



Financial Intelligence Centre
ANNUAL REPORT

2014



2015



financial intelligence centre
REPUBLIC OF SOUTH AFRICA

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Financial Intelligence Centre ANNUAL REPORT 2014/15

Strengthening compliance and
enforcement of the FIC Act



financial intelligence centre
REPUBLIC OF SOUTH AFRICA

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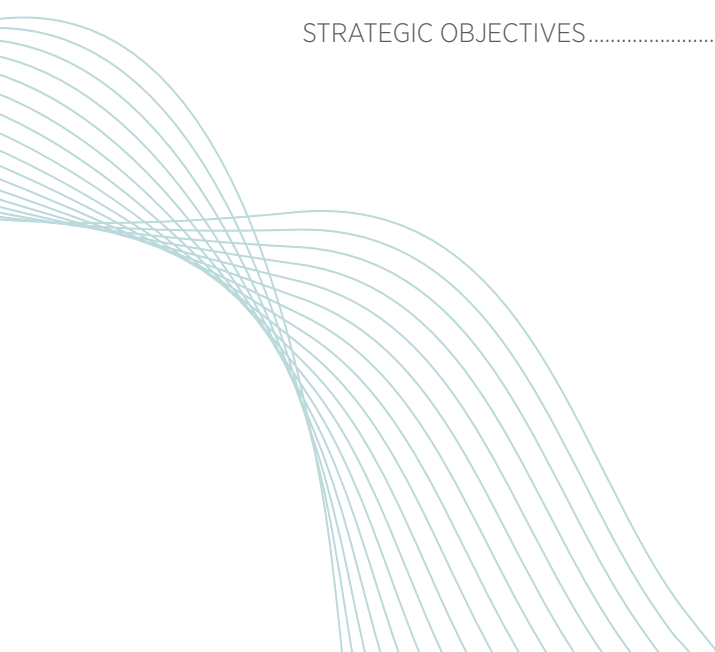
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SUBMISSION OF THE ANNUAL REPORT TO THE EXECUTIVE AUTHORITY

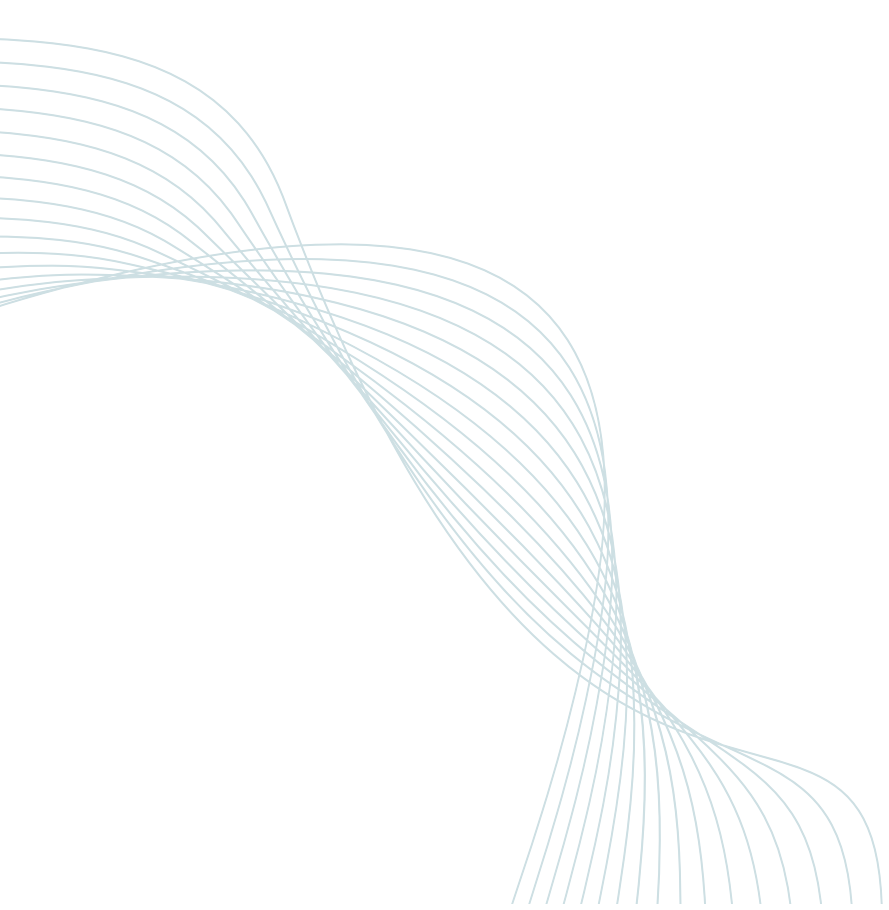
To the Minister of Finance, Mr Nhlanhla Nene:

I have the honour of submitting to you the annual report of the Financial Intelligence Centre for the period 1 April 2014 to 31 March 2015.



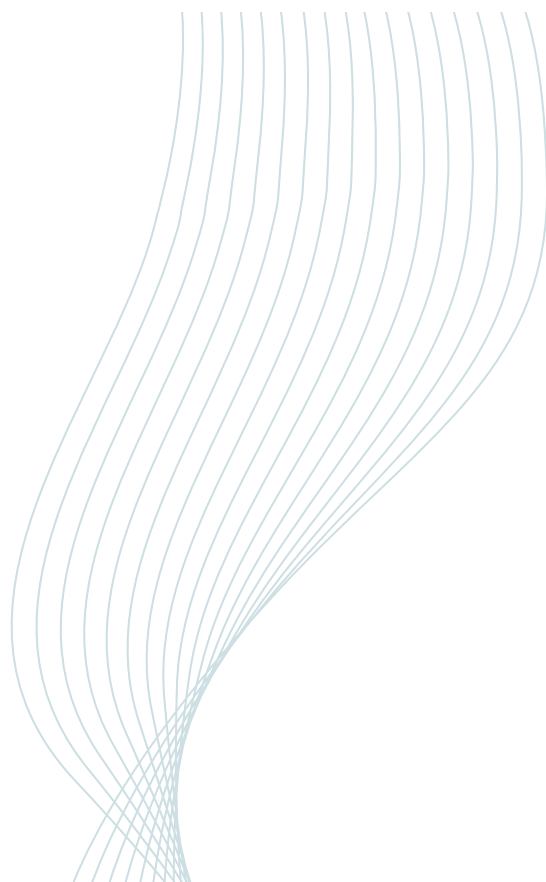
Murray Michell

Director and Accounting Authority



PART A:

GENERAL INFORMATION



FIC GENERAL INFORMATION

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LIST OF ABBREVIATIONS/ACRONYMS

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 No. 38 (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 Financial Intelligence Centre (FIC) protects the integrity of South Africa's financial system, identifies the proceeds of crime, combats money laundering and the financing of terrorism and related activities, and plays an important role in ensuring that the country achieves its economic and social development goals as expressed in the National Development Plan, such as job creation, safer communities and financial inclusion.

This annual report sets out the work the FIC has done in collaboration with partners, such as the National Treasury, supervisory bodies, and accountable and reporting institutions, to ensure that the quality of the inputs used to generate financial intelligence products are of the highest standard. It demonstrates significant progress in the FIC's relationships with its partners in the law enforcement and security environment, and registers progress in strengthening South Africa's compliance and enforcement regime to combat money laundering and terror financing.

FIC intelligence products have become more integral to the work of the state. During 2014/15, the FIC's membership in government's Justice, Crime Prevention and Security cluster was formalised. As an active component of the cluster, the FIC has provided financial intelligence to help resolve several high-profile matters.

Compliance with the FIC Act continued to improve in 2014/15, with a sharp increase in the number of registered financial institutions. These institutions submitted nearly 7 million

reports on transactions and related activities, which are central to the FIC's ability to develop financial intelligence to assist law enforcement authorities in their investigations.

A strong base of compliant institutions allows the FIC to capitalise on the changing nature of financial intelligence and its use in solving crime, protecting the country and its citizens from financial crimes and other threats that arise within and beyond its borders. Compliant institutions should also find it easier to adapt to the changes ahead, including the measures proposed in the draft FIC Amendment Bill.

The proposed changes to the FIC Act introduce important amendments, including a risk-based approach that will allow business to ease the compliance burden on customers. The proposed changes, based on the FIC's robust discussions and debate with international standards bodies, partners, peers and local industry representatives, will help ensure that South Africa's system to combat money laundering and terror financing is of world standard.

This is an exciting time, but it is not without its challenges. Once the public comment process is concluded, the FIC will need to implement the Bill with limited funds. It will also have to prepare for intensified monitoring of counter-terror financing activities due to geopolitical imperatives. Also on the horizon is the requirement to prepare the country for the next round of mutual evaluations by the Financial Action

Task Force, when it assesses South Africa's anti-money laundering and counter-terror financing environment.

The FIC has accomplished much over the past year, and I have no doubt they will continue to meet the challenges that await them in our fluid and rapidly evolving financial and compliance landscape.



Nhlanhla Nene

Minister of Finance

“A strong base of compliant institutions allows the FIC to capitalise on the changing nature of financial intelligence and its use in solving crime, protecting the country and its citizens from financial crimes and other threats that arise within and beyond its borders.”

DIRECTOR'S OVERVIEW

Strengthening compliance and enforcement of the FIC Act

The FIC was established as South Africa's national centre for the gathering, analysis and dissemination of financial intelligence in 2003. Since then, there have been sweeping changes in the global economy and financial regulation.

As a result of these far-reaching international developments, the role of financial intelligence in supporting South Africa's national objectives – such as promoting the integrity of the country's financial institutions, reducing crime and corruption, and combating money

laundering, terror financing and related activities – has become more prominent. At the same time, the concept of financial intelligence itself has evolved as a result of the volume of transactions flowing through banks and the technological capability that has been developed to process large data sets.

In line with this changing environment, South Africa continues to align the FIC's founding legislation, the Financial Intelligence Centre Act (2001, amended in 2008), with international standards to combat money laundering and terror financing to protect the integrity of the financial system. The FIC is also stepping

Global legal, regulatory and enforcement trends

Over the past 10 years, regulators and law enforcement authorities have brought a growing number of enforcement cases against institutions, particularly major banks, for breaching money laundering, terror financing and United Nations (UN) Security Council sanction provisions. Some of these cases led to unprecedented financial penalties and settlements, which served to increase global scrutiny of compliance with these provisions.

Over the past year, this trend continued. A range of financial institutions faced fines, criminal prosecution or enforcement actions for violating provisions concerning money laundering, terror financing or sanctions laws. In addition, individuals faced personal liability and public accountability for their actions and for compliance-related deficiencies within their areas of responsibility. Some examples include:

- JPMorgan Chase Bank entered into a two-year deferred prosecution agreement and was required to pay more than

US\$2 billion in penalties for failure to alert authorities to a pyramid scheme run by one of the bank's clients for over two decades

- The offices of HSBC were raided in February 2014 and the bank was later fined £28 million and given a final warning for system deficiencies that allowed money laundering to take place. This was the biggest penalty ever imposed by Swiss authorities, who warned that intermediaries will be under increased regulation and scrutiny.

Regulators internationally have become more consistently severe, regardless of whether the case was egregious or a lesser administrative failing. And the requirements are likely to become more stringent in the future.

The overarching global trend is that institutions should ensure they know their customers, their businesses, the sources of their wealth and the beneficial owners of any corporation connected to them. Failure to do so could lead to very serious consequences.

up monitoring and enforcement to increase compliance levels and better support law enforcement authorities in their investigations.

During the reporting period, the private sector and supervisory bodies improved their compliance with the FIC Act, complemented by the FIC's increased enforcement work. Supervisory bodies, particularly those in the banking sector, have strengthened their focus on compliance. This is because they understand the changing nature of global compliance requirements and have a growing appreciation for the risks facing businesses in the sectors they supervise.

The number of accountable and reporting institutions¹ registered with the FIC increased from 26 316 to 30 461 in the 12 months ending 31 March 2015. Nearly 7 million reports (2013/14: about 6.5 million) were submitted to the FIC over the same period. These included 6.7 million cash threshold reports (CTRs) on cash transactions of R25 000 or more and 267 398 suspicious transaction reports (STRs).

The increases were spurred by the work we have been doing to clarify the roles and responsibilities of supervisory bodies and accountable institutions in terms of the FIC Act.

Stepped-up enforcement activities were a feature of the reporting period. These activities included financial sanctions, as well as regular FIC Act Enforcement Forum meetings with supervisory bodies. These actions have helped identify, discourage and correct instances of non-compliance.

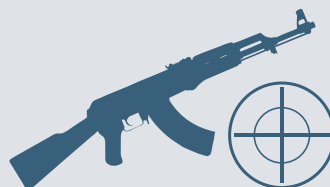
The 2014/15 reporting period was the first in which the FIC imposed enforcement penalties on institutions under its direct supervision. Supervisory bodies, including the Gauteng

“...the concept of financial intelligence itself has evolved as a result of the volume of transactions flowing through banks and the technological capability that has been developed to process large data sets.”



Questionable arms deal

A South African national attempted to act as an intermediary for a conventional arms transaction between two foreign entities, despite not having the necessary permits. The FIC became aware of this attempted transaction and issued a directive instructing the relevant bank not to proceed with the transaction. The Asset Forfeiture Unit obtained a preservation order for more than R60 million.



¹ Accountable and reporting institutions are listed in schedule 1 and 3 to the FIC Act, and are deemed vulnerable to money laundering and terror financing. These institutions are required to fulfil compliance obligations in terms of the FIC Act.

and KwaZulu-Natal gambling boards and the Reserve Bank, the supervisory body for the banking sector, imposed administrative and financial sanctions for non-compliance.

Sanctions and penalties will continue to play a growing role in the FIC's monitoring and enforcement activities, in line with global trends.

The changing nature of financial intelligence

The FIC has started discussing individual strategic and operational risks with South African financial institutions, including their global exposure to risk associated with money laundering and terror financing. These discussions were made possible by technical advances that allowed the FIC to analyse, alongside data from other public sources, the large and complex information streams financial institutions were reporting to create an institutional-level view of risk exposure.

These steps are in line with the evolving nature of financial intelligence. It is becoming increasingly important to understand the character of entities and individuals of interest and be able to predict their intent by analysing information about illicit financial activities. Such ability improves the way financial institutions manage risk and provides a powerful tool to support policy-making in the sector.

To this end, the FIC continues its work to improve its information and communications technology (ICT) systems and to refine the skills profile of its staff.

Contributing to preventing and reducing crime

During 2014/15, the FIC's membership in the Justice, Crime Prevention and Security cluster was formalised, further strengthening and aligning the contribution of its financial intelligence products to national security and crime-fighting priorities. The FIC is an



Truck hijackings in Gauteng

The FIC helped law enforcement agencies to profile several role players involved in a truck hijacking syndicate. The syndicate used South African Police Service-branded vehicles and dressed as members of the police service. Typically, members of the syndicate would pull over a truck on the highway and hijack the vehicle, using jamming devices to block cell phone and tracker signals.

After being provided with the subjects' cell phone numbers, the FIC profiled the individuals concerned and identified additional cell numbers used by the subjects and other individuals. The FIC provided this information to the South African Police Service, which used the information to track the syndicate and foil a hijacking.

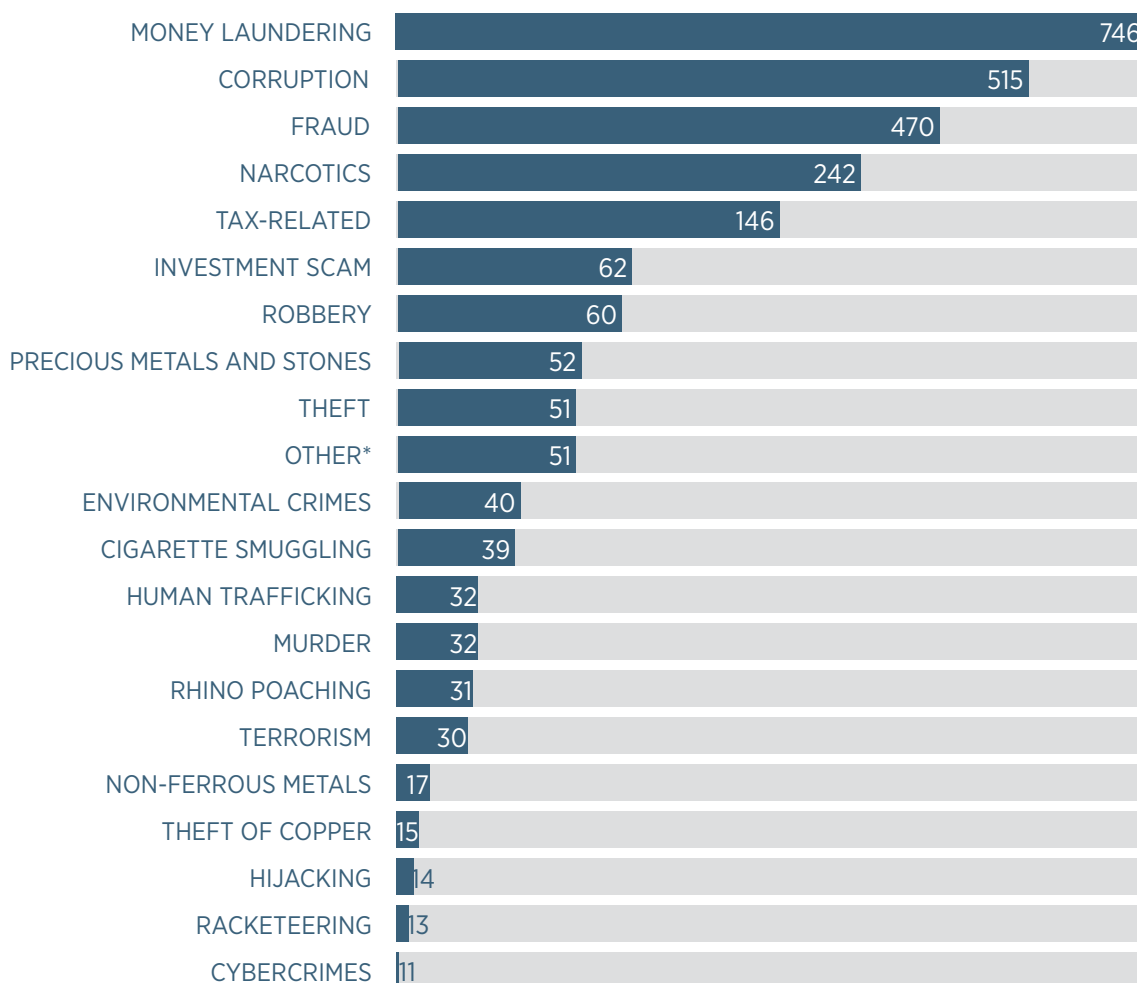


active component of the Anti-Corruption Task Team and its vulnerable sector management programme, which focuses on integrity concerns in the public sector.

During the reporting period, most of the law enforcement authorities' 1 799 investigation requests made to the FIC – up from 1 661 in 2013/14 – related to money laundering, corruption or fraud. The FIC provided financial intelligence products based on these requests and also referred an additional 870 cases to law enforcement for investigation.

The number of investigation requests received from law enforcement authorities are listed by category in Figure 1. These categories are based on crimes alleged to have been committed. While the crimes listed in the figure below 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.

FIGURE 1: NUMBER OF INVESTIGATION REQUESTS PER CRIME CATEGORY, 2014/15



*Includes taxi violence, illegal gambling, housebreaking, kidnapping, ATM bombing, child pornography and unlicensed firearms

Financial intelligence provided by the FIC supported the preservation, forfeiture or confiscation of assets to the value of about R2.3 billion during 2014/15 (2013/14: R412 million). To illustrate the real-world impact of the FIC's work, throughout this report we highlight areas where the organisation's monitoring and analysis work has been instrumental in assisting criminal investigations or has helped identify trends related to money laundering and illicit sources of finance.

Researching illicit financial flows from South Africa

The African Union/United Nations (UN) Economic Commission for Africa's High Level Panel on Illicit Financial Flows from Africa defines illicit financial flows as the cross-border movement of money that is illegally obtained, transferred or used. This concept is distinct from, but related to, that of capital flight, much of which may include outflows obtained or transferred legally. The policy challenge is that governments have few options for recourse where illicit financial outflows occur, unless the flows are illegal.

The panel estimates that South Africa's illicit financial flows over the past decade amounted to R147 billion per year. According to the panel's report, about 65 percent of illicit financial flows arise from commercial tax evasion proceeds, mainly through trade mispricing and other transactions between multinational corporations. The balance arises from proceeds of criminal activities such as drug trafficking, racketeering and the trade in counterfeit and contraband goods, with less than 5 percent coming from corruption and the theft of public funds.

Transfer pricing, a legal financial and accounting mechanism for multinational and transnational corporations, is distinct from abusive transfer pricing and trade mispricing. It is by addressing

Organised crime – drug manufacturing

The FIC helped identify and arrest members of a criminal syndicate growing cannabis in hydroponic labs. The FIC provided assistance in identifying the organised crime structure, profiling the role players, and identifying the assets and money laundering techniques used. Using this information, law enforcement authorities raided 10 locations around Gauteng, seizing drugs and arresting 11 people. The prosecution of the subjects is pending.

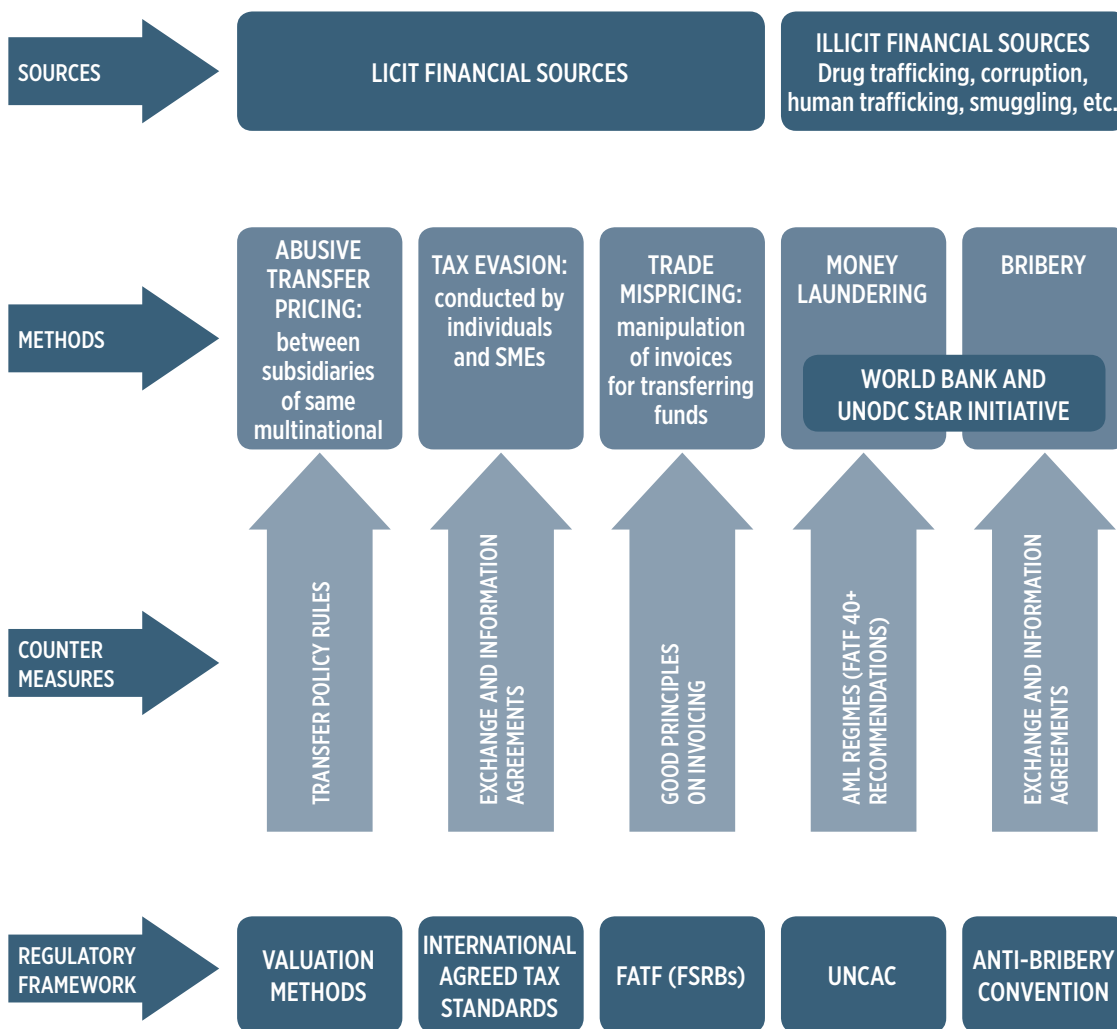


the latter that government seeks to curb the outflow of illicit and other economically detrimental financial flows from South Africa.

Work is under way to properly identify the destinations, sectors and product categories associated with illicit financial flows from

South Africa. In addition, the Davis Tax Committee, established to assess South Africa's tax policy framework and recommend future tax policy measures, is addressing base erosion and profit sharing, which also contribute to such flows.

FIGURE 2: ILLICIT FINANCIAL FLOWS – A CROSS-CUTTING GOVERNMENT AGENDA



Note on abbreviations:

AML – Anti-money Laundering
 FATF – Financial Action Task Force
 FSRBs – FATF-style Regional Bodies
 SMEs – Small- and Medium-sized Enterprises

StAR – Stolen Asset Recovery Initiative
 UNCAC – UN Convention Against Corruption
 UNODC – UN Office on Drugs and Crime

Review of the FIC Act

The FIC continued the review of the FIC Act in 2014/15. It worked closely with the National Treasury, consulting industry bodies such as the Banking Association of South Africa, the Law Society of South Africa, the Association of Savings and Investment South Africa as well as the Johannesburg Stock Exchange and supervisory bodies, to test the proposed amendments and draft an amendment bill to begin the legislative process.

With Cabinet approval, the proposed FIC Amendment Bill was published for public comment on 15 April 2015.

Proposed amendments

The proposed Amendment Bill in its current form introduces innovative provisions to the FIC Act.

The first is that accountable and reporting institutions adopt customer due diligence. This will require institutions to go beyond basic know-your-customer requirements to establish and verify their clients' identities. The institutions will also seek to understand the nature and purpose of the relationship with their customer and scrutinise the way the customer uses its products or services to identify behaviour inconsistent with their knowledge of the customer.

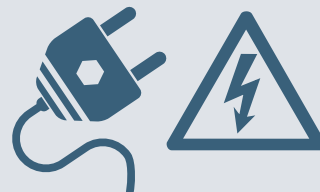
For corporate clients, this implies that accountable institutions will take reasonable measures to determine the identity of beneficial owners. This will improve transparency and enhance the ability of authorities to detect, investigate and prosecute instances where financial and other institutions have been used to cover illicit financial dealings.



Copper theft

Law enforcement authorities approached the FIC for assistance in investigating a suspected copper theft syndicate. About half a billion rand's worth of copper is stolen each year and, according to the South African Chamber of Commerce and Industry, close to R5 billion is spent each year on repairing the damage caused and replacing the stolen copper.

During the course of the investigation, the FIC discovered that a scrap metal dealer and the syndicate were transacting only in cash to avoid detection and thereby avoiding anti-money laundering controls. Law enforcement authorities cut a deal with the scrap metal dealer, who agreed to pay the syndicate through electronic transfers to their bank accounts. This allowed the FIC to identify the flow of funds and the key people involved in the syndicate, as well as the assets they had acquired. The funds and assets were later seized and forfeited to the state.



Secondly, institutions will be required to vary their risk-based due diligence 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. The risk-based approach also requires accountable institutions to pay special attention to certain categories of customers, such as individuals in influential public positions, especially in foreign countries.

Thirdly, the Bill seeks to establish a legal framework for applying and administering financial sanctions against targeted individuals and entities emanating from UN Security Council Resolutions. The provision aims to fulfil South Africa's obligations as a UN member state.

Regional and international developments

The FIC is part of a global financial intelligence network, which includes the Financial Action Task Force (FATF), the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and the Egmont Group of Financial Intelligence Units (FIUs).

In 2014/15, the FATF identified an undesirable outcome in the financial regulatory environment. To foster diligence, regulation is becoming more risk-based. This has, however, led to a pattern of "de-risking", in which financial institutions terminate or restrict business relationships with clients or categories of clients on a wholesale basis to avoid risk instead of managing it. De-risking is a threat to the global financial system because it can drive affected entities into less regulated or wholly unregulated channels. This in turn undermines traceability, bypassing measures in place against money laundering and terror financing.

The global financial intelligence network

Financial Action Task Force

The FATF is a global standards-setting body, backed by the political commitment of its 34 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, Mexico, the Netherlands, New Zealand, Norway, Portugal, the Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

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 18 member states are Angola, Botswana, Comoros, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. The ESAAMLG has a number of regional counterparts on the continent.

Egmont Group of Financial Intelligence Units

The Egmont Group is a global association of 151 FIUs. See <http://www.egmontgroup.org/about/list-of-members> for a list of the member countries.

The FATF has reiterated that a risk-based approach should be the cornerstone of an effective system to combat money laundering and terror financing – and that it expects financial institutions to mitigate risk rather than avoid it.

The FATF also responded to the serious terror financing threats associated with a terrorist group, the Islamic State of Iraq and the Levant. The task force released a report demonstrating that this group is supported by the capital illicitly generated from the territory it occupies, primarily through the looting of banks, the exploitation of oilfields and the theft of economic assets under its control. The FATF reiterated the need for all countries to fully implement the FATF standards to combat terror financing and called on governments to prevent the Islamic State of Iraq and the Levant from accessing their financial systems.

South Africa's framework for combating money laundering and the financing of terrorism, as part of a global system, was subject to an international review during 2014/15. The review focused on areas that were found to be deficient during the last review in 2008. Most of the deficiencies have been addressed and the proposed amendments to the FIC Act address the rest with the introduction of a risk-based approach.

The FIC became a member of the Egmont Group of FIUs in 2003. The Group's primary goal is to enable the secure exchange of information between member FIUs and to foster better co-operation to this effect. It also offers members technical advice and training, and promotes the exchange of personnel between FIUs to improve the expertise and capabilities of staff. The Egmont Group actively encourages the establishment of FIUs as a key element of a country's framework to combat money laundering and terror financing.



Cybercrime – cross-border romance scam

A foreign agency-led project involving the Asset Forfeiture Unit, a domestic law enforcement agency's cybercrime unit and the FIC seized R2.4 million from fraudsters who were luring unsuspecting women with promises of romance into accepting and shipping packages on their behalf. The packages contained high-value electronic equipment bought with stolen funds. The domestic investigation and the FIC's analysis revealed that the syndicate used the proceeds of the scam to buy four properties and two vehicles. The FIC also identified domestic bank accounts and froze three accounts belonging to the syndicate's kingpin.



The FIC has always derived much value from its participation in the Egmont Group and is actively involved in various working committees. In 2013, the FIC Director was elected Chair of the Group until 2015. During his tenure, the Egmont Group grew from 139 to 151 members. The Group also adopted a new governance framework and a new strategic plan, which geared it towards increasing the effectiveness of member FIUs in their respective jurisdictions.

Performance overview

As set out in the pages that follow, the FIC met all of its performance targets for the year, despite financial constraints which saw the organisation forgo payment of bonuses to staff in the last financial year. There have also been knock-on effects of financial constraints of previous years on long-term projects, such as improving the ICT system and aligning the skills and competencies of staff with the changing nature of financial intelligence. Both of these projects will continue in the new year, as will the legislative process for the new FIC Amendment Act. The FIC will focus on ensuring that all accountable institutions, particularly those it is directly responsible for, are registered and reporting data.

The FIC continues to experience competition from the private sector, which is keen to recruit the skilled people the organisation has trained, and they offer higher salaries than the public sector. This trend is not unique to South Africa. On the upside, former employees of FIUs tend to act as compliance champions in their new institutions and their presence enhances the overall integrity of the financial system.



Cybercrime

A former employee of a company responsible for maintaining the pay point machines of prominent retail outlets started approaching these retail outlets in rural and smaller towns, allegedly to service their machines. He used this false cover to debit funds from the accounts of various customers and diverted the proceeds to his personal account. The FIC was approached to assist in tracking the funds. It froze more than R165 000 in the employee's account.



Financial management

The FIC received an unqualified audit opinion for the 2014/15 financial year, with no findings on financial or supply chain activities, controls or operations.

However, an administrative error was made in the calculation of the lease smoothing amount at year-end, resulting in the overstatement of lease payments in the financial statements. This was escalated to the audit report as a material misstatement that was corrected after the initial submission.

The term of the Audit and Risk Committee members expired during the year and the appointment of new members was delayed to clarify the appointment terms. During this period, the Internal Audit function provided the FIC Executive Committee with ongoing assurance.

All matters were resolved by the end of the financial year and the new committee members were appointed.

Conclusion

I would like to thank the supervisory bodies and registered accountable institutions for their contribution to strengthening the compliance environment and their thoughtful engagement on the challenges we face. I express thanks to colleagues in our law enforcement and national security structures who have assisted and guided the FIC in our work during this time.

I also extend my thanks to Minister Nhlanhla Nene and the members of the Standing Committee on Finance and its Chairperson, Mr Yunus Carrim, for their guidance and oversight, and for their recognition of the value of the FIC's work.

Finally, I would like to thank the FIC staff, who have proven tireless and performed admirably in an environment of growing expectations.



Murray Michell

Director
30 July 2015

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, performance information, human resources information and the financial affairs of the FIC for the financial year ended 31 March 2015.

Yours faithfully



Murray Michell

Director

30 July 2015

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 No. 83 (2001), 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 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, the South African Revenue Service (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 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 provides memoranda of understanding (MoUs), which govern how supervisory bodies relate to the FIC and engage with the entities that report to them in terms of anti-money laundering and prevention of terror financing requirements.

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

- Process, analyse, interpret and retain information disclosed to and obtained by the FIC
- Inform, advise, co-operate with and make its financial intelligence products available to investigating authorities, supervisory bodies, intelligence services and 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.

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.

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 of financial intelligence in accordance with international standards and requirements.

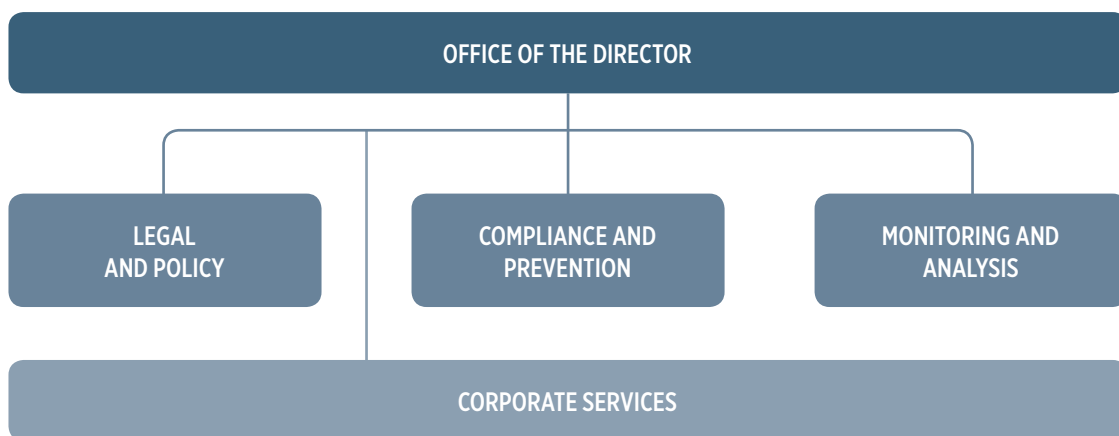
ORGANISATIONAL STRUCTURE

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 3: STRUCTURE OF THE FIC



Managers of departments and business units meet regularly as a management committee to oversee the effective performance of the organisation, share information and co-ordinate activities. A summary description of each department is provided below.

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
- Engaging with international organisations
- Providing strategic policy advice.

Compliance and Prevention

The Compliance and Prevention department is responsible for overseeing 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 other

people regarding the performance of their obligations. It also implements 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

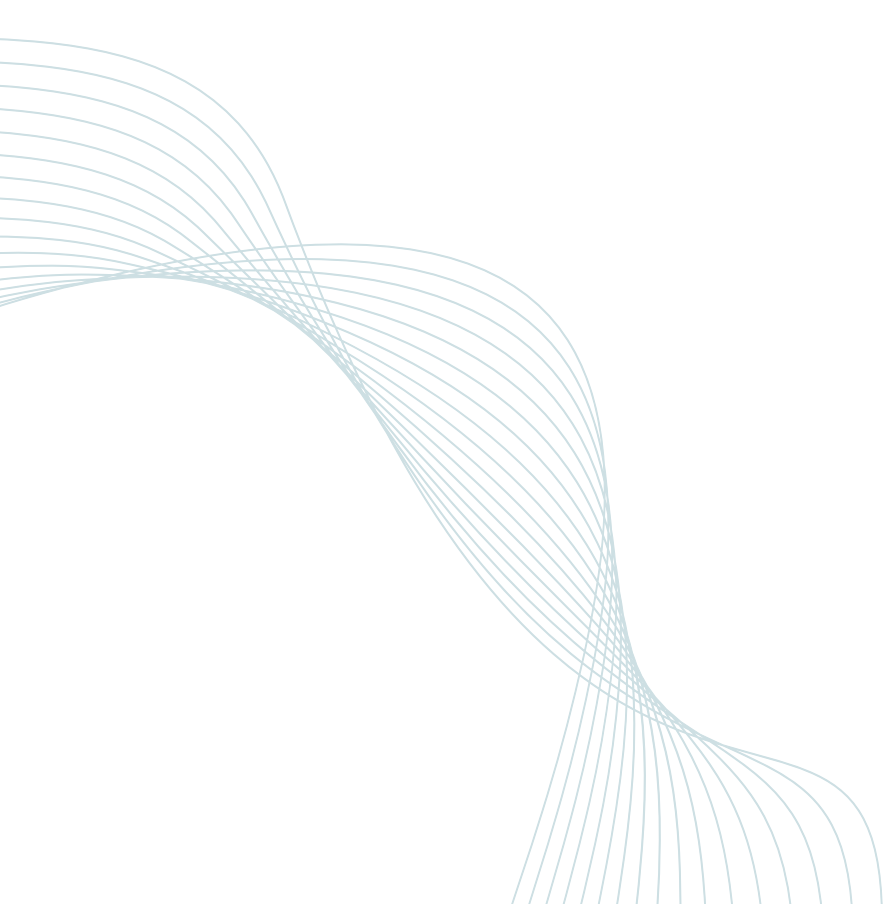
The Monitoring and Analysis department receives and analyses data used to identify the proceeds of crime, money laundering and the financing of terrorism.

The department works closely with law enforcement authorities, intelligence agencies, South African Revenue Service 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

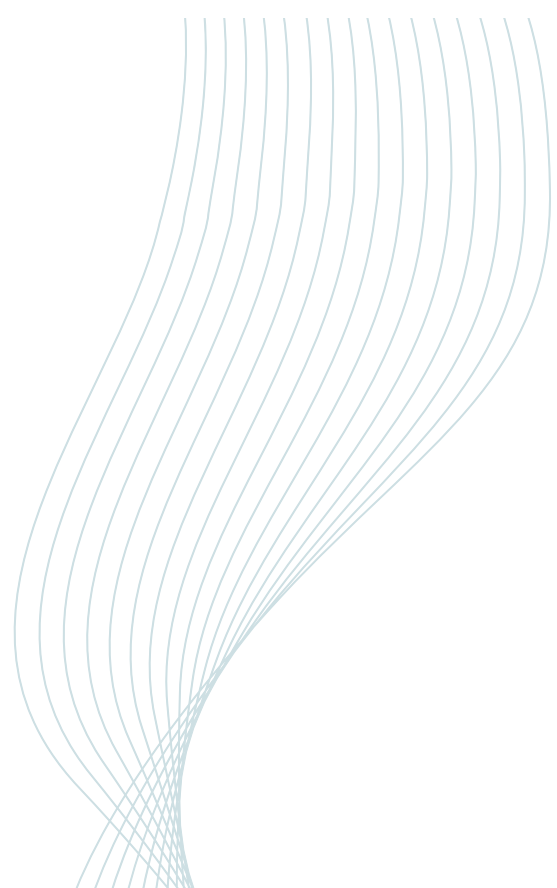
The Corporate Services department provides the FIC with support services to enable the organisation to operate efficiently.

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 found in Part D of this report.

SITUATIONAL ANALYSIS

Service delivery environment

The FIC met all of its targets for the reporting period. Some targets were set and adjusted for the effect of the lack of funds in previous financial years.

Organisational environment

The FIC received an additional budget allocation, which helped alleviate some of its previous financial constraints. However, it will take some time to restore the organisation to full capacity and bring delayed projects back

online. There are no immediate concerns with regard to the FIC's ability to realise its strategic objectives.

Key policy developments and legislative changes

There were no substantive policy or legislative changes affecting the FIC during 2014/15. A draft FIC Amendment Bill was released for public comment shortly after the end of the financial year. The Bill, should it become law, will affect how accountable institutions report to the FIC.

STRATEGIC OBJECTIVES

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

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

PERFORMANCE INFORMATION BY OBJECTIVE

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

The FIC continued to improve the range and quality of data that it receives during the reporting period. It monitored, in partnership with supervisory bodies, the compliance of accountable institutions with the FIC Act and took action to enforce compliance where necessary.

During 2014/15, the FIC met all its targets under this objective and exceeded some, further improving the compliance of supervisory bodies and entities with the Act. Highlights for the year include the following:

- Together, supervisory bodies and the FIC conducted 740 inspections
- A total of 4 145 new accountable and reporting institutions registered with the FIC (2013/14: 4 453), exceeding the target for the year by 2 945, or 15.75 percent
- The global number of institutions registered with the FIC as at 31 March 2015 was 30 461 (2013/14: 26 316)
- A total of 3 236 accountable and reporting institutions submitted reports to the FIC, up from 2 863 in 2013/14
- The bulk of these reports were made up of CTRs (6.7 million), which are reports on cash transactions of R25 000 and above
- Accountable and reporting institutions submitted more than 267 000 STRs, which indicate the possibility of illegally generated funds.

STRATEGIC OUTCOME 1: IMPROVING THE COLLECTION OF INFORMATION AND THE ENFORCEMENT OF COMPLIANCE WITH THE FIC ACT

Strategic objective	Performance indicator	Actual achievement 2013/14	Planned target 2014/15	Actual achievement 2014/15	Deviation from planned target to actual achievement for 2014/15	Comment on deviations
Supervision and enforcement in terms of the FIC Act	1.1.1 Number of FIC inspection reports issued ²	167	120	130	Target achieved (+10)	Target exceeded due to improved operational efficiency and processes
	1.2.1 Number of guidance products issued	11	6	6	Target achieved	N/A
	1.2.2 Number of compliance awareness sessions held	45	24	32	Target achieved (+8)	Target exceeded due to acceptance of more invitations than planned, involving participation in awareness sessions with supervisory bodies and other institutions at reasonable costs
Increased registration by accountable and reporting institutions	1.2.3 Number of media publications issued	16	8	10	Target achieved (+2)	Target exceeded due to extra publications published at no cost
	1.3.1 Number of new registrations of accountable and reporting institutions	4 453	1 200	4 145	Target achieved (+2 945)	Target exceeded due to increased awareness and certain supervisory bodies only renewing licences if institutions are registered with the FIC

² Refers to FIC own inspections. Does not include joint inspections conducted with supervisory bodies.

The FIC toughened its stance on enforcement. For the first time, the FIC issued financial sanctions within the sectors it supervises directly, mainly motor vehicle dealers. The penalties issued were in proportion to the size of the entities' operations. In addition, supervisory bodies, in consultation with the FIC, issued almost R140 million in financial sanctions and imposed other administrative sanctions on banks and bookmakers.

Much of the FIC's compliance and enforcement work is through the partnerships it has established with supervisory bodies, which are responsible for ensuring that the accountable institutions for which they have oversight responsibility comply with the FIC Act. The FIC conducts inspections itself and enforces compliance where no supervisory body exists, or where the supervisory body fails to enforce compliance despite the FIC's recommendations. 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.



Illegal diamonds

The FIC used financial information to identify role-players in the illicit diamond trade.

The FIC tracked the flow of the proceeds through several bank accounts in support of applications by the Asset Forfeiture Unit in terms of the Prevention of Organised Crime Act, enabling the identification of the subjects through their association in various companies.

During the operation, 29 subjects were arrested and cash to the value of R7 million was seized. Preservation and restraining orders to the value of R50 million were obtained against the subjects.



Inspections and sanctions

In 2014/15, 740 FIC Act inspections were conducted (see Table 1). Of these, 130 were conducted by the FIC for the entities it supervises. The FIC issued inspection reports to all the entities concerned, 44 of which related to follow-up inspections. The FIC also provided support to 59 inspections conducted by supervisory bodies.

TABLE 1: INSPECTIONS BY SUPERVISORY BODIES AND THE FIC IN 2014/15

TOTAL NUMBER OF INSPECTIONS CONDUCTED PER BUSINESS SECTOR	
Business sectors inspected	Inspections conducted
FIC own inspections conducted per business sector	
Trust companies and administrators	8
Motor vehicle dealers	100
Krugerrand dealers	12
Ithala Development Finance Corporation	1
South African Postbank Limited	1
Entities that lend money against the security of securities	6
Money remitters	2
SUBTOTAL	130
FIC/supervisory body inspections conducted per business sector	
Gambling institutions	23
Collective investment scheme manager	22
Financial services providers	12
Authorised dealers with limited authority	2
SUBTOTAL (supported inspections)	59
Supervisory body own inspections conducted per supervisory body	
Financial Services Board: Financial Advisory and Intermediary Services Division	225
Financial Services Board: Long-Term Insurance Division	1
Financial Services Board: Collective Investment Schemes Managers Division	29
Financial Services Board: Capital Markets Division	6
South African Reserve Bank: Bank Supervision Department	10
South African Reserve Bank: Financial Surveillance Department	108
Estate Agency Affairs Board	0
Gauteng Gambling Board (Provincial Licensing Authority: Gauteng)	49
Mpumalanga Gambling Board (Provincial Licensing Authority: Mpumalanga)	16
Limpopo Gambling Board (Provincial Licensing Authority: Limpopo)	20
Free State Gambling and Liquor Authority (Provincial Licensing Authority: Free State)	10
KwaZulu-Natal Gaming and Betting Board (Provincial Licensing Authority: KwaZulu-Natal)	14
Eastern Cape Gambling and Betting Board (Provincial Licensing Authority: Eastern Cape)	26

TABLE 1: INSPECTIONS BY SUPERVISORY BODIES AND THE FIC IN 2014/15 (CONTINUED)

TOTAL NUMBER OF INSPECTIONS CONDUCTED PER BUSINESS SECTOR	
Business sectors inspected	Inspections conducted
Western Cape Gambling and Racing Board (Provincial Licensing Authority: Western Cape)	28
North West Gambling Board (Provincial Licensing Authority: North West)	9
Northern Cape Gambling Board (Provincial Licensing Authority: Northern Cape)	0
Law Society of the Northern Provinces	0
Law Society of the Free State	0
Cape Law Society	0
KwaZulu-Natal Law Society	0
SUBTOTAL	551
GRAND TOTAL - INSPECTIONS CONDUCTED	740

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 of the FIC or head of the 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. 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. Inspections are conducted to determine the level of

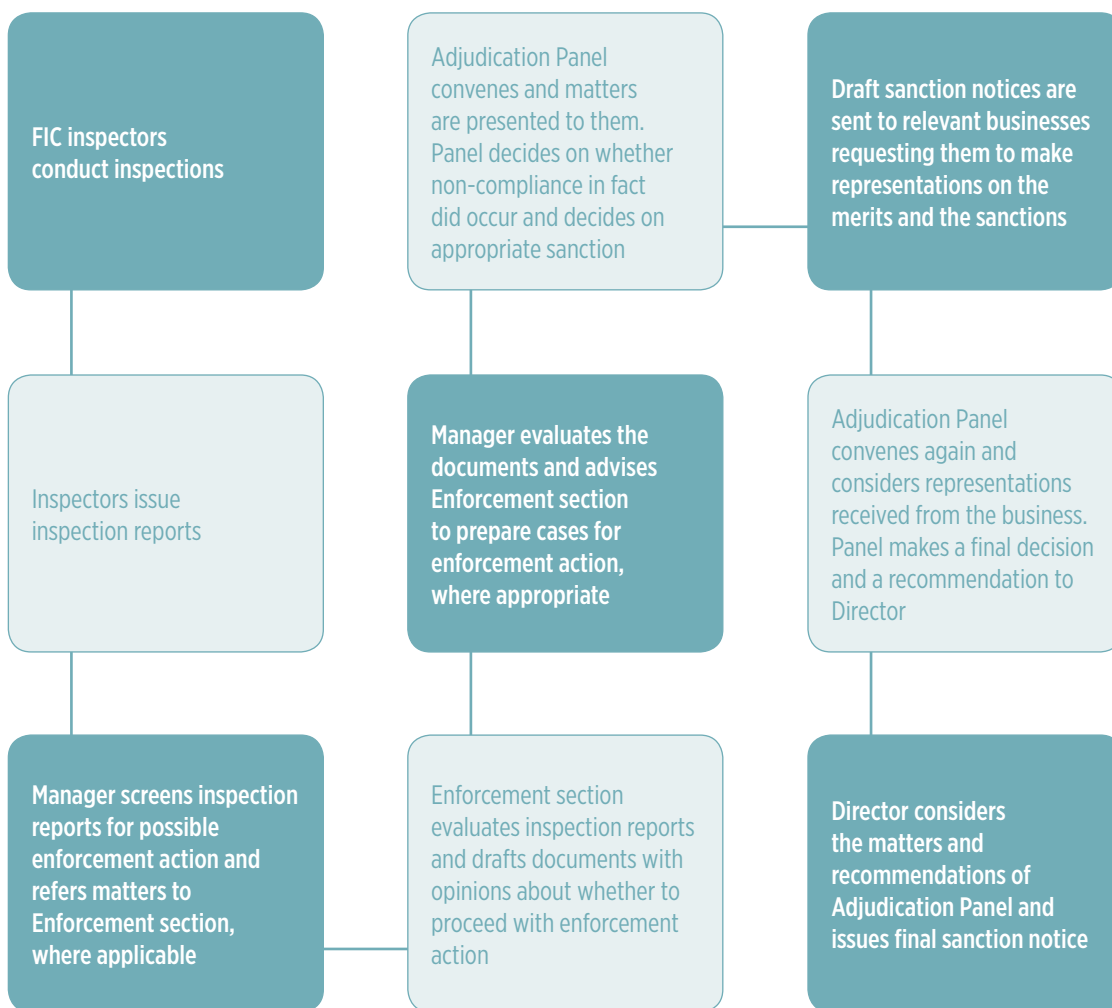
compliance with the provisions of the FIC Act, or with any order, determination or directive made in terms of the Act. Inspectors have the legal power to question managers and staff; order any person to produce a document; access any computer system or equipment; or examine, make copies of or seize any document. The inspector samples client files to ensure compliance with record-keeping, client identification and verification, and reporting obligations.

Institutions that do not comply with the provisions of the FIC Act may face administrative sanctions, including a caution not to repeat the conduct that led to non-compliance, a reprimand and a directive to take remedial action or to make specific arrangements, or the restriction or suspension of business activities. A monetary penalty may also be levied, reaching R10 million for a natural person or R50 million for a legal person per compliance failure.

In 2014/15, the law societies and the Estate Agency Affairs Board conducted 6 495 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 and the audit is not conducted under the provisions of the FIC Act, although it may cover the accountable institution's compliance with the Act.

FIGURE 4: THE FIC ENFORCEMENT PROCESS



During 2014/15, the Bank Supervision Department of the Reserve Bank, the supervisory body for the banking industry, and the gambling boards in Gauteng and KwaZulu-Natal conducted inspections of the anti-money laundering systems at the

institutions they oversee. The inspections uncovered various regulatory failures. Consequently the supervisory bodies, in consultation with the FIC, imposed the sanctions detailed in Table 2.

TABLE 2: SANCTIONS ISSUED BY SUPERVISORY BODIES IN 2014/15

Supervisory body	Entity sanctioned	Date sanction issued	Non-compliance	Sanction
Bank Supervision Department of the Reserve Bank	The Standard Bank of South Africa Ltd	7 April 2014	Client identification and verification in contravention of section 21 of the FIC Act	Directive
			Record-keeping in contravention of sections 22-24 of the FIC Act	R10 million
			Duty to report suspicious and unusual transactions in contravention of section 29 of the FIC Act	R20 million
			Duty to report cash threshold transactions in contravention of section 28 of the FIC Act	R20 million
			Reporting of property associated with terrorist and related activities in contravention of section 28A of the FIC Act	R10 million
	FirstRand Bank Ltd	7 April 2014	Client identification and verification in contravention of section 21 of the FIC Act	R5 million
			Record-keeping in contravention of sections 22-24 of the FIC Act	Directive
			Duty to report suspicious and unusual transactions in contravention of section 29 of the FIC Act	R25 million
	Nedbank Group Ltd	7 April 2014	Client identification and verification in contravention of section 21 of the FIC Act	R15 million
			Reporting of property associated with terrorist and related activities in contravention of section 28A of the FIC Act	R10 million
	Barclays Africa Group Ltd	7 April 2014	Client identification and verification in contravention of section 21 of the FIC Act	R10 million
			Record-keeping in contravention of sections 22-24 of the FIC Act	Directive
			Duty to report suspicious and unusual transactions in contravention of section 29 of the FIC Act	Reprimand

TABLE 2: SANCTIONS ISSUED BY SUPERVISORY BODIES IN 2014/15 (CONTINUED)

Supervisory body	Entity sanctioned	Date sanction issued	Non-compliance	Sanction
KwaZulu-Natal Gaming & Betting Board	Winning Post Bookmakers	8 July 2014	Duty to report cash threshold transactions in contravention of section 28 of the FIC Act	R4 000
Bank Supervision Department of the Reserve Bank	Deutsche Bank AG	1 December 2014	Client identification and verification in contravention of section 21 of the FIC Act	R10 million
			Reporting of property associated with terrorist and related activities in contravention of section 28A of the FIC Act	Directive
	Capitec Bank Ltd	5 December 2014	Duty to report cash threshold transactions in contravention of section 28 of the FIC Act	R5 million
Gauteng Gambling Board	Portapa Ltd t/a Superbets	22 December 2014	Client identification and verification in contravention of section 21 of the FIC Act	R5 million, of which R1 million is suspended for five years
			Record-keeping in contravention of sections 22-24 of the FIC Act	
			Duty to formulate and implement internal rules in contravention of section 42 of the FIC Act	
			Duty to train and monitor compliance in contravention of section 43 of the FIC Act	

Partnerships with supervisory bodies

The FIC also meets regularly with supervisory bodies through the FIC Act Enforcement Forum or *ad hoc* bilateral meetings. The FIC held 25 bilateral meetings during 2014/15 to discuss the supervisory bodies' enforcement of the FIC Act, initiatives to raise awareness of the Act, guidance issued by the FIC, and the effectiveness of the supervisory bodies' supervision and inspections.

The FIC Act Enforcement Forum, which met once per quarter in 2014/15, consists exclusively of members of supervisory bodies. It 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, the proposed FIC Act amendments, illegal gambling and money laundering, a risk-based approach to identifying and verifying clients, FIC reporting system enhancements and STR reporting obligations.

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

Supervisory bodies are required to consult with the FIC before issuing a sanction to an accountable institution.

“The FIC Act Enforcement Forum... provides a mechanism for the FIC to monitor the progress made by supervisory bodies in supervising accountable institutions.”



Corruption

A government department contracted a subject to deliver food to various primary schools in Gauteng. The subject disappeared after being paid more than R200 000. The FIC's thorough profiling of the subject and his business entities enabled the South African Police Service to trace and arrest the subject. The case is pending in court.



The terms of the partnerships the FIC has in place with supervisory bodies are codified in MoUs.

TABLE 3: MEMORANDA OF UNDERSTANDING SIGNED WITH SUPERVISORY BODIES

Supervisory body	Jurisdiction
Financial Services Board	National
South African Reserve Bank	National
Estate Agency Affairs Board	National
Independent Regulatory Board for Auditors	National
National Gambling Board	National
Law Society of the Northern Provinces	Provincial
Law Society of the Free State	Provincial
Cape Law Society	Provincial
KwaZulu-Natal Law Society	Provincial
Gauteng Gambling Board (Provincial Licensing Authority: Gauteng)	Provincial
Mpumalanga Gambling Board (Provincial Licensing Authority: Mpumalanga)	Provincial
Limpopo Gambling Board (Provincial Licensing Authority: Limpopo)	Provincial
Free State Gambling and Liquor Authority (Provincial Licensing Authority: Free State)	Provincial
KwaZulu-Natal Gaming and Betting Board (Provincial Licensing Authority: KwaZulu-Natal)	Provincial
Eastern Cape Gambling and Betting Board (Provincial Licensing Authority: Eastern Cape)	Provincial
Western Cape Gambling and Racing Board (Provincial Licensing Authority: Western Cape)	Provincial
North West Gambling Board (Provincial Licensing Authority: North West)	Provincial
Northern Cape Gambling Board (Provincial Licensing Authority: Northern Cape)	Provincial



Municipal fraud and theft

A financial clerk working at a municipality responsible for executing payments to service providers was a person of interest in a FIC investigation. It was alleged that the subject made duplicate payments to the municipality's service providers. The municipal manager picked up on a discrepancy and reported the suspected unlawful activity. The South African Police Service and the Asset Forfeiture Unit asked the FIC to conduct a financial investigation.

The FIC analysed the municipal account to identify the duplicate payments and beneficiaries, and it was discovered that duplicate payments were routed to the subject's bank accounts. The accounts were

analysed to determine how the proceeds were used and, in the process, various other beneficiary accounts were identified. The FIC identified cash withdrawals, lifestyle spending, funds transferred to a car dealership and funds transferred to an attorney's account to purchase a property.

The FIC issued a directive to seize R1 268 000 and the Asset Forfeiture Unit obtained a preservation order for the money in the blocked accounts, a residential property to the value of R1 795 000, and a vehicle and furniture worth about R620 000.



Guidance products issued

The FIC issues guidance and information products that interpret the legal meaning and application of aspects of the FIC Act and associated regulations. During 2014/15, the FIC issued six guidance products: Public Compliance Communication (PCC) notices are

issued in terms of section 4C of the FIC Act and provide an interpretation of issues arising out of the FIC Act, while directives are issued in terms of section 43A of the FIC Act. Only the FIC is permitted to issue such interpretations and directives.

TABLE 4: GUIDANCE PRODUCTS ISSUED IN 2014/15

Directives/ PCC notices	Date issued	Topic
PCC29	18 July 2014	Clarity on the application and use of Exemption 4 of the FIC Act
Directive03	12 September 2014	Notification of failure to report as required by the FIC
PCC30	28 November 2014	Customer identification and verification of casino junket agents and their underlying clients in terms of the FIC Act
Revised PCC24	28 November 2014	Verification requirements of South African companies and close corporations in terms of the FIC Act
PCC31	25 March 2015	The acceptance of funds by an accountable institution prior to the completion of the prescribed client identification and verification
Revised PCC03A	27 March 2015	Supplementary information applicable to PCC03 electronic verification systems of asylum seeker and refugee permits

Accountable and reporting institutions registered

The FIC conducted nine road shows to raise compliance awareness among regulated businesses. These events, which attracted an estimated 1 500 participants, took place in the main cities of eight provinces. There was extensive interaction during question-and-answer sessions and break periods. All participants received a range of FIC booklets and there was strong demand for additional copies. In addition to the road shows, the FIC conducted 32 compliance awareness sessions focused on accountable and reporting institutions in different business sectors, and published 10 media articles and notices.

The number of accountable and reporting institutions registered with the FIC increased by 15.75 percent, from 26 316 at the end of 2013/14 to 30 461 at the end of 2014/15. This was five percent higher than the target. In some industries, however, the number of registered institutions remains well below the number estimated to exist. One of the FIC's focus areas in the coming year will be to work towards attaining full registration in all categories.



A case of municipal corruption

A metropolitan municipality corruptly awarded transport contracts worth R5.8 million. Tender prices were inflated with the assistance of municipal officials and the excess money was used to pay bribes to ensure the service provider was appointed. Soon after the investigation was initiated, the FIC joined the task team and traced funds through the different accounts. This work enabled the Asset Forfeiture Unit to preserve and forfeit R3.7 million.



TABLE 5: ACCOUNTABLE AND REPORTING INSTITUTIONS REGISTERED AT 31 MARCH 2015

SCHEDULE 1: ITEM NO.		Total registrations at 31 March 2014	Total registrations at 31 March 2015
1	Attorneys	8 884	10 244
2	Trust companies	110	128
3	Estate agents	7 245	8 246
4	Authorised users of an exchange	160	194
5	Unit trusts (collective investment scheme managers)	93	106
6	Banks	37	37
7	Mutual banks	4	4
8	Long-term insurers	93	91
9	Gambling	978	1 369
10	Foreign exchange	317	362
11	Money lenders against securities	45	58
12	Investment advisors or intermediaries	5 529	6 370
13	Issuers of traveller's cheques and money orders	58	64
14	South African Postbank Limited	1	1
15	Stock exchange	(Incorporated under Item 4)	
16	Ithala Development Finance Corporation	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	215	229
SCHEDULE 3: ITEM NO.		Total registrations at 31 March 2014	Total registrations at 31 March 2015
1	Motor vehicle dealers	2 368	2 794
2	Krugerrand dealers	178	163
GRAND TOTAL		26 316	30 461

Intelligence reports

Table 6 below shows the number of CTRs, STRs and TPRs that the FIC received from accountable and reporting institutions during 2014/15. CTRs received exceeded 6.6 million – an 8 percent increase from 2013/14. STRs, which may indicate a high risk of ill-gotten gains, totalled 267 398.

In November 2014, the FIC invited banking institutions to a training workshop on the importance of reporting high-quality STRs – a reporting requirement for all businesses in terms of section 29 of the FIC Act.

In total, 3 236 accountable and reporting institutions submitted various kinds of reports, up from 2 863 in 2013/14.

TABLE 6: CASH THRESHOLD, SUSPICIOUS TRANSACTION AND TERROR PROPERTY REPORTS, 1 APRIL 2014 TO 31 MARCH 2015

SCHEDULE 1: ITEM NO.		CTRs	STRs	TPRs	Total
1	Attorneys	2 535	162	0	2 697
2	Trust companies	64	10	0	74
3	Estate agents	1 731	15	0	1 746
4	Authorised users of an exchange	217	12	0	229
5	Unit trusts (collective investment scheme managers)	1 069	153	0	1 222
6	Banks	5 555 641	95 744	5	5 651 390
7	Mutual banks	2 225	4	0	2 229
8	Long-term insurers	816	151	0	967
9	Gambling	624 684	600	1	625 285
10	Foreign exchange	352 841	84 727	0	437 568
11	Money lenders against securities	226	7	0	233
12	Investment advisors or intermediaries	31 798	18 140	1	49 939
13	Issuers of traveller's cheques and money orders	4 904	5 558	0	10 462
14	South African Postbank Limited	22 823	379	11	23 213
15	Stock exchange	(Incorporated under Item 4)			
16	Ithala Development Finance Corporation	216	0	0	216
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	43 510	53 584	0	97 094
SCHEDULE 3: ITEM NO.		CTRs	STRs	TPRs	Total
1	Motor vehicle dealers	38 361	8 141	0	46 502
2	Krugerrand dealers	814	11	0	825
GRAND TOTAL		6 684 475	267 398	18	6 951 891

Providing assistance to law enforcement agencies in the form of financial intelligence is an important aspect of the FIC's work, and is dependent on the number and quality of reports and data submitted by accountable and

reporting institutions. Banking institutions in particular have been diligent about submitting CTRs, generally of a high quality, with the number of reports they submitted exceeding 5.5 million in 2014/15.

Responding to public queries

The FIC received 15 123 written and telephonic queries from the public. Of these, 12 319 came through the FIC compliance contact centre. One benefit of the monitored contact centre is that it enables the FIC to track

compliance-related queries by type and industry, which can lead to improved service delivery. In line with an increase in demand for letters confirming registration, for example, the FIC has implemented an internal process to expedite preparing, referencing and disseminating such letters.

Auditing batch reports

Institutions can submit CTRs to the FIC using three methods:

- Web form
- System-to-system reporting
- Bulk uploads, which may consist of hundreds of individual transactions, for institutions that submit large volumes of CTRs. These large uploads are known as “batch reports”.

In 2014/15 the FIC began a process of auditing all failed batched submissions and instituted a process to ensure that failed batches were remediated without the loss of data. The audit followed the introduction of the Annexure A process in July 2012 for batch reporters to remediate their failed reports. The process provided institutions with an opportunity to fix the failed reports and resubmit them to the FIC within 15 days. Institutions that had failed batches were required to complete, and submit to the FIC, an Annexure A template document.

The FIC began the Annexure A audit by inviting all batch reporters (36 entities) to the sessions held at the FIC’s offices. A session was held for each industry. The FIC then followed up with individual reporters to go through their statistics and to ensure the audit process was given high-priority status within the institutions.

In follow-up sessions, the FIC shared with the individual reporters how many batches they had outstanding. The FIC also highlighted quality issues picked up in the reports for that particular institution and held regular meetings with the institutions to track progress.

A final reconciliation was done in January 2015. Institutions had to remediate all their failed batches covering the period 1 December 2010 to 31 May 2014 by 31 December 2014. Most of the institutions that had outstanding batches remediated on schedule.

Strategic outcome 2: Better utilisation of financial intelligence

The FIC's financial intelligence products are increasingly aligned with security priorities and government's efforts to combat crime. In 2014/15, the FIC's membership in government's Justice, Crime Prevention and Security cluster was formalised. This represented a step forward in integrating the FIC's financial intelligence products into the work of broader government.

The FIC provided support to the criminal justice system, assisting with 1 799 investigation requests from national and international law enforcement agencies, and referring 870 cases for further investigation. The entity provided further support to the fight against crime by contributing to 22 judicial actions and blocking R181 million as suspected proceeds of crime during 2014/15. The FIC also provided financial intelligence that supported the preservation, forfeiture or confiscation of assets, as detailed in Table 7.

Cross-border fraud

The authorities identified a syndicate and approached the FIC for assistance. The syndicate targeted companies in a neighbouring country that maintained head offices in South Africa.

The modus operandi was to send targeted companies notifications to inform them of a change in bank account details. Two companies subsequently paid amounts to the new account. When questioned about outstanding payments, the companies realised that they had been defrauded. The FIC froze the bank accounts, conducted analyses and contributed to statements in support of preservation orders obtained against the funds in the accounts.

In a similar case, a company that was owed funds by a neighbouring country's post office for the transport of post within South Africa was defrauded when its beneficiary's bank details were changed using a fraudulent letter. Two amounts of R1.45 million and R1.3 million were paid to a fraudulent bank account. The FIC worked with the law enforcement agency and identified the withdrawal and transfer of the stolen funds. Funds in excess of R1.7 million were secured.



STRATEGIC OUTCOME 2: BETTER UTILISATION OF FINANCIAL INTELLIGENCE

Strategic objective	Performance indicator	Actual achievement 2013/14	Planned target 2014/15	Actual achievement 2014/15	Deviation from planned target to actual achievement for 2014/15	Comment on deviations
Increased utilisation of FIC products and services	2.1.1 Number of cases disseminated for investigation	883	837	870	Target achieved (+33)	Target exceeded due to intelligence reports received and the FIC's proactive analysis on topical issues to identify cases related to money laundering and terror financing
	2.1.2 Number of national and international law enforcement investigations contributed to on request	1 661	1 078	1 799	Target achieved (+721)	Target exceeded due to partners finding greater value in the FIC's information and support, resulting in increased requests for assistance
	2.1.3 Value of funds blocked as suspected proceeds of crime in the financial system	R76.93 million	R13.2 million	R181 million	Target achieved (+R167.8 million)	Target exceeded due to blocking of funds being largely dependent on third-party requests – the FIC received more requests to block funds than anticipated, involving large sums of money
	2.1.4 Number of judicial actions contributed to	31	16	22	Target achieved (+6)	Target exceeded due to higher than expected number of judicial actions requiring the FIC's contribution

TABLE 7: VALUE OF ORDERS SUPPORTED BY FINANCIAL INTELLIGENCE PRODUCTS

Category	Total value of orders 2013/14 (R)	Total value of orders 2014/15 (R)
Suspected proceeds of crime frozen using section 34 of the FIC Act	76 931 255.62	181 012 218.57
Assets preserved following interventions issued by FIC	78 160 167.62	140 868 351.08
Assets preserved under the Prevention of Organised Crime Act due to FIC support	176 365 424.78	1 852 124 027.15
Assets forfeited under the Prevention of Organised Crime Act due to FIC support	73 199 351.33	70 115 724.14
Assets restrained under the Prevention of Organised Crime Act due to FIC support	5 535 801.00	52 647 724.83
Assets confiscated under the Prevention of Organised Crime Act due to FIC support	1 791 587.13	-
Overall total	411 983 587.48	2 296 768 045.77

Most of the FIC's financial intelligence products in 2014/15, as illustrated in Figure 1 on page 9, were used in criminal investigations related to money laundering, corruption and fraud. Narcotics and tax-related criminal investigations were also a significant category for which the FIC provided information.

The FIC actively participates in the Anti-Corruption Task Team, in particular in the vulnerable sector management programme – the point of co-ordination for government's anti-corruption work under the supervision of the Anti-Corruption Inter-Ministerial Committee.

The Anti-Corruption Task Team's vulnerable sector management programme aims to enforce accountability by taking appropriate administrative or civil action against individuals or entities unfairly exploiting state resources for undue gain or performing an act in dereliction of duty or responsibility that results in actual or potential loss to the state. The programme refers evidence indicating a criminal offence to the Anti-Corruption Task Team for further investigation. Its main focus areas are to litigate civil matters, recover cash and assets, and cancel contracts if these are in breach of regulations.

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

The FIC continuously appraises the anti-money laundering and terror financing environment, and responds to potential threats and risks to the integrity of South Africa's financial system. In addition to engaging with regional and global stakeholders, the FIC responds to requests for technical assistance from African countries in the continent's eastern and southern regions.

In 2014/15, the FIC provided technical assistance in response to seven requests from African countries, including Ethiopia, Kenya, Mozambique and Zambia, and participated in regional and global organisations.

The FIC also contributed towards South Africa's status as a responsible international role player by:

- Formalising information exchange with 79 international jurisdictions (including 10 which were signed in 2014/15) through bi-lateral agreements (see map on page 44)
- As a member of ESAAMLG (18 members from the Southern African Development Community and East African countries) and the FATF (36 members) (see map on page 46)
- As a member of Egmont Group of FIUs (151 FIUs)
- Providing reports/inputs to inform South Africa's policy positions on international lending institutions such as the International Monetary Fund
- Providing reports/inputs to inform South Africa's policy positions on multilateral platforms such as the G20.



Employee fraud and theft

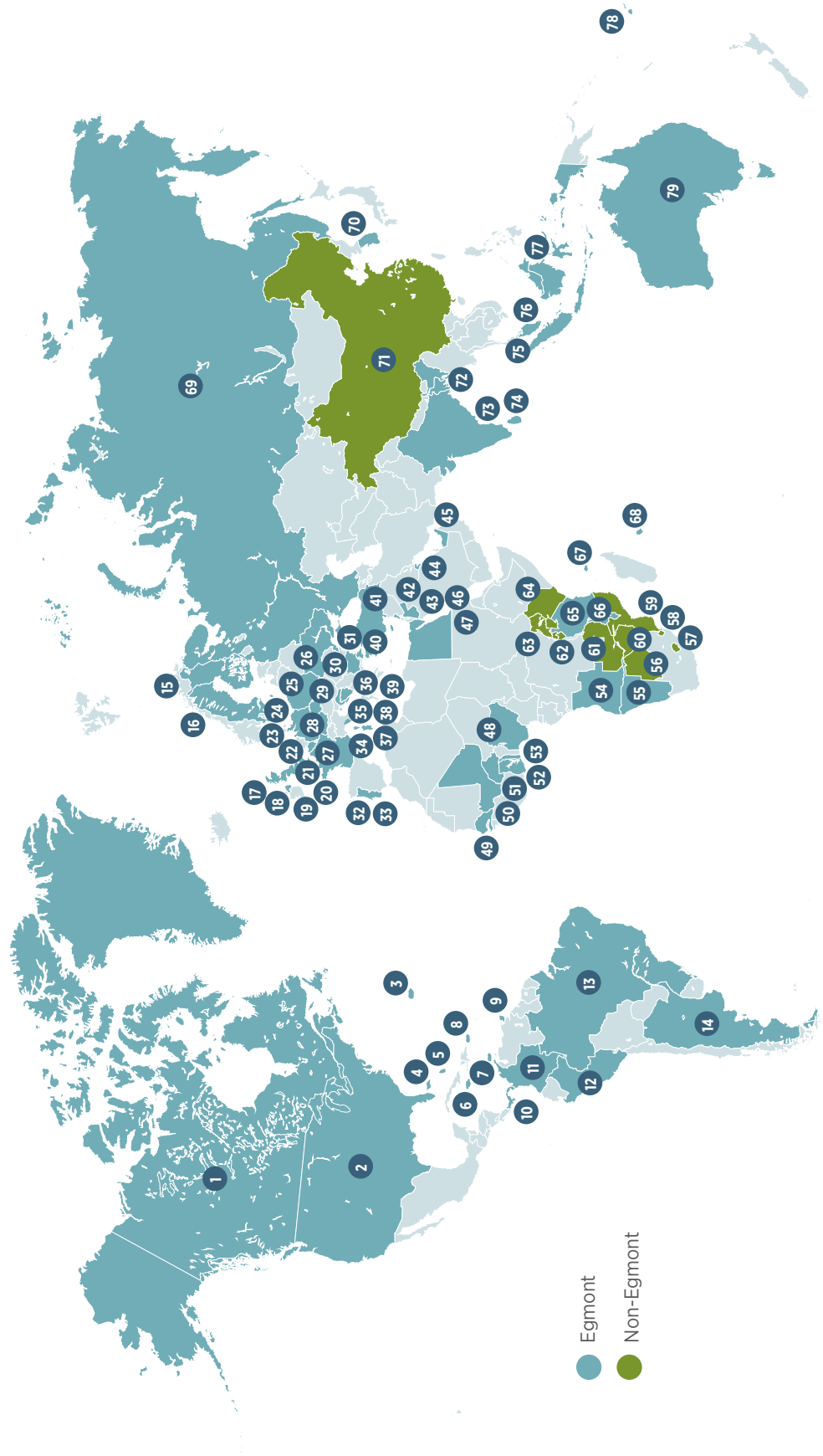
The FIC froze several bank accounts of a communications company employee who stole and defrauded his employer of more than R20 million. The bank accounts of the employee's spouse were also frozen. The FIC assisted a law enforcement agency in obtaining preservation orders against the couple's vehicles, fixed property and accounts, including funds the couple were paying to the trust account of their attorney.



STRATEGIC OUTCOME 3: PROMOTING NATIONAL INTEREST IN MAINTAINING THE INTEGRITY OF SOUTH AFRICA'S FINANCIAL SYSTEM

Strategic objective	Performance indicator	Actual achievement 2013/14	Planned target 2014/15	Actual achievement 2014/15	Deviation from planned target to actual achievement for 2014/15	Comment on deviations
Technical support to countries in the ESAAMLG region	3.1.1 Percentage of requests responded to for technical assistance from countries in the ESAAMLG region	100%	50%	100%	Target achieved	Target exceeded due to improved technical assistance using a flexible approach with various choices, including whether an assisted country bears part or all of the associated costs or not
Participation in policymaking activities of regional and inter-governmental organisations	3.2.1 Number of policymaking activities attended within regional and inter-governmental organisations	Attended and participated in three FATF meetings and two ESAAMLG meetings	Attended and participated in three FATF meetings and two ESAAMLG meetings	Attended and participated in three FATF meetings and two ESAAMLG meetings	Target achieved	N/A

MAP 1: JURISDICTIONS WITH WHICH THE FIC HAS MEMORANDA OF UNDERSTANDING



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

MAP 2: EASTERN AND SOUTHERN AFRICA ANTI-MONEY LAUNDERING GROUP COUNTRIES



1	Angola	7	Zambia	13	Uganda
2	Namibia	8	Zimbabwe	14	Kenya
3	South Africa	9	Mozambique	15	Ethiopia
4	Botswana	10	Malawi	16	Comoros
5	Lesotho	11	Tanzania	17	Seychelles
6	Swaziland	12	Rwanda	18	Mauritius



The FIC continues to work towards the next round of mutual evaluations, which will be conducted by the FATF in 2019. The FATF and the ESAAMLG have started training a core group of people who will carry out future evaluations. The FIC and other South African institutions have sent representatives to be part of the training for this function. In future, South Africa will be expected to produce a number of assessors for FATF evaluations of other ESAAMLG countries.

In 2014/15, the FIC co-sponsored Angola, Namibia and Tanzania – fellow ESAAMLG countries – for full membership in the Egmont Group of FIUs.

Rhino horn smuggling

Transnational organised crime has increasingly targeted South Africa's natural resources, including wildlife. In particular, the targeting and smuggling of rhino horns has escalated to unprecedented levels in recent years.

The FIC and law enforcement agencies have adopted a multi-agency approach to investigate various individuals in the rhino horn trade. In one instance, the FIC followed the illicit flow of funds to a key individual and identified bank accounts that were part of the operation.

Armed with this information, the FIC issued a directive and law enforcement agencies obtained an order to preserve and seize R190 000.



International review of anti-money laundering framework

During 2014 an international review of South Africa conducted by the International Monetary Fund focused on specific aspects of the country's anti-money laundering and terror-combating framework that were found deficient in the 2008 FATF/ESAAMLG mutual evaluation. The review, as part of the Financial Sector Assessment Programme, issued a technical note regarding South Africa's compliance in the areas of anti-money laundering and combating the financing of terrorism (available at <https://www.imf.org/external/pubs/ft/scr/2015/cr1551.pdf>).

The technical note indicates that South Africa has made significant progress in the relevant legal and institutional frameworks. It notes a significant improvement in the supervisory framework for the financial sector – in particular the banking sector – as a result of amendments to the FIC Act that took effect in 2010. Draft amendments to the FIC Act currently under consideration are expected to address most of the remaining deficiencies in the legal framework, which relate largely to risk-based approaches and enhanced due diligence when identifying a client.

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

The FIC continued to strengthen its interactions with banks and other financial institutions through its ICT modernisation project, although on a limited scale due to budgetary constraints. This project will improve the quality of information available for the FIC to develop financial intelligence.

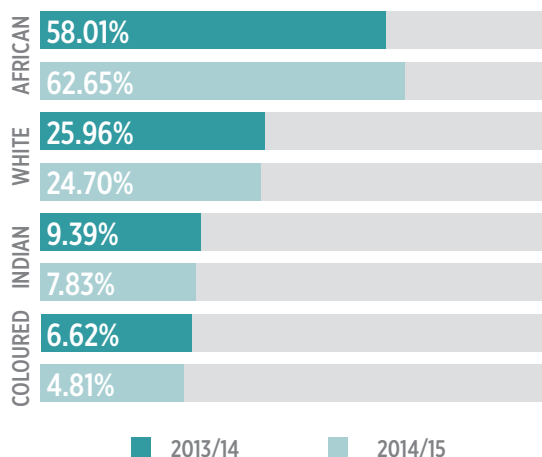
The FIC continued to maintain and improve internal controls and clean administration standards, resolving all findings from the previous annual audit.

FIGURE 5: STAFF COMPLEMENT – 2013/14 AND 2014/15



The FIC's planned human resource capacity and capability initiatives were implemented, albeit on a limited scale, setting the foundation for its recently approved career development framework. During 2014/15, the FIC also assessed process gaps as part of its ongoing efforts to improve workplace safety and security.

FIGURE 6: FIC STAFF EQUITY PROFILE, HEADCOUNT PER POPULATION GROUP – 2013/14 AND 2014/15



An integrated ICT solution

The FIC is implementing a programme to enhance and modernise its ICT systems. The goal is to strengthen and broaden the FIC's capability to meet and discharge its legislative objectives and functions. The system will advance the FIC's capacity to manage its core processes:

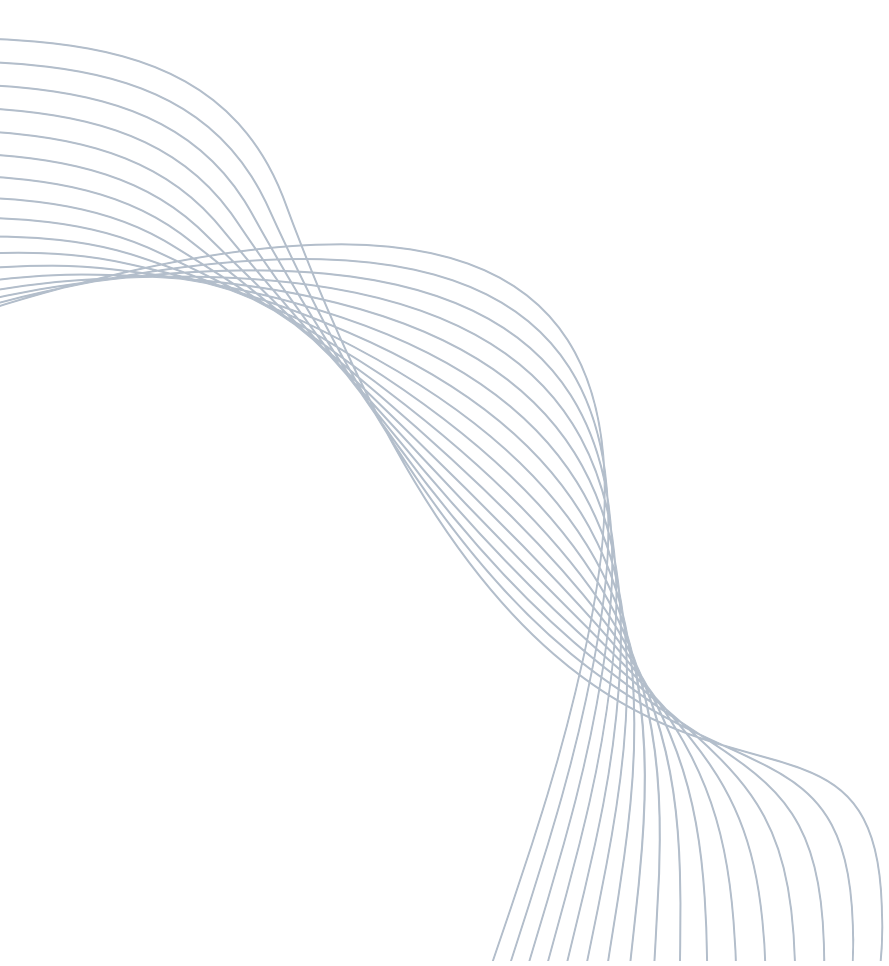
- Registering accountable and reporting institutions
- Receiving reports from business
- Analysing reports and other available data

- Providing intelligence products to law enforcement and supervisory bodies in a seamless and secure way.

The FIC held information sessions with key stakeholders in July 2014 to outline the project timelines and requirements. The FIC also invited selected institutions to participate in the pilot phase to test the various aspects of the system during the reporting period. The project will continue in the new financial year.

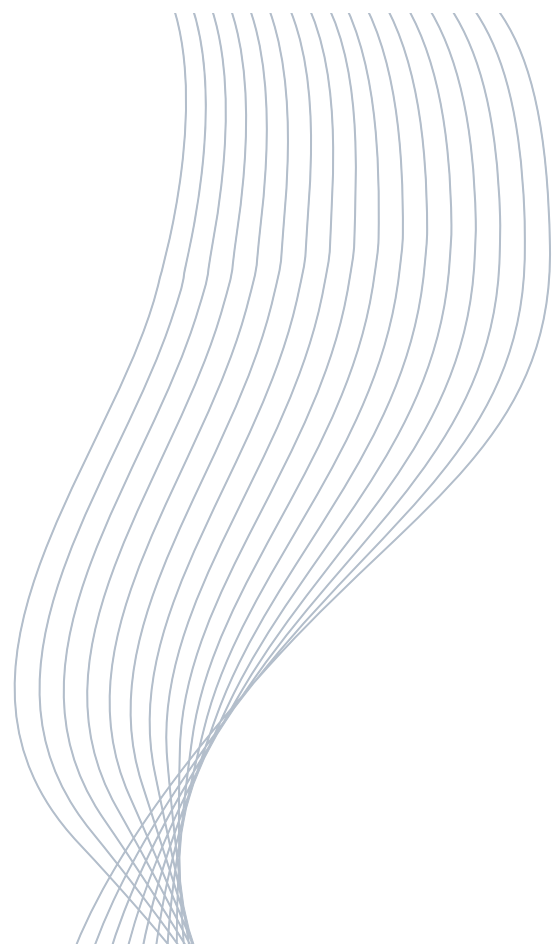
STRATEGIC OUTCOME 4: ENSURING A SAFE, SECURE, COMPLIANT AND EFFICIENT OPERATING ENVIRONMENT

Strategic objective	Performance indicator	Actual achievement 2013/14	Planned target 2014/15	Actual achievement 2014/15	Deviation from planned target to actual achievement for 2014/15	Comment on deviations
Modernisation of ICT platform and business systems	4.1.1 Completion of ICT platform and business systems initiatives	Completed first phase of infrastructure upgrade, including hardware installation at primary and disaster recovery sites Configured disaster recovery storage and data migration Analytics application installed and configured in testing and staging environments	Upgraded anti-money laundering analytics solution designed	Upgraded anti-money laundering analytics solution designed	Target achieved	N/A
Ensure compliance with internal control requirements	4.2.1 Completion of prioritised internal control action plans for clean administration	Resolved all Auditor-General findings from July 2013 audit	Auditor-General findings resolved and internal control action plans completed	All Auditor-General findings resolved and internal control action plans completed	Target achieved	N/A
Human resource capacity and capability	4.3.1 Completion of prioritised human resource capacity and capability development	N/A	Career development framework completed and implementation plan approved	Career development framework completed and implementation plan 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	N/A	Upgraded safety and security management action plans for the FIC developed	Upgraded safety and security management action plans for the FIC developed and approved	Target achieved	N/A



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

The FIC subscribes to the Committee of Sponsoring Organisations framework to identify, analyse, assess, treat, monitor and communicate risks within the organisation. This approach ensures that risks are identified and assessed every year, and shared with relevant stakeholders, including the Auditor-General and the FIC's Internal Audit, Risk and Audit Committees.

Risk assessment is an integral and ongoing responsibility of management. A total of six strategic risks and 29 operational risks were identified during 2014/15. Risks were ranked from 1 to 5 (1 = high risk and 5 = low risk). These risks were allocated to various departments within the organisation and operational plans were developed to mitigate the risks.

Achievements in mitigating strategic risks include:

- Making progress in implementing the FIC's business continuity management process
- Conducting integrity checks on staff at regular intervals in line with minimum anti-corruption capacity requirements
- 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
- Making progress in implementing ICT infrastructure improvements.

The term of the Audit and Risk Committee members expired during the year under review and new members for both committees were appointed in March 2015. The FIC sought to

appoint a new Audit Committee when the term of the previous committee ended on 31 July 2014, but the process was interrupted when the FIC requested clarity from the National Treasury regarding certain matters in terms of the members' appointment.

To mitigate the risk of not having an Audit Committee in place, the FIC appointed an external service provider to deliver the internal audit function while matters were being

resolved. This ensured that there was an active internal audit function throughout the year and a smooth handover when the Audit Committee was appointed. The service provider also assisted the FIC with the effective management of risks and ensured that adequate controls were in place and effective throughout the year.

All matters were resolved by the end of the financial year and the new committee members were appointed.

FRAUD AND CORRUPTION

The corruption prevention investigation framework and associated implementation plans were developed and approved by the Executive Committee through the Director of the FIC for 2014/15. Regular reports are provided at quarterly Risk and Audit Committee 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 cases were received from the hotline during the period under review.

The FIC is a member of the national Justice, Crime Prevention and Security working group cluster committee. During 2014/15, the committee conducted an anti-corruption training workshop and a review of the extent of the FIC's compliance with the cluster's objectives and alignment to government's Outcome 3: "All South Africans are and feel safe". The cluster continues to vet officials (including FIC employees) responsible for supply chain management processes in government to minimise tender rigging and corruption.

BUSINESS CONTINUITY MANAGEMENT

The FIC has approved business continuity and disaster recovery plans, and an implementation plan. Crisis and emergency management teams have been established and meet quarterly.

The FIC has also acquired and installed new equipment for the off-site disaster recovery facility and conducted tests to ensure that the site is ready to respond to incidents and/or disasters.

During the reporting period, the FIC held one crisis simulation exercise to assess its readiness to respond to a disaster. Further crisis simulation exercises are planned for the future.

The FIC has completed the review of its crisis guide and scheduled workshops to update its business recovery plans and disaster plans in order to ensure their relevance.

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 regarding the receipt of 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 CONDUCT

The FIC has adopted a code of conduct and ethics, which is reviewed annually and is a standing agenda item at Risk and Audit 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 issues of health and safety are addressed and that any incidents are reported and dealt with accordingly. Apart from purchasing health and safety equipment to enhance the activities of the committee's functions, the FIC also developed a policy and procedure as part of its compliance with the Occupational Health and Safety Act (1993).

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 FIC's Facilities unit 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 and a corporate governance audit for the FIC to ensure its effectiveness. The findings arising out of this review have been provided to management and action plans have been developed to address all shortcomings.

EXECUTIVE OVERSIGHT COMMITTEE

During the financial year, the FIC executive established an Executive Oversight Committee to promptly resolve any issue raised in the Auditor-General's annual audit findings.

The chairperson of this committee is a FIC executive member who reports to the Executive Committee.

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 Protocol on Corporate Governance in the

Public Sector, and taking cognisance of the recommendations of the King Code of Governance Principles and 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 2015.

Background

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

Name	Qualifications	Date of appointment	Contract end date	Number of meetings attended
C Kneale	Fellow of the Southern African Institute of Chartered Secretaries and Administrators	28 February 2010	31 July 2014	3
N Khumalo	Certified Professional Accountant (SA)	28 February 2010	31 July 2014	2
B Lengane	Chartered Accountant (SA)	28 February 2010	31 July 2014	2
RN Theunissen	BAcc; Chartered Accountant (SA); RA; Diploma in Criminal Justice and Forensic Auditing	30 March 2015	31 July 2018	2
P Phili	BCom (Acc); CTA; MCom (Tax); Chartered Accountant (SA)	30 March 2015	31 July 2018	2
PN Sibiyi	BAcc; Postgraduate Diploma in Accountancy; Chartered Accountant (SA)	30 March 2015	31 July 2018	1

There was no Audit Committee in place from 1 August 2014 to 29 March 2015.

The meetings held and attendance at the meetings during the year and to the date of this report were as follows:

Meeting date	29 April 2014	29 May 2014	30 July 2014	28 May 2015	28 July 2015
Attendance					
C Kneale	Y	Y	Y		
N Khumalo	Y	Y			
B Lengane	Y		Y		
RN Theunissen				Y	Y
P Phili				Y	Y
PN Sibiya				Y	

Audit Committee responsibility

The Audit Committee reports that, as far as it can be determined from the minutes of the 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 term has ended, adopted formal terms of reference as the Audit Committee Charter, regulated the affairs in compliance with the charter and discharged all the responsibilities contained therein.

The effectiveness of internal control

The Internal Audit function 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.

Internal Audit conducted 14 audits, approved by the Executive Management Committee, and concluded an additional six audits after year end. The operating effectiveness of the key controls for the mitigation of significant risks was tested within the following areas:

- Finance
- Asset Management
- Supply Chain Management
- Performance Information
- Human Resources
- Governance
- Risk Management
- Monitoring and Analysis
- Project Management
- Compliance and Prevention Review
- Policy and Legal Compliance.

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

Risk management

The oversight of risk management is performed by an independent committee, which includes certain Audit Committee members.

In-year management and monthly/quarterly report

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

General

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

- Reviewed the accounting practices adopted by the entity
- Reviewed the accounting policies adopted by the entity and proposed changes in accounting policies and practices, and recommended any changes considered appropriate
- Reviewed and recommended disclosed financial information
- Considered the programmes introduced to improve the overall ethics of the entity and reviewed reports from management and the internal auditors relating to material issues
- Monitored ethical conduct by the entity, its executives and senior management
- Monitored the company's compliance with all applicable legislation and regulations
- Reported on any unauthorised, fruitless, wasteful or irregular expenditure in terms of the Public Finance Management Act
- Ensured co-operation between the external auditor and Internal Audit by clarifying and co-ordinating their roles and functions, and that the combined assurance received is appropriate to address all significant risks

- Considered the King III recommendations and their applicability to the entity
- Assisted management in carrying out its risk management and ICT responsibilities
- Received and dealt appropriately with any complaints and/or allegation of wrongdoing, including fraud.

The internal and external auditors had and 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

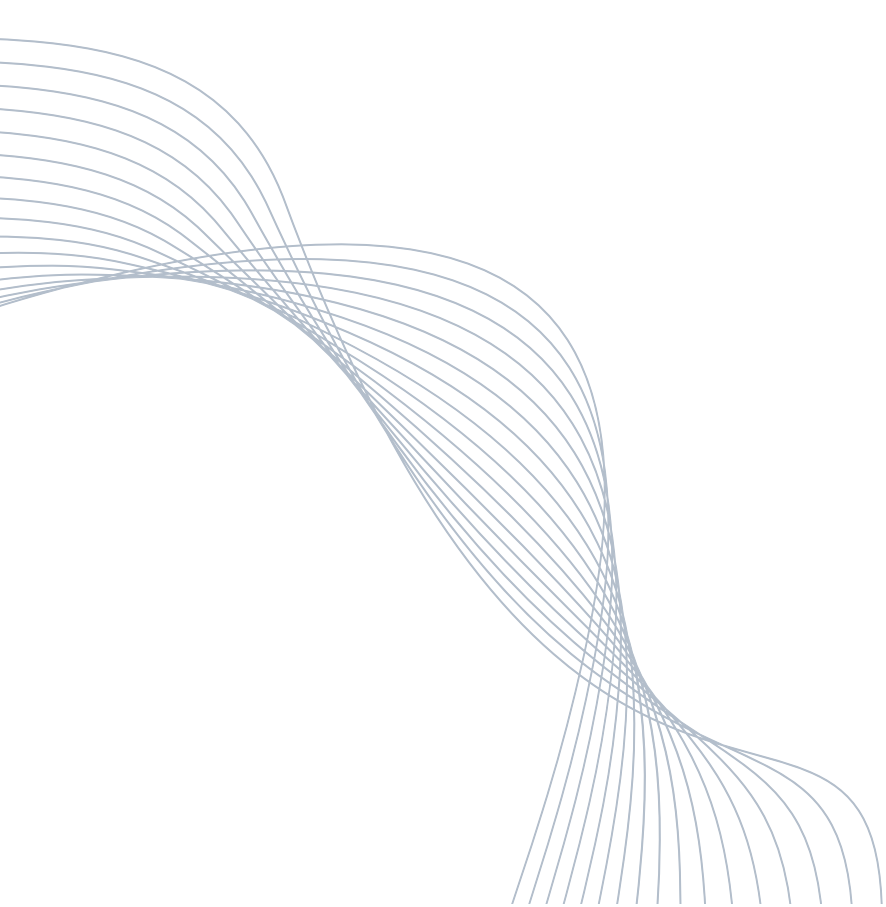
We have reviewed the entity's implementation plan for audit issues raised in the prior year and we are satisfied that the matters are being adequately resolved.

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.



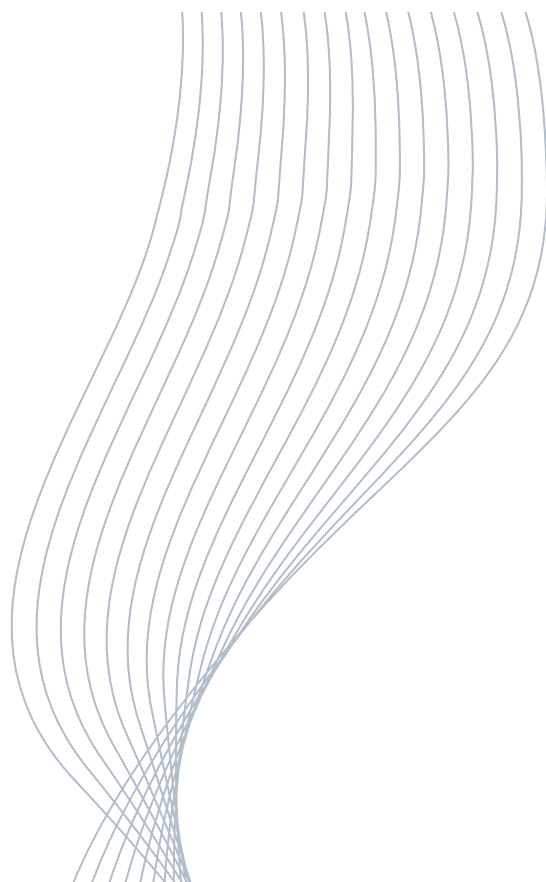
Robin Neill Theunissen

Chairperson of the Audit Committee
Financial Intelligence Centre
29 July 2015



PART D:

FINANCIAL INFORMATION



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

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EXTERNAL AUDITOR'S REPORT

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 65 to 93, which comprise the statement of financial position as at 31 March 2015, 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 the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 2015 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 for selected objectives presented in

the annual performance report, non-compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each sub-heading, 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 for the following selected programme presented in the annual performance report of the public entity for the year ended 31 March 2015:

Programme 1: Delivery of intelligence on financial crime and FIC Act-related regulatory services on pages 23 to 47, which consists of:

- Outcome 1 – Improving the collection of information and the enforcement of compliance with the FIC Act
- Outcome 2 – Better utilisation of financial intelligence
- Outcome 3 – Promoting national interest in maintaining the integrity of SA's financial system.

9. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
10. 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 programme. 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 (FMPPPI).
11. I assessed the reliability of the reported

performance information to determine whether it was valid, accurate and complete.

12. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following programme:

Programme 1: Delivery of intelligence on financial crime and FIC Act-related regulatory services on pages 23 to 47, which consists of:

- Outcome 1 – Improving the collection of information and the enforcement of compliance with the FIC Act
- Outcome 2 – Better utilisation of financial intelligence
- Outcome 3 – Promoting national interest in maintaining the integrity of SA's financial system.

Additional matters

13. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected programme, I draw attention to the following matters:

Achievement of planned targets

14. Refer to the annual performance report on pages 25, 40 and 43 for information on the achievement of the planned targets for the year.

Unaudited supplementary information

15. The supplementary information set out on pages 23 to 24, 26 to 39, 41 to 42 and 44 to 49 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 thereon.

Compliance with legislation

16. 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 findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Financial statements, performance and annual reports

17. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 55(1)(b) of the PFMA. The auditors identified material misstatements in the submitted financial statements in respect of rental expenditure, trade and other payables, as well as the cash flow statement, which management subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Audit Committee

18. An Audit Committee was not established for the greater part of the reporting period as the contracts of the former Audit Committee members expired on 31 July 2014 and new Audit Committee members were only appointed with effect from 30 March 2015. The entity therefore did not comply with section 51(1)(a)(ii) of the PFMA and Treasury Regulation 27.1.1.

Internal Audit

19. Internal Audit did not fully comply with the requirements of the Treasury Regulations as an Audit Committee was not in place for the greater part of the reporting period.

Internal control

20. 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 non-compliance with legislation included in this report.

Leadership

21. The accounting authority did not exercise adequate oversight responsibility over financial and performance reporting to ensure compliance with the relevant requirements of the PFMA and Treasury Regulations.

Financial and performance management

22. Management did not prepare financial statements that were free from material misstatement due to inadequate planning of the year-end process for the preparation of annual financial statements.

Governance

23. An Audit Committee was not established for the greater part of the reporting period, leaving Internal Audit to operate without its guidance and direction. This weakened the accountability and service delivery environment of the entity, as well as its internal control environment.

Auditor-General

Pretoria
30 July 2015



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ACCOUNTING AUTHORITY'S RESPONSIBILITY AND APPROVAL STATEMENT

The Accounting Authority of the Financial Intelligence Centre (FIC) is pleased to submit its report, together with the FIC's annual financial statements, for the year ended 31 March 2015.

The Accounting Authority acknowledges its 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 Public Finance Management Act 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 (No. 38 of 2001) (the 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 Practice 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, it supports the highest standards of corporate governance and the ongoing development of best practice.

The FIC confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct (“the Code”) laid out in the King III.

Audit Committee

The Audit Committee comprised of three members for the year ended 31 March 2015 and meets at least twice per annum, according to the PFMA requirements.

Internal audit

The FIC has outsourced its internal audit function to Grant Thornton.

6. Review of the financial statements

The review of the financial results of the FIC is 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 2015.

7. Subsequent events

The Accounting Authority is not aware of any matter or circumstance arising since 31 March 2015 and to the date of this report not dealt with in the annual financial statements that 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 65 to 93, which have been prepared on the going-concern basis, were approved by the Accounting Authority on 30 July 2015.



Murray Michell

Director and Accounting Authority
30 July 2015

STATEMENT OF FINANCIAL POSITION

as at 31 March 2015

	Note(s)	2015 R'000	2014 Restated* R'000
Assets			
Current assets			
Cash and cash equivalents	10	34 905	40 577
Receivables	9	923	958
Inventory	8	99	217
Prepayments	6	3 039	3 804
		38 966	45 556
Non-current assets			
Property, plant and equipment	3	63 397	78 793
Intangible assets	4	19 209	16 375
Deposits – long-term receivables	7	1 159	1 060
		83 765	96 228
Total assets		122 731	141 784
Liabilities			
Current liabilities			
Finance lease obligation	11	213	161
Trade and other payables	15	21 960	19 046
Provisions	12	-	7 000
Third-party deposit	13	20	20
Income received in advance	14	8 733	23 376
		30 926	49 603
Non-current liabilities			
Finance lease obligation	11	221	57
Provisions	12	4 972	4 660
		5 193	4 717
Total liabilities		36 119	54 320
Net assets		86 612	87 464
Accumulated surplus		86 612	87 464

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2015

	Note(s)	2015 R'000	2014 Restated* R'000
Revenue			
Non-exchange revenue	16	213 082	243 424
Interest received	21	1 513	1 367
		214 595	244 791
Expenditure			
Personnel	18	(122 007)	(130 580)
Audit Committee member fees	19	(82)	(167)
Depreciation and amortisation	32	(27 141)	(19 342)
Impairment of financial assets	22	(21)	(662)
Finance costs	23	(354)	(149)
Impairment of debtors	20	(273)	(17)
Audit fee	33	(1 563)	(1 777)
General expenses	17	(63 727)	(68 689)
Total expenditure		(215 168)	(221 383)
Operating (deficit)/surplus		(573)	23 408
Loss on disposal of assets		(279)	(774)
(Deficit)/surplus for the year		(852)	22 634

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2015

	Note(s)	Revaluation reserve R'000	Accumulated surplus R'000	Total net assets R'000
Opening balance as previously reported on 1 April 2012		21	63 204	63 225
Prior year adjustment	27.2		(277)	(277)
Opening balance restated as at 1 April 2012		21	62 927	62 948
Surplus restated for the 2013 year			1 903	1 903
Surplus previously reported			1 906	1 906
Prior year adjustment	27.3		(3)	(3)
Revaluation reserve realised		(21)		(21)
Balance as at 1 April 2013 restated		-	64 830	64 830
Surplus restated for the 2014 year			22 634	22 634
Surplus previously reported			22 488	22 488
Prior year adjustment	27.3		146	146
Balance at 1 April 2014 restated		-	87 464	87 464
Surplus/(deficit) for the 2015 year			(852)	(852)
Balance on 31 March 2015		-	86 612	86 612

CASH FLOW STATEMENT

for the year ended 31 March 2015

	Note(s)	2015 R'000	2014 Restated* R'000
Cash flows from operating activities			
Receipts			
Recoveries		79	-
Cash receipts from grants		198 080	241 000
Interest income		1 449	1 307
		199 608	242 307
Payments			
Suppliers		(190 596)	(167 421)
Finance costs		(42)	(23)
		(190 638)	(167 444)
Net cash flows from operating activities	25	8 970	74 863
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(1 698)	(61 966)
Proceeds from sale of property, plant and equipment	3	6	178
Purchase of other intangible assets	4	(12 685)	(17 290)
Net cash flows from investing activities		(14 377)	(79 078)
Cash flows from financing activities			
Movement in income received in advance		-	25 800
Finance lease payments		(265)	(659)
Net cash flows from financing activities		(265)	25 141
Net increase/(decrease) in cash and cash equivalents		(5 672)	20 926
Cash and cash equivalents at the beginning of the year		40 577	19 651
Cash and cash equivalents at the end of the year	10	34 905	40 577

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 cost, which, due to their short-term nature, closely approximate their fair value.

1.3 Leases

Leases are classified as either finance or operating leases.

Finance leases

Finance leases are leases that substantially transfer all risks and rewards associated with ownership of the asset to the FIC. The 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 an when the expense is incurred.

At each statement 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 methods are performed annually. The estimated useful lives are as follows:

Item	Average useful life
Fixtures and fittings	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 are no further economic benefits or 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 mainly comprises materials and supplies consumed or distributed in the rendering of services.

Subsequent measurement

Subsequently, inventory is measured at the lower of cost 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 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 cost, is recognised as income in the period in which it becomes receivables.

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which 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 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.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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 18: Segment reporting

GRAP 20: Related party disclosure

GRAP 32: Service concession arrangements: grantor

GRAP 105: Transfers of functions between entities under common control

GRAP 106: Transfers of functions between entities not under common control

GRAP 107: Mergers

GRAP 108: Statutory receivables

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2015

3. Property, plant and equipment

	2015			2014 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	50 176	(27 194)	22 982	50 413	(20 800)	29 613
Fixtures and fittings	6 895	(4 068)	2 827	6 988	(3 371)	3 617
Furniture and fixtures	7 227	(5 279)	1 948	7 314	(5 124)	2 190
Leasehold improvements	41 174	(10 770)	30 404	39 823	(2 655)	37 168
Motor vehicles	5 244	(1 984)	3 260	5 244	(1 063)	4 181
Office equipment	5 624	(3 952)	1 672	5 079	(3 393)	1 686
Security equipment	340	(36)	304	340	(2)	338
Total	116 680	(53 283)	63 397	115 201	(36 408)	78 793

Reconciliation of property, plant and equipment – 2015 (R'000)

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
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

Reconciliation of property, plant and equipment – 2014 (R'000)

	Opening balance	Additions	Disposals	Depreciation	Total
Computer hardware	13 265	20 327	(82)	(3 897)	29 613
Fixtures and fittings	5 874	1 287	(158)	(3 386)	3 617
Furniture	2 420	271	-	(501)	2 190
Motor vehicles	5 100	-	-	(919)	4 181
Office equipment	2 417	259	-	(990)	1 686
Security equipment	340	-	-	(2)	338
Leasehold improvements	-	39 823	-	(2 655)	37 168
	29 416	61 967	(240)	(12 350)	78 793

Assets subject to finance leases

	2015 R'000	2014 R'000
Office equipment at net carrying values	415	202

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

The net carrying value for furniture and office equipment was understated in 2014 by R64 000 due to the erroneous classification of assets as expenses. Refer to note 27.1.

The useful life of certain property, plant and equipment was reassessed, resulting in an increase in the carrying amount of property, plant and equipment of R331 000. Refer to note 34.

Certain assets with zero values are still in use. The total cost of these assets was R11 040 000.

Leasehold improvements relates to the set up 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.

Furniture to the carrying value of R48 000 was reclassified to office equipment during the year. The effect of the reclassification was the reduce the cost of furniture by R89 000 and the accumulated depreciation by R41 000, and to increase accumulated depreciation of office equipment by R89 000 and the cost by R41 000.

4. Intangible assets

	2015 R'000			2014 Restated* R'000		
	Cost/ valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost/ valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	22 317	(7 071)	15 246	19 649	(7 562)	12 087
Computer licences	9 168	(5 205)	3 963	10 023	(5 735)	4 288
Total	31 485	(12 276)	19 209	29 672	(13 297)	16 375

Reconciliation of intangible assets – 2015 (R'000)

	Opening balance	Additions	Disposals	Amortisation	Total
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

Reconciliation of intangible assets – 2014 (R'000)

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	6 083	8 882	(701)	(2 177)	12 087
Computer licences	707	8 406	(10)	(4 815)	4 288
	6 790	17 288	(711)	(6 992)	16 375

The carrying value for computer licences was overstated in 2014 by R142 000 as a result of a prepayment for ICT support erroneously classified as an intangible asset licence in 2014. Refer to note 271.

Certain intangible assets with zero values are still in use. The total cost of the intangible assets was R4 105 000.

The useful life of intangible assets was reassessed and confirmed at year end.

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 is governed by the Pension Fund Act, 1956 as amended.

Employees are able to elect the rate at which the employee contributes towards the Provident Fund. The contribution rates are as follows: 5%, 7.5%, 10%, 12.5%, 15%, 17.5% and 20%.

	2015 R'000	2014 Restated* R'000
Provident fund contributions	11 853	10 853

6. Prepayments

	2015	2014
	R'000	Restated* R'000
Subscriptions	1 168	2 789
Membership and professional fees	19	-
Staff training	397	16
Motor vehicle maintenance agreements	168	187
Computer licence and support	1 269	737
Computer hardware	-	75
Office equipment repairs and maintenance	14	-
Advertising and publications	4	-
	3 039	3 804

The current year opening balance for prepayments was restated due to a prepayment of R153 000 for computer licence support that was erroneously capitalised as an intangible asset in the prior year. Refer to note 27.1.

7. Deposits – long-term receivables

Electricity	173	158
Byls Bridge Office Park	986	902
	1 159	1 060

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 24.

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 21.

8. Inventory

Consumables on hand	99	217
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Consumables comprise stationery on hand.

At the end of the reporting period, inventory to the value of R105 000 was written off due to redundant cartridges as a result of the replacement of printers.

9. Receivables

	2015	2014
	R'000	Restated*
		R'000
Deposit	847	847
Impairment – claim for damages	(101)	(79)
Allowance for impairment	(290)	(17)
Other receivables	333	38
Accrued interest	134	169
	923	958

The FIC entered into a 60-month lease contract for the Lakeside building office premises which were vacated during the prior year. The deposit was impaired with R101 000 (2015: 21 000) and (2014: 79 000) due to a claim by the previous lessor who intends to settle the deposit net of costs recovered. Refer to note 22.

Allowance for impairment comprises

Award in terms of criminal action taken – R280 000.

During 2009, an employee of the FIC was dismissed as a result of a number of fraudulent transactions committed during his time as an employee of the FIC. Charges were laid and criminal proceedings were instituted against the employee. The matter was finalised in November 2014 when the ex-employee was found guilty of nine counts of fraud. The sentence was suspended on condition of the the defendant paying back the monies stolen from the FIC.

The ex-employee has, however, not complied with the order as the FIC has not received payment since March 2015. Legal steps are being pursued. The FIC will not incur any legal costs, as the case is dealt with by the State Advocate and the FIC's in-house lawyer.

Outstanding recoveries: ex-employee – R10 000.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash at bank	34 902	40 574
Cash on hand	3	3
	34 905	40 577

The cash balance includes R8 733 000 (2014: R23 376 000), which is ring-fenced for the funding of two projects of the Anti-Corruption Task Team. Refer to note 14.

11. Finance lease obligation

	2015 R'000	2014 Restated* R'000
Minimum lease payments due		
- Within one year	242	174
- In second to fifth year inclusive	235	58
	477	232
Less: future finance charges	(43)	(14)
Present value of minimum lease payments	434	218
Present value of minimum lease payments due		
- Within one year	213	161
- In second to fifth year inclusive	221	57
	434	218
Non-current liabilities	221	57
Current liabilities	213	161
	434	218

The finance leases are secured over the leased assets – refer to note 3. In the current year, two new lease agreements were entered into for a period of three years in addition to the existing contract. The lease liabilities are repayable in monthly instalments of R3 358, R11 989 and R14 478 at annual effective interest rates of 9.25%, 9.25% and 9% respectively per annum.

12. Provisions

Reconciliation of provisions – 2015

	Opening balance	Unwinding of interest/ additions	Utilised/ reversed during the year	Total
Provision – decommissioning of leasehold improvements	4 660	312	-	4 972
Provision for bonus	7 000	-	(7 000)	-
	11 660	312	(7 000)	4 972

Reconciliation of provisions – 2014

	Opening balance	Unwinding of interest/ additions	Utilised/ reversed during the year	Total
Provision – decommissioning of leasehold improvements	-	4 660	-	4 660
Provision for legal fees	20	-	(20)	-
Provision for bonus	5 610	7 000	(5 610)	7 000
	5 630	11 660	(5 630)	11 660

	2015 R'000	2014 Restated* R'000
Non-current liabilities	4 972	4 660
Current liabilities	-	7 000
	4 972	11 660

Provision for decommissioning

The provision for decommissioning is an estimated cost to reinstate the leased premises 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.

Provision for bonuses

There is no provision for bonuses in the current year due to funding constraints.

13. Third party deposits

	2015 R'000	2014 Restated* R'000
Deposits paid by third parties – appeal court applicants	20	20

14. Income received in advance

From non-exchange transactions

Criminal Assets Recovery Account funds

	2015 R'000	2014 Restated* R'000
Criminal Assets Recovery Account funds	8 733	23 376

15. Trade and other payables

	2015	2014
	R'000	Restated* R'000
Trade payables	4 029	3 313
Payroll payables	4 138	4 128
Operating lease payable	9 441	7 151
Accrued leave pay	4 352	4 454
	21 960	19 046

Certain administrative expenses were overstated in the prior year resulting in the overstatement of liabilities to the amount of R71 000. The opening balances of trade and other payables were restated. Refer to note 27.1.

16. Non-exchange revenue

Transfer from the National Treasury	198 080	241 000
Criminal Assets Recovery Account Fund	14 643	2 424
Other revenue – court award in a criminal case against former employee	359	-
	213 082	243 424

17. General expenses

Advertising	122	174
Research costs	16	-
Bank charges	48	54
Cleaning	1 229	749
Computer expenses	5 369	7 658
Conferences and workshops	-	7 453
Consulting fees	818	1 312
Crockery and cutlery	49	-
Insurance	777	750
Internal audit	461	1 641
Lease costs	319	482
Legal fees	81	665
Media, subscriptions and publications	8 217	5 074
Membership fees	1 535	1 617
Motor vehicle expenses	428	268
Office consumables	569	570

17. General expenses continued...

	2015	2014
	R'000	Restated*
		R'000
Parking expenses – staff	2 252	1 892
Postage and courier	15	19
Printing and stationery	658	605
Professional fees	4 239	3 083
Public relations	657	860
Recruitment and placement costs	1 055	783
Refurbishment costs	-	2 760
Relocation costs	32	1 246
Rent and operating costs	21 842	16 964
Repairs and maintenance	269	154
Risk Committee member fees	49	172
Security	2 038	1 807
Staff training	474	367
Subsistence and accommodation – international	1 334	993
Subsistence and accommodation – local	558	652
Telephone, fax and internet	5 626	5 591
Travel – international	1 562	980
Travel – local	1 029	1 294
	63 727	68 689

Certain comparative figures have been restated to the value of R129 000 due to the over-provision of costs in the prior year – refer to note 27.3.

18. Personnel costs

Salary costs	109 687	111 186
Bonus performance	-	7 000
Group life	1 044	1 039
Provident fund	10 872	10 853
Unemployment Insurance Fund	312	338
Compensation for Occupational Injuries and Diseases	92	164
	122 007	130 580

Certain comparative figures have been restated to the value of R10 000 due to the over provision of costs in the prior year. Refer to note 27.3.

19. Governance committees

	2015 R'000	2014 Restated* R'000
19.1 Audit Committee member fees		
Chairperson: C Kneale	34	78
Other members: B Lengane	25	35
N Khumalo	23	54
	82	167
19.2 Risk Committee member fees		
Chairperson: C Kneale	26	79
Other members: B Lengane	16	64
N Khumalo	7	29
	49	172

20. Impairment of debtors

Bad debts	273	17
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21. Interest received

Interest revenue

Interest – earned on amortised financial assets – refer to note 7	99	49
Current account	1 414	1 318
	1 513	1 367

Amortised costs are based on the effective interest rate method.

22. Impairment of financial assets

Impairment of deposit paid – Lakeside building – refer to note 9	21	79
Net loss on financial instrument at amortised cost – refer to note 7	-	583
	21	662

23. Finance costs

Financial instrument at amortised cost – refer to note 12	312	126
Finance charges – leased assets	42	23
	354	149

24. 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. Refer to note 7.

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.

	2015 R'000	2014 Restated* R'000
Minimum lease payments due		
- Within one year	21 574	19 743
- Within two to five years	66 552	88 878
	88 126	108 621

25. Cash generated from operations

(Deficit)/surplus	(852)	22 634
Adjustments for:		
Depreciation and amortisation	27 141	19 342
Loss on disposal of assets	279	774
Income amortised – Criminal Assets Recovery Account	(14 643)	-
Interest accrued/amortised	(233)	-
Accrued leave pay	(102)	-
Finance costs – amortised	312	-
Losses on financial assets	21	662
Allowance for impairment	273	17
Movements in operating lease incentives	(1 233)	-
Inventory write-off	105	-
Movements in provisions	-	5 904
Increase in long-term receivables	-	(1 594)
Lease smoothing	3 524	-
Movement in prepayment	765	24 730
Other non-cash flow items	-	2 840
Other income – criminal case accrued	(280)	-
Changes in working capital:		
Inventory	13	(17)
Receivables	158	(8)
Trade and other payables	(6 278)	(421)
	8 970	74 863

26. Related parties

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

26.1 State-controlled entities

By virtue of the fact that the FIC is a national public entity funded and controlled by national government, any other entity of national government is a related party. All 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.

	2015 R'000	2014 Restated* R'000
Services rendered at no cost		
Government Technical Advisory Centre (GTAC)	91	-
Trade and Industrial Policy Strategies (TIPS)	473	-
Services received at no cost		
GTAC	1 684	1 668
TIPS	430	-

The GTAC is a section within the National Treasury. During the year, an employee 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 the FIC's Cape Town offices at no cost.

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

SARS compiled two security assessments reports for the FIC's buildings at no charge.

Transactions included in revenue

Criminal Asset Recovery Account funds – Note 16	14 643	2 424
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26.2 Key management personnel

2015

Name	Position	Cash component	Bonus	Provident fund	Total
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

2014

Name	Position	Cash component	Bonus	Provident fund	Total
M Michell	Director	1 392	-	-	1 392
C Malan	Executive Manager: Compliance and Prevention	1 282	136	385	1 803
P Smit	Executive Manager: Legal and Policy	1 552	127	161	1 840
N Mewalall	Executive Manager: Monitoring and Analysis	1 504	137	231	1 872
M Maboka	Executive Manager: Corporate Services	1 441	104	262	1 807
V MarshSmit	Chief Financial Officer	985	74	249	1 308
		8 156	578	1 288	10 022

27. Prior period adjustments

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

The correction of the error(s) results in the following adjustments:

	2014 R'000	2013 R'000
27.1 Statement of financial position		
Increase/(decrease) in property, plant and equipment	68	-
Increase/(decrease) in intangibles	(153)	-
Increase/(decrease) in prepayments	153	-
Increase/(decrease) in receivables	-	(3)

27. Prior period adjustment continued...

	2014 R'000	2013 R'000
(Increase)/decrease in trade payables	71	(277)
(Increase)/decrease in accumulated amortisation: licence	11	-
(Increase)/decrease in accumulated depreciation: property, plant and equipment	(4)	-
	146	(280)

27.2 Retained earnings

Increase in general expenses	-	277
	-	277

27.3 Statement of financial performance

Increase/(decrease) in depreciation	4	
Increase/(decrease) in amortisation	(11)	
Increase/(decrease) in general expenses	(129)	3
Increase/(decrease) in personnel costs	(10)	
	(146)	3

During the financial year ended 31 March 2015, management restated certain line items in the financial statements as follows:

Property, plant and equipment

The increase in property, plant and equipment relates to office equipment that was erroneously classified as expenses in the prior year. The correction has been recorded as a prior year error and disclosed accordingly. Refer to note 3.

Intangible assets

Intangibles were overstated with a prepayment for ICT support. The correction has been recorded as a prior period error and disclosed accordingly. Refer to note 4.

Prepayments

The increase in prepayments relates to ICT support erroneously capitalised as a licence. The opening balance on prepayments has been restated accordingly. Refer to note 6.

Receivables

The opening balance for staff debtors was restated by R3 000 due to repayments erroneously allocated to costs in the prior year. Refer to note 9.

Trade and other payables

Certain administrative expenses were overstated, resulting in the overstatement of liabilities in the prior year. The opening balance for accruals, other payables and retained income have been restated as well as the comparative figures for the affected costs. Refer to note 15.

Accumulated amortisation

Intangibles were overstated with prepayment for ICT support. The correction has been recorded as a prior period error and disclosed accordingly. Refer to note 4 and 32.

Accumulated depreciation

Accumulated depreciation increased due to office equipment and furniture that was erroneously classified as an expense. The correction has been recorded as a prior year error and disclosed accordingly. Refer to note 3 and 32.

Retained earnings

The opening balance for general expenses was restated due to medical aid provision erroneously written back in prior years. Refer to note 18.

Depreciation

Depreciation was restated due to office equipment and furniture that was erroneously classified as an expense. The correction has been recorded as a prior year error and disclosed accordingly. Refer to note 32.

Amortisation

Intangibles were overstated with prepayment for ICT support. The correction has been recorded as prior year error and disclosed accordingly. Refer to note 4.

General expenses

Certain expenses were duplicated through accruals resulting in the overstatement of costs in the prior year. Refer to note 17.

Personnel cost

The opening balance of personal cost was restated as a provision was erroneously reversed in prior years. Refer to note 18.

28. Risk management

Liquidity risk

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

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

Market risk

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

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

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

Interest rate risk management

The FIC's interest rate profile consists of fixed and floating rate loans and bank balances which exposes the 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

	2015 R'000	2014 Restated* R'000
Financial assets		
Cash	34 905	40 577
Receivables	2 082	2 018
	36 987	42 595
Financial liabilities		
Finance lease obligations	434	218
Payables	21 960	19 046
Third party deposits	20	20
Provisions	4 972	11 660
	27 386	30 944

Sensitivity analysis

	Change in rate	Effect on surplus
2015 floating rate financial assets		
Banking balances	1%	349
Receivables	1%	21
2015 floating rate financial liabilities		
Finance lease obligations	1%	4
Payables	1%	220
Provisions	1%	50
2014 floating rate financial assets		
Banking balances	1%	406
Receivables	1%	20
2014 floating rate financial liabilities		
Finance lease obligations	1%	2
Payables	1%	190
Provisions	1%	117

29. Fruitless and wasteful expenditure

	2015 R'000	2014 Restated* R'000
Opening balance	-	287
Fruitless and wasteful expenditure – current year	78	-
Less amounts written off	(78)	(287)
	-	-
Details of fruitless and wasteful expenditure – current year		
Damage due to accidental triggering of fire alarm in server room	1	-
Damage incurred to rented vehicle	6	-
Reconnection fee on late renewal of ICT licence	6	-
Fee charged for cancellation of hotel accommodation	17	-
Interest on late payment of Compensation for Occupational Injuries and Diseases	78	-

30. Irregular expenditure

	2015 R'000	2014 Restated* R'000
Opening balance	-	400
Add: Irregular expenditure – current year	149	69
Less: Amounts condoned	(112)	(469)
	37	-
Details of irregular expenditure – current year		
Goods procured without following procurement processes	-	69
Contract value exceeded without following the appropriate process	112	-
Hotel accommodation – rate of R1 300 exceeded	37	-
	149	69

31. Contingent liability

31.1 Accumulated surplus

Accumulated surplus	86 612	87 464
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In terms of the Section 53(3) of the PFMA, a public entity may not accumulate surpluses without approval from the National Treasury. Approval was requested from the National Treasury to retain the accumulated surplus. In the preceding years, the National Treasury has always allowed the retention of the accumulated surplus.

31.2 Litigation and claims

Type	Description of the matter	Estimate of financial impact
Dispute regarding costs relating to a terminated contract	A former service provider, BSF, claims for services rendered and breach of contract by the FIC. Summons have been issued post 31 March 2015	Possible legal costs of about R200 000 may be incurred in finalising this case

32. Depreciation and amortisation

Depreciation charge for the year	17 540	12 350
Amortisation charge for the year	9 601	6 992
	27 141	19 342

Depreciation increased due to office equipment and furniture that was erroneously classified as an expense. The correction has been recorded as a prior year error and disclosed accordingly. Refer to note 27.3.

Amortisation reduced due to a licence that was erroneously capitalised as an intangible asset instead of a prepayment. The correction has been recorded as a prior year error and disclosed accordingly. Refer to note 27.3.

33. Auditor's remuneration

	2015 R'000	2014 Restated* R'000
Auditor-General of South Africa	1 563	1 777

34. Change in estimate: useful life of assets reviewed

Property, plant and equipment

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

	Initial estimate	Revised estimate	Decrease in depreciation
Furniture	528	196	331

The effect of the change in the estimated useful life of assets in the current year was an increase in the carrying amount of property, plant and equipment of R331 000 (2014: 2 401 000) and a decrease in the depreciation expense by R331 000 (2014: 2 401 000). The effect on future years will be an increase in the depreciation charge of R331 000 (2014: 2 401 000), reversing the credit of R331 000 (2014: 2 401 000) created in the current year. Refer to note 3.

35. Capital commitments

	2015 R'000	2014 Restated* R'000
Authorised capital expenditure		
Capital expenditure approved and contracted	3 336	2 201



financial intelligence centre

REPUBLIC OF SOUTH AFRICA
