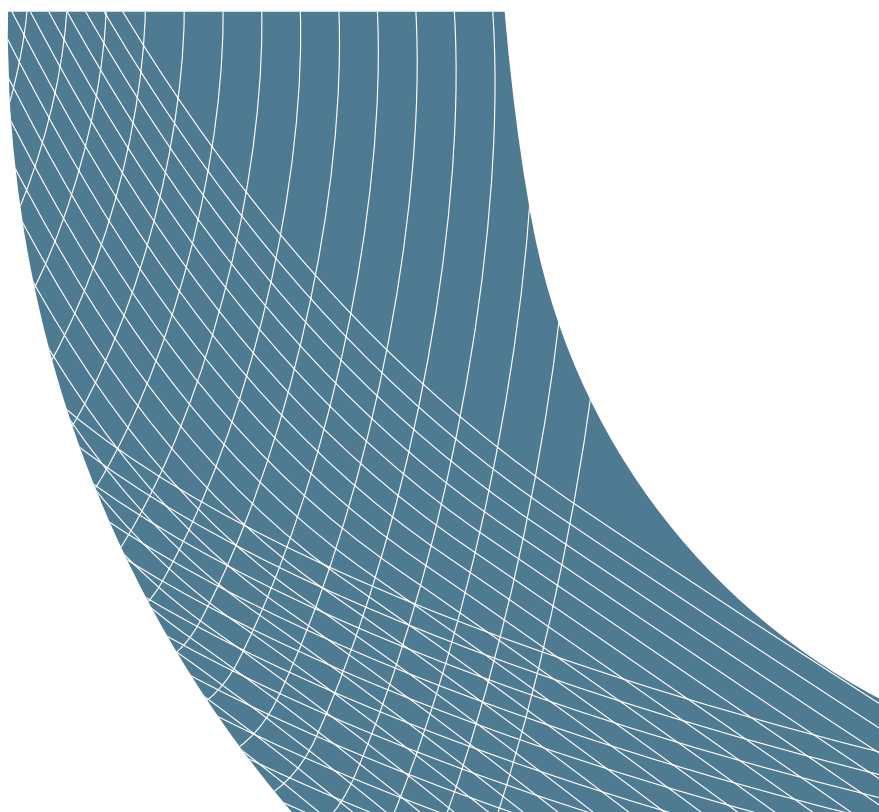
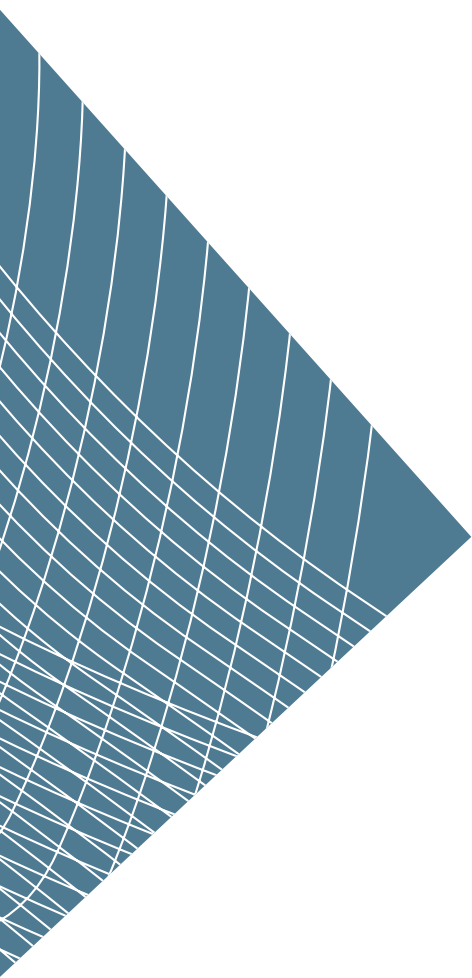




Financial
Intelligence Centre

annual 2015/16 report



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Financial Intelligence Centre ANNUAL REPORT 2015/16

Reinforcing the integrity, stability and transparency
of South Africa's financial system



Financial
Intelligence Centre

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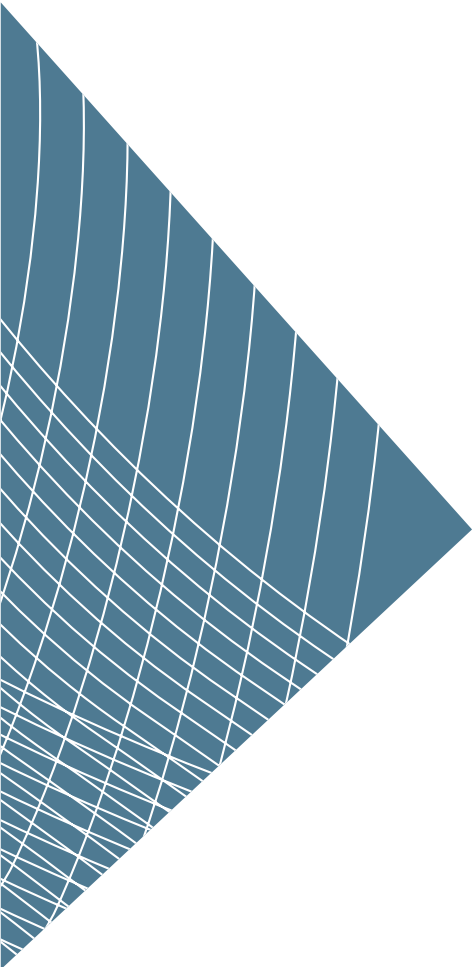
SUBMISSION OF THE ANNUAL REPORT TO THE EXECUTIVE AUTHORITY

To the Minister of Finance, Mr Pravin Gordhan:

I have the honour of submitting to you the annual report of the Financial Intelligence Centre for the period 1 April 2015 to 31 March 2016.

A handwritten signature in black ink, appearing to read 'Murray Michell', with a stylized flourish at the end.

Murray Michell
Director and Accounting Authority



Part A **general information**

FIC GENERAL INFORMATION

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

AML/CFT	Anti-money laundering and counter the financing of terrorism
CTR	Cash threshold report
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), as amended
FIU	Financial intelligence unit
ICT	Information and communications technology
MoU	Memorandum of understanding
PCC	Public Compliance Communication
SARS	South African Revenue Service
STR	Suspicious transaction report
TPR	Terror property report
UN	United Nations

FOREWORD BY THE MINISTER

The global economy continues to be marked by uncertainty that undermines growth, particularly in developing countries like South Africa. Maintaining the integrity and stability of our country's financial system, as part of the global financial system, is a necessary precondition to achieving stronger, more inclusive, economic development.

For more than a decade, the Financial Intelligence Centre (FIC) has contributed to defending the integrity and security of South Africa's financial system. Financial intelligence produced by the organisation plays an important role in following the money to track the proceeds of crime. By helping to ensure confidence in the soundness of South Africa's financial system, the FIC has an important role in encouraging new and continued investment in our economy.

Illicit funds flow within and between countries, and South Africa is no exception. The challenge lies in plugging these leakages so that money that would have been lost to the illicit economy can be used to build schools and hospitals, help young entrepreneurs, create new jobs and further develop our economy. The recent release of the Panama Papers underscores the need to apply more stringency to measures which underpin our financial system.

Shortly after the close of the reporting period, Parliament unanimously adopted the amendments to the FIC Act (2001). These amendments are important steps for further strengthening of our financial system and ensuring that it is of world standard in terms of anti-money laundering and combating terror financing.

The new Act introduces a risk-based approach which allows business to take a differentiated stance on understanding its risks and the people behind the entities it deals with every day. In so doing, institutions will have the flexibility to tailor their customer engagements to customer characteristics and each institution's unique business mix. This will minimise unnecessary "bureaucracy-related"

compliance and ease the burden on customers whilst improving transparency. Changes to the regulatory framework will help prepare the country for the next round of mutual evaluations by the Financial Action Task Force (FATF) in 2019, when it assesses South Africa's anti-money laundering and counter-terror financing environment. The FIC Act amendments are in line with the international Standards contained in the FATF Recommendations of 2012¹, ensuring that South Africa complies with international standards and best practice.

Government is continuously working to improve transparency and accountability. The establishment of the central supplier database shows that we are making headway in this direction. This work will continue in the year ahead, as the FIC improves compliance with the country's framework to identify funds generated from crime, combat money laundering and terror financing, and commences with the phased implementation of the FIC Act amendments.

It is my firm expectation that all entities reporting to the Ministry of Finance will always enhance integrity, financial prudence and make every effort to expose and fight corruption and mismanagement of public funds.

I thank the team at the FIC for their dedication and hard work. They play a pivotal role in keeping South Africa's financial system secure, thereby ultimately helping to grow the economy for now and the future.

Pravin J Gordhan, MP

Minister of Finance

¹ The FATF Recommendations set out a comprehensive framework of measures which countries should implement in order to combat money laundering and terrorist financing, as well as the financing proliferation of weapons of mass destruction. The Recommendations cover the three areas required for a system against money laundering and the financing of terrorism and the proliferation of weapons of mass destruction to be effective, namely measures to:

- i) Prevent or detect money laundering such as customer due diligence and effective supervision
- ii) Enforce laws against money laundering and the financing of terrorism and the proliferation of weapons of mass destruction such as criminal sanctions and forfeiture of illicit proceeds and
- iii) Enhance transnational co-operation such as effective structures for the exchange of information.

DIRECTOR'S OVERVIEW

The FIC's role in protecting the financial system's stability and integrity

The FIC contributes to protecting the integrity of South Africa's financial system, which in turn anchors the country's economic stability.

The FIC has a dual focus to its mandate. On the one hand, it is to assist in identifying the proceeds of crime, and combating money laundering and the financing of terrorist

activity. A strong financial intelligence system contributes to the fight against crime and corruption – and the safety and security of all South Africans. On the other hand, these activities are designed to assist in making the financial system intolerant to being abused by criminals, which directly underpins the



Figure 1: FIC and its partners

integrity and stability of the financial sector. A stable, secure financial system promotes confidence, helping to attract investment from here and abroad. Such investment helps to build the economy, creates jobs and boosts living standards for the people of South Africa.

In the years ahead, financial intelligence will become a greater policy tool to promote socio-economic development and reinforce the integrity of the financial system. Our reputation will depend on the integrity, accuracy and reliability of the financial intelligence we provide.

The FIC is a support agency to law enforcement and other authorities, offering financial intelligence as a tool to track down criminals and their associates for further investigation or follow-up action. This includes investigating authorities such as the South African Police Service, the intelligence services and the South African Revenue Service (SARS). To this end, the FIC focuses on the national crime priorities and national security strategy, acting in support of government's Outcome 3, which is to ensure that all citizens feel and are safe.

We also share certain information with similar bodies in other countries and contribute to the global policy framework. Although the FIC's financial intelligence plays an important role in many criminal investigations, it does not conduct its own investigations or prosecutions. While it fulfils this role, the FIC also demands compliance with the legislation by financial institutions. We therefore monitor and give guidance to institutions in terms of the FIC Act.

Aligning legislation with global standards

Global standards require a high degree of transparency in the financial system. This entails customer due diligence, and proper record-keeping and reporting measures to enable the detection, investigation and sanctioning of illicit activity. It is increasingly important for South

The Panama Papers

The 11.5 million documents leaked from Panamanian law firm Mossack Fonseca offer new insight into how wealth is often concealed. Offshore businesses in and of themselves are not illegal, but they are often used to hide wealth (whether obtained legitimately or not), launder money or evade taxes.

The documents reveal information about 214 000 offshore companies created around the world, and the people behind these structures.

More than 500 banks, including several major financial institutions and their subsidiaries and branches, hired Mossack Fonseca to manage the finances of their wealthy clients and registered nearly 15 600 shell companies with the law firm.

The leaked documents confirm that front companies and offshore structures are widely used to conceal beneficial ownership of assets and relationships with mainstream financial institutions. As a result, additional focus should be placed on financial institutions' due diligence conducted on corporate customers and their intermediaries.

African financial institutions to know who they are dealing with, particularly in the context of growing concern about the proliferation of global terrorism.

Every day, enormous flows of capital and cash move around the world. A portion of these flows is the result of criminal activity, often disguised within highly complex structures. South Africa is not immune to such activity: billions of rands are siphoned off every year that could be used to build the economy, foster development and provide critical social services.

Various amendments to the FIC Act were adopted by the National Assembly shortly after the reporting period. These will ensure South Africa's financial system is aligned with global standards and international best practice to combat money laundering and the financing of terrorism.

The amendments to the Act are in keeping with South Africa's modernisation of its financial regulatory framework, which will enhance the integrity and resilience of the financial system, and improve consumer protection and market conduct in financial services.

This has two practical and immediate consequences for average South Africans. Firstly, they will be better protected, and secondly, they will begin to experience a reduced administrative burden in their financial sector interactions.

The amendments are in line with the global standards derived from the Recommendations of the FATF and various relevant United Nations (UN) Conventions and special resolutions.

Each of the 37 FATF members (35 members and two regional jurisdictions) undergoes a regular mutual evaluation by their peers to ensure compliance with agreed standards. The FATF last evaluated South Africa in 2009, and it is expected that we will be evaluated again by 2019.

Failure by countries to implement the agreed international standards effectively exposes them to the threat of increased monitoring by the FATF and other institutions, such as the International Monetary Fund, which could raise questions about the stability of countries' financial systems. This, in turn, could raise their risk profile and lead to various forms of

exclusion from the global financial system, while their domestic financial institutions face the prospect of significant penalties and reputational damage.

The FIC Act amendments are intended to mitigate this risk and enhance South Africa's ability to combat financial crimes by:

- Addressing regulatory gaps and enabling compliance with best practice
- Strengthening customer due diligence measures, particularly relating to beneficial ownership and persons in prominent positions
- Introducing a flexible risk-based approach to identifying and verifying customers
- Improving sharing of information among designated entities and enhancing co-ordination and crime-fighting capabilities.

In line with the risk-based approach that the amendments to the FIC Act will introduce and along with the international standards, businesses will need to determine the money laundering and terror financing risks within their operating environment.

According to international anti-money laundering and counter the financing of terrorism (AML/CFT) standards, risk awareness and its management will be the cornerstone of an effective system to combat money laundering and terror financing. Over the period ahead, the FIC and government will focus on developing a thorough understanding of the country's money laundering and terror financing risks. This will allow authorities to develop a shared response to these risks.

Amendments bring South Africa in line with global best practice



The FIC Act amendments are designed to introduce innovative provisions to improve the transparency and integrity of South Africa's financial system in line with global best practice.

A risk-based approach

An important change to the FIC Act gives financial institutions the flexibility to assess and manage the risks in their businesses, depending on the category of customer. Institutions will take responsibility for how they understand and manage their risks.

The institutions will seek to understand their customers and scrutinise the way they use their products or services, making it easier to recognise inconsistent behaviour. This means going beyond basic know-your-customer requirements to establish and verify their clients' identities.

Risk-based due diligence will require institutions to vary their approach depending on factors such as the type of customer, business relationship, product and geographic location. This will allow for increased flexibility in decision-making. The level of due diligence applied will depend on what level of money laundering or terror financing risk the institution has assigned to the customer.

This should help reduce the administrative burden for most customers as institutions take a differentiated approach, rather than applying onerous requirements across the board.

Beneficial ownership

Requiring institutions to know the people behind their companies – those who benefit financially – will bring greater transparency to the financial system. For corporate clients, this means that institutions will take reasonable measures to determine the identity of beneficial owners.

It is important to know the people behind company structures, so that financial institutions are able to understand their customers better and apply the appropriate

level of risk-mitigating controls. This will also help authorities detect, investigate and prosecute instances where corporate structures have been used to cover illicit financial dealings.

This requirement brings South Africa in line with current global standards.

Prominent influential persons

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

Financial institutions will have different approaches to domestic and foreign influential persons. They will always apply additional customer due diligence to foreign influential persons, but will only do so for domestic influential persons if they assess that there are specific risks that they need to manage.

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

The FIC Act Amendment Bill will require financial institutions to identify new clients who may be prominent and influential persons in South Africa or from abroad.

Freezing of assets

The Amendment Bill establishes a legal framework for applying and administering financial sanctions emanating from UN Security Council Resolutions. The provision aims to fulfil South Africa's obligations as a UN member state and bring its legislation in line with international standards.

Performance overview

Regional and international developments

South Africa is part of a global network that aims to prevent money laundering and combat terrorism, which includes the FATF, the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and the Egmont Group of Financial Intelligence Units. Together with several other government departments and agencies, the FIC is an active participant in these organisations and we draw on the vast experience of those involved. South Africa also contributes to the pool of knowledge and seeks to influence the development of the international policy environment.

Terrorism and the funding of foreign terror fighters took centre stage globally during the reporting period. The proliferation of terrorist attacks poses a serious threat to international security and development. The FIC supports efforts to counter terrorist financing by working with its international partners and sharing financial intelligence products domestically and internationally.

During 2015/16, the FIC participated in the Egmont Group's global typologies exercise on foreign terrorist fighters, along with the financial intelligence units (FIUs) of 37 other

The global financial intelligence network

Financial Action Task Force

The FATF is a global standards-setting body, backed by the political commitment of its 35 member states plus two regional organisations. South Africa is the only African member. The FATF is made up of Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, the European Commission, Finland, France, Germany, Greece, the Gulf Co-operation Council, Hong Kong: China, Iceland, India, Ireland, Italy, Japan, the Republic of Korea, Luxembourg, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Portugal, the Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

The FATF sets standards and promotes effective legal, regulatory and operational measures for combating money laundering, the financing of terrorism and other threats to the international financial system. More than 190 countries around the world subscribe to these standards. The FATF, together with a global network of regional assessment bodies, measures effective implementation of its standards through peer reviews. The International Monetary Fund and the World Bank incorporate the results of these reviews in their own processes to determine the stability of a country's financial sector.

South Africa, together with the Russian Federation, has been a member of the FATF since 2003.

Eastern and Southern Africa Anti-Money Laundering Group

The ESAAMLG is a regional body subscribing to global standards to combat money laundering and the financing of terrorism. Its 16 member states are Angola, Botswana, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Rwanda has been formally admitted as a member of the ESAAMLG but has not yet fully taken up its role as an active member of the organisation. The ESAAMLG has three regional counterparts on the continent, namely Central Africa, West Africa and North Africa (and the Middle East).

Egmont Group of Financial Intelligence Units

It is a requirement that all countries should establish and provide for an operationally independent FIU. The Egmont Group is a global association of FIUs from 151 different countries. (See <http://www.egmontgroup.org/about/list-of-members> for a list of the member countries.) The Egmont Group facilitates co-operation between FIUs through advancing the sharing of financial intelligence and providing technical assistance and support.

countries, to share experiences and perspectives regarding the financing of terrorism. In light of the increasing number of terror threats, the Egmont Group is emphasising the importance of operational co-ordination between member FIUs.

In August 2015, the FIC hosted the first meeting of African heads of FIUs. This meeting was part of attempts in the ESAAMLG region to develop a regional-based framework for FIUs, enabling members to share experiences and increase effectiveness in their respective jurisdictions.

This year was South Africa's turn to serve as chair of the ESAAMLG. Leadership is rotated by country every year.

The FIC provided technical assistance in response to requests from Lesotho, Swaziland and Botswana. We are also sponsoring nine fellow ESAAMLG countries (Botswana, Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Uganda, Zambia and Zimbabwe) to become full members of the Egmont Group.

During 2015/16, the FIC signed a memorandum of understanding (MoU) with Uganda and, beyond the sub-Saharan region, with 10 other FIUs, including China, Cuba, Ethiopia, Iran and the Netherlands.

Domestic partnerships

During 2015/16, we continued to integrate our financial intelligence products into the work of broader government through participation in several inter-departmental structures and relationships, including the National Intelligence Co-ordinating Committee, the National Joint Operational Intelligence Structure, the Anti-Corruption Task Team and the Justice, Crime Prevention and Security cluster.

Our participation in the National Intelligence Co-ordinating Committee and its working groups means that financial intelligence is integrated into several strategic projects in which national security issues are considered.

The FIC has to be capable and agile in its development of financial intelligence in response to the constantly evolving nature of the illicit economy, and shifting national crime and

security priorities. We developed an improved understanding of the illicit economy and its associated financial flows in a project that has helped to greatly enhance the quality of our products.

SOUTH AFRICA LINKED TO GLOBAL INTERNET SCAM



The FIC helped identify fraudsters in South Africa who were members of a global syndicate. The syndicate scammed hundreds of internet users outside of South Africa out of millions of dollars.

The fraudsters used fake profiles on dating sites and hundreds of fake e-mail accounts to convince people to ship electronic goods or wire money to bank accounts in Gauteng.

Analysis by the FIC revealed that the syndicate used the proceeds of their scams to buy properties and vehicles. The FIC was also able to identify their domestic bank accounts and froze three accounts belonging to the syndicate's kingpin. Preservation and forfeiture orders were issued for assets valued at R2.4 million.



We remain alert to advances in technology and how these can be distorted and abused for criminal intent. Cybercrime is a major concern, particularly given the impact it could have on financial institutions in South Africa.

To this end, the country is taking a multi-disciplinary approach to dealing with cybercrime. The FIC is part of the state's response to this threat.

Improving reporting and compliance

Throughout this report we highlight some of the key accountable and reporting sectors under the FIC Act.

The result of improved compliance is greater accountability, transparency and stability in the financial system. Accountable institutions' compliance with the FIC Act continued to increase during the reporting period.

The FIC strengthened compliance initiatives in 2015/16, supported by awareness campaigns and training workshops. We delivered presentations, nationally and internationally, to representatives of accountable and reporting institutions on our work, the importance of compliance, trends

in cybercrime and maritime trafficking, and related subjects. Partnerships with the private sector were enhanced through interaction with supervisory bodies and accountable and reporting institutions.

The number of accountable and reporting institutions registered with the FIC increased by 3 794 (an increase of about 12 percent), from 30 461 at the end of 2014/15 to 34 255 at the end of 2015/16. Over the past six years, the number of institutions registered with the FIC has quadrupled. While this reflects continued growth in awareness of our work, there remains the need for affected institutions to register.

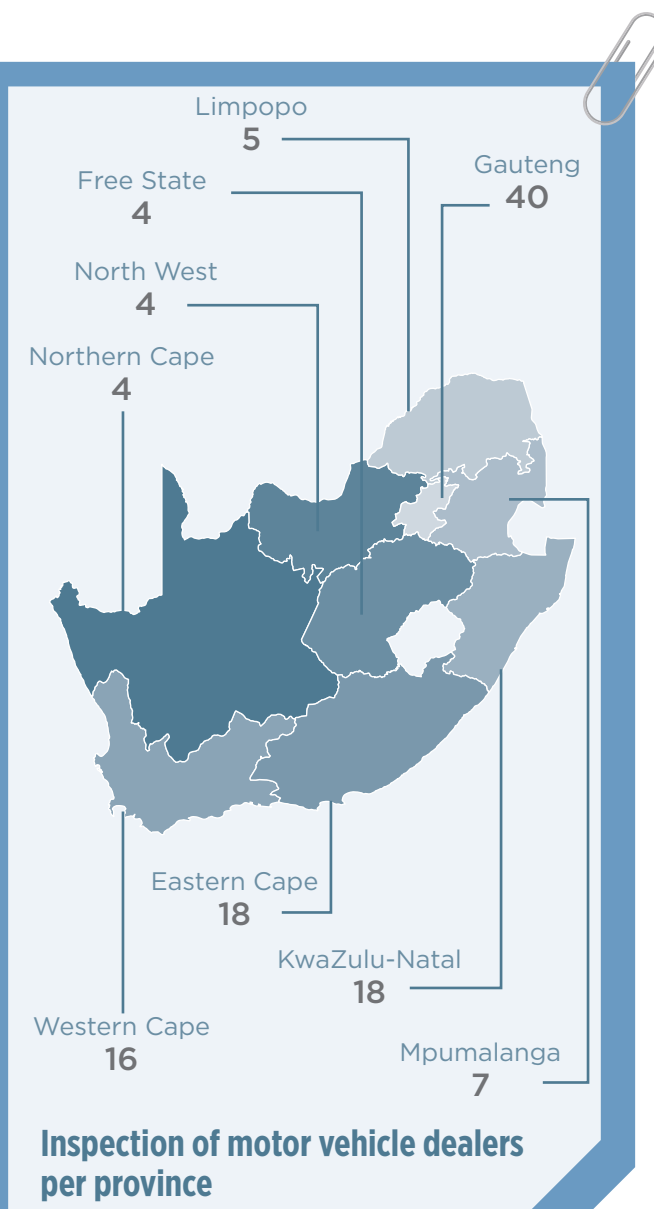
Motor vehicle dealers

Motor vehicle dealerships are reporting institutions under the FIC Act, but they are not regulated and are not required to register with an industry body or association to be able to trade. Only second-hand vehicle dealers have to register with the South African Police Service.

Motor vehicle dealers are deemed vulnerable to money laundering because they deal with large amounts of cash and high-value goods. Criminals often use the proceeds of crime to buy cars as status symbols.

As the default supervisory body for this industry, the FIC is responsible for conducting inspections. These inspections are not conducted to detect money laundering or other illegal activities; they are solely to ensure compliance with the FIC Act. During 2015/16, the FIC inspected 116 motor vehicle dealerships, as indicated in the map to the right.

Compliance in this sector continues to improve, with the number of dealerships (head office and branch outlets) registered with the FIC increasing from 2 794 in 2014/15 to 3 231 in 2015/16. However, many dealerships are not yet registered with the FIC.



A total of 3 531 accountable and reporting institutions submitted financial transaction reports during the reporting period, up from 3 236 in 2014/15.

We received more than 9 million cash threshold reports (CTRs), up from 6.6 million CTRs in 2014/15. We received 180 363 suspicious transaction reports (STRs) in 2015/16.

During the reporting period, the FIC implemented a new reporting and registration information and communications technology (ICT) solution, which is changing the way we operate. The solution was launched shortly after the end of the reporting period. For more information on this, see page 46.

Most of the financial transaction reports the FIC receives come from South Africa's large banks. We continue to work closely with all financial institutions and their supervisory body, the Reserve Bank. The FIC was encouraged that these institutions contributed to the implementation of the new reporting system within two years, which is testament to the good working relationship that exists between the FIC and the banking industry.

The FIC's contributions to reducing crime and corruption are evident in the increasing demand for its financial intelligence products during the investigation and prosecution of crimes. In 2015/16, the FIC assisted with 1 979 investigation requests from national and international law enforcement agencies, up from 1 799 in 2014/15. We contributed to 26 judicial actions – a court's action or decision after a hearing – by providing affidavits on matters presented during court proceedings. We also blocked R184.6 million as suspected proceeds of crime during 2015/16. The majority of these funds were subsequently preserved by the Asset Forfeiture Unit.

FIC intelligence products helped identify a range of suspected criminal activities, including money laundering (746 reports), corruption (515 reports) and fraud (470 reports). In the period ahead, we will maintain and build on this momentum.

Operational highlights

We exceeded most of our performance targets during 2015/16, despite the constraints of a small staff complement and limitations on recruiting additional staff. We remain committed to establishing a functional capability in all provinces. Specialised skills are in high demand and the FIC continues to face the challenge of high staff turnover.

STOLEN STUDENT LOANS



The FIC received a suspicious transaction report regarding an employee working in the finance department of a university. The employee was diverting tuition payments from student loans into his personal bank account after advising the donor of a change in the university's banking details.

The FIC established that the subject made payments into various bank accounts, including his family members' accounts, and purchased luxury vehicles. This information was shared with law enforcement agencies in a detailed report, substantiated with a flow of funds analysis.

The FIC issued intervention directives on various bank accounts, securing more than R4.6 million, and the matter was referred to law enforcement agencies. The organisation's financial intelligence helped the Asset Forfeiture Unit obtain a preservation order for funds in the subject's bank account and movable as well as immovable property.



The FIC is mindful of contributing to the skills base in the domestic anti-money laundering and counter-terror financing arena, while giving young people the opportunity to develop and grow in a career of their choice. We therefore continued with our graduate development programme during the reporting period, bringing in new graduates in April 2015 and March 2016.

The FIC is funded from the national budget, with funds voted as part of the National Treasury budget. The FIC develops its own budget and manages its own funds. The organisation received an increase of 18.4 percent in its baseline allocation for 2015/16, which helped it implement infrastructure upgrades and other critical replacements. The FIC received an unqualified audit opinion for the 2015/16 financial year.

Looking ahead

The FIC will continue to follow the money in its efforts to identify the proceeds of crime and protect the integrity of the financial system. We will respond to the growing demand from law enforcement and investigating agencies, and become more agile in our operations and in our use of resources as we adapt to the continuously evolving nature of financial crime.

I would like to thank the staff of the FIC for their dedication, energy and effort in helping to make the South African financial system safer and helping to prevent criminals from being able to benefit from their crimes. The extraordinary commitment displayed by all staff over the years has succeeded in making the FIC an internationally respected and leading FIU. I am particularly appreciative of their support in the past year, even though a lack of funds meant that no bonuses were paid to reward their high levels of performance.

We look forward to meeting the complex challenges that lie ahead and increasing our contribution to protecting the stability, transparency and integrity of South Africa's financial system in the years to come.



Murray Michell

Director
Financial Intelligence Centre

CATCHING PHISH



The FIC worked with the Asset Forfeiture Unit, SARS, the South African Police Service, the South African Banking Risk Information Centre and various banking institutions to uncover a phishing scam.

Phishers clone bank accounts using sophisticated devices. After the phishers have identified a potential phishing victim, they contact SIM swappers to block the owner's cell phone number so that account holders do not receive transaction notifications. This allows the phishers to log into the victim's account and transfer money out of it. The money is then immediately withdrawn from different ATMs, after which the ATM cards are discarded. The mobile service provider employees are paid for assisting with the SIM swap, while the rest of the money is deposited into the accounts of the main phishers.

With the FIC's assistance, law enforcement arrested some of the subjects and seized laptops and cell phones. Three of the perpetrators have been sentenced to between 15 and 20 years in prison.



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 from 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 FIC for the financial year ended 31 March 2016.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Murray Michell', with a long horizontal stroke extending to the right.

Murray Michell

Director
29 July 2016

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 staff members 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, amended in 2008). The FIC Act works in concert with the Prevention of Organised Crime Act (1998), the Protection of Constitutional Democracy against Terrorist and Related Activities Act (2004), the South African Police Service Act (1995) and the National Strategic Intelligence Act (1994, as amended).

The FIC Act established the FIC and placed obligations on financial institutions and other businesses deemed vulnerable to money laundering. The Prevention of Organised Crime Act introduced the crime of money laundering onto the statute book and set the penalties associated with a conviction. 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, SARS 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 and unusual financial transactions. 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 take

Institutions required to register with the FIC

The FIC Act requires all accountable and reporting institutions to register with the FIC within the prescribed period and in the prescribed manner. 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. Accountable institutions differ from reporting institutions in terms of their client base, size, operations and the risks to which they are exposed. Their use of branches, divisions and franchises within the same legal entity is also a distinguishing feature.

In some instances, a group of companies or a legal entity may contain more than one accountable or reporting institution, for example, different entities in a financial conglomerate or divisions in a legal entity.

steps regarding client identification, record-keeping, the appointment of compliance officers, the training of employees on how to comply and the filing of statutory reports. It also requires that affected institutions and individuals register with the FIC and reflect their compliance structures.

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 supervisory bodies engage with the entities that report to them in terms of compliance with the requirements of the FIC Act.

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 SARS 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 also seeks to:

- Contribute to the global framework against money laundering and the financing of terrorism.

- Develop policy options for the Minister of Finance based on an assessment of the available financial intelligence.

The FIC Act establishes the FIC as South Africa's national centre for the development and dissemination of financial intelligence. The FIC was established to identify the proceeds of crime and combat money laundering and the financing of terrorism. In so doing, it fulfils its primary role to protect the integrity of South Africa's financial system.

As a member of the FATF and other international bodies, and a signatory to a number of conventions (including the UN Convention against Transnational Organised Crime, the UN Convention against Corruption and the International Convention for the Suppression of the Financing of Terrorism), government has expressed its commitment to implementing international standards on combating money laundering and terror financing.

A FATF peer review exercise undertaken in 2009 indicated certain deficiencies in South Africa's regulatory framework to combat money laundering and terrorist financing. During this period, the FATF also initiated a review of international standards to combat money laundering and terrorist financing, which culminated in the adoption of a significantly enhanced set of standards in 2012.

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. The FIC Act Amendment Bill seeks to:

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

Parliament unanimously adopted the Bill shortly after the end of the reporting period. It is envisaged that the new FIC Act will be implemented in a phased manner to give institutions time to adapt to the new requirements. See the information box on page 9 for an overview of the key amendments to the Act.

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). 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 four departments:

- Legal and Policy
- Compliance and Prevention
- Monitoring and Analysis
- Corporate Services.

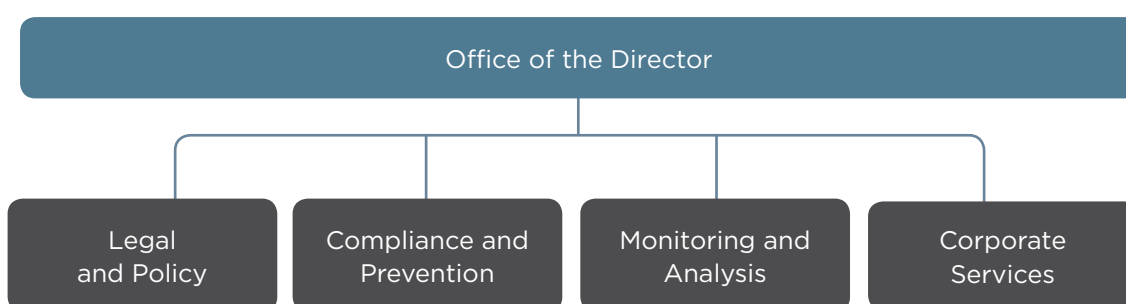


Figure 2: FIC structure

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 department 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 Southern and East Africa
- Providing strategic policy advice on money laundering and terror financing, including improvements to the legislative framework.

Compliance and Prevention

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

The department 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 obligations.

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

The department develops and issues guidance in consultation with the Legal and Policy department, 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 department receives and analyses data used to identify the proceeds of crime, money laundering and the financing of terrorism.

The department works closely with law enforcement authorities, intelligence agencies, SARS and the private sector to combat crime, and provides support for investigations on request. The department's work also contributes to enhanced international co-operation.

Corporate Services

The Corporate Services department provides support services to enable the FIC to operate efficiently.

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



Part B performance information



AUDITOR-GENERAL'S REPORT: PREDETERMINED OBJECTIVES

The Auditor-General's audit conclusion on the performance against predetermined objectives is in Part D of this report.

SITUATIONAL ANALYSIS

Service delivery environment

The FIC exceeded most of its targets for 2015/16, while a final workplace safety and security target was only partially achieved. In this regard, discussions with other government departments and partner agencies continue.

Organisational environment

During the reporting period, the FIC successfully implemented a new reporting and registration system that will help it achieve its strategic objectives and improve its efficiency. There are no immediate concerns with regard to the FIC's ability to realise its strategic objectives.

Key policy developments and legislative changes

During 2015/16, the draft FIC Amendment Bill was released for public comment. The FIC was involved in the consultation process with various industry representatives to discuss the proposed amendments. About 10 information-sharing workshops were held with key stakeholders in the run up to Parliament's public participation process.

Nearly two months after the end of the financial year, Parliament unanimously adopted the amended legislation.

STRATEGIC OBJECTIVES

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

- 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 three of South Africa's national priorities:

- Outcome 3: All people in South Africa are and feel safe
- Outcome 4: Decent employment through inclusive growth
- Outcome 11: Create a better South Africa, a better Africa and a better world.

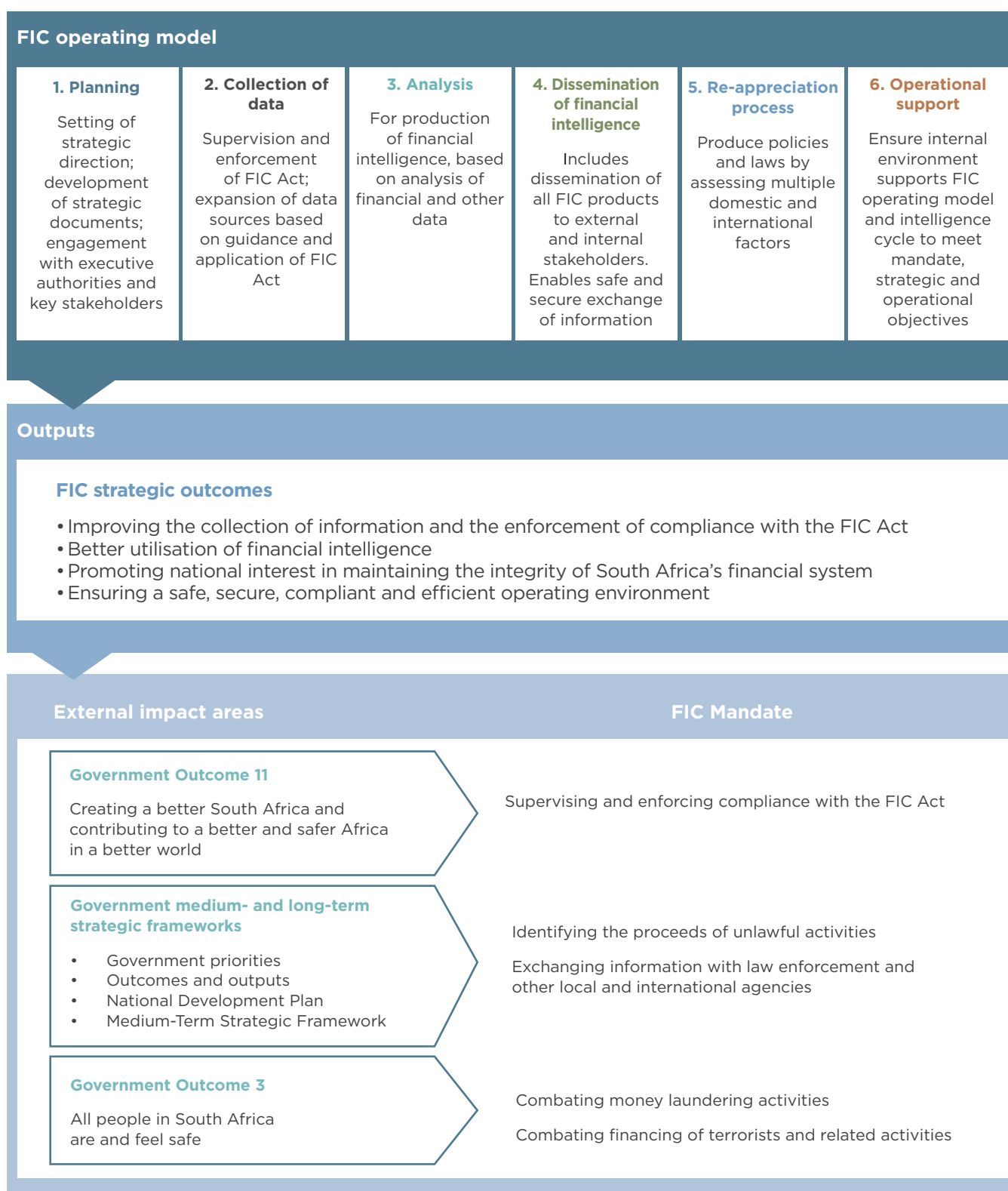


Figure 3: FIC focus areas and strategic outcomes

PERFORMANCE INFORMATION BY OBJECTIVE

Strategic outcome 1: Improving the collection of information and the enforcement of compliance with the FIC Act

During the reporting period, the FIC continued to monitor the compliance of accountable institutions, in partnership with supervisory bodies. Where necessary, action was taken to enforce compliance.

As part of its work to improve the range and quality of data that it receives, the FIC successfully implemented a new reporting and registration system during 2015/16, called goAML. This state-of-the-art intelligence analysis software system, developed by the UN Office on Drugs and Crime, will improve information input to the FIC and enable more effective collaboration with accountable and reporting institutions. The system became fully operational shortly after the end of the reporting period. For more information on goAML, see the information box on page 46.

During 2015/16, the FIC exceeded all its targets under this objective. Highlights for the year include the following:

- The FIC and supervisory bodies conducted 1 396 inspections, up from 740 inspections in 2014/15.
- The number of accountable and reporting institutions registered with the FIC increased by 3 794 (an increase of about 12 percent), from 30 461 at the end of 2014/15 to 34 255 at the end of 2015/16.
- A total of 3 531 accountable and reporting institutions submitted reports to the FIC, up from 3 236 in 2014/15. The bulk of these reports were made up of CTRs, which are reports on cash transactions of R25 000 and above.
- The FIC conducted 14 FIC awareness road shows, attracting about 1 800 participants across the nine provinces.

Much of the FIC's compliance monitoring and enforcement work is through the partnerships it has established with supervisory bodies. The FIC conducts inspections itself and enforces compliance where no supervisory body exists, or where a supervisory body fails to enforce compliance despite the FIC's recommendations.

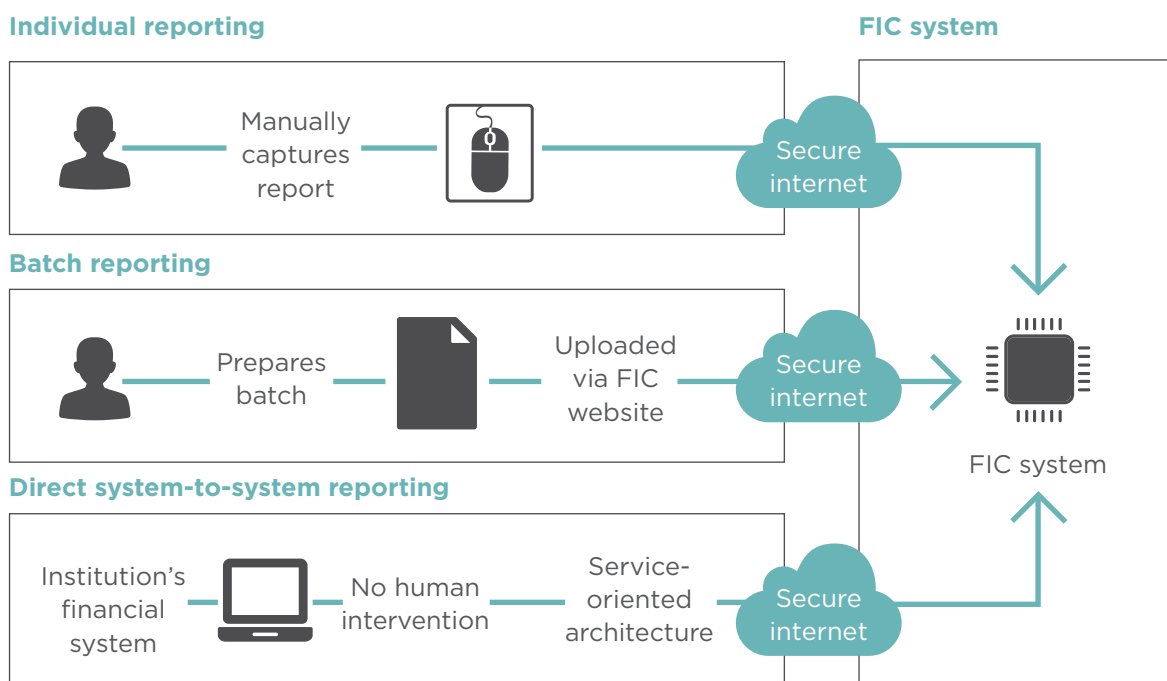



Figure 4: The reporting system

The FIC provides several direct types of support to supervisory bodies. The FIC's inspectors help supervisory bodies fulfil their inspection responsibilities. After concluding the inspections, the inspectors draft an inspection report, which is sent to the supervisory body for their reference. The FIC also provides training to inspectors, ensuring that inspections are consistent and of a high standard. The training is an opportunity for the FIC to ensure that there is alignment in the interpretation of the FIC Act.

The FIC reviews the supervisory system regularly to ensure it continues to be effective and efficient.

The entities and sectors over which the FIC carries direct compliance and enforcement responsibilities include:

- Trust companies that invest, keep in safe custody, control or administer trust property
- Entities that lend money against the security of securities
- South African Postbank Limited
- Ithala Development Finance Corporation Limited
- Motor vehicle dealers
- Krugerrand dealers.



What is the responsibility of the supervisory body in terms of the FIC Act?

Supervisory bodies are responsible for ensuring that the accountable institutions for which they have oversight responsibility comply with the FIC Act.

The FIC issues guidance and information products that interpret the legal meaning and application of aspects of the FIC Act and associated regulations, and responds to instances of non-compliance, when necessary. Supervisory bodies do not develop any guidance products themselves, but they do apply the FIC-issued guidance within their sectors.

Supervisory bodies conduct inspections to assess compliance with the FIC Act and help accountable institutions comply with the Act's regulations. Supervisory bodies must ensure that the Act's requirements are followed and embedded in accountable institutions' risk management and compliance programmes. The FIC consults with supervisors before issuing guidance products to ensure that all industry-related issues have been considered and understood.



Krugerrand dealers

The FIC defines a Krugerrand dealer as a person who deals in Krugerrands, including jewellery, ornaments, watches or other objects that contain Krugerrands. These dealers include businesses that buy, sell or pawn Krugerrands.

Because this industry does not have its own regulatory body, the FIC directly supervises the Krugerrand dealers. The FIC is therefore responsible for conducting inspections and ensuring compliance with the FIC Act.

As at 31 March 2016, 165 Krugerrand dealers were registered with the FIC and the sector submitted 914 reports during the reporting period.

Inspections and sanctions

In 2015/16, the FIC and supervisory bodies conducted 1 396 FIC Act inspections, of which the FIC conducted 145 and the supervisory bodies conducted 1 251. This represents a 47 percent increase since 2014/15, when 740

inspections were conducted (130 by the FIC and 610 by the supervisory bodies). The FIC provided support to 66 inspections (2014/15: 59) conducted by supervisory bodies during the reporting period.

What is an FIC Act compliance inspection?

An FIC Act compliance inspection is conducted in terms of section 45B of the FIC Act by an inspector appointed by the Director or head of a supervisory body in terms of section 45A of the Act. The FIC is responsible for conducting inspections on entities listed in schedules 1 and 3 of the FIC Act that are not supervised or regulated by a supervisory body. It may also support inspections conducted by supervisory bodies.

Where appropriate, an inspector may inspect the premises of an accountable or reporting institution. Inspections determine the level of compliance with the provisions of the FIC Act, or with any order, determination or directive made in terms of the Act. Inspectors have the legal power to question managers and staff; order any person to produce a document; access any computer system or equipment; or examine, make copies of or seize any document. The inspector samples

client files to ensure compliance with record-keeping, client identification and verification, and reporting obligations.

The FIC and supervisory bodies cannot use their inspection powers to investigate criminal conduct. If the FIC or supervisory body suspects that a criminal offence has or is being committed by the person who is the subject of the search, or if the premises are a private residence, an inspector may only conduct the inspection after a magistrate or judge has issued a warrant, or if the FIC has obtained permission from the institution to be inspected.

The FIC and the supervisory bodies conduct inspections using a risk-based approach. This means that inspectors focus on the inherent and residual risks in an institution's business structure, customer profiles, internal controls, and products and services.

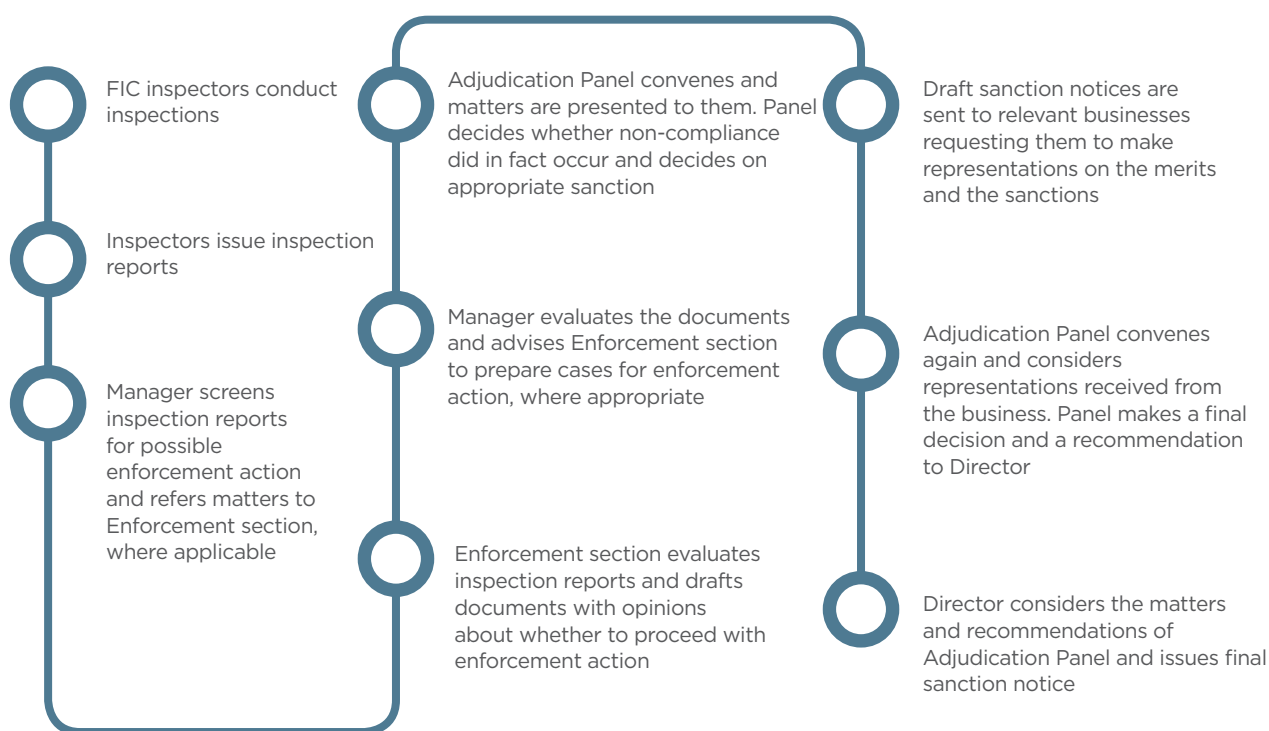


Figure 5: FIC enforcement process

Table 1: Inspections by supervisory bodies and the FIC in 2015/16

FIC own inspections conducted per business sector	
Inspections conducted	Business sectors inspected
8	Trust companies and administrators
114	Motor vehicle dealers
16	Krugerrand dealers
1	Ithala Development Finance Corporation
1	Postbank
5	Entities that lend money against the security of securities
0	Money remitters
145	Subtotal
FIC/supervisory body inspections conducted per business sector	
26	Gambling institutions
20	Financial Services Board-regulated entities
8	Estate agents
4	Attorneys
8	Authorised dealers with limited authority
66	Subtotal (supported inspections)
Supervisory body own inspections conducted per supervisory body	
160	Financial Services Board: Financial Advisory and Intermediary Services division
3	Financial Services Board: Long-term Insurance division
23	Financial Services Board: Collective Investment Schemes Managers division
11	Financial Services Board: Capital Markets division
7	South African Reserve Bank: Bank Supervision department
85	South African Reserve Bank: Financial Surveillance department
620	Estate Agency Affairs Board
1	Independent Regulatory Board for Auditors
39	Provincial Licensing Authority: Gauteng Province
17	Provincial Licensing Authority: Mpumalanga Province
18	Provincial Licensing Authority: Limpopo Province
8	Provincial Licensing Authority: Free State Province
19	Provincial Licensing Authority: KwaZulu-Natal Province
28	Provincial Licensing Authority: Eastern Cape Province
23	Provincial Licensing Authority: Western Cape Province
185	Provincial Licensing Authority: North West Province
0	Provincial Licensing Authority: Northern Cape Province
0	Law Society of the Northern Provinces
4	Law Society of the Free State
0	Cape Law Society
0	Law Society of KwaZulu-Natal
1 251	Subtotal
1 396	Grand total - inspections conducted

Inspection reports were issued to all the entities concerned.

Following a compliance inspection, if an institution is found to be non-compliant with the provisions of the FIC Act, the FIC or a supervisory body may impose the following administrative sanctions:

- A caution not to repeat the conduct that led to the non-compliance
- A reprimand
- A directive to take remedial action
- The restriction or suspension of certain business activities
- A financial penalty of up to R10 million for a natural person and R50 million for a legal person.

The nature of the sanction will depend on the following factors:

- The nature, duration, seriousness and extent of the non-compliance
- Whether the institution has previously failed to comply with any law
- Any remedial steps taken by the institution or person to prevent a recurrence of the non-compliance
- Any steps taken or to be taken by the institution or person, or by another supervisory body or a voluntary association of which the institution or person is a member
- Any other mitigating or aggravating factor.

Financial penalties are paid into the Criminal Asset Recovery Account. A ministerial committee makes recommendations to Cabinet on the allocation of the funds in the account. The money is allocated to specific law enforcement

agencies or institutions, organisations or funds established to render assistance to victims of crime.

Remedial actions were advised in 120 of the FIC's own 145 inspections during 2015/16. The most common issue found during the inspections was that institutions were not reporting all identified cash threshold transactions.

The FIC issued 13 financial sanctions, totalling R1 613 370, mainly on motor vehicle dealers. Eleven of the sanctions are detailed in Table 2. The two motor vehicle dealers who have appealed the sanctions are not disclosed. The penalties issued were in proportion to the nature, seriousness and extent of the non-compliance, taking mitigating factors and the total value of the transactions not reported into account.



OPERATION ZAMBESI

During 2015/16, the FIC conducted an inspection drive on motor vehicle dealers in the vicinity of Sefako Makgatho Drive (formerly Zambesi Drive) in Montana, Pretoria. The inspectors focused on determining whether the dealerships were registered with the FIC, rather than on their reporting obligations.

The FIC inspected 70 dealerships, of which only four were registered.

Following the inspection, 22 dealerships registered with the FIC.

Table 2: Sanctions issued by the FIC in 2015/16

Entity sanctioned	Sanction
J's Way Auto CC	Failure to register (R10 000)
Oryx Zonda (Pty) Ltd t/a Oryx Auto	Failure to register (R10 000)
JWJ Auto CC t/a Moto Traders	Failure to register (R5 000)
Agra Bikes CC t/a House of Bikes	Failure to register (R5 000)
East End Motors CC	Failure to register (R10 000)
Bikes Galore CC	Failure to register (R5 000)
Woodmead Auto CC t/a Sunshine Auto	Failure to register (R5 000) and failure to file CTRs (R105 045, of which R50 450 is suspended for three years)
Estimel CC t/a Voortrekker Motors	Failure to register (R10 000)
Kelston Motors (Pty) Ltd t/a Market Square Volkswagen Uitenhage	Failure to file CTRs (R368 654, of which R248 654 is suspended for three years)
Bay City Trading 2 CC t/a Auto Exec	Failure to register (R5 000) and failure to file CTRs (R112 930)
M.S. Haffejee t/a Auto Empire	Failure to register (R5 000) and failure to file CTRs (R66 000, of which R40 000 is suspended for three years)

During 2015/16, the Financial Surveillance Department of the Reserve Bank, the supervisory body for the foreign exchange industry and the

Financial Services Board imposed the sanctions detailed in Table 3, in consultation with the FIC.

Table 3: Sanctions issued by supervisory bodies in 2015/16

Supervisory body	Entity sanctioned	Sanction
Financial Services Board	Thebe Stockbroking (Pty) Ltd	Failure to identify and verify clients (R500 000)
Financial Surveillance Department of the Reserve Bank	Ayoba Foreign Exchange	Failure to identify and verify clients (R80 000)
		Failure to provide adequate training (R50 000)
		Failure to appoint a person to ensure compliance with the FIC Act and internal rules (R50 000)

In addition to FIC Act inspections, South African law societies have mandated auditors to conduct compliance audits. A compliance audit differs from an inspection in two ways:

- The auditors are not appointed as inspectors in terms of the FIC Act
- The audit is not conducted under the provisions of the FIC Act, although it may cover the accountable institution's compliance with the Act.

Compliance audits conducted by supervisory bodies can result in administrative sanctions being imposed if the institution or person they are inspecting is found to be non-compliant with the FIC Act.

MoUs set out the terms of the partnerships the FIC has in place with supervisory bodies. The FIC has signed MoUs with 18 national and provincial supervisory bodies, detailing the approach in supervising compliance with FIC Act obligations.

The FIC engages regularly with supervisory bodies in bilateral meetings and quarterly through the FIC Act Enforcement Forum, which involves all supervisory bodies.

The FIC held 19 bilateral meetings with supervisory bodies during 2015/16 to discuss their enforcement of the FIC Act, initiatives to raise awareness of the Act, guidance issued by the FIC, and the effectiveness of the supervision and inspections conducted by supervisory bodies.

The FIC Act Enforcement Forum, which met once per quarter in 2015/16, consists of representatives of supervisory bodies and provides a mechanism for the FIC to monitor the progress made by supervisory bodies in supervising accountable institutions. It also allows supervisory bodies to share experiences relating to inspections and enforcement, and to harmonise approaches to supervision and enforcement. Between 25 and 30 representatives of supervisory bodies attended each meeting with the FIC during

the reporting period and discussed, among other topics:

- Application of financial intelligence in support of criminal investigations
- FIC Act hub solutions
- Illicit financial flows
- Guidance issued by the FIC
- Enforcement of the FIC Act
- Crime trends
- Supervision of the FIC Act by the Estate Agency Affairs Board
- The FIC Act Amendment Bill
- Targeted financial sanctions
- Lessons learnt with appeals
- Compliance with the FIC Act
- Compliance returns
- FATF guidance on effective supervision
- Prominent influential persons
- Risk-based approach
- Supervision and enforcement by the KwaZulu-Natal Gambling Board
- Update on the implementation of the new FIC registration and reporting system, goAML.

Guidance products

During 2014/15, the FIC issued eight guidance products (2014/15: six), interpreting the legal meaning and application of aspects of the FIC Act and associated regulations. The FIC's guidance products either take the form of Public Compliance Communication (PCC) notices, which are issued in terms of section 4(c) of the FIC Act and interpret issues arising out of the FIC Act, or directives, which are issued in terms of section 43A of the FIC Act. Only the FIC is permitted to issue such interpretations and directives.

Enforcement action may result from non-compliance with the FIC Act, including where it is found that the guidance issued by the FIC has been ignored.

Adherence to guidance

The purpose of guidance is to provide an interpretation of issues arising out of the FIC Act. The FIC appreciates that the FIC Act can be a complex piece of legislation that may give rise to difficult questions regarding the interpretation of various provisions of the legislation. The guidance provided cannot replace the FIC Act and its subordinate legislation, nor can it add onto, or subtract from, the legal obligations created in the Act and its subordinate legislation.

Gambling institutions

Casinos, bookmakers, bingo operators, site and route operators, and totalisators fall within the definition of gambling institutions and are defined as accountable institutions under the FIC Act. These institutions are regulated by provincial gambling boards, which conduct compliance inspections to ensure they are compliant with the FIC Act.

Gambling institutions deal with vast sums of cash every day, which makes the gambling industry vulnerable to abuse by money launderers. Gambling provides an easy explanation for recently acquired wealth with no apparent legitimate source.

In 2015/16, 1 558 gambling institutions were registered with the FIC. After banks, this sector was the second-biggest contributor to the FIC's financial intelligence reports during the reporting period, submitting 635 799 STRs and CTRs.

Guidance provided by the FIC is the only form of guidance formally recognised in terms of the FIC Act and the Regulations issued under the FIC Act. Guidance provided by the FIC is authoritative in nature. An accountable institution must comply with the FIC Act and Regulations, read with guidance issued by the FIC, and where there is a departure, explain the reasons for not adhering to the guidance provided by the FIC.

Institutions that elect not to adhere to the FIC-issued guidance need to be aware of the non-compliance risk they run. They must clearly document in a way that can be demonstrated to their particular supervisory body, the reasons why the guidance was not followed, and what reasonable alternative steps were taken instead of the issued guidance to mitigate the risk of non-compliance in terms of the FIC Act.

Two areas of concern that the FIC will be focusing on in the period ahead, along with the relevant supervisory bodies, relate to:

- PCC 09 – Identification and verification of Loyalty Programme Members in the Casino Industry.
- PCC 31 – The acceptance of funds by an accountable institution prior to the completion of the prescribed client identification and verification requirements.

Table 4: Guidance products issued in 2015/16

Directives/PCC notices	Date issued	Topic
PCC 32	6 July 2015	On the scope and application of the cross-border remittance exemption to the FIC Act
PCC 33	2 October 2015	Use of the Department of Home Affairs HANIS verification service for SABRIC member banks to establish and verify the identity of a client in terms of the FIC Act
Revised PCC 07	3 March 2016	On the definition of a motor vehicle dealer for the purpose of schedule 3 of the FIC Act
Directive 04/2016	4 March 2016	Updating of registration-related information to access the new registration and reporting platform of the Financial Intelligence Centre
PCC 34	8 March 2016	On facilitation of reporting to the FIC for institutions from 8 March 2016 to 22 April 2016
PCC 35	29 March 2016	Failure of the controls, processes and working methods of an accountable institution in relation to formulation and implementation of internal rules in terms of section 42 of the FIC Act
PCC 05A	30 March 2016	Registration of accountable and reporting institutions with the FIC in terms of section 43B of the FIC Act
Guidance note 05A	31 March 2016	On cash threshold reporting in terms of section 28 of the FIC Act

FRAUD AGAINST THE NATIONAL LOTTERY



Employees of a non-profit organisation submitted an application to the National Lottery for project funding of about R1.2 million, without their organisation's authorisation. One of the employees fraudulently opened a bank account using the organisation's name and the National Lottery paid project funds into this account.

The FIC followed the money trail through various bank accounts to one held with another financial institution, which contained just under R1 million. The FIC froze the account and law enforcement was able to recover the full amount.



Accountable and reporting institutions registered

In terms of the FIC Act, all accountable and reporting institutions must register with the FIC. Failure to register can lead to heavy penalties.

The number of institutions registered with the FIC increased from 30 461 at the end of 2014/15 to 34 255 at the end of 2015/16, demonstrating continued improvement in levels of compliance with the FIC Act and its requirements.

However, in some industries, registration figures remain below estimated industry numbers. The FIC continues to work towards full registration in all categories. This involves paying close attention to, for example, fluctuations in the economy, which would impact on the number of businesses in various sectors, such as estate agents.

In light of this, the FIC conducted 14 FIC Act awareness road shows to raise awareness among regulated businesses. These events, which attracted an estimated 1 800 participants, took place in the main cities of all nine provinces. The success of these events shows that there is significant demand for more information about the role of business in the prevention of unlawful activities, money laundering and the financing of terrorism.

The FIC also hosted two interactive telematics information sessions, which were broadcast to training centres attended by representatives of accountable and reporting institutions. The sessions were part of a drive to raise awareness about implementation of the FIC's new ICT platform for registration and reporting. In addition to the road shows and telematics sessions, the FIC conducted 16 compliance awareness sessions focused on accountable and reporting institutions in different business sectors, and published nine articles.

FOREIGN EXCHANGE PONZI SCHEME



Ponzi schemes promise unrealistically high returns on investments based on elaborate investment business models. They require a constant stream of new investors to bring money into the scheme. When this stream slows down, the scheme collapses because regular payments to investors cannot be made.

The FIC used STRs to uncover a forex trader scheme that promised average returns of 48 percent per year on small investments and 84 percent per year on big investments. During the FIC's analysis, it became evident that this was a Ponzi scheme. The scheme owner used large amounts of investor funds for two properties, luxury vehicles, shopping expenses and staff salaries.

The FIC shared its analysis with supervisory bodies and law enforcement agencies, which led to the blocking of accounts held by the scheme to the value of R87 million. The Asset Forfeiture Unit obtained a preservation order for R12 million in blocked funds and properties.



Table 5: Accountable and reporting institutions registered at 31 March 2016

Schedule 1: Item no.		Total registrations at 31 March 2015	Total registrations at 31 March 2016
1	Attorneys	10 244	11 577
2	Trust companies	128	140
3	Estate agents	8 246	9 055
4	Authorised users of an exchange	194	201
5	Unit trusts (collective investment scheme managers)	106	78
6	Banks	37	40
7	Mutual banks	4	3
8	Long-term insurers	91	100
9	Gambling institutions	1 369	1 558
10	Foreign exchange	362	437
11	Money lenders against securities	58	58
12	Investment advisors or intermediaries	6 370	7 201
13	Issuers of travellers' cheques and money orders	64	157
14	Postbank	1	1
15	Stock Exchange	Incorporated under item 4	
16	Ithala Bank	1	1
17	Approved person by Registrar of Stock Exchanges (asset managers)	Incorporated under item 12	
18	Registrar of Financial Markets (asset managers)	Incorporated under item 12	
19	Money remitters	229	252
Schedule 3: Item no.			
1	Motor vehicle dealers	2 794	3 231
2	Krugerrand dealers	163	165
Grand total		30 461	34 255

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. As a result, the number of registrations in these sectors does not reflect the total number of practitioners subject to the FIC Act.

In some instances, the number of institutions registered under a specific item under schedule 1 of the FIC Act decreased. This is because some institutions previously registered under an incorrect item have been moved to the correct item, while others deregistered.

Estate agents

Estate agents are categorised as accountable institutions under the FIC Act. This industry is supervised by the Estate Agency Affairs Board, which conducts inspections and ensures estate agencies are registered and compliant with the Act.

One of the methods used to 'clean' the proceeds of crime is to buy and sell immovable property. This makes estate agents vulnerable to abuse by money launderers. The FIC pays particular attention to high-value property transactions in upmarket areas.

Estate agents are the second largest group of FIC-registered institutions, with a total of 9 055 agencies registered in 2015/16 (up from 8 246 in 2014/15).

Intelligence reports

The quality of the financial intelligence the FIC is able to produce is largely a factor of the quality of reports and data submitted by accountable and reporting institutions. As the information held by institutions on their clients has improved over the years, so has the quality of the reports received by the FIC.

Table 6 shows the number of CTRs, STRs and terror property reports (TPRs) that the FIC received from accountable and reporting institutions during 2015/16. The FIC received more than 9 million CTRs in 2015/16, up from 6.6 million in 2014/15. Banking institutions in particular have been diligent about submitting CTRs, with the number of reports they submitted exceeding 8.3 million in 2015/16, up from 5.5 million in 2014/15.

STRs submitted totalled 180 363, down from 267 398 in the previous year. This decline can be attributed to a spike in 2014/15, which was

due to the late filing of reports uncovered during inspections that year. Banks submitted 98 054 STRs (2014/15: 95 744). STRs indicate the possibility of illegally generated funds. About 89 percent of all reports received by the FIC are filed by banks.

Over the past five years, institutions filed 40 percent of all STRs within 15 business days of the transaction taking place. In 2015/16, this improved to more than half of all STRs received. However, delays in reporting remain an area of concern and requires special attention from those institutions using automated transaction monitoring systems. Where the reports “flagged” by their systems are not examined timeously, delays may ensue, which leads to delayed reporting to the FIC. In the next financial year, the FIC will pay particular attention to the timely filing of STRs.

Table 6: Cash threshold, suspicious transaction and terror property reports filed with the FIC, 1 April 2015 to 31 March 2016

Schedule 1: item no.		CTRs	STRs	TPRs	Total
1	Attorneys	2 789	265	0	3 054
2	Trust companies	82	10	1	93
3	Estate agents	3 228	11	0	3 239
4	Authorised users of an exchange	155	27	0	182
5	Unit trusts (collective investment scheme managers)	1 220	186	3	1 409
6	Banks	8 371 934	98 054	1	8 469 989
7	Mutual banks	3 243	3	0	3 246
8	Long-term insurers	878	180	0	1 058
9	Gambling institutions	634 769	1 030	0	635 799
10	Foreign exchange	159 062	27 635	0	186 697
11	Money lenders against securities	118	9	0	127
12	Investment advisors or intermediaries	35 749	13 310	3	49 062
13	Issuers of travellers' cheques and money orders	211	266	0	477
14	Postbank	24 498	154	7	24 659
15	Stock exchange	Incorporated under item 4			
16	Ithala	614	2	0	616
17	Approved person by Registrar of Stock Exchanges (asset managers)	Incorporated under item 12			
18	Registrar of Financial Markets (asset managers)	Incorporated under item 12			
19	Money remitters	32 161	30 437	0	62 598
Schedule 3: item no.					
1	Motor vehicle dealers	42 777	8 721	0	51 498
2	Kruggerand dealers	851	63	0	914
Grand total		9 314 339	180 363	15	9 494 717

A total of 3 531 accounting and reporting institutions, up from 3 236 in 2014/15, submitted 9 494 717 financial intelligence reports during the reporting period. This equates to about 2 689 reports filed per reporter.

Table 7: Number of reporters, 1 April 2015 to 31 March 2016: per report type

Schedule 1: item no.	Number of CTR reporters	Number of STR reporters	Number of TPR reporters	*Total number of reporters
Attorneys	531	34	0	547
Trust companies	7	8	1	16
Estate agents	127	11	0	137
Authorised users of an exchange	18	9	0	21
Unit trusts (collective investment scheme managers)	17	13	1	23
Banks	26	32	1	36
Mutual banks	2	2	0	4
Long-term insurers	8	10	0	13
Gambling institutions	642	40	0	649
Foreign exchange	197	144	0	218
Money lenders against securities	8	6	0	12
Investment advisors or intermediaries	89	60	2	123
Issuers of travellers' cheques and money orders	4	8	0	9
Postbank	1	1	1	1
Stock exchange				
Ithala	1	1	0	2
Approved person by Registrar of Stock Exchanges (asset managers)				
Registrar of Financial Markets (asset managers)				
Money remitters	112	105	0	130
Schedule 3: item no.				
Motor vehicle dealers	1 531	163	0	1 552
Krugerrand dealers	36	5	0	38
Grand total	3 357	652	6	3 531

* A reporter who files more than one type of report is only counted once, irrespective of whether the reporter filed CTRs, STRs, TPRs or a combination of these report types. If the number of reporters under CTR, STR and TPR reporters adds up to the number under "Total number of reporters", it means that no entity submitted more than one type of report.

Only 10 percent of the 34 255 institutions registered with the FIC filed reports during 2015/16. To increase the number of institutions filing reports, the FIC will ensure that its public awareness and outreach initiatives focus on improving registered institutions' understanding of reportable events and reporting in the years ahead. The FIC will also use analytical tools to better understand reporting trends.

In 2016/17, the FIC will work with the Department of Home Affairs, which is leading government's work to set up the Border Management Agency. The FIC's primary interest is to assist in establishing cash courier reporting capability (the movement of physical cash and other valuables across the country's borders).

MONITORING BANK ACCOUNTS LEADS TO DRUG BUST



The FIC's monitoring of bank accounts played a central role in identifying and arresting a criminal syndicate that was growing dagga in hydroponic drug laboratories. Eleven people were arrested and drugs were seized from 10 locations around Gauteng.

The FIC assisted in a large-scale investigation to identify the syndicate's crime structure, profile the role players, and identify the assets and money laundering techniques used. This financial intelligence was used to confirm the identity of various role players in the syndicate and indicate how proceeds were laundered. The FIC exchanged this information with law enforcement agencies and assisted in building a criminal case, which resulted in the arrest of various role players associated with the syndicate.



Responding to public queries

The FIC attended to 16 797 written and telephonic queries from the public, with most of the queries (12 507 calls) coming through the FIC compliance contact centre. The monitored contact centre enables the FIC to track compliance-related queries by type and industry, and identify trends in this area.

The FIC compliance contact centre experienced exceptionally high call volumes towards the end of the reporting period in response to the launch of the FIC's new registration and reporting platform. The contact centre proved to be an important channel for communicating the new technical requirements to stakeholders.

MILLIONS SEIZED ON MOZAMBIQUE BORDER



On Christmas Day 2015, more than R78 million in cash and a Toyota Hilux were seized following the arrest of two Mozambican nationals at the Lebombo Border Post.

Mpumalanga's Asset Forfeiture Unit, which used several FIC financial intelligence reports during its investigation, apprehended the subjects with US dollars and euros hidden in various custom-made compartments in the vehicle. The Asset Forfeiture Unit obtained preservation orders for this cash.



Attorneys

The legal profession, which deals with immovable property transactions and the creation and management of trusts, companies and investments, is vulnerable to money laundering.

Attorneys across the country are supervised by provincial law societies. Auditors review attorney practices to ensure attorneys are compliant with the FIC Act.

Attorneys make up the largest category of registered institutions, with 11 577 registered in 2015/16, of which 547 submitted financial intelligence reports during the year.

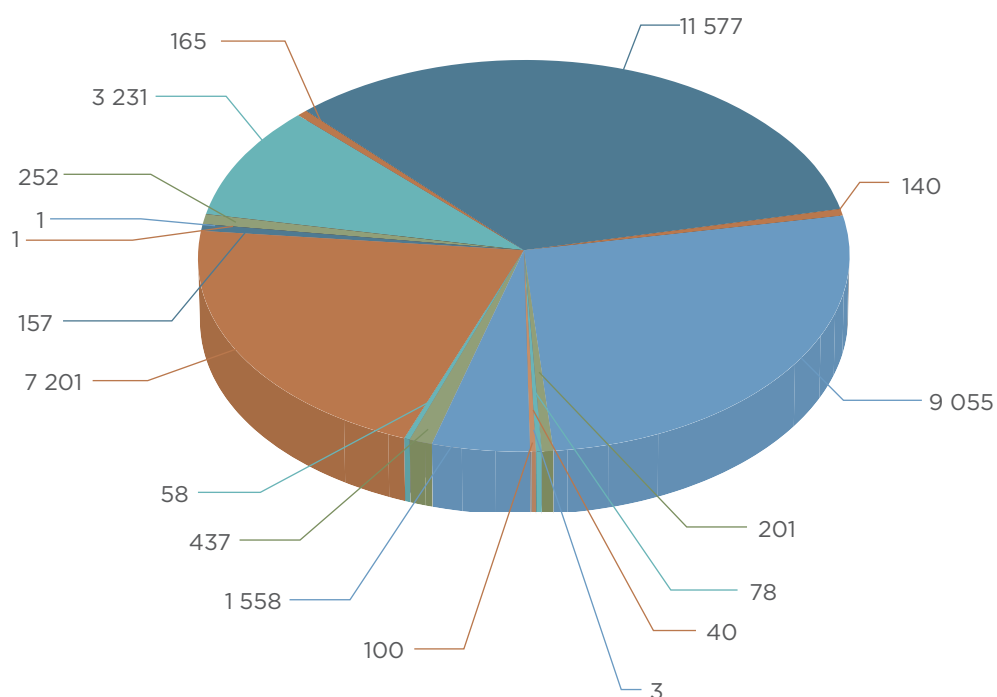


Figure 6: Accountable and reporting institutions registered at 31 March 2016

Strategic outcome 1: Improving the collection of information and the enforcement of compliance with the FIC Act

Strategic objective	Performance indicator	Actual achievement 2014/15	Planned target 2015/16	Actual performance 2015/16	Deviation from planned target to actual achievement for 2015/16	Comment on deviations
Supervision in terms of the FIC Act	1.1.1 Number of FIC inspection reports issued	130	132	145	Target exceeded (+13)	Improved operational efficiency and processes resulted in overachievement
Guidance and public compliance awareness provided on obligations in terms of FIC Act	1.2.1 Number of guidance products issued	6	8	8	Target achieved	N/A
	1.2.2 Number of compliance awareness initiatives	32	28	32	Target exceeded (+4)	Accepted invitations to participate in more awareness sessions than planned with supervisory bodies and other institutions at reasonable costs
	1.2.3 Number of media publications issued	10	8	9	Target exceeded (+1)	Additional publication published at no cost

Strategic outcome 2: Better utilisation of financial intelligence

The FIC continued to align its financial intelligence products with national priorities and government's efforts to combat crime. FIC intelligence products are increasingly used by law enforcement, intelligence and prosecuting authorities to assist in crime detection, investigation and prosecution. The FIC is working to make its products more accessible to a broader pool of agencies and departments in the public sector, in line with the FIC Act amendments that will come into effect in the near future.

As part of the FIC's efforts to integrate its financial intelligence products into the work of broader government, the organisation played an active role in the National Intelligence Co-ordinating Committee, the National Joint Operational Intelligence Structure, the Anti-Corruption Task Team and the Justice, Crime Prevention and Security cluster.

The concept of financial intelligence has evolved since it was first introduced as a tool to detect money laundering several decades ago. Today, financial intelligence refers to the ability to collect and analyse information about the financial affairs of entities and individuals

of interest to understand their character and predict their intentions. The true value of information held by an FIU is to be found not in the reports it receives, but in the integration and evaluation of this information with other data linked to human and social behaviour.

During the reporting period, the FIC assisted with 1 979 investigation requests (2014/15: 1 799) from national and international law enforcement agencies, and referred 511 cases (2014/15: 870) for further investigation. The entity provided further support to the fight against crime by contributing to 26 judicial actions and blocking R184.6 million as suspected proceeds of crime during 2015/16, up from R181 million in 2014/15. The majority of these proceeds were linked to investment schemes, followed by fraud and money laundering. When the FIC blocks funds, the Asset Forfeiture Unit is able to seize and take control of them.

As shown in the figure below, the FIC continues to increase its contributions to combating crime and protecting the financial system by providing high-quality financial intelligence on request, both in South Africa and internationally.

Financial intelligence today is what DNA was to police officers in the early 20th century

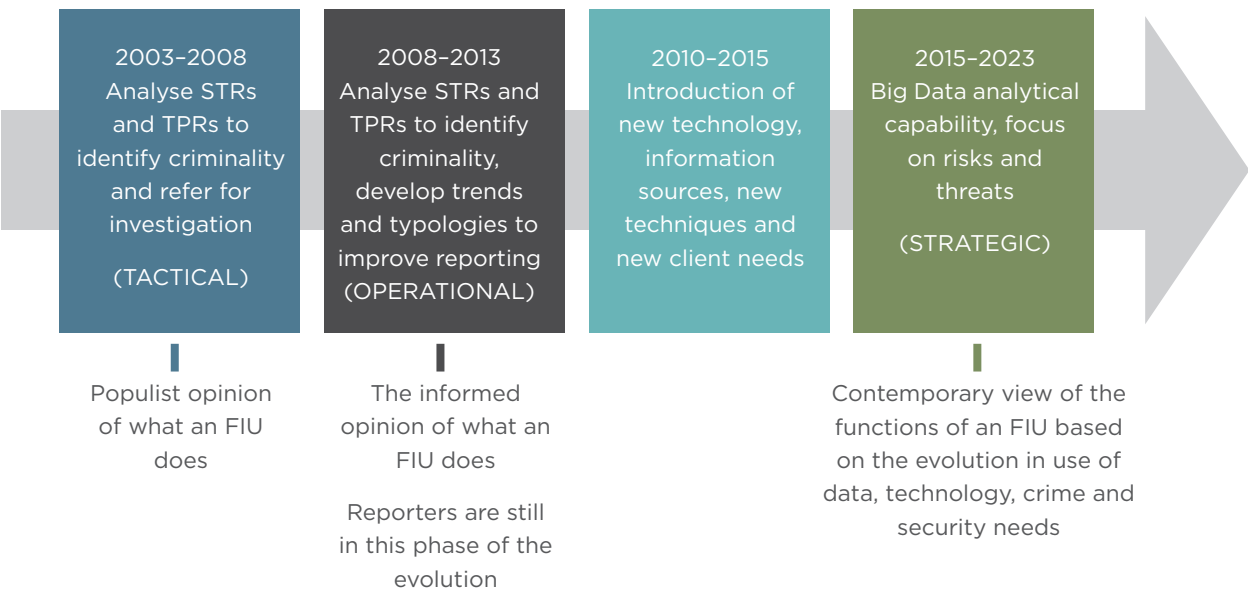


Figure 7: The evolution of financial intelligence

GUESTHOUSE OWNER ARRESTED FOR CHILD PORNOGRAPHY



The FIC assisted the Family Violence, Child Protection and Sexual Offences Unit of the South African Police Service with a case involving a guesthouse owner based in South Africa. The man was suspected of accessing child pornography on websites from outside the country, and selling child pornography acquired in South Africa on certain websites.

The FIC was asked to identify financial transactions linked to the sale of the pornographic material. The FIC analysed transactional information and identified certain payments to support the allegations, which helped lead to the guesthouse owner's arrest.

The FIC's report also played a key role in the subject's bail application, resulting in a bail amount that was acceptable to the investigation team and the community. The guesthouse owner faces possible extradition once the judicial process is completed in South Africa.

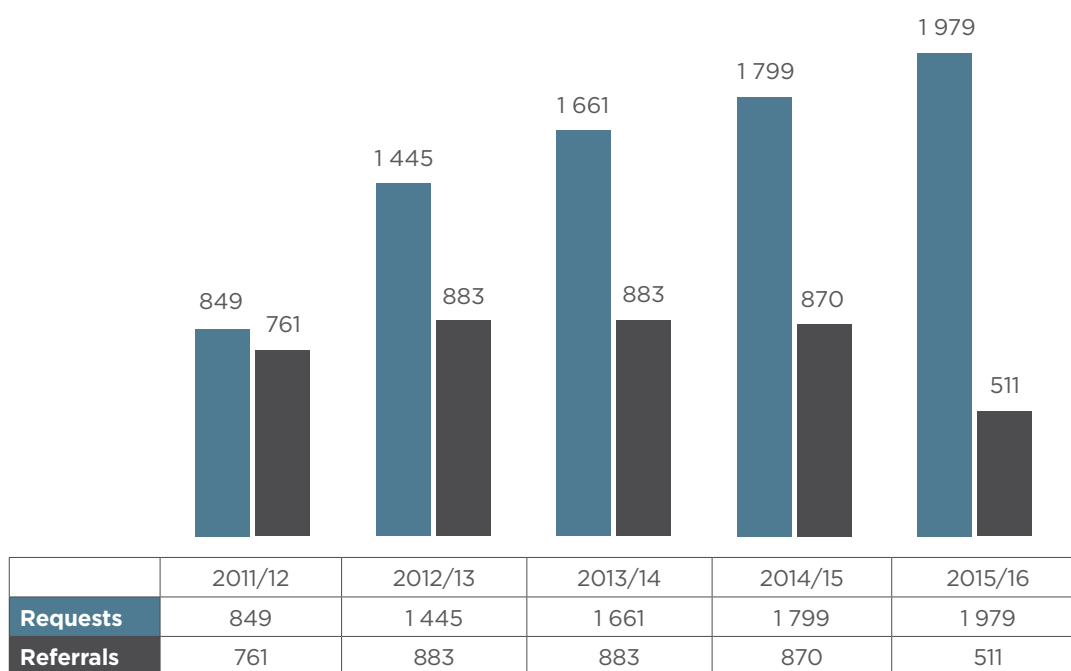


Figure 8: Five-year comparison – domestic and international requests and referrals for financial intelligence (2011/12–2015/16)

The FIC provided financial intelligence that supported the preservation, forfeiture or confiscation of assets.

Most of the FIC's financial intelligence products, as illustrated in Figure 9, were used in criminal investigations related to fraud, money laundering and corruption in 2015/16. While some of the crimes listed in the figure may appear to have little connection with the FIC's

core mandate, they all involve some form of money laundering. These cases usually involve large syndicates, which leave money trails that the FIC can track to identify the various role players involved. The understanding of these trails was improved through the work done to gain a deeper knowledge of the illicit economy and the flows associated with it.

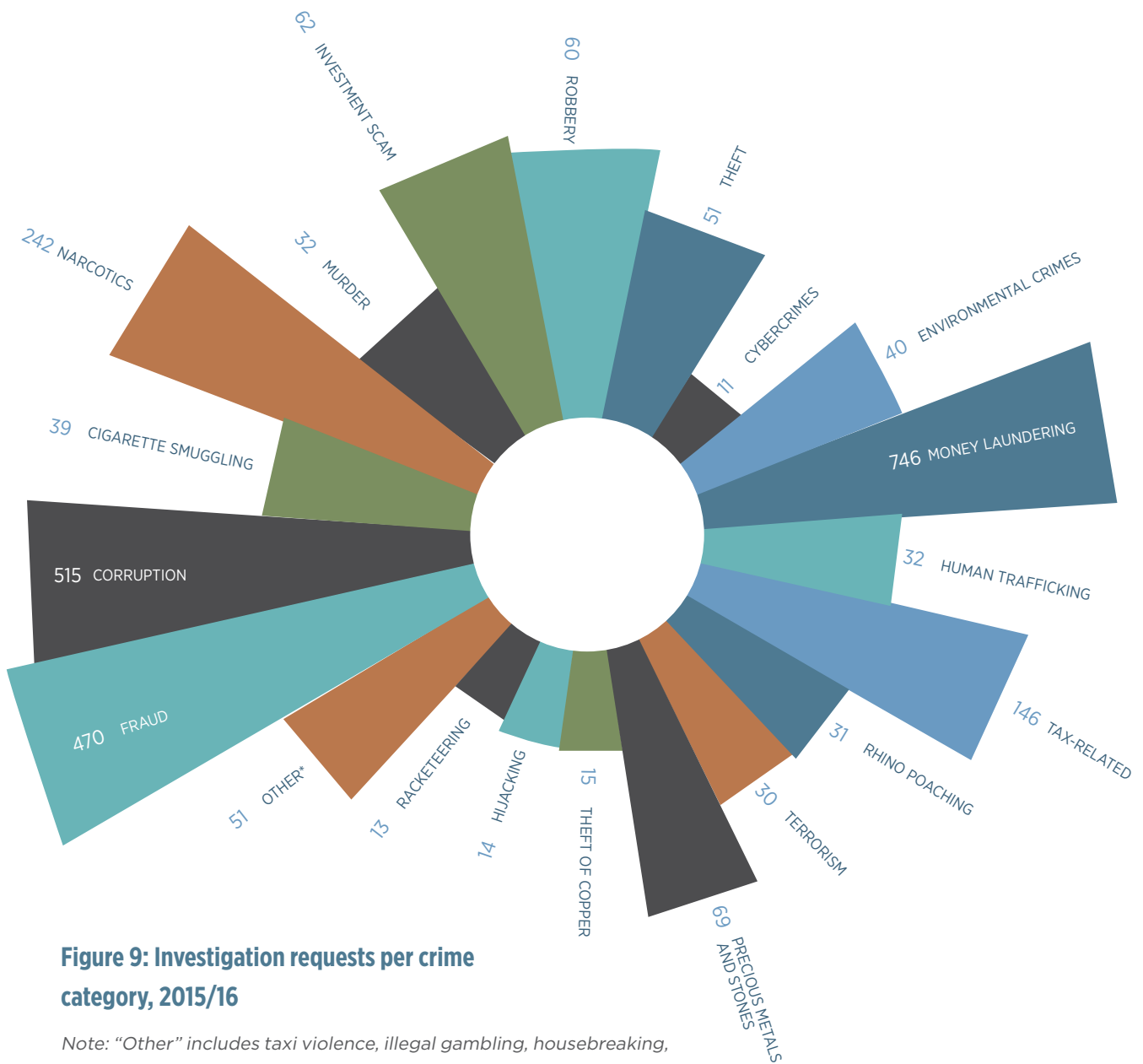


Figure 9: Investigation requests per crime category, 2015/16

Note: "Other" includes taxi violence, illegal gambling, housebreaking, kidnapping, ATM bombing, child pornography and unlicensed firearms

FIC HELPS UNCOVER ILLEGAL STOKVEL



Alerted by 13 000 cash deposits into one account in one day, the FIC worked with the Asset Forfeiture Unit and the South African Police Service's Commercial Crimes Unit to identify an illegal stokvel.

The stokvel promised unrealistically high, quick returns and a lavish lifestyle of international travel in return for an investment of just R295. Prospective members were required to deposit money and attend a seminar on travel arrangements and investing. Little training was actually given at these seminars. Instead, participants were encouraged to recruit as many new members as possible into the stokvel. Like all pyramid schemes, the stokvel was heavily dependent on continuous membership growth.

The investigating team froze five bank accounts containing R26 million and obtained preservation orders against the main accounts. According to the Asset Forfeiture Unit, this is the fastest it has ever identified and acted on a pyramid scheme.



Strategic outcome 2: Better utilisation of financial intelligence

Strategic objective	Performance indicator	Actual achievement 2014/15	Planned target 2015/16	Actual performance 2015/16	Deviation from planned target to actual achievement for 2015/16	Comment on deviations
Increased utilisation of FIC products and services	2.1.1 Value of funds blocked as suspected proceeds of crime in the financial system	R181 million	R181 million	R184.6 million	Target achieved (+R3.6 million)	Blocking of funds is largely dependent on third-party requests The FIC received more requests to block funds than anticipated and the requests were related to large sums of money
	2.1.2 Number of judicial actions contributed to	22	20	26	Target achieved (+6)	Higher-than-expected number of judicial actions needing FIC contribution

Strategic outcome 3: Promoting national interest in maintaining the integrity of South Africa's financial system

The FIC works with government, the private sector and law enforcement agencies to identify and remain abreast of potential threats to the integrity of South Africa's financial system. The FIC works with FIUs and other stakeholders around the world to strengthen global efforts to combat money laundering and the financing of terrorism.

As part of the FIC's work to maintain South Africa's status as a responsible international role player, the organisation is a member of the Egmont Group of FIUs. The FIC also continued to lead South Africa's representation in the FATF and ESAAMLG. The 2015/16 financial year also saw the FIC signing MoUs with the FIUs of 11 countries, including China, Cuba, Ethiopia, Iran, the Netherlands and Uganda. MoUs help the FIC exchange information with jurisdictions across the globe, strengthening the country's ability to assist international partners in solving financial crimes.

As foreign terrorism took centre stage during the reporting period, the Egmont Group placed a renewed focus on the importance of operational co-ordination between member FIUs.

In August 2015, the FIC hosted the first meeting of African heads of FIUs. Any FIU on the continent, whether an Egmont member or not, was able to attend, but no outside observers were allowed. This provided an open forum for African FIUs to discuss and consider matters of particular relevance to their work and related issues. This meeting was part of

the Egmont Group's broader shift to a regional-based framework, which groups its members geographically to increase the effectiveness of member FIUs in their respective jurisdictions.

The FIC led South Africa's participation in two ESAAMLG meetings during 2015/16 and provided technical assistance in response to requests from Lesotho, Swaziland and Botswana. It also sponsored nine fellow ESAAMLG countries to become full members of the Egmont Group (Botswana, Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Uganda, Zambia and Zimbabwe).

The FIC continues to prepare for the next round of FATF mutual evaluations, which are expected to take place in 2019.

A global response to foreign terrorism

During the reporting period, the FIC participated in a global typologies study with the Egmont Group, which involved 37 countries coming together to share their experiences and shape a response to foreign terrorism financing.

The study aimed to identify risks and trends related to the financing of terrorism. Each country shared information, which was combined to identify distinct regional trends and patterns.

AMERICAN PROPERTY PURCHASER SCAMMED ONLINE



When buying property in New York, an American citizen was duped into paying a portion of his purchase amount into a fraudulent account.

The fraudulent account holder intercepted e-mails between the property purchaser and his estate agent. Posing as the estate agent over e-mail, the subject convinced the purchaser to pay cash for the property into the fraudulent account. The funds were then immediately transferred to three different accounts held in South Africa.

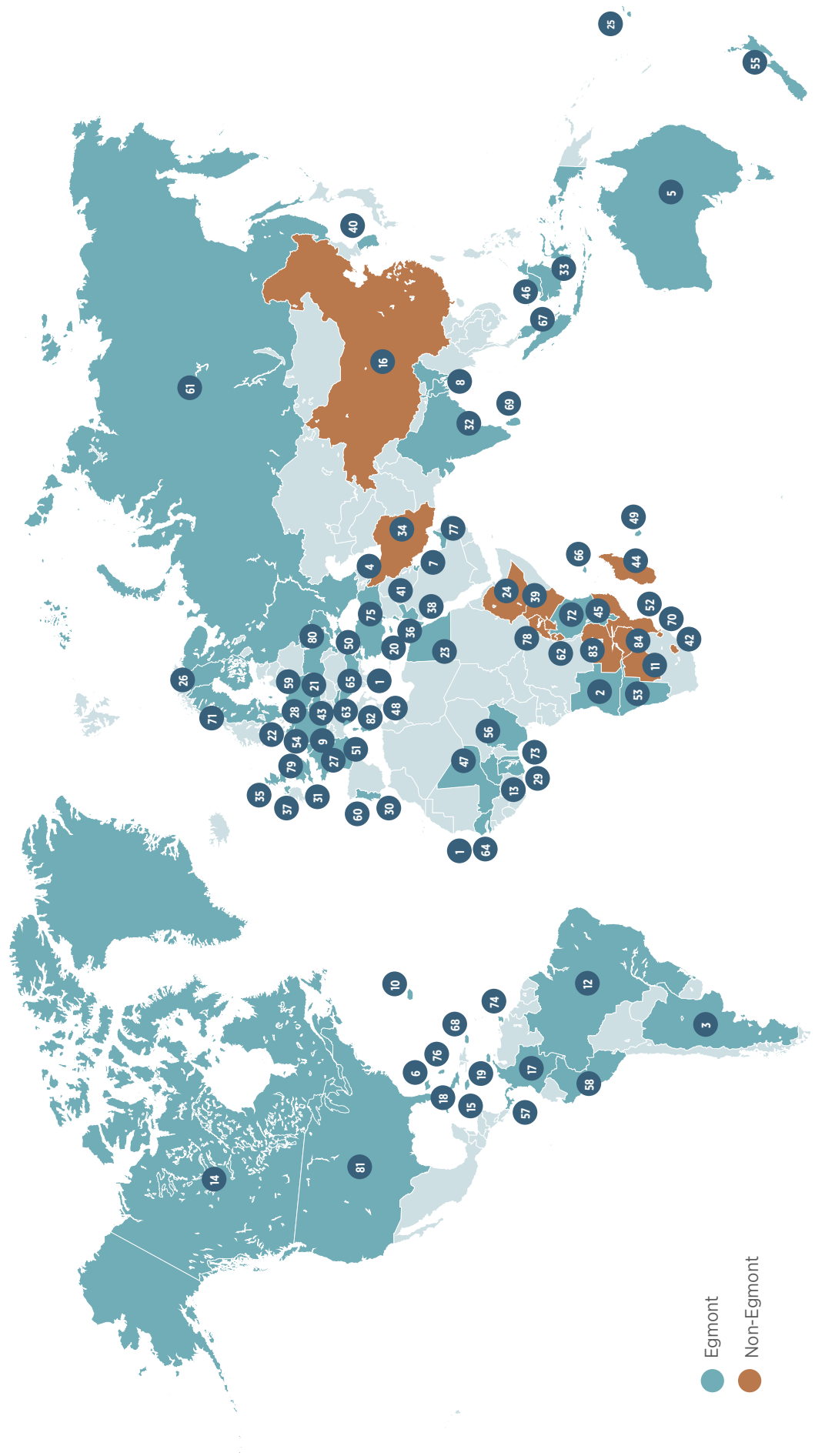
After gathering information from its American counterparts, the FIC immediately authorised intervention directives to freeze the funds in the three accounts and tracked funds to six other accounts. The FIC gathered enough intelligence to issue an additional four intervention directives and identified three vehicles bought with some of the crime's proceeds.

The National Prosecuting Authority and the Asset Forfeiture Unit obtained preservation orders against nine accounts and three motor vehicles. The co-operation between all stakeholders involved resulted in the recovery of 93 percent of the stolen funds.

Strategic outcome 3: Promoting national interest in maintaining the integrity of South Africa's financial system

Strategic objective	Performance indicator	Actual achievement 2014/15	Planned target 2015/16	Actual performance 2015/16	Deviation from planned target to actual achievement for 2015/16	Comment on deviations
Technical support to countries in the ESAAMLG region	3.1.1 Percentage response to requests for technical assistance from countries within the ESAAMLG region	Responded to technical assistance requests (100%)	Responded to technical assistance requests (80%)	Received and responded to three requests from Lesotho, Swaziland and Botswana (100%)	Target exceeded	The FIC has improved its technical assistance by applying a flexible approach to whether a country being assisted bears part or all of the associated costs or not
Participation in policy-making activities of regional and inter-governmental organisations	3.2.1 Number of policy-making activities attended within regional and inter-governmental organisations	Attended and participated in three FATF meetings and two ESAAMLG meetings	Attended and participated in six FATF meetings and two ESAAMLG meetings	Attended and participated in six FATF meetings and one ESAAMLG meeting	Target not achieved	A second regional meeting (ESAAMLG) was held a few weeks after year end. Although two regional meetings per year continue to be anticipated, the actual meeting dates depend on ESAAMLG's final confirmation
Actions by South African authorities to implement FATF standards	3.3.1 Progress report on initiatives taken to comply with FATF standards	N/A	Report on level of implementation of FATF standards approved by the FIC Director	Report on level of implementation of FATF standards approved by the FIC Director	Target achieved	N/A
Ongoing maintenance of the anti-money laundering/counter-financing of terrorism framework	3.4.1 Progress report on development of amendments to the FIC Act	N/A	Report on development and implementation of FIC Act amendments approved by the FIC Director	Report on development of FIC Act amendments approved by the FIC director Attended consultative meetings with certain industries on outstanding areas of concern	Target achieved	N/A

Figure 10: Jurisdictions with MoUs with the FIC



1. Albania	18. Cuba	35. Isle of Man	52. Mozambique	69. Sri Lanka
2. Angola	19. Curaçao	36. Israel	53. Namibia	70. Swaziland
3. Argentine Republic	20. Cyprus	37. Jersey	54. Netherlands	71. Sweden
4. Armenia	21. Czech Republic	38. Jordan	55. New Zealand	72. Tanzania
5. Australia	22. Denmark	39. Kenya	56. Nigeria	73. Togo
6. Bahamas	23. Egypt	40. Korea	57. Panama	74. Trinidad & Tobago
7. Bahrain	24. Ethiopia	41. Lebanon	58. Peru	75. Turkey
8. Bangladesh	25. Fiji	42. Lesotho	59. Poland	76. Turks & Caicos Island
9. Belgium	26. Finland	43. Lichtenstein	60. Portugal	77. United Arab Emirates
10. Bermuda	27. French Republic	44. Madagascar	61. Russia	78. Uganda
11. Botswana	28. Germany	45. Malawi	62. Rwanda	79. United Kingdom of Great Britain and Northern Ireland
12. Brazil	29. Ghana	46. Malaysia	63. San Marino	80. Ukraine
13. Burkina Faso	30. Gibraltar	47. Mali	64. Senegal	81. United States of America
14. Canada	31. Guernsey	48. Malta	65. Serbia	82. Vatican City State
15. Cayman Islands	32. India	49. Mauritius	66. Seychelles	83. Zambia
16. China	33. Indonesia	50. Moldova	67. Singapore	84. Zimbabwe
17. Colombia	34. Iran	51. Monaco	68. Saint Maarten	

Strategic outcome 4: Ensuring a safe, secure, compliant and efficient operating environment

During 2015/16, the FIC successfully implemented a new registration and reporting system called goAML. This innovative reporting and registration system aims to improve the quality of information available for the FIC to develop financial intelligence. The system is interactive, putting compliance in the hands of reporting institutions. Reporting is more secure, improving the integrity of the system.

South Africa is the first country in the world to implement the full enterprise version of this software.

The FIC continued to maintain and improve internal controls and administration standards, resolving all findings from the previous annual audit.

Human resource capacity and capability initiatives were implemented on a limited scale, given the organisation's financial constraints. During 2015/16, the FIC started to implement its career development framework and approved a learning and development strategy.

The FIC also improved workplace safety and security, although some elements will be implemented in 2016/17 as part of the organisation's ongoing efforts in this area.

The FIC has achieved most of its strategic targets for the year, despite the constraints of a small staff complement and limits on recruiting new staff members.

FIC modernises its reporting system

Following several years of preparation, the FIC implemented its new registration and reporting system in 2015/16. The system went live shortly after the end of the reporting period.

The solution, called goAML, is an integrated software solution developed by the UN Office on Drugs and Crime specifically for FIUs. The FIC is the first to implement the full enterprise version of the solution. It is designed to meet the FIC's data collection, management, analytical, document management, workflow and statistical needs.

The system improves the FIC's capacity to:

- Register accountable and reporting institutions
- Receive large reporting volumes from business and other data
- Analyse reports and other available data
- Provide intelligence products to law enforcement and supervisory bodies in a seamless and secure way.

The new registration and reporting system will help the FIC ensure that the South African financial system stays relevant, effective and aligned with best practice in the global fight against money laundering and terror financing. It will also improve collaboration with reporting institutions and other stakeholders, and standardise and streamline reporting requirements.

Several institutions participated in the pilot phase to test various aspects of the system.

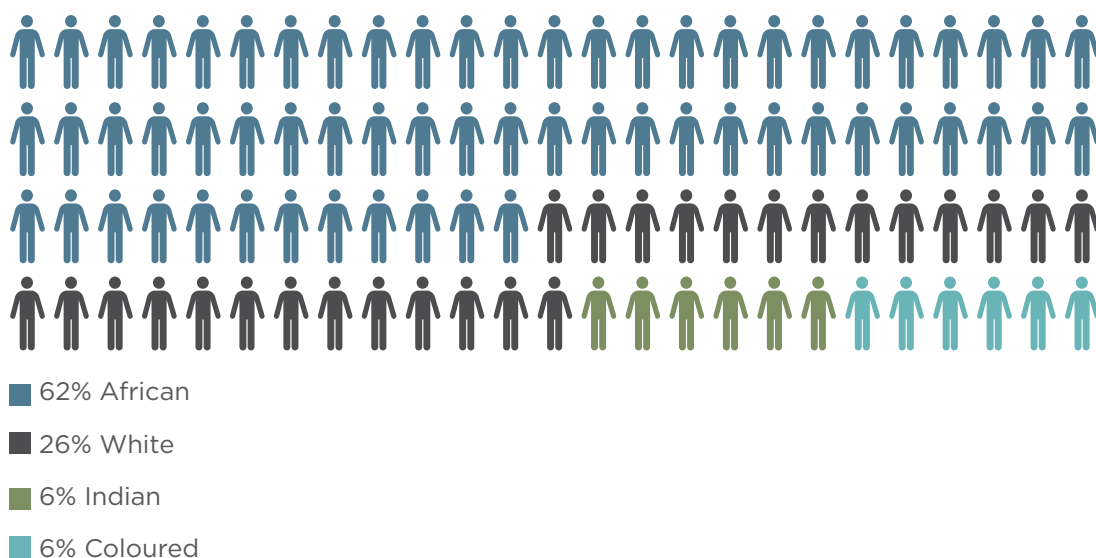


Figure 11: FIC staff equity profile, headcount per population group (2015/16)

Graduate development programme

The FIC completed its first graduate development programme in September 2014 and a second graduate intake started in April 2015, due for completion in March 2017. A third group of graduates joined the organisation in March 2016.

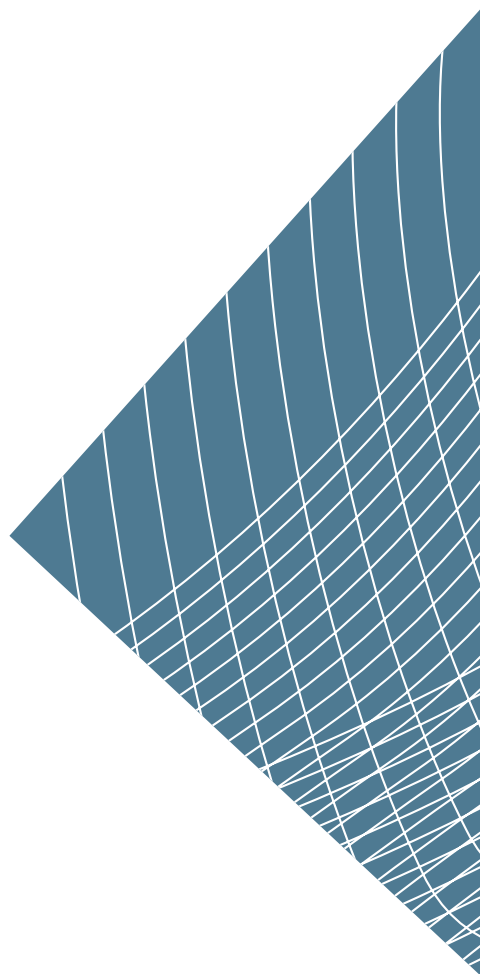
The graduate development programme forms part of the FIC's national responsibility to create

jobs and grow its pool of skilled staff within the organisation. The programme also promotes employment equity.

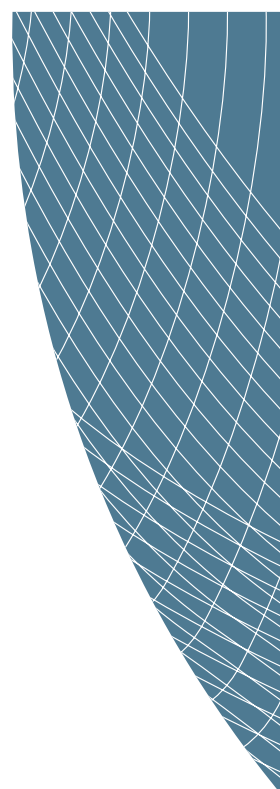
On completion of the programme, the candidates may be selected to join the FIC, contributing to the organisation's sustainability.

Strategic outcome 4: Ensuring a safe, secure, compliant and efficient operating environment

Strategic objectives	Performance indicator	Actual achievement 2014/15	Planned target 2015/16	Actual performance 2015/16	Deviation from planned target to actual achievement for 2015/16	Comment on deviations
Modernisation of ICT platform and business systems	4.1.1 Completion of ICT platform and business systems initiatives	Upgraded anti-money laundering analytics solution designed	Upgraded anti-money laundering analytics solution implemented	Implementation: project milestones completed as scheduled	Target achieved	N/A
Ensure compliance with internal control requirements	4.2.1 Completion of prioritised internal control action plans for clean administration	All Auditor-General findings resolved and internal control action plans completed	Auditor-General findings resolved	All Auditor-General findings resolved	Target achieved	N/A
Human resource capacity and capability for the FIC	4.3.1 Completion of prioritised human resource capacity and capability development	Career development framework completed and implementation plan approved	Career development framework completed and implementation plan approved	Career development framework completed and implementation initiated Reward system draft report adopted by management	Target achieved	N/A
		N/A	Learning and development strategy designed and approved	Learning and development strategy designed and approved	Target achieved	N/A
Establish and maintain a safe and secure working environment	4.4.1 Completion of safety and security management action plans for the FIC	Upgraded safety and security management action plans for the FIC developed and approved	Upgraded safety and security management action plan phase 1 implemented, including stabilisation of the workplace emergency management processes	Upgraded safety and security management action plan phase 1 implementation partially completed (70% completion), including physical security and emergency management elements (better access control and related workplace safety and security)	Target not achieved	The incomplete elements will be reviewed for implementation as phase 2 in 2016/17. Physical security and emergency management elements were completed in 2015/16. Potential partners for continued improvements will be sought in 2016/17



Part C governance



INTRODUCTION

The FIC follows best practice and legislative requirements that apply to a schedule 3A national public entity.

ACCOUNTING AUTHORITY

The Director of the FIC is the accounting authority and reports to the Minister of Finance. The FIC does not have a board.

In addition to the day-to-day oversight responsibilities exercised by the FIC Executive Committee, an executive structure has been

established to promptly resolve any issues raised in the Auditor-General's annual audit findings. The chairperson of this structure is an FIC executive member who reports to the Executive Committee.

RISK MANAGEMENT

Risk assessment is an integral and ongoing responsibility of management. The six strategic risks and 11 operational risks identified during 2015/16 were allocated to various departments within the organisation and operational plans were developed to mitigate the risks.

Achievements in mitigating strategic risks include:

- Continuing the phased replacement of aging ICT infrastructure and implementing a new ICT system
- Increasing the staff complement

- Reviewing the business continuity management's business recovery and crisis management plans
- Improving physical security measures
- 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.

The FIC appointed new Audit and Risk committees in March 2015. The organisation has also appointed a firm to deliver the internal audit function for three years.

FRAUD AND CORRUPTION

During 2015/16, the Executive Committee, through the FIC Director, developed and approved an investigation and detection framework and associated implementation plans to prevent corruption. Regular reports are provided to both the Risk and Audit committees at quarterly meetings. The FIC manages a dedicated fraud and corruption hotline that is

available to the public at all times. The reports to the hotline are dealt with anonymously.

No tip-offs were received from the hotline during the period under review. The FIC conducted six workshops promoting ethics management within the organisation.

BUSINESS CONTINUITY MANAGEMENT AND DISASTER RECOVERY

The FIC has an established business continuity, crisis management team. During 2015/16, the FIC conducted eight workshops to educate staff members about business continuity management, after which each department updated their business recovery and crisis management plans.

As part of its disaster recovery planning and organising, the FIC has acquired and installed a new ICT solution at an offsite facility. During 2015/16, the FIC held one crisis simulation and five ICT disaster recovery tests to assess its readiness to respond to a disruption.

MINIMISING CONFLICT OF INTEREST

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

The FIC aims to implement more integrity checks and lifestyle audits where warranted.

It will also organise regular workshops to guide employees on how to conduct themselves during engagements with stakeholders.

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

CODE OF ETHICS AND CONDUCT

The FIC has adopted a code of ethics and conduct, which is reviewed annually and is a standing agenda item at Risk Committee meetings. Regular training sessions and

information-sharing initiatives are held to remind staff of their commitment and obligations. Breaches of the code are dealt with swiftly and decisively.

HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

The FIC has established a Health and Safety Committee to ensure that all health and safety issues are addressed and that any incidents are reported and dealt with accordingly. The occupational health and safety policy and procedure has been approved as part of the

FIC's compliance with the Occupational Health and Safety Act (1993). During 2015/16, internal auditors performed a compliance audit on occupational health and safety and the FIC is implementing their recommendations.

During the year under review, four meetings were held to ensure that the FIC has complied with all health and safety legislative obligations. The FIC has appointed safety, health and environment representatives, including fire officers, first aid

officers, incident investigators and evacuation officers. The organisation maintains a register of all incidents and accidents that take place. During the year under review, one safety drill was carried out.

INTERNAL CONTROL UNIT

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

The service provider conducted an enterprise risk management effectiveness review, as well as

business continuity management and corporate governance audits during 2015/16. The findings have been provided to management and action plans have been developed to address all shortcomings. Management tracks and reports on findings during the quarterly Audit Committee meetings.

EXECUTIVE OVERSIGHT COMMITTEE

The Executive Oversight Committee promptly resolves any issue raised in the Auditor-General of South Africa's annual audit findings. The committee chairperson is an FIC executive member and reports to the Executive Committee.

The Executive Oversight Committee has resolved all of the Auditor-General's findings. The findings are a standing item at Audit Committee meetings and are allocated to various departments for implementation.

INTERNAL AUDIT AND AUDIT COMMITTEE

Key activities and objectives of internal audit

The internal audit function was outsourced to Grant Thornton during the financial year under review and reported to the Executive Committee prior to the appointment of new Audit Committee members on 30 March 2015.

Based on the assessment of the internal audit reports for the year under review and feedback from the Executive Management Committee, the Audit Committee believes that professional, independent and objective assurance was provided to the FIC by the internal auditors.

Summary of audit work done

The internal auditors conducted nine audits, which were approved by the Executive Management Committee. Six additional audits were concluded after year-end. The operating effectiveness of the key controls for the mitigation of significant risks was tested within the following areas:

- Asset Management
- Occupational, Health and Safety
- Financial Discipline
- Predetermined Objectives
- Business Continuity and Disaster Recovery
- ICT Governance
- Compliance and Prevention
- Risk Management
- Supply Chain Management.

Internal audit reports were concluded and discussed with management and action plans will be monitored for implementation by the Audit Committee.

Key activities and objectives of the Audit Committee

The Audit Committee is an independent body that helps FIC management discharge its duties. The committee chairperson reports to the FIC Director.

The committee's duties and responsibilities include reviewing:

- The adequacy and effectiveness of internal controls.
- The quality of financial information to ensure integrity and reliability.

- Compliance with the requirements set out in the Public Finance Management Act and the Protocol on Corporate Governance in the Public Sector, and taking cognisance of the recommendations of the King Code of Governance Principles and the King Report on Governance (King III).
- Relevant findings and recommendations of the internal auditors and the Auditor-General of South Africa, together with management's responses.
- The effectiveness of risk management processes.
- The cost-effectiveness, independence and objectivity of the internal audit function, including the framework and/or approval of the internal audit plan, annually.
- Management reports on compliance with legal, statutory and regulatory provisions. It also notes any current or pending litigation or regulatory proceedings in which the FIC is involved.
- Complaints received from internal or external sources concerning accounting practices, internal audits, financial statements, the auditing of the financial statements or related matters.
- The annual financial statements before submission for audit and immediately after audit, together with reports from the Auditor-General.

Information on Audit Committee members, their qualifications and meeting attendance is detailed in the Audit Committee report that follows.

AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2016.

Audit Committee members and attendance

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

Name	Qualifications	Date of appointment	Contract end date
RN Theunissen	BAcc; Chartered Accountant (SA); RA; Diploma in Criminal Justice and Forensic Auditing	30 March 2015	31 July 2018
P Phili	BCom (Acc); CTA; MCom (Tax); Chartered Accountant (SA)	30 March 2015	31 July 2018
PN Sibiya	BAcc; Postgraduate Diploma in Accountancy; Chartered Accountant (SA)	30 March 2015	31 July 2018

The meetings held and record of attendance are set out in the table below:

Meeting date	28 May 2015	28 July 2015	19 November 2015	24 February 2016
RN Theunissen	Present	Present	Present	Present
P Phili	Present	Present	Present	Present
PN Sibiya	Present	Apology	Present	Present

Audit Committee responsibility

The Audit Committee reports that, as far as it can be determined from the minutes of Audit Committee meetings and discussions with management, it 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 the members of the committee whose contract terms have ended adopted as their formal terms of reference the Audit Committee Charter, regulated the affairs in compliance with the charter and discharged all the responsibilities contained therein.

The internal auditors completed nine audits, approved by the Executive Management Committee, during the year under review. The operating effectiveness of the key controls for the mitigation of significant risks was tested within the following areas:

- Asset Management
- Occupational, Health and Safety
- Financial Discipline
- Predetermined Objectives
- Business Continuity and Disaster Recovery
- ICT Governance
- Compliance and Prevention
- Risk Management
- Supply Chain Management.

Internal Audit followed up on audit findings from the prior year and reported to the Audit Committee.

Internal audit reports were concluded and discussed with management and action plans will be monitored for implementation by the Audit Committee. No major areas of concern were raised by the internal auditors.

The effectiveness of internal control

The internal audit function was outsourced to Grant Thornton during the financial year under review. Based on the assessment of the internal audit reports for the year under review and feedback from the Executive Management Committee, the Audit Committee believes that professional, independent and objective assurance was provided to the FIC by the internal auditors.

Risk management

The oversight of risk management is performed by an independent Risk Committee, which includes certain Audit Committee members. Regular Risk Committee reports are received and considered by the Audit Committee. There have been no significant incidents of identified risks without adequate mitigating controls.

In-year management and quarterly report

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

General

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

- Reviewed the accounting practices adopted by the entity
- 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 company's compliance with all applicable legislation and regulations
- Ensured co-operation between the external auditors and internal auditors 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 III recommendations and their applicability to the entity
- Received and dealt appropriately with any complaints and/or allegations of wrongdoing, including fraud.

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

Evaluation of financial statements

We have reviewed the annual financial statements prepared by the public entity.

Auditor's report

We have reviewed the entity's implementation plan for audit issues raised in the prior year and we are satisfied that the matters are being adequately resolved.

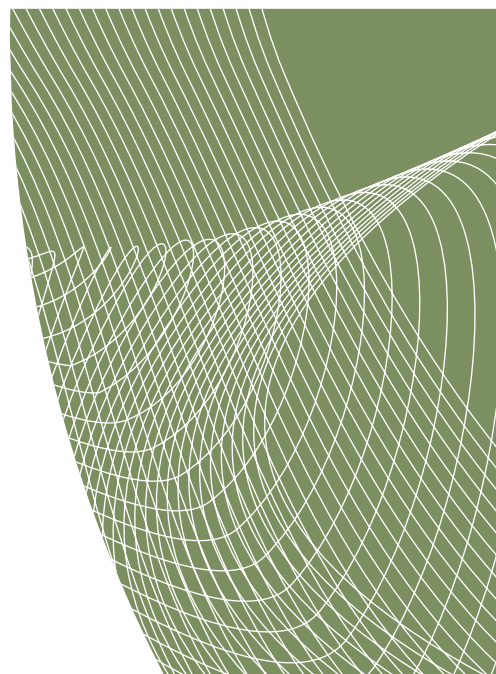
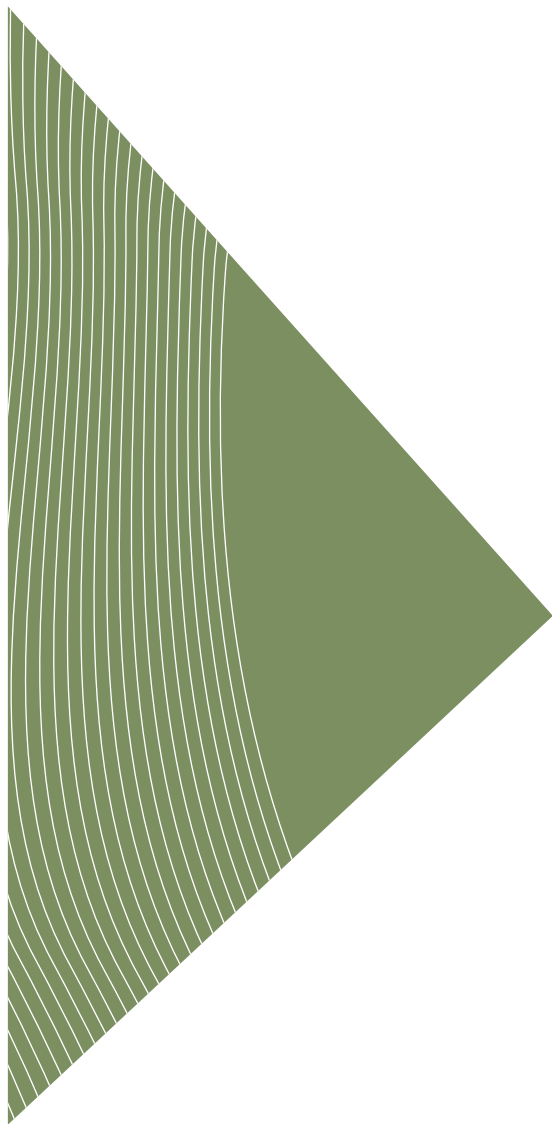
The Audit Committee accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.



Robin Neill Theunissen

Chairperson of the Audit Committee
Financial Intelligence Centre
25 July 2016

Part D **financial information**



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

Index

The reports and statements set out below comprise the financial statements:

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

Report on the financial statements

Introduction

1. I have audited the financial statements of the Financial Intelligence Centre, set out on pages 63 to 92, which comprise the statement of financial position as at 31 March 2016, 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, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (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.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial Intelligence Centre as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the PFMA.

Report on other legal and regulatory requirements

7. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings, as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

8. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programmes presented in the annual performance report of the FIC for the year ended 31 March 2016:
 - Programme 2: FIC Act compliance and relationships management on pages 37
 - Programme 3: Financial intelligence and investigations on pages 41
 - Programme 4: AML/CFT Legal and technical service on pages 43.
9. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles, and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPI).
10. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
11. The material findings in respect of the selected programmes are as follows:

Programme 4: AML/CFT Legal and technical service

Usefulness of reported performance information

12. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 50% of indicators were not well defined.
13. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and measurable. A total of 50% of targets were not specific and measurable.

Reliability of reported performance information

14. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to the fact that 50% of the indicators were not well-defined.
15. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following programmes:
 - Programme 2: FIC Act compliance and relationships management
 - Programme 3: Financial intelligence and investigations.

Additional matters

16. I draw attention to the following matters:

Achievement of planned targets

17. Refer to the annual performance report on pages 37, 41, 43 and 48 for information on the achievement of the planned targets for the year.

Unaudited supplementary information

18. The supplementary information set out on pages 23 to 36, 38 to 40, 42 and 44 to 47 does not form part of the annual performance report and is presented as additional information. I have not audited this information and, accordingly, I do not report on them.

Compliance with legislation

19. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Procurement and contract management

20. The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the Public Finance Management Act.

Internal control

21. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. 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.

Leadership

22. The accounting authority did not take adequate steps to ensure compliance with the requirements of the National Treasury Framework for Managing Programme Performance Information in the preparation of the entity's strategic documents.

Financial and performance management

23. Management did not adequately review and monitor compliance with SCM prescripts.

Auditor-General

Pretoria

31 July 2016



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 2016.

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 it in terms of the PFMA and other applicable legislation, it 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 Act 38 of 2001 (FIC Act), as amended in 2008. The FIC Act works in concert with the Prevention of Organised Crime Act (1998) and the Protection of Constitutional Democracy against Terrorist and Related Activities Act (2004). The FIC Act establishes the FIC and introduces obligations on financial institutions and other businesses deemed vulnerable to money laundering. The Prevention of Organised Crime Act introduces the crime of money laundering onto the statute book and sets the penalties associated with a conviction. The Protection of Constitutional Democracy against Terrorist and Related Activities Act introduces measures to address the financing of acts of terrorism.

2. Going concern

The 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 generally accepted business practice, as well as policies and procedures established by the Accounting Authority and independent oversight by the Audit and Risk Management 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 the prescribed framework by the 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.

The Audit and Risk committees' corporate governance processes comply with the requirements of the King Report on Corporate Governance (King III) with respect to ensuring that a combined assurance model is applied to provide a co-ordinated approach to assurance.

Audit Committee

The Audit Committee comprised three members for the year ended 31 March 2016 and met four times during the year, in accordance with its approved terms of reference.

Internal audit

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

6. Review of the financial statements

The review of the financial results of the FIC are contained in the annual financial statements. In my opinion, the financial statements fairly reflect the operations of the FIC for the financial year ended 31 March 2016, and its financial position as at that date.

7. Subsequent events

The Accounting Authority is not aware of any matter or circumstance arising after 31 March 2016 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.

The financial statements set out on page 63 to 92, which have been prepared on the going concern basis, were approved by the Accounting Authority on 29 July 2016.

A handwritten signature in black ink, appearing to read 'Murray Michell', with a long horizontal stroke extending to the right.

Murray Michell

Director and Accounting Authority
29 July 2016

STATEMENT OF FINANCIAL POSITION

as at 31 March 2016

	Note(s)	2016 R'000	2015 Restated* R'000
Assets			
Current assets			
Cash and cash equivalents	10	49 544	34 905
Receivables	9	287	923
Inventory	8	87	99
Pre-payments	6	963	3 039
		50 881	38 966
Non-current assets			
Property, plant and equipment	3	56 118	63 397
Intangible assets	4	19 371	19 209
Deposits – long-term receivables	7	1 268	1 159
		76 757	83 765
Total assets		127 638	122 731
Liabilities			
Current liabilities			
Finance lease obligation	11	171	213
Trade and other payables	16	9 791	12 510
Provisions	12	9 468	-
Third-party deposit	13	40	20
Income received in advance – Criminal Asset Recovery Account	15	8 043	8 733
		27 513	21 476
Non-current liabilities			
Finance lease obligation	11	50	221
Operating lease smoothing	14	9 760	9 441
Provisions – decommissioning	12	5 305	4 972
		15 115	14 634
Total liabilities		42 628	36 110
Net assets		85 010	86 621
Accumulated surplus		85 010	86 621

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2016

	Note(s)	2016 R'000	2015 Restated* R'000
Revenue			
Non-exchange revenue	17	240 178	213 082
Other income	18	18	-
Interest received	23	2 357	1 513
		242 553	214 595
Expenditure			
Personnel	20	(136 844)	(122 007)
Audit Committee member fees	21	(181)	(82)
Depreciation and amortisation	34	(29 074)	(27 141)
Finance costs	25	(362)	(354)
Impairment of financial assets	22	14	(294)
Audit fee	24	(1 996)	(1 563)
General expenses	19	(75 329)	(63 718)
Total expenditure		(243 772)	(215 159)
Operating deficit		(1 219)	(564)
Loss on disposal of assets		(392)	(279)
Deficit for the year		(1 611)	(843)

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2016

	Note(s)	Accumulated surplus R'000	Total net assets R'000
Balance as at 1 April 2014		87 464	87 464
Restated deficit 2015		(843)	(843)
Deficit for 2015 previously reported		(852)	(852)
Prior period adjustments	29	9	9
Balance 1 April 2015 restated		86 621	86 621
Deficit 2016		(1 611)	(1 611)
Balance 31 March 2016		85 010	85 010

CASH FLOW STATEMENT

for the year ended 31 March 2016

	Note(s)	2016 R'000	2015 Restated* R'000
Cash flows from operating activities			
Receipts			
Recoveries – ex-employee		28	79
Cash receipts from grants		239 488	198 080
Interest income		2 124	1 449
Recoveries – deposit refund		743	-
		242 383	199 608
Payments			
Suppliers		(205 191)	(190 596)
Finance costs		(29)	(42)
		(205 220)	(190 638)
Net cash flows from operating activities	27	37 163	8 970
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(10 447)	(1 698)
Proceeds from sale of property, plant and equipment	3	8	6
Purchase of other intangible assets	4	(11 892)	(12 685)
Net cash flows from investing activities		(22 331)	(14 377)
Cash flows from financing activities			
Deposits paid by third parties		20	-
Finance lease payments		(213)	(265)
Net cash flows from financing activities		193	(265)
Net increase/(decrease) in cash and cash equivalents		14 639	(5 672)
Cash and cash equivalents at the beginning of the year		34 905	40 577
Cash and cash equivalents at the end of the year	10	49 544	34 905

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, except where 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 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.

Subsequent measurement

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

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 any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectible amount.

Financial liabilities held at amortised cost

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

Finance lease liabilities are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the statement of financial performance by applying the effective interest rate.

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of 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 through 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.

Loans to managers and employees

These financial assets are classified as loans and receivables.

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 are 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 costs, 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 be transferred.

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property 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 method. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate 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 shall be 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 shall be 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 services 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 reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the 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 (cash-generating unit) is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

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 and fixtures	5 to 10 years
Leasehold property	Over the lease period
Computer hardware	3 to 5 years
Furniture	5 to 15 years
Motor vehicles	5 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 entity 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 assets 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. The provision has been calculated at undiscounted amounts based on the current salary rates, because of its 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 entity 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 transaction. 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 measurement and comprises mainly materials and supplies consumed or distributed in the rendering of services.

Subsequent measurement

Inventory is subsequently measured at the lower of costs and net realisable value, except where it is held for distribution at no charge or a nominal charge, then it is measured at the lower of cost or at the current replacement cost.

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 future economic benefits or service potential will be required to settle the obligation
- 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 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 therefore 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.

1.18 Segment reporting

The FIC is involved in fighting crime and corruption as well as combating money laundering and terror financing. The FIC is located in Centurion and has a satellite office in Cape Town.

Management has determined that there are 16 segments in the FIC. After applying the aggregation criteria, they arrived at three reportable segments, namely Administration, Business Enablement and Service Delivery. The segments were organised by the type of service delivered and management uses these same segments for determining the strategic objectives.

Information reported about these segments is based on expenditure incurred against allocated budgets and is used by management as a basis for evaluating the segments' performance and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

2. New standards and interpretations

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

The FIC has not implemented the following standards of GRAP that have been approved but for which 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 FINANCIAL STATEMENTS

for the year ended 31 March 2016

3. Property, plant and equipment

	2016			2015 Restated*		
	R'000			R'000		
	Cost/ valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/ valuation	Accumulated depreciation and accumulated impairment	Carrying value
Computer hardware	49 400	(25 103)	24 297	50 176	(27 194)	22 982
Fixtures and fittings	6 095	(4 293)	1 802	6 895	(4 068)	2 827
Furniture and fixtures	8 032	(5 284)	2 748	7 227	(5 279)	1 948
Leasehold improvements	41 460	(19 050)	22 410	41 174	(10 770)	30 404
Motor vehicles	5 244	(2 857)	2 387	5 244	(1 984)	3 260
Office equipment	5 433	(3 229)	2 204	5 624	(3 952)	1 672
Security equipment	340	(70)	270	340	(36)	304
Total	116 004	(59 886)	56 118	116 680	(53 283)	63 397

Reconciliation of property, plant and equipment – 2016

	Opening balance	Additions	Disposals	Depreciation	Total
	R'000	R'000	R'000	R'000	R'000
Computer hardware	22 982	8 715	(582)	(6 818)	24 297
Fixtures and fittings	2 827	11	(187)	(849)	1 802
Furniture	1 948	862	(10)	(52)	2 748
Motor vehicles	3 260	-	-	(873)	2 387
Office equipment	1 672	1 071	(79)	(460)	2 204
Security equipment	304	-	-	(34)	270
Leasehold improvements	30 404	286	-	(8 280)	22 410
	63 397	10 945	(858)	(17 366)	56 118

Reconciliation of property, plant and equipment – 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Computer hardware	29 613	134	(12)	(2)	(6 751)	22 982
Fixtures and fittings	3 617	94	(13)	-	(871)	2 827
Furniture	2 190	2	-	(48)	(196)	1 948
Motor vehicles	4 181	-	-	-	(921)	3 260
Office equipment	1 686	602	(12)	48	(652)	1 672
Security equipment	338	-	-	-	(34)	304
Leasehold improvements	37 168	1 349	-	2	(8 115)	30 404
	78 793	2 181	(37)	-	(17 540)	63 397

Assets subject to finance leases (included in PPE)

	2016	2015 Restated*
	R'000	R'000
Office equipment at net carrying values	205	415

The leased office equipment is encumbered as set out in note 11.

The useful life of all assets has been reassessed, resulting in an increase in the carrying amount of property, plant and equipment of R1 235k (2015: R331k increase). Included in the reassessed assets were zero value assets with an initial cost of R3 834k. Refer to note 35.

Leasehold improvements relates to the setup and installation cost of the leased premises and includes the cost to reinstate the premises at the end of the lease period. Refer to note 12.

4. Intangible assets

	2016			2015 Restated*		
	R'000			R'000		
	Cost/ valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost/ valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	23 304	(8 115)	15 189	22 317	(7 071)	15 246
Computer licences	9 700	(5 518)	4 182	9 168	(5 205)	3 963
Total	33 004	(13 633)	19 371	31 485	(12 276)	19 209

Reconciliation of intangible assets – 2016

	Opening balance	Additions	Disposals	Amortisation	Total
	R'000	R'000	R'000	R'000	R'000
Computer software	15 246	1 654	(22)	(1 689)	15 189
Computer licences	3 963	10 238	-	(10 019)	4 182
	19 209	11 892	(22)	(11 708)	19 371

Reconciliation of intangible assets – 2015

	Opening balance	Additions	Disposals	Amortisation	Total
	R'000	R'000	R'000	R'000	R'000
Computer software	12 087	4 699	(250)	(1 290)	15 246
Computer licences	4 288	7 986	-	(8 311)	3 963
	16 375	12 685	(250)	(9 601)	19 209

The useful life of intangible assets has been reassessed resulting in an increase in the carrying assets of R858k (2015: R0). Included in the reassessed assets were intangible assets at zero value with an initial cost of R3 323k. Refer to note 35.

5. 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 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%.

	2016	2015 Restated*
	R'000	R'000
Provident fund contributions	12 604	11 853

6. Pre-payments

	2016	2015
	R'000	Restated* R'000
Subscriptions	75	1 168
Membership and professional fees	25	19
Staff training	53	397
Motor vehicle maintenance agreements	215	168
Computer licence and support	591	1 269
E-tolls	3	-
Office equipment repairs and maintenance	-	14
Advertising and publications	1	4
	963	3 039

7. Deposits – long-term receivables

	2016	2015
	R'000	Restated* R'000
Electricity	189	173
Byls Bridge Office Park	1 079	986
	1 268	1 159

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. Refer to note 26.

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 discounted values. Refer to note 23.

8. Inventory

	2016	2015
	R'000	Restated* R'000
Consumables on hand	87	99

9. Receivables from exchange transactions

	2016 R'000	2015 Restated* R'000
9.1 Deposit rent – Lakeside building		
Deposit – Rent	-	847
Deposit Impairment – claims deducted	-	(101)
Deposits refunded	-	-
	-	746
9.2 Other receivables		
Staff debtors	27	33
Sundry debtors – criminal recovery	252	280
Sundry debtors – ex-staff	23	20
	302	333
9.3 Allowance for impairment		
Impairment of debtor	(273)	(290)
	29	43
9.4 Accrued interest - Bank		
Interest on bank	258	134
Total receivables	287	923
Reconcillation for impairment		
Opening balance	(290)	-
(Increase)/decrease in provision for bad debt	(11)	(290)
Amounts reversed	28	-
	(273)	(290)

Deposit: rent – Lakeside building

The FIC entered into a 60-month lease contract for the FIC's previous premises at the Lakeside building offices, which were vacated in December 2013. The deposit was only refunded in June 2015 after an amount of R104k was deducted for a claim by the previous lessor. An agreement was reached to settle the deposit net of costs recovered.

Allowance for impairment of R273k comprises:

Award in terms of criminal action taken – R252k

During 2009 a former employee of the FIC was found guilty and dismissed for fraud (theft) resulting from a number of fraudulent transactions committed during his time as an employee of the FIC. Further to this the FIC filed a criminal complaint with the South African Police Service, resulting in criminal proceedings instituted against him. The criminal matter was finalised in November 2014, and the employee found guilty on nine counts of fraud by the Commercial Court in Pretoria. The sentence imposed was wholly suspended on condition that he complied with the terms of a court order awarded against him ordering that he pays back R359k to the FIC.

The ex-employee has not, however, complied with the order as the FIC has not received payment since August 2015. The FIC immediately informed the State Advocate of his default. Further legal steps were taken and he appeared again in court again on 29 March 2016, where he indicated that he was unemployed. The National Prosecuting Authority has indicated that any success in recovering the outstanding amount is remote. The FIC will make a decision on how to proceed, based on all the available facts.

Ex-employee R21k

Outstanding cost recovery.

10. Cash and cash equivalents

	2016	2015
	R'000	Restated* R'000
Cash and cash equivalents consist of:		
Cash at bank	49 537	34 902
Cash on hand	7	3
	49 544	34 905

The cash balance includes R8 043k (2015: R8 733k), which is ring-fenced for the funding of a project of the Anti-Corruption Task Team. Refer to note 15.

11. Finance lease obligation

	2016	2015
	R'000	Restated* R'000
Minimum lease payments due		
- Within one year	184	242
- In second to fifth year inclusive	51	235
	235	477
Less: future finance charges	(14)	(43)
Present value of minimum lease payments	221	434
Present value of minimum lease payments due		
- Within one year	171	213
- In second to fifth year inclusive	50	221
	221	434
Non-current liabilities	50	221
Current liabilities	171	213
	221	434

The finance leases are secured over the leased assets. Refer to note 3.

In the current year, one lease agreement with a monthly repayment installment of R14k and an annual effective interest rate of 9% came to an end in July 2015.

In the prior year, two lease agreements were entered into for a period of three years at an annual effective interest rate of 9.25%. The lease liabilities are repayable in monthly installments of R11k and R3k respectively.

12. Provisions

Reconciliation of provisions – 2016

	Opening balance R'000	Additions R'000	Total R'000
Provision – decommissioning of leasehold improvements	4 972	333	5 305
Provision for bonus	-	9 468	9 468
	4 972	9 801	14 773

Reconciliation of provisions – 2015

	Opening balance R'000	Additions R'000	Reversed during the year R'000	Total R'000
Provision – decommissioning of leasehold improvements	4 660	312	-	4 972
Provision for bonus	7 000	-	(7 000)	-
	11 660	312	(7 000)	4 972

	2016 R'000	2015 Restated* R'000
Non-current liabilities	5 305	4 972
Current liabilities	9 468	-
	14 773	4 972

Provision for decommissioning

The provision for decommissioning is an estimated cost to reinstate the leased premises back to a white box as per the lease agreement. Provision has been made for this cost based on the present value of the estimated future cash flow arising from the expected cost at the end of the lease agreement on 30 November 2018. The discount rate used for the present value was based on the projected escalation rate provided by the lessor and amounts to 6.5%. Refer to note 3 and to note 25.

Provision for bonuses

The payment of bonuses is dependent on ministerial approval.

13. Third-party deposits

	2016 R'000	2015 Restated* R'000
Opening balance	20	20
Additions	30	-
Paid to National Reserve Fund	(10)	-
	40	20

14. Deferred operating lease (smoothing)

	2016	2015
	R'000	Restated* R'000
Operating lease smoothing	9 760	9 441

The operating lease smoothing account was moved from current liabilities (trade and other payables - note 16) to non-current liabilities.

15. Income received in advance

	2016	2015
	R'000	Restated* R'000
From non-exchange transactions		
Criminal assets recovery account funds	8 043	8 733

16. Trade and other payables

	2016	2015
	R'000	Restated* R'000
Trade payables	4 089	4 020
Payroll payables	1 504	4 138
Accrued leave pay	4 198	4 352
	9 791	12 510

Certain administrative expenses were overstated in the prior year with R9k resulting in the overstatement of liabilities.

The comparative figure has now been reduced by R9k and the opening balances of trade and other payables by R9k. Refer to note 29.1.

The comparative figures for trade and other payables has been restated by R9 441k due to the operating lease smoothing account that has been moved to non-current liabilities. Refer to note 14.

17. Non-exchange revenue

	2016	2015
	R'000	Restated* R'000
Transfer from the National Treasury	239 488	198 080
Criminal Assets Recovery Account Fund	690	14 643
Other revenue – court award in a criminal case against former employee	-	359
	240 178	213 082

18. Other income

	2016	2015
	R'000	Restated* R'000
Insurance receipts	18	-

A damaged laptop was replaced by the insurer. The value of the replacement was R18k.

19. General expenses

	2016	2015
	R'000	Restated* R'000
Advertising	110	122
Research costs	3	16
Bank charges	58	48
Cleaning	1 400	1 229
Computer expenses	7 002	5 369
Conferences and workshops	4 060	-
Consulting fees	2 263	818
Crockery and cutlery	-	49
Insurance	747	777
Internal audit	1 285	461
Lease costs	-	319
Legal fees	87	81
Media, subscriptions and publications	8 593	8 217
Membership fees	1 761	1 535
Motor vehicle expenses	435	428
Office consumables	481	569
Parking expenses – staff	2 301	2 252
Postage and courier	23	15
Printing and stationery	623	658
Professional fees	7 192	4 239
Public relations	586	657
Recruitment and placement costs	1 673	1 055
Relocation costs	-	32
Rent and operating costs	22 256	21 842
Repairs and maintenance	519	260
Risk Committee member fees	181	49
Security	2 143	2 038
Staff training	1 294	474
Subsistence and accommodation – international	1 101	1 366
Subsistence and accommodation – local	743	526
Telephone, fax and internet	3 986	5 626
Travel – international	1 031	1 563
Travel – local	1 392	1 028
	75 329	63 718

The comparative figure for repairs and maintenance has been restated by R9k, from R269k to R260k, due to the over-provision of costs in the prior year. Refer to note 29.2.

An amount of R32k has been reclassified from subsistence and accommodation – local to subsistence and accommodation – international. The comparative figures have been restated accordingly.

Comparative figures to the amount of R1k have been reclassified from local to international travel.

20. Personnel costs

	2016	2015
	R'000	Restated* R'000
Salary costs	114 625	109 687
Performance bonus	9 468	-
Group life	1 108	1 044
Provident fund	11 251	10 872
Unemployment Insurance Fund	315	312
Compensation for Occupational Injuries and Diseases	77	92
	136 844	122 007

21. Governance committees

	2016	2015
	R'000	Restated* R'000
21.1 Audit Committee member fees		
Chairperson: RN Theunissen	83	-
Other members: P Phili	58	-
P Sibiya	40	-
Previous Chairperson Clive D Kneale	-	34
Previous member Bolokang Lengane	-	25
Previous member Nonhlanhla Khumalo	-	23
	181	82
21.2 Risk Committee member fees		
Chairperson: B Mbewu	77	-
Other members: RN Theunissen	12	-
P Phili	52	-
P Sibiya	40	-
Previous Chairperson: Clive D Kneale	-	26
Previous member: Bolokang Lengane	-	16
Previous member: Nonhlanhla Khumalo	-	7
	181	49

22. Impairment of financial assets

	2016	2015
	R'000	Restated* R'000
Provision for bad debts – refer to note 9.3	(17)	273
Deposit paid : Lakeside building – refer to note 9.1	3	21
	(14)	294

23. Interest received

	2016	2015
	R'000	Restated* R'000
Interest revenue		
Interest – earned on amortised financial assets – refer to note 7	109	99
Current account	2 248	1 414
	2 357	1 513

Amortised costs are based on the effective interest rate method.

24. Auditor's remuneration

	2016	2015
	R'000	Restated* R'000
Auditor-General of South Africa	1 996	1 563

25. Finance costs

	2016	2015
	R'000	Restated* R'000
Financial instrument at amortised cost – refer to note 12	333	312
Finance charges – leased assets	29	42
	362	354

26. Operating lease

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. 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.

The FIC has a 36-month lease agreement for office premises in Cape Town. The lease commenced on 1 July 2013 and terminates on 30 June 2016.

	2016	2015
	R'000	Restated* R'000
Minimum lease payments due		
- Within one year	23 521	21 574
- Within two to five years	43 973	66 552
	67 494	88 126

27. Cash generated from operations

	2016	2015
	R'000	Restated* R'000
Deficit	(1 611)	(843)
Adjustments for:		
Depreciation and amortisation	29 074	27 141
Loss/(profit) on disposal of assets	392	279
Income amortised – Criminal Asset Recovery Account	(690)	(14 643)
Interest accrued/amortised	-	(233)
Other income	(18)	-
Performance bonus provision	9 468	-
Accrued leave pay	(154)	(102)
Finance costs – amortised	333	312
Allowance for impairment	(14)	294
Movements in operating lease incentives	(1 233)	(1 233)
Inventory write-off	-	105
Lease smoothing	1 552	3 524
Pre-payment releases	21 788	17 011
Other income – award from cost award in criminal case	(233)	(280)
Changes in working capital:		
Inventory	12	13
Receivables	774	158
Pre-payments paid	(19 712)	(16 246)
Trade and other payables	(2 565)	(6 287)
	37 163	8 970

The comparative figure for pre-payments has been adjusted to reflect the pre-payment releases and pre-payments made separately.

28. Related parties

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

28.1 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.

	2016 R'000	2015 Restated* R'000
Services rendered at no cost		
Government Technical Advisory Centre (GTAC)	97	91
Trade and Industrial Policy Strategies (TIPS)	255	473
Services received at no cost		
Government Technical Advisory Centre (GTAC)	339	1 684
Trade and Industrial Policy Strategies (TIPS)	690	430

The GTAC is a section within the Department of Finance. During the year employees from GTAC participated in the FIC's processes and did not receive any remuneration for the work done.

Members of the GTAC team have been allocated office space at our Cape Town offices at no cost.

TIPS is an independent non-profit institution that co-ordinates networks of researchers. During the year TIPS made its research team available to the FIC. The FIC seconded other officials to mentor the research staff of TIPS and did not recover any cost for work done.

	2016 R'000	2015 Restated* R'000
Transactions included in revenue		
Criminal Asset Recovery Account funds – refer to note 16	690	14 643

28.2 Key management personnel

2016		Cash component R'000	Lump sum R'000	Provident fund R'000	Backpay salary R'000	Total R'000
Name	Position					
M Michell	Director	1 535	419	-	2 721	4 675
C Malan	Executive Manager: Compliance and Prevention	1 529	-	330	-	1 859
P Smit	Executive Manager: Legal and Policy	1 766	-	145	-	1 911
N Mewalall	Executive Manager: Monitoring and Analysis	1 600	-	334	-	1 934
M Maboka	Executive Manager: Corporate Services	1 607	-	292	-	1 899
V MarshSmit	Chief Financial Officer	1 124	-	294	-	1 418
		9 161	419	1 395	2 721	13 696

2015		Cash component	Bonus	Provident fund	Total
Name	Position	R'000	R'000	R'000	R'000
M Michell	Director	1 392	-	-	1 392
C Malan	Executive Manager: Compliance and Prevention	1 346	153	416	1 915
P Smit	Executive Manager: Legal and Policy	1 673	179	138	1 990
N Mewalall	Executive Manager: Monitoring and Analysis	1 551	181	282	2 014
M Maboka	Executive Manager: Corporate Services	1 523	147	277	1 947
V MarshSmit	Chief Financial Officer	1 055	88	272	1 415
		8 540	748	1 385	10 673

M Michell has not received a cost-of-living adjustment or a performance bonus for the last few years.

During the current year the Minister of Finance approved the normalisation of his salary, which resulted in a once-off, backdated adjustment of R2 721k.

The Minister of Finance also approved a once off lump sum payment of R419k in lieu of his performance bonuses over a similar period.

29. Prior period adjustment

The prior year errors have been accounted for retrospectively and the comparative figures for 2016 have been restated.

The correction of the error resulted in the following adjustments:

	2016 R'000	2015 Restated* R'000
29.1 Statement of financial position		
(Increase)/decrease in trade payables	-	9
29.1 Statement of financial performance		
Increase/(decrease) in general expenses	-	(9)

Trade and other payables

Certain administrative expenses were overstated resulting in the overstatement of liabilities in the prior year. The opening balance for trade and other payables and retained income have been restated, as well as the comparative figures for the affected costs. Refer to note 16.

General expenses

An accrual of R9k was duplicated in the prior year, resulting in the overstatement of costs in that year. Refer to note 19.

30. 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 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 entity 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 not being material.

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.

Categories of financial instruments

	2016	2015
	R'000	Restated* R'000
Financial assets		
Cash	49 544	34 905
Receivables	287	923
Deposits	1 268	1 159
	51 099	36 987
Financial liabilities		
Finance lease obligations	221	434
Trade and other payables	9 791	12 510
Third-party deposits	40	20
Provisions	14 773	4 972
	24 849	17 936

	Change in rate	Effect on surplus R'000
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2016 floating rate financial assets

Banking balances	1%	495
Receivables	1%	3
Deposits	1%	13

2016 floating rate financial liabilities

Finance lease obligations	1%	2
Trade and other payables	1%	98
Provisions	1%	148

2015 floating rate financial assets

Banking balances	1%	349
Receivables	1%	9
Deposits	1%	12

2015 floating rate financial liabilities

Finance lease obligations	1%	4
Payables	1%	125
Provisions	1%	50

31. Fruitless and wasteful expenditure

	2016 R'000	2015 Restated* R'000
Fruitless and wasteful expenditure – current year	4	78
Less amounts written off	-	(78)
	4	-
Details of fruitless and wasteful expenditure – current year		
Cancellation of international hotel accommodation – overnight fee payable	4	-
Damage due to accidental triggering of fire alarm	-	48
Damage incurred to rented vehicle	-	1
Reconnection fee on late renewal of ICT licence	-	6
Fee charged for cancellation of hotel accommodation	-	6
Interest on late payment of Compensation for Occupational Injuries and Diseases	-	17
	4	78

32. Irregular expenditure

	2016 R'000	2015 Restated* R'000
Opening balance	37	-
Add: Irregular expenditure – current year	646	149
Less: Amounts reversed	(32)	-
Less: Amounts condoned	(56)	(112)
	595	37
Details of irregular expenditure – current year		
Procurement in terms of a deviation without recording the reasons and obtaining prior approval of the Accounting Authority	34	-
Incurred costs after the expiry of a contract	22	-
Amount previously disclosed for exceeding hotel costs threshold should have been reduction of costs within threshold	(32)	-
Contract value exceeded without following the appropriate process	-	112
Hotel accommodation – rate of R1 300 exceeded	-	37
Non-compliance with supply chain management prescripts: 90/10 principle used in tender process instead of 80/20 principle	590	-
	614	149

33. Contingent liability

33.1 Accumulated surplus/(shortfall)

Approval has been granted by the National Treasury to retain the accumulated surplus for the current year.

34. Depreciation and amortisation

	2016	2015 Restated*
	R'000	R'000
Depreciation charge for the year	17 366	17 540
Amortisation charge for the year	11 708	9 601
	29 074	27 141

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 and amortisation for the current year.

	Initial estimate for 2016	Revised estimate for 2016	Increase in depreciation/ amortisation for 2016	Future depreciation/ amortisation
	R'000	R'000	R'000	R'000
Property, plant and equipment				
Computer hardware	5	266	261	348
Office equipment	-	60	60	294
Fixtures and fittings	-	3	3	15
Vehicles	-	10	10	48
Furniture	-	35	35	175
Change in depreciation	5	374	369	880
Intangible assets				
Computer software – Change in amortisation	123	323	200	658

Property, plant and equipment

An increase in the carrying amount of property, plant and equipment of R1 235k (2015: R331k increase), and a decrease in accumulated depreciation by R1 235k (2015: R331k decrease). The effect of the change on future years will be an increase in depreciation of R879k, (2015: R331k increase) reversing the net credit charge of R879k (2015: R331k) created in the current year. Refer to note 3.

Intangible assets

An increase in the carrying amount of intangible assets of R858k (2015: R0) and a decrease in accumulated amortisation of R858k (2015: R0). The effect of the change on future years will be an increase in amortisation charge of R658k (2015: R0), reversing the net credit charge of R658k (2015: R0) created in the current year. Refer to note 4.

36. Capital commitments

	2016	2015
	R'000	Restated* R'000
Authorised capital expenditure		
Capital expenditure approved and contracted	4 647	3 336

37. Segment reporting

2016	Administration	Business enablement	Service delivery	Total
	R'000	R'000	R'000	R'000
Expenditure				
Personnel	(26 745)	(27 510)	(82 589)	(136 844)
Audit Committee fees	(181)	-	-	(181)
Depreciation and amortisation	-	(13 869)	(15 205)	(29 074)
Impairment of financial asset	14	-	-	14
Finance costs	(29)	(233)	(100)	(362)
Audit fee	(1 996)	-	-	(1 996)
General expenses	(9 281)	(32 058)	(33 990)	(75 329)
Total operating expenditure	(38 218)	(73 670)	(131 885)	(243 772)
Total operating expenditure for the FIC				(243 772)

Segments are organised by the type of service provided. Based on the service and operating objectives provided by the FIC, there are three reporting segments.

38. 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 available, therefore the statement does not apply to the FIC.

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