>

**13. Third party deposits**

	2018 R'000	2017 R'000
Opening balance	40	40
Additions	10	30
Paid to National Reserve Fund	-	(30)
	<b>50</b>	<b>40</b>

**14. Income received in advance**

	2018 R'000	2017 R'000
Criminal Assets Recovery Account funds	-	8 043

**15. Deferred operating lease (smoothing)**

	2018 R'000	2017 R'000
<b>Current portion of:</b>		
Operating lease smoothing	3 980	-
<b>Non-current portion of:</b>		
Operating lease smoothing	242	8 260

**15.1 Centurion leased premises**

The FIC entered into a 60-month lease contract for its current office premises located in Centurion. The lease commenced on 1 December 2013 and terminates on 30 November 2018. A lease incentive of R6.2 million was received and is recognised on a straight-line basis over the lease term of 60 months as a reduction of the lease payments.

During the year under review, the FIC had signed a new lease agreement for the Centurion office premises. New terms were agreed upon and the FIC obtained approval from the National Treasury to enter into the new lease agreement for five years with a right to extend for a further five years. Refer to note 26.

**15.2 Cape Town leased premises**

The FIC had entered into a 36-month lease contract for its office premises located in Cape Town. The lease commenced on 1 November 2016 and terminates on 31 October 2019. A lease incentive of R314 000 was received and is recognised on a straight-line basis over the lease term of 36 months as a reduction of the lease payments.

**Present value of minimum lease payments for active lease agreements:**

	2018 R'000	2017 R'000
Within one year	19 352	26 589
Within two to five years	577	19 764
	<b>19 929</b>	<b>46 353</b>

The operating lease smoothing obligation takes into consideration the future lease payments from 1 April 2018 at a VAT rate of 15%. Refer to note 23.5 for further details.

**16. Non-exchange revenue**

	2018 R'000	2017 R'000
Transfer from National Treasury	270 191	256 372

**17. Other income**

	2018 R'000	2017 R'000
Other income	77	193

**18. Interest received**

	2018 R'000	2017 R'000
Amortised financial assets – refer to note 6	152	85
Current account	4 828	3 459
	<b>4 980</b>	<b>3 544</b>

Amortised costs are based on the effective interest rate method.

**19. Personnel costs**

	2018 R'000	2017 R'000
Salary costs	131 686	124 040
Performance bonus	10 159	6 542
Unemployment Insurance Fund	353	346
Compensation for occupational injuries and diseases	96	88
Provident fund	11 605	11 241
Group life	2 872	2 783
	<b>156 771</b>	<b>145 040</b>

**20. Depreciation and amortisation**

	2018 R'000	2017 R'000
Depreciation charge for the year	11 214	13 253
Amortisation charge for the year	11 492	9 571
	<b>22 706</b>	<b>22 824</b>



## 21. Finance costs

	2018 R'000	2017 R'000
Financial instrument at amortised cost – refer note 12	-	355
Finance charges – leased assets	189	88
	<b>189</b>	<b>443</b>

## 22. Impairment/(Impairment reversal) of financial assets

	2018 R'000	2017 R'000
Impairment of debtors	24	2
Derecognition of decommissioning liability	-	(4 140)
	<b>24</b>	<b>(4 138)</b>

## 23. General expenses

	Notes	2018 R'000	2017 R'000
Audit Committee member fees	23.1	222	171
Advertising		1 086	460
Risk Committee member fees	23.2	176	199
Auditors remuneration	23.3	1 536	1 634
Bank charges		84	62
Cleaning		1 585	1 580
Computer expenses		6 944	4 496
Professional fees		2 575	3 424
Office consumables		635	489
Crockery and cutlery		2	33
Legal fees		4 717	2 618
Rent and operating costs		22 447	22 325
Corporate gifts		11	62
Insurance		788	758
Conferences and workshops		276	507
Consulting fees		504	18
Public relations		1 160	984
Media, subscriptions & publications		5 604	6 720
Motor vehicle expenses		364	367
Recruitment and placement costs		570	1 942
Postage and courier		14	24
Printing and stationery		1 024	844
Repairs and maintenance	23.4	468	337
Security		2 438	2 322
Employee training		1 853	1 578
Membership fees		1 986	1 912
Telephone, fax and internet		3 870	4 571
Subsistence and accommodation – local		548	920
Subsistence and accommodation – international		1 046	964
Travel – international		1 855	1 004
Travel – local		1 191	1 738
Relocation costs		189	-
VAT adjustment account – leases	23.5	115	-
Internal audit		909	1 141
Parking expenses – staff		2 426	2 405
		<b>71 218</b>	<b>68 610</b>

### 23.1 Audit Committee member fees

	2018 R'000	2017 R'000
R N Theunissen (Chair)	89	72
P Phili	61	48
P N Sibiya	72	51
	<b>222</b>	<b>171</b>

### 23.2 Risk Committee member fees

	2018 R'000	2017 R'000
B Mbewu (Chair)	66	69
P Phili	64	67
P N Sibiya	46	63
	<b>176</b>	<b>199</b>

### 23.3 Auditors remuneration

	2018 R'000	2017 R'000
Auditor-General of South Africa	1 536	1 634

### 23.4 Breakdown of repairs and maintenance

	2018 R'000	2017 R'000
Services paid to service providers	320	230
Material purchased for general upkeep of assets	148	107
	<b>468</b>	<b>337</b>

### 23.5 VAT adjustment account – Leases

During the 2018 budget speech, the Minister of Finance announced a change in the Value Added Tax (VAT) rate from 14% to 15%, effective 1 April 2018. This change resulted in an increase of R103 000 in the opening balance of the operating lease smoothing obligation (refer to note 15) and an increase of R12 000 in the finance lease obligation (refer to note 10), resulting in a total increase in general expenses of R115 000 (refer to note 23).

## 24. Cash generated from operations

	2018 R'000	2017 R'000
Surplus/(Deficit)	24 583	27 120
<b>Adjustments for:</b>		
Depreciation and amortisation	22 706	22 824
Profit/(Loss) on sale of assets	(242)	79
Income amortised – deposits	(152)	(85)
Insurance receipts	15	-
Performance bonus provision	10 159	6 538
Accrued leave pay	-	1 263
Finance costs – amortised	-	355
Allowance for impairment	24	2
Operating lease incentives	(1 338)	(1 276)
Intangible asset project operationalised	497	-
Lease smoothing	(2 804)	(522)
Prepayment releases	17 393	17 004
VAT adjustment on leases	115	-
Other income – cost award	-	(168)
Net interest	(61)	(95)
Derecognition of decommissioning liability	-	(4 140)
Loss on disposal of intangible assets	-	102
Loss/(Gain) on foreign exchange	(1)	29
Deposit realised	20	-
Inventory write-off	16	-
<b>Changes in working capital:</b>		
Inventories	(28)	7
Receivables	59	(23)
Prepayments paid	(18 044)	(19 901)
Trade and other payables	(93)	5 198
Provisions – bonuses paid	(7 200)	(8 806)
Deposits	-	(20)
	<b>45 624</b>	<b>45 485</b>

## 25. Employee benefit obligations

### Defined contribution plan

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 (Act 24 of 1956), as amended.

Employees are able to elect the rate at which they contribute towards the provident fund. The contribution rates are as follows: 5%, 7.5%, 10%, 12.5%, 15%, 17.5% and 20%.

	2018 R'000	2017 R'000
Provident fund contributions	14 476	14 024

## 26. Operating lease

During the year, the FIC had entered into a new lease agreement for its head office building located in Centurion. The lease will come into effect on 1 December 2018 and has a five-year lease term with an option to extend for a further five years. The minimum future lease payments payable are as follows:

	2018 R'000
<b>Minimum lease payments due:</b>	
Within one year	7 577
Within two to five years	125 506
	<b>133 083</b>

## 27. Related parties

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

### 27.1 State controlled entities

As a national public entity fully funded by government, any other entity of national government is a related party. All FIC transactions with such entities are at arm's length and on normal commercial terms, except where employees of national departments or national public entities participate in the FIC's processes and did not recover any costs from the FIC for services rendered, and the FIC did not recover any costs for services provided.

	2018 R'000	2017 R'000
<b>Services rendered at no cost</b>		
Government Technical Advisory Centre (GTAC)	86	87

During the current financial year, members of the GTAC team have been allocated office space at the FIC's Cape Town offices at no cost.

During the current financial year no related party services were received.

## 27.2 Key management personnel

2018

Name	Position	Cash component R'000	Bonus R'000	Provident fund R'000	Termination leave pay R'000	Total R'000
M Michell	Director (1 April 2017 – 31 December 2017)	1 826	-	-	69	1 895
*Adv X J Khanyile	Director (1 January 2018 – 31 March 2018)	864	-	-	-	864
C Malan	Executive Manager: Compliance and Prevention	1 603	119	407	-	2 129
P Smit	Executive Manager: Legal and Policy	1 912	151	154	-	2 217
N Mewalall	Executive Manager: Monitoring and Analysis (1 April 2017 – 27 July 2017)	563	178	117	75	933
M Masiapato	Executive Manager: Monitoring and Analysis (15 January 2018 – 31 March 2018)	367	-	41	-	408
M Maboka	Executive Manager: Corporate Services	1 741	121	312	-	2 174
V MarshSmit	Chief Financial Officer	1 298	125	339	-	1 762
		<b>10 174</b>	<b>694</b>	<b>1 370</b>	<b>144</b>	<b>12 382</b>

\* Included in the cash component for Adv X J Khanyile is an amount of R137 000 relating to the payment of a relocation allowance.

2017

Name	Position	Cash component R'000	Bonus R'000	Provident fund R'000	Termination leave pay R'000	Total R'000
M Michell	Director	2 307	-	-	-	2 307
C Malan	Executive Manager: Compliance and Prevention	1 509	231	396	-	2 136
P Smit	Executive Manager: Legal and Policy	1 808	245	151	-	2 203
N Mewalall	Executive Manager: Monitoring and Analysis	1 635	240	346	-	2 222
M Maboka	Executive Manager: Corporate Services	1 643	159	304	-	2 105
V MarshSmit	Chief Financial Officer	1 207	119	320	-	1 645
		<b>10 109</b>	<b>994</b>	<b>1 517</b>	<b>-</b>	<b>12 618</b>

## 28. Risk management

### Liquidity risk

Liquidity risk is the risk that the FIC will not be able to meet its financial obligations as they fall due.

In terms of its borrowing requirements, the FIC ensures that adequate funds are available to meet its expected and unexpected financial commitments.

### Market risk

The FIC's activities expose it primarily to the risks of fluctuations in interest rates and foreign currency risk.

Interest rate risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

### Interest rate risk management

The FIC's interest rate profile consists of fixed and floating rate loans and bank balances which exposes the FIC to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows:

### Financial assets

Cash at the bank earns interest at a rate linked to the prime interest rate. Management accepts the risk exposure on receivables due to the amounts being negligible.

### Financial liabilities

Finance lease payments are fixed, resulting in no risk exposure.

### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the entity.

### Maximum exposure to credit risk

The FIC's exposure to credit risk to loans and receivables is limited.

### Foreign currency risk management

Management accepts the risk as a result of changes in rate of exchange and therefore has not hedged foreign currency risk. These transactions are not of a material nature.

	2018 R'000	2017 R'000
<b>Financial assets</b>		
Cash	96 122	76 740
Receivables	449	783
Deposits	1 505	1 373
	<b>98 076</b>	<b>78 896</b>
<b>Financial liabilities</b>		
Finance lease obligations	1 432	2 059
Trade and other payables	16 215	16 897
Third party deposits	50	40
Provisions	10 159	7 200
	<b>27 856</b>	<b>26 196</b>

	Change in rate %	Effect on surplus R'000
<b>2018 floating rate financial assets</b>		
Banking balances	1%	961
Receivables	1%	4
Deposits	1%	15
		<b>980</b>
<b>2018 floating rate financial liabilities</b>		
Finance lease obligations	1%	14
Trade and other payables	1%	162
Provisions	1%	102
		<b>278</b>
<b>2017 floating rate financial assets</b>		
Banking balances	1%	767
Receivables	1%	7
Deposits	1%	14
		<b>788</b>
<b>2017 floating rate financial liabilities</b>		
Finance lease obligations	1%	21
Payables	1%	169
Provisions	1%	72
		<b>262</b>

## 29. Fruitless and wasteful expenditure

	2018 R'000	2017 R'000
Opening balance	-	4
Fruitless and wasteful expenditure – current year	47	8
Less amounts written off	(31)	(12)
Less amounts recovered	(1)	-
	<b>15</b>	<b>-</b>
<b>Details of fruitless and wasteful expenditure</b>		
Increase in flight cost after flight was missed	30	-
Cancellation of international trip: accommodation and connecting flight	-	8
Reschedule and upgrade of flights	15	-
Unauthorised use of fleet vehicles by employees	2	-
	<b>47</b>	<b>8</b>

Disciplinary action has been taken against the employees relating to the unauthorised use of fleet vehicles.

## 30. Irregular expenditure

	2018 R'000	2017 R'000
Opening balance	-	595
Add: irregular expenditure – current year	2 728	-
Less: amounts condoned	-	(595)
	<b>2 728</b>	<b>-</b>
<b>Details of irregular expenditure – current year</b>		
Irregular expenditure relating to Appeal Board member fees	62	-
Supply chain deficiencies	2 666	-
	<b>2 728</b>	<b>-</b>

### Appeal Board member fees

The chairperson of the Appeal Board is required to obtain approval from the Minister of Justice to receive additional remuneration as judges are lifelong in the employ of the state. Such approval has not been obtained, but the payment was made to the chairperson due to operational requirements.

### Supply chain deficiencies

During the 2016/17 audit, the Auditor-General was of the opinion that two contracts awarded during that year were irregular and that the subsequent expenditure would be irregular when the contracts commence.

The Auditor-General was of the opinion that the evaluation criteria for the appointment of the one tender (appointment of an insurance broker) had not been consistently applied. In their opinion, the tender was not awarded fairly. The contract was awarded for three years and the irregular expenditure for the current year amounted to R771 250.

In the procurement of a Security Information and Event Management system, the Auditor-General was of the opinion that the criteria was not properly weighted and therefore did not result in a fair award of the tender. The irregular expenditure on this contract amounted to R1 508 518.

During the year management co-term various Cisco Partner Support agreements into one contract. An order was issued to the winning bidder without finalising a contract between the two parties. Approval was obtained from the accounting authority to make the once-off payment required by the appointed service provider of R385 972. However, the Auditor-General deemed the payment to be irregular as no official contract had been finalised between the parties.

No financial loss has been incurred by the FIC as a result of these contract awards and the expenditure is associated with equivalent value in services delivered. No impropriety or undue benefits to FIC officials are indicated and accordingly no debt has been raised.

The process of obtaining condonement from the National Treasury commenced.

31. Contingent Liability

31.1 Accumulated surplus/(deficit)

In terms of the Section 53(3) of the PFMA, a public entity may not accumulate surplus funds without approval from the National Treasury. Approval was requested from the National Treasury to retain the current year's accumulated surplus. In the preceding years the National Treasury has allowed the retention of the accumulated surplus. Based on the National Treasury's latest instruction, the calculation of the surplus was limited to zero.

31.2 Litigation and claims

31.2.1 Certificate issued in terms of section 39 of the FIC Act.

There is a pending dispute regarding a certificate issued in terms of section 39 of the FIC Act.

Due to previous cost decisions taken in favour of the FIC regarding this case, the FIC's legal advisors are of the view that there are no reasonable prospects of success and that it is unlikely the claim will succeed. However, should it be successful, the FIC may incur estimated legal costs of R500 000.

31.2.2 Dispute regarding the FIC's obligation to provide financial intelligence to a particular company

There is a dispute regarding a request to provide financial intelligence to a particular applicant. The FIC has various, defined categories of institutions to which it may provide financial intelligence. The FIC is of the opinion that the applicant of this dispute does not fall into one of those categories.

The FIC's legal advisors are of the opinion that there is a negligible probability of the applicant being successful in this regard and cannot make a reasonable estimate of potential costs.

32. Capital commitments

	2018 R'000	2017 R'000
Approved and committed capital expenditure	8 059	8 949

33. Budget information

GRAP 24 applies to entities that are required or elect to make publicly available their approved budget. The FIC is not required and does not make its budget publicly available, therefore the statement does not apply to the FIC.

34. Profit/(Loss) on disposal of assets

	2018 R'000	2017 R'000
Profit/(Loss) on sale of property, plant and equipment	242	(79)
Profit/(Loss) on sale of intangible assets	-	(102)
	242	(181)

35. Change in estimate: Useful life of assets reviewed

A change in the estimated useful life of certain assets resulted in the following changes in depreciation for the current year:

	Initial estimate for 2018 R'000	Revised estimate for 2018 R'000	Increase/ (decrease) current year R'000	Increase/ (decrease) future years R'000
Property, plant and equipment				
Computer hardware	3 961	2 168	(1 793)	1 793
Office equipment	54	51	(3)	3
Furniture	118	63	(55)	55
	4 133	2 282	(1 851)	1 851

The change in the useful life of property, plant and equipment in the current year resulted in an increase in the carrying value of property, plant and equipment of R1.9 million (2017: R5.9 million), and a decrease in the depreciation expense of R1.9 million (2017: R5.9 million). The effect of the change on future years will be an increase in depreciation of R1.9 million (2017: R5.9 million) reversing the credit of R1.9 million (2017: R5.9 million) created in the current year. Refer to note 8.

## PART F: MATERIALITY AND SIGNIFICANCE FRAMEWORK

### 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.”*

South African Auditing Standards 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: the quantitative and qualitative aspects.

### QUANTITATIVE ASPECTS

#### Materiality level

The FIC has assessed the level of a material loss as R1.356 million, based on audited financial statements. This is the average of: 0.5% of income and expenses and 1% of assets.

#### Nature of the FIC’s business

The FIC continues to be an operational cost-driven organisation that utilises public funds to fulfil the legislated mandate. Thus, calculation of the materiality value involves expenditure as one of the factors and this is balanced with the total income and the value of the institution’s assets.

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 PFMA Schedule 3A public entity. It was accordingly decided to give preference to a relatively low level of materiality due to the FIC being so closely governed by various acts and the public accountability and responsibility it has to its stakeholders.

### QUALITATIVE ASPECTS

*Items or transactions may be material on qualitative grounds, rather than the amounts involved.*

These qualitative grounds may include, amongst others, the following:

- Any new ventures that the FIC may enter into
- Unusual transactions entered into that are not of a repetitive nature and that should be disclosed 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 behaviour of an employee of the FIC at senior or management level.





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