Financial Intelligence Centre
Annual Report
2013/14

financial intelligence centre
REPUBLIC OF SOUTH AFRICA

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PROTECTING THE INTEGRITY OF SOUTH AFRICA'S FINANCIAL SYSTEM

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REPUBLIC OF SOUTH AFRICA

CONTENTS

PART A: GENERAL INFORMATION 2

FIC GENERAL INFORMATION 3
LIST OF ABBREVIATIONS/ACRONYMS 3
FOREWORD BY THE MINISTER 4
DIRECTOR'S OVERVIEW 5
STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF THE ACCURACY OF THE ANNUAL REPORT 13
STRATEGIC OVERVIEW 14
LEGISLATIVE AND OTHER MANDATES 14
ORGANISATIONAL STRUCTURE 16

PART B: PERFORMANCE INFORMATION 18

AUDITOR-GENERAL'S REPORT: PREDETERMINED OBJECTIVES 19
SITUATIONAL ANALYSIS 19
STRATEGIC OUTCOMES 20
PERFORMANCE INFORMATION BY OUTCOMES 20

PART C: GOVERNANCE 46

INTRODUCTION 47
ACCOUNTING AUTHORITY 47
RISK MANAGEMENT 47
INTERNAL AUDIT AND AUDIT COMMITTEES 49
COMPLIANCE WITH LAWS AND REGULATIONS 50
FRAUD AND CORRUPTION 51
MINIMISING CONFLICT OF INTEREST 51
CODE OF CONDUCT 51
HEALTH, SAFETY AND ENVIRONMENTAL LAWS 51
AUDIT COMMITTEE REPORT 52

PART D: FINANCIAL INFORMATION 54

EXTERNAL AUDITOR'S REPORT 55
INDEX 58

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 2013 to 31 March 2014.

Murray Michell

Director and Accounting Authority

Part A:
General Information

FIC GENERAL INFORMATION

Postal address:	Private Bag X177, Centurion, 0046
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External auditors:	Auditor-General of South Africa
Bankers:	Standard Bank, Pretoria

LIST OF ABBREVIATIONS/ACRONYMS

CTR	Cash threshold report
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIC Act	Financial Intelligence Centre Act No. 38 (2001), as amended
FIC	Financial Intelligence Centre
FIU	Financial intelligence unit
GDP	Gross domestic product
ICT	Information and communications technology
MoU	Memorandum of understanding
SAPS	South African Police Service
SARS	South African Revenue Service
STR	Suspicious transaction report
TPR	Terror property report

FOREWORD BY THE MINISTER

The Financial Intelligence Centre (FIC) plays an essential role in the South African economy. South Africa's National Development Plan outlines a clear trajectory towards faster economic growth, alongside a multifaceted approach to eliminate poverty and reduce inequality by 2030. To accelerate growth, South Africa has to be seen globally as a place that is conducive to doing business. Government is determined to maintain and strengthen the country as a destination for both local and overseas investment over the long term. We recognise that increased investment can bring about the kind of economic growth and job creation that underpins more rapid socio-economic development.

Our principal mandate and the guiding purpose of our work is to defend the integrity of the South African financial system.

In today's difficult global economic conditions, large flows of capital are seeking high returns. A portion of that capital has its origins in the shadow economy. Illicit funds flow within and between countries, and South Africa is no exception. Recent studies by the United Nations show the extent to which Africa is affected by such illicit flows. Funds lost to the illicit economy can help run South Africa's schools and hospitals, build new roads and bridges, and boost small- and medium-sized businesses. The FIC is responsible for tracking the proceeds of crime and identifying money laundering and terror financing activities, which are part of such illicit financial flows.

As this report makes clear, the FIC is making steady progress in strengthening compliance with the country's framework to identify funds generated from crime, combat money laundering and prevent terror financing. The organisation's analysis supports a wide range of law enforcement agencies and assists with the prosecution of various crimes. The FIC's work also has the potential to inform economic policy to a greater degree in future.

I congratulate the dynamic team at the FIC for their accomplishments to date. I can promise that much more work lies ahead for the organisation.

Nhlanhla Nene

Minister of Finance

DIRECTOR'S OVERVIEW

Protecting South Africa's Financial System

The Financial Intelligence Centre is South Africa's national centre for the gathering, analysis and dissemination of financial intelligence. The FIC was established to identify proceeds of crime, combat money laundering and the financing of terrorism and in so doing has a primary role to protect the integrity of South Africa's financial system. As one of the core public agencies charged with this responsibility, the FIC reports to the Minister of Finance and to Parliament. In performing this role, the organisation oversees the legislative framework and system created by the Act. It develops and provides financial intelligence to a range of agencies, supporting the investigation and prosecution of criminal activity by helping to identify the proceeds of crime, combat money laundering and the financing of terrorism and related activities.

Over the past five years, the global economy has been marked by weak growth, volatile capital flows and an uneven regulatory landscape. There has also been a growing realisation of the extent of illicit financial flows, which undermine growth and development, particularly in developing countries. The FIC's work during this period has laid the foundation for it to contribute to South Africa's developmental policy objectives at a qualitatively new level.

We met most of our performance targets during 2013/14. The FIC's primary outputs became more fully integrated into the activities of public and private sector institutions. There has been a marked shift towards greater private sector compliance with South Africa's framework to prevent money laundering and the financing of terrorist activity. Law enforcement agencies have increased their use of financial intelligence products to investigate and prosecute a range of crimes. And our work is fully aligned with the objectives of government's justice, crime prevention and security cluster.

We believe that in the years ahead, financial intelligence will become a greater policy tool to promote socio-economic development and reinforce the integrity of the financial system. For South Africa, this is a high-stakes initiative. Ranked by gross domestic product (GDP), South Africa is currently the world's 29th largest economy, with GDP of US$384.3 billion in 2012[1]. A stable, secure financial sector – supported by a robust framework to protect financial institutions from money laundering, terror financing and corruption – promotes investment and confidence, helping to attract capital from here and abroad. This can build our economy in the interest of all South Africans.

Yet the shadow economy drains substantial amounts from this country and the continent. The United Nations High Level Panel on Illicit Financial Flows from Africa reported in December 2013 that between 2000 and 2008, annual illicit outflows from the continent averaged US$50 billion per year.

The FIC's work has laid the basis for us to contribute to South Africa's developmental policy objectives at a qualitatively new level.

[1] http://databank.worldbank.org/data/download/GDP.pdf

According to the panel:

> Some of the effects of illicit financial outflows are the draining of foreign exchange reserves, reduced tax collection, cancelling out of investment inflows and a worsening of poverty. Such outflows which also undermine the rule of law, stifle trade and worsen macroeconomic conditions are facilitated by some 60 international tax havens and secrecy jurisdictions that enable creating and operating of millions of disguised corporations, shell companies, anonymous trust accounts and fake charitable foundations. Other techniques used include money laundering and transfer pricing.

While the definition of the term "illicit" in this context may vary, the effect of these flows is significant, as is the portion derived from the proceeds of crime. The FIC is conducting research in an attempt to estimate the full extent of the proceeds of crime that flow in and out of the country. In addition, we anticipate that the FIC will be able to use this information to develop a set of recommendations to reduce these flows. This is an example of the role that applied financial intelligence can play in future policy-making. To build those policy tools, South Africa needs an adequately capitalised FIC.

Aligning with Government's Strategic Priorities

From a policy standpoint, the FIC's mandate falls within the government's economic sector. Owing to the nature of our work, and the specialised technical skills that we employ, the FIC also contributes to the work of the justice, crime prevention and security sector, helping to achieve government's Outcome 3: "All South Africans are and feel safe."

During 2013/14 the FIC sought to align its analysis programme and outputs with the national security strategy and crime-fighting priorities. This alignment, along with close co-operation between the FIC and the country's law enforcement, the South African Revenue Service (SARS) and intelligence agencies, has increased the use and optimisation of our products.

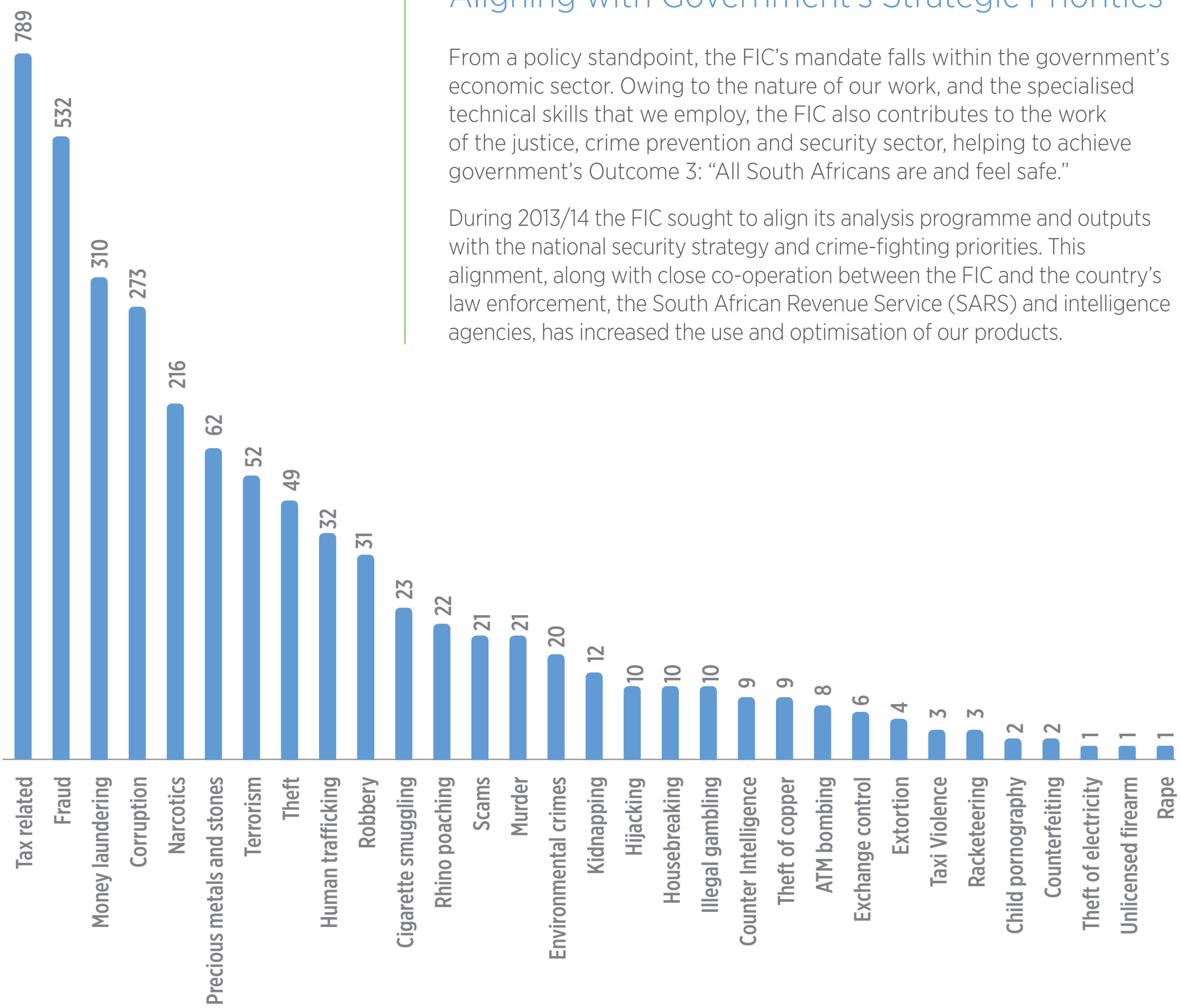


FIGURE 1: REPORTING PER CRIME CATEGORY

The FIC's contributions to reducing crime and corruption are evident in the content and distribution of the financial intelligence that we produce, as shown in Figure 1. During 2013/14, based on reported data, FIC intelligence products highlighted a range of suspected criminal activities, led by tax-related crime (789 reports), fraud (532 reports) and money laundering (310 reports). To illustrate the real-world impact of this work, throughout this report we highlight areas where FIC monitoring and analysis has been instrumental in criminal investigations, or has identified trends related to money laundering and illicit finance.

Suspicious transaction reports (STRs), which are submitted to the FIC by accountable and reporting institutions, are markers that may indicate the presence of illegally generated funds. During 2013/14, the FIC received 355 369 STRs, an increase of 141 percent from 2012/13. A total of 623 020 reports have been received over the past five years. This increase is an indication of the private sector's enhanced co-operation with the FIC, and growing public awareness of the importance of measures to prevent money laundering and terror financing. Cash threshold reports (CTRs), which cover all transactions of R25 000 and above, grew by about 1 percent from 2012/13 to 6.1 million reports in 2013/14. The majority of these reports are received from banks.

During 2013/14, the FIC initiated and referred 883 matters to law enforcement authorities for investigation, and responded to 1 661 requests from national and international law enforcement agencies (up 15 percent from the prior year) for assistance and support in their investigations.

Although investigations and their resolution are the responsibility of various law enforcement authorities and others, the FIC has directly contributed to 4 634 investigations over the past five years. More recently, it has supported 47 high court applications brought by the state against criminal syndicates. The FIC contributes to the Asset Forfeiture Unit's successes and has assisted in seizing more than R1.1 billion in assets.

The FIC's contributions to reducing crime and corruption are evident in the content and distribution of the financial intelligence that we produce.

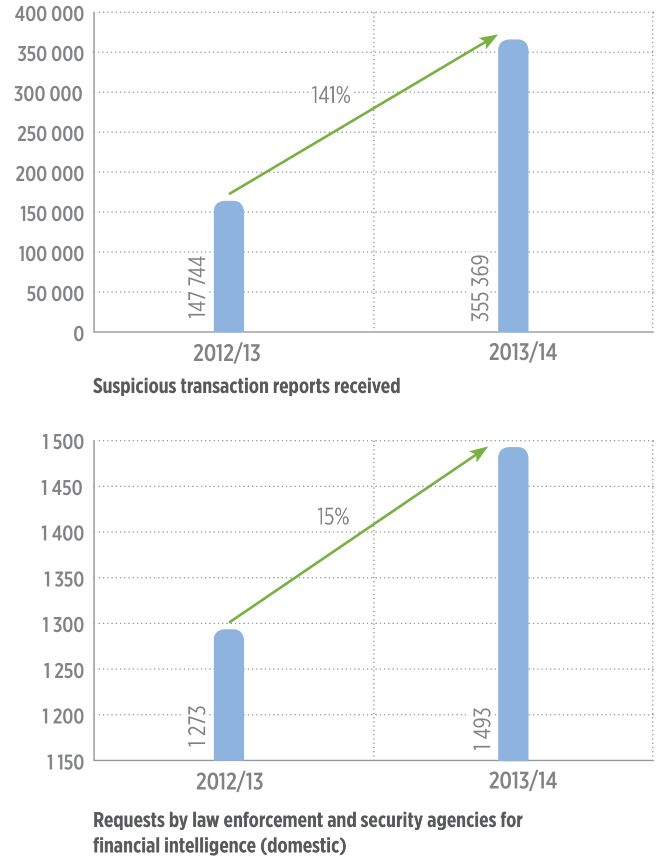
SUSPICIOUS ATM WITHDRAWALS ABROAD

Through extensive reporting by banking institutions during 2013/14, the FIC has observed a growing pattern in which domestic bank accounts are opened, apparently for the purpose of accessing cash via ATM withdrawals in several other countries. The concern is that, in addition to legitimate international withdrawals, this trend could involve terror financing, money laundering or tax evasion.

This activity is conducted using either the primary bank card of the account holder, or a supplementary card issued to another person at the request of the account holder. This activity is widespread and it is affecting most banks. In 2013/14, more than R90 million in suspicious withdrawals were reported to have been made abroad.

Typically, a person will open an account and request a secondary card to be issued and given to another person. Funds will then be deposited into the account at various points in South Africa and be followed almost immediately by withdrawals overseas. In some cases, South African nationals surrender their accounts to foreign nationals for a fee. Some accounts, opened in the name of a minor, are used by the guardian and his/her associates.

FIGURE 2: SUSPICIOUS TRANSACTION REPORTS AND REQUESTS BY LAW ENFORCEMENT AGENCIES FOR FINANCIAL INTELLIGENCE, 2013/14



Strengthening Compliance and Enforcement

Over time, the FIC has built a rigorous compliance model that relies on partnerships with entities across the private sector to honour their obligations under the FIC Act.

Today, governments, banks and other financial institutions around the world are under pressure to comply with international standards for anti-money laundering and combating of terror financing. For example, banks and other financial institutions may not transact with a correspondent bank if it cannot show that it is fully compliant. The inability to demonstrate full compliance carries the risk of large penalties and reputational damage for a non-compliant bank.

In 2013/14, South Africa's compliance framework reached a new level of maturity. The FIC has signed memoranda of understanding (MoUs) with all supervisory bodies that oversee compliance with the FIC Act. The agreements govern how supervisory bodies engage with the entities that report to them in terms of anti-money laundering and prevention of terror financing requirements, and how they relate to the FIC. The number of accountable and reporting institutions registered with the FIC increased by 20 percent, from 21 866 at the end of 2012/13 to 26 316 at the end of 2013/14. In total, the FIC and supervisory bodies conducted 1 715 compliance inspections.

There is a growing willingness among law enforcement and prosecuting authorities to pursue criminal prosecutions where there has been non-compliance with the FIC Act. In most cases, administrative sanctions are sufficient to improve performance. However, the FIC will not hesitate to pursue prosecution in instances where it is warranted.

Another sign that the rigorous compliance system is working the way it is supposed to is that supervisory bodies are stepping up enforcement initiatives. For example, during 2013/14, the South African Reserve Bank – the supervisory body for the banking industry – conducted inspections of banks' anti-money laundering systems. The FIC worked closely with the Reserve Bank prior to these visits, which uncovered certain regulatory failures. The Reserve Bank issued administrative and financial sanctions against the four major banking groups (after the reporting period had closed).

Banks, reporting failures and reputational risk

During the reporting period, regulators in the United States and the United Kingdom levied fines against two international banking groups:

- The US Financial Crimes Enforcement Network fined JP Morgan Chase Bank US$461 million in January 2014 for failing to report suspicious transactions related to Bernard Madoff's decades-long, multibillion dollar investment fraud
- The UK's Financial Conduct Authority fined Standard Bank PLS's British operation £7.6 million in January 2014 for failings relating to its anti-money laundering policies and procedures for corporate customers connected to politically exposed persons. A spokesperson for the regulator said: "Banks are in the frontline in the fight against money laundering. If they (banks) accept business from high-risk customers they must have effective systems, controls and practices in place to manage that risk."

These penalties, which require immediate disclosure by banks and are widely reported, underline the importance of reputational risk. Today, all banks, regardless of their risk appetite, need to operate according to the highest international standard. A failure in one jurisdiction can have consequences in the form of reduced business from commercial clients and other financial institutions in various jurisdictions.

Proposed amendments to the FIC Act, delivered to the Minister of Finance during the year under review, will allow accountable institutions (designated businesses subject to the FIC Act, such as banks, financial service providers and others) to adopt a risk-based approach towards meeting their FIC Act obligations. This will enable financial institutions to adopt a flexible, balanced view of their customers' perceived risks. It will also make it easier for banks when taking on new customers.

South Africa lacks an express requirement for accountable institutions to determine if they are dealing with a politically exposed person or to identify the natural person behind an account. They also do not receive any guidance on how to respond appropriately. The amendments will introduce special measures to identify and oversee the accounts of politically exposed persons, as well as the beneficial owners behind companies. These new standards help clarify how to deal with individuals who bring risk to the financial system and conceal their wealth from the authorities.

Another sign that the rigorous compliance system is working the way it is supposed to is that supervisory bodies are stepping up enforcement initiatives.

VALUE TRANSFER SERVICES

Value transfer services are businesses that accept cash, cheques or other stores of value in one location, and pay out corresponding amounts in other locations.

Typically, an account holder of a banking institution will approach a retail outlet (which acts as an agent of a bank) and deposit money for the benefit of a specific domestic recipient. The recipient, who is not necessarily a client of the bank, would receive a message with a code on his/her cell phone, and go to the nearest participating retail outlet to collect the money upon presentation of an ID and the code.

FIC analysis shows that not all retailers ask for proof of the recipient's identity, exposing such services to criminals wishing to move their proceeds without being detected.

During 2013/14, a syndicate, identified through FIC analysis, moved funds between its members without being detected because retailers failed to verify identities. In some cases, the criminals may collude with retail outlet agents.

Building a Global System of Financial Intelligence

South Africa's anti-money laundering and combating of terror financing framework is part of a global system, and the FIC maintains a strong focus on strengthening its international collaboration. We are working towards the next mutual evaluations to be conducted by the Financial Action Task Force (FATF) (see box below on the global financial intelligence network).

At a regional level, the FIC continued its collaborative efforts in partnership with neighbouring countries to improve their anti-money laundering processes. Four delegations from countries in the region visited the FIC during the year to observe its work. We have begun partnering with newly founded financial intelligence units (FIUs) to help them apply for membership in the Egmont Group of FIUs (see box below on the global financial intelligence network).

In July 2013, the FIC hosted the 21st Egmont Group Plenary at Sun City. The meeting agreed to a Charter for the Egmont Group, setting out the organisation's objectives and members' responsibilities. The meeting elected the Director of the FIC to chair the Egmont Group for a two-year term from July 2013.

The global financial intelligence network

Financial Action Task Force

The FATF is the global standards-setting body for combating money laundering and terror financing. It is 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 Cooperation 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 UK and the US.

Eastern and Southern Africa Anti-Money Laundering Group

The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) is a regional body subscribing to global standards to combat money laundering and the financing of terrorism. Its 17 member-states are Angola, Botswana, Comoros, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. The ESAAMLG has a number of regional counterparts on the continent.

Egmont Group of FIUs

The Egmont Group is a global association of 139 FIUs. The FIC joined Egmont in 2003.

Financial Intelligence and the Future of Policy-making

The concept of financial intelligence has evolved substantially since it was first introduced as a tool to detect money laundering several decades ago. Today, financial intelligence refers to the ability to collect and analyse information about the financial affairs of entities and individuals of interest to understand their character and predict their intentions. Technological advances have led to large and complex data sets being reported, which, when matched with data from other public sources, enables the FIC to develop quality products with value beyond immediate use in investigation and prosecution.

Such analysis can form an effective strategic tool in supporting policy-making in the financial sector and improving revenue collection. It can also help us gain a better understanding of illicit financial flows and how they affect South Africa's financial system; to pinpoint broad patterns in state procurement fraud; to spot service delivery problems in provinces or local authorities; or to highlight increased levels of risk emanating from certain regions in South Africa and abroad.

True financial intelligence provides policy-makers with the tools to reinforce the integrity of South Africa's financial system in a globally volatile environment. As we highlighted in the 2012/13 annual report, developing the capacity to expand such analysis requires substantial investment in information and communications technology (ICT) systems, and the skills needed to operate them.

Financial intelligence of the kind described here marks a different way of thinking about the information that is already available to the FIC, and generating added value from that data.

True financial intelligence provides policy-makers with the tools to reinforce the integrity of South Africa's financial system in a globally volatile environment.

Funding Financial Intelligence Development

The FIC's financial baseline is under pressure to meet operational and client expectations in a context of low national growth and extreme strain on the fiscus. We met most of our targets during 2013/14, but these targets had been adjusted during the previous reporting period to reflect reduced capacity. As Table 1 shows, the financial baseline has shifted over the past several years.

TABLE 1: GRANT ALLOCATIONS TO THE FIC, 2010/11–2016/17

Financial year	2010/11	2011/12	2012/13	2013/14	2014/15*	2015/16*	2016/17*
Baseline/ grant (R 000)	181 414	136 500	142 325	201 000	198 080	216 488	236 372
% movement		(-25%)	4%	41%	(-1%)	9%	9%
Once-off allocations (R 000)			54 989	40 000			

* Projections

Our main focus in the period 2010/11 to 2013/14 was to improve the FIC's ability to analyse large amounts of data and to develop new analytical tools. Over the period, the FIC's baseline allocation increased from R181.4 million in 2010/11 to R201 million in 2013/14.

Assistance was provided through once-off allocations from the National Treasury in 2012/13 and 2013/14. Despite the allocations, the FIC has had to reduce certain targets. Recruitment has been put on hold and there is little flexibility for operational growth. This approach contains risks, including for security (risks to personnel, data and premises), and for ICT and network equipment.

The FIC would benefit from an increased funding allocation, which would enable the organisation to enhance levels of compliance and make a more definitive policy contribution to South Africa's developmental objectives.

Looking Ahead

During 2013/14, the FIC started a review that will lead to an updated operating model in the context of reduced funding. The refocus will entail a closer examination of each element of the value chain of our work. It will include:

- Greater use of environmental scanning and analysis to determine threats and risks
- Building on our relationship with supervisory bodies and the private sector to strengthen compliance
- Strengthening the analysis function to support government's crime-fighting priorities
- Sharing relevant information with global and domestic partners for investigation support and follow up
- Building on our relationships with local and international law enforcement
- Strengthening our relationships with other FIUs
- Remaining abreast of global anti-money laundering and terror financing standards by actively engaging in the FATF, and participating in and providing technical assistance to ESAAMLG countries.

Conclusion

I would like to thank the staff of the FIC for the enormous contribution they have made as individuals and collectively to building this organisation, and to strengthening the integrity of South Africa's financial system. This has not been an easy task in a resource-constrained environment. I would also like to thank former Minister of Finance Pravin Gordhan for the guidance that he provided during his tenure.

The FIC welcomes the appointment of Minister Nhlanhla Nene, with whom we have worked over many years during his tenure as Deputy Minister of Finance and Parliamentary Chair of the Finance Portfolio Committee. We value his judgement and understanding of our work, and his commitment to strengthening financial intelligence in the national interest.

Murray Michell

Director
Financial Intelligence Centre

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 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 the 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 implementing internal controls that 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 our opinion, the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the entity for the financial year ended 31 March 2014.

Yours faithfully

Murray Michell

Director
Financial Intelligence Centre
31 July 2014

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, timeous 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 that is 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. 38 (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, SARS and other local and international agencies
- Supervise and enforce compliance with the FIC Act
- Facilitate effective supervision and enforcement by supervisory bodies.

LOCATING KIDNAPPERS

The FIC supported the South African Police Service (SAPS) in a kidnapping case in which the perpetrators demanded a ransom to be paid into the victim's bank account. The kidnappers frequently visited ATMs to check if the ransom had been paid. The FIC helped the SAPS locate the relevant ATMs and CCTV footage of the perpetrators. The kidnapped person was rescued and an arrest was made.

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

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

In executing its mandate, the FIC also seeks to:

- Contribute to the global framework against money laundering and the financing of terrorism
- Develop policy options for the Minister of Finance based on an assessment of the available financial intelligence.

The FIC Act establishes the FIC as South Africa's national centre for the development of financial intelligence in accordance with international standards and requirements.

RESEARCH TO BOOST FIGHT AGAINST WILDLIFE TRAFFICKING

The FIC worked with a US counterpart to conduct research on the illegal trade in rhino horn and ivory. As a result of its research, the FIC gained a better understanding of the red flag indicators associated with the illicit flow of proceeds related to this crime. These indicators identified by both jurisdictions will be shared with relevant institutions that have reporting obligations. More focused reporting will ultimately help law enforcement agencies in a range of jurisdictions and boost the domestic effort to stop rhino poaching.

During the reporting period, a person under investigation for rhino poaching was arrested while in possession of R400 000 cash and hunting equipment. He claimed that the cash came from a policy payout. An FIC investigation showed that a policy payout had taken place – but for a considerably lower amount more than a year before the arrest. Using this information, the Asset Forfeiture Unit obtained a preservation order for the monies to be seized. The accused is being prosecuted for charges related to rhino poaching.

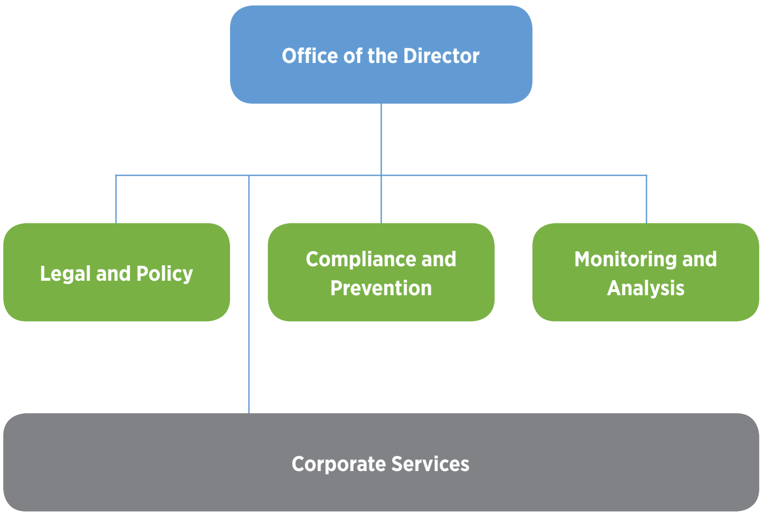
ORGANISATIONAL STRUCTURE

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 FIC 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 has three primary areas of responsibility:

- Administering the FIC Act
- Engaging with international organisations
- Providing strategic policy advice.

Compliance and Prevention

The Compliance and Prevention department is responsible for compliance oversight of the FIC Act. The 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 also monitors and gives guidance to accountable and reporting institutions, supervisory bodies and other persons regarding the performance of their obligations. It develops and issues guidance in consultation with the Legal and Policy department, provides training to supervisory bodies, and works to enhance 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 or the financing of terrorism.

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

Corporate Services

The Corporate Services department provides the FIC with all support services that 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 and marketing; planning, monitoring and evaluation; ICT and enterprise architecture; and project management.

UNCOVERING AN INVESTMENT SCHEME

The FIC became aware of a R50 million Ponzi scheme and referred the information to the relevant supervisory body and the Asset Forfeiture Unit. The supervisory body's investigation revealed that the company concerned was conducting the business of a financial service provider without registering to do so. FIC analysis revealed that several accounts were being used by the scheme. Information collected by the FIC helped the Asset Forfeiture Unit obtain preservation orders on these accounts. The recovered money was paid into the Criminal Asset Recovery Fund to compensate investors.

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 most of its targets for the reporting period. Several targets were met just after the close of the reporting period, with delays resulting from external factors. Most of the unmet targets were due to a lack of funds.

Organisational Environment

Financial constraints were the primary factors affecting the organisational environment. While the FIC met most of its targets, many of these had been adjusted downwards in line with reduced available funds. The effects of constrained funding were most pronounced in areas of staff recruitment, ICT enhancement and replacement of old equipment. The FIC placed a moratorium on recruiting staff and filling vacancies, and training was cut back. In its compliance supervisory oversight role, the FIC had to reduce the number of projected engagements with identified stakeholders and inspections. Capital projects were also affected, with adjustments made to several ICT development projects.

Key Policy Developments and Legislative Changes

No substantive policy or legislative changes affecting the FIC took place during 2013/14.

STRATEGIC OUTCOMES

Performance reporting is aligned with the following strategic outcomes:

Strategic outcomes
1. Improved levels 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. Reduced compliance burden for clients of entities subject to the FIC Act
5. Increased FIC efficiency and effectiveness

PERFORMANCE INFORMATION BY OUTCOMES

Strategic Outcome 1: Improved Levels of Compliance with the FIC Act

The FIC's work resulted in higher levels of compliance with the FIC Act, which helps to reinforce the integrity of the country's financial system. Over the past 11 years the FIC has developed a rigorous, increasingly effective compliance model that builds on partnerships with entities across the private sector. Supervisory bodies are taking action to influence compliance behaviour. Most targets in this outcome were achieved.

Agreements signed with all supervisory bodies

Each supervisory body is responsible for supervising and enforcing compliance with the FIC Act by the accountable institutions that it regulates or supervises. The FIC supervises and enforces compliance with the Act where organisations or entities are not regulated or supervised by a supervisory body, or where the supervisory body fails to enforce compliance despite FIC recommendations.

The legislation requires the FIC and supervisory bodies to co-ordinate the exercise of their powers and the performance of their functions. These approaches are captured in MoUs. During the reporting period, seven of the eight outstanding MoUs with supervisory bodies were signed (the Free State Gambling and Liquor Authority and the National Gambling Board; the KwaZulu-Natal Gambling and Betting Board and the National Gambling Board; the law societies of the Cape, Free State, KwaZulu-Natal and Northern provinces; and the Reserve Bank). The final outstanding MoU was signed shortly after the close of the reporting period. The completion of all MoUs represents a major milestone in the compliance environment.

Over the past 11 years the FIC has developed a rigorous, increasingly effective compliance model that builds on partnerships with entities across the private sector. Supervisory bodies are taking action to influence compliance behaviour.

Compliance inspections

The FIC and supervisory bodies conduct inspections to assess compliance 2013/14 (see Table 2).

- The FIC conducted 159 inspections on those business sectors it supervises and issued 167 inspection reports to those entities. Of these inspection reports, eight related to inspections conducted during the prior year
- The FIC provided support to 79 inspections conducted by supervisory bodies
- Supervisory bodies conducted 1 556 FIC Act inspections
- The FIC has established an internal adjudication panel consisting of executive managers to consider matters referred by the inspectorate for possible administrative sanction. The adjudication panel may then make recommendations to the Director.

What is an FIC Act compliance inspection?

Inspections are conducted by supervisory bodies or the FIC. The FIC also supports some of the inspections conducted by supervisory bodies. The FIC is responsible for conducting inspections on entities listed in schedules 1 and 3 to the FIC Act that are not supervised or regulated by a supervisory body.

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. Sampling of client files is done to ensure compliance with record-keeping and reporting obligations.

Post-inspection reports are drafted and inspected institutions are invited to comment on the draft, following which the final report is issued.

Failure to appear for questioning or to produce a document, intentionally giving false information, failing to comply with a reasonable request, or hindering an inspector are offences.

For administrative sanctions, the costs of penalties can reach R10 million for a natural person or R50 million for a legal person per compliance failure. For criminal sanctions, the maximum fine is R100 million or 15 years in prison, per contravention.

COMBATING FRAUD

The FIC was approached by the government of a neighbouring country to assist in a case of fraud to the value of R4.5 million committed in its jurisdiction. The FIC analysed the flow of funds and tracked the money to an account that was fraudulently opened in South Africa. The account was frozen by the institution concerned and immediate action by the FIC resulted in swift repatriation of R2 million to the neighbouring country. The funds were returned to the defrauded entity.

ATTORNEY CHARGED WITH FRAUD

The FIC worked with law enforcement agencies to investigate an attorney who was allegedly stealing money from one of his clients. The FIC analysed and identified bank accounts where the funds were concealed, enabling the Asset Forfeiture Unit to apply for a restraining order under the Prevention of Organised Crime Act. An amount of R2 million was secured.

TABLE 2: INSPECTIONS BY SUPERVISORY BODIES AND THE FIC

FIC own inspections conducted per business sector

Business sectors inspected	Inspections conducted
Trust companies and administrators	18
Motor vehicle dealers	113
Krugerrand dealers	21
Ithala Development Finance Corporation	1
Postbank	1
Entities that lend money against the security of securities	5
Sub total	**159**

FIC/supervisory body inspections conducted per business sector

Business sectors inspected	Inspections conducted
Gambling institutions	18
Collective investments	45
Estate agents	16
Sub total (supported inspections)	**79**

Supervisory body own inspections conducted per supervisory body

Business sectors inspected	Inspections conducted
Financial Services Board: Financial advisory and intermediary services division	492
Financial Services Board: Long-term insurance division	12
Financial Services Board: Collective investment schemes managers division	46
Financial Services Board: Capital markets division	15
Reserve Bank: Bank supervision department	7
Reserve Bank: Financial surveillance department	49
Estate Agency Affairs Board	776
Provincial Licensing Authority: Gauteng Province	21
Provincial Licensing Authority: Mpumalanga Province	12
Provincial Licensing Authority: Limpopo Province	29
Provincial Licensing Authority: Free State Province	10
Provincial Licensing Authority: KwaZulu-Natal Province	26
Provincial Licensing Authority: Eastern Cape Province	28
Provincial Licensing Authority: Western Cape Province	24
Provincial Licensing Authority: North West Province	8
Provincial Licensing Authority: Northern Cape Province	1
Sub total	**1 556**
Total – inspections conducted	**1 715**

New developments in the compliance environment

There were several notable developments in compliance enforcement. In particular, prosecuting authorities and law enforcement agencies have shown a greater interest in using criminal prosecution to address non-compliance. The FIC continues to stress the importance of collaborative dialogue on such matters. Prior consultation can help to ensure that matters that warrant administrative sanction, rather than criminal prosecution, can be addressed at the appropriate level, without undue destabilisation of financial institutions.

During 2013/14, the Reserve Bank – the supervisory body for the banking industry – conducted inspections of banks' anti-money laundering systems. These inspections uncovered certain regulatory failures, which in turn led to administrative sanctions determined by the Reserve Bank after the reporting period had closed.

TABLE 3: PENALTIES IMPOSED ON BANKS FOR FIC ACT NON-COMPLIANCE, 2013/14

Bank	Financial penalty
Absa Bank Limited	R10 million
FirstRand Bank Limited	R30 million
Nedbank Limited	R25 million
The Standard Bank of South Africa Limited	R60 million
Total	**R125 million**

DRUG MANUFACTURING

Following the bust of an East Rand drug lab, the SAPS arrested several suspects and seized drugs to the street value of R10 million. During subsequent investigations, the FIC worked closely with the Asset Forfeiture Unit and identified R6.5 million in assets linked to these individuals. Based on STRs from accountable institutions, the FIC identified proceeds of crime in several accounts and shared this information with the Asset Forfeiture Unit, enabling it to obtain preservation and forfeiture orders.

INVESTIGATING A SUSPICIOUS INWARD TRANSFER

The FIC received information about the inward transfer of US$15.3 million to an account belonging to a resident in South Africa. The FIC established that after the money was received, multiple transfers were made to various accounts, including an attorney's trust account. The FIC's efforts contributed towards a successful court application to preserve and investigate the source of the funds.

Auction Alliance court challenge to the FIC Act

In March 2012, the Estate Agency Affairs Board, the supervisory body for this estate agency sector, mandated an inspection on three branches of Auction Alliance (Pty) Ltd. The FIC participated in the inspection at the Johannesburg branch.

At the Auction Alliance head office in Cape Town, the board inspectors were prevented from conducting an inspection. Documentary and computer evidence was placed in safe custody with an independent third party pending a constitutional challenge by Auction Alliance to sections of the FIC Act and the Estate Agency Affairs Act (1976).

The constitutional challenge essentially attacked the inspection powers of the FIC and the Estate Agency Affairs Board to conduct warrantless searches in respect of non-routine or targeted inspections. The High Court of the Western Cape declared the relevant sections unconstitutional and invalid on 28 June 2013.

Judgment by the Constitutional Court

The Constitutional Court confirmed the High Court order of unconstitutionality and invalidity on 27 February 2014. The impugned provisions were viewed as overbroad. The Constitutional Court made the following orders concerning section 45B of the FIC Act:

- The declaration of invalidity is not retrospective and is suspended for two years in order for the legislature to cure the invalidity
- A search warrant is required for private residences or where criminal conduct is suspected
- A search warrant is not required for compliance inspections
- A search warrant can be obtained through a reading in of the FIC Act.

A search warrant can be obtained on written application by an inspector to a magistrate or judge if there are reasonable grounds to suspect that a contravention has occurred and that the search is likely to yield information.

The Constitutional Court also ordered that the Estate Agency Affairs Board had 30 days to obtain a search warrant for the evidence held in safe custody at KPMG in Cape Town. The board obtained a warrant within the time frame at the High Court in Cape Town.

Impact of the judgment

Because the order is not retrospective, it does not affect any previous inspection or enforcement action. Furthermore, most inspections are of a routine nature and do not involve suspicion of non-compliance or criminal activity, which means that no search warrant is required.

Parliament will consider amendments to the relevant laws to clarify the need to obtain a warrant for certain types of inspections.

In the meantime, however, the compliance and enforcement of the FIC Act will continue within the boundaries of the Constitutional Court judgment.

Improving awareness on compliance

The FIC conducted 13 road shows to raise awareness on compliance among regulated businesses. These events, which attracted an estimated 1 950 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 during these events, and there was strong demand for additional copies from participating organisations. The success of these events shows that the FIC is meeting a significant demand for more information about the role of business in the prevention of organised crime and money laundering. In addition to the road shows, the FIC also conducted 32 public compliance awareness sessions for accountable and reporting institutions and published 16 media articles and notices.

Responding to public queries

The FIC attended to a total of 15 871 written and telephonic queries from the public. Most of these inquiries (11 970) were 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. For example, in line with an increase in demand for letters confirming registration with the FIC, an internal process to expedite preparing, referencing and disseminating such letters has been implemented.

Providing guidance

The FIC issued 11 guidance products interpreting the legal meaning and application of aspects of the FIC Act and associated regulations. The topics of these publications ranged from client identification and verification requirements in relation to privacy and data protection laws, to company verification requirements.

CORRUPT GOVERNMENT OFFICIALS IN LEAGUE WITH A PROPERTY SYNDICATE

The Hawks uncovered a syndicate that swindled a government department into paying more than R40 million to rent properties that the department never occupied. FIC analysis uncovered gratification payments by the syndicate to officials working in the department that awarded the tender. These payments were used to buy movable and immovable assets. This information assisted the SAPS and resulted in successful prosecution of the officials for corruption.

TABLE 4: PUBLIC COMPLIANCE COMMUNICATION AND GUIDANCE NOTICES ISSUED

Directive/Public Compliance Communication Number	Date issued	Topic
Revised PCC 20	12 February 2014	Client identification and verification requirements for non-face-to-face online betting clients
Revised PCC 21	12 February 2014	Scope and application of exemption 17 in terms of the FIC Act
PCC 22	19 July 2013	Client identification and verification requirements in relation to international and foreign privacy and data protection laws
PCC 23	13 September 2013	The scope and meaning of item 11 of schedule 1 to the FIC Act
PCC 24	13 September 2013	Verification requirements of South African companies and close corporations in terms of the FIC Act
PCC 25	13 February 2014	Scope of item 12 of schedule 1 to the FIC Act
PCC 26	13 February 2014	Single client view
PCC 27	19 March 2014	Status of expired asylum seeker and refugee permits in relation to client identification and verification requirements in terms of the FIC Act
PCC 28	27 March 2014	Terrorist property reporting obligations for accountable institutions
Directive 1	28 March 2014	Updating of registration information for accountable and reporting institutions
Directive 2	28 March 2014	Use of login credentials following registration with the FIC

Registrations

The number of accountable and reporting institutions registered with the FIC increased by 20 percent, from 21 866 at the end of 2012/13 to 26 316 at the end of 2013/14, outstripping the target of 5 percent. The increase suggests that compliance with the FIC Act and its requirements continues to improve. In some industries, however, the number of registered institutions remains well below the number that is estimated to exist. The FIC continues working towards full registration of all categories, and will pay close attention to areas where discrepancies appear.

TABLE 5: ACCOUNTABLE AND REPORTING INSTITUTIONS REGISTERED AT 31 MARCH 2014

		Registrations 31 March 2013	Registrations 31 March 2014
Schedule 1: Item number			
1	Attorneys	7 430	8 884
2	Trust companies	88	110
3	Estate agents	6 029	7 245
4	Authorised users of an exchange	111	160
5	Unit trusts (collective investment scheme managers)	81	93
6	Banks	37	37
7	Mutual banks	3	4
8	Long-term insurers	93	93
9	Gambling	856	978
10	Foreign exchange	280	317
11	Money lenders against securities	36	45
12	Investment advisors or intermediaries	4 532	5 529
13	Issuers of travellers' cheques and money orders	47	58
14	Postbank	1	1
15	Stock exchange	Incorporated under Item 4	
16	Ithala Bank	1	1
17	Approved person by Registrar of Stock Exchanges (asset managers)	Incorporated under item 12	
18	Registrar of Financial Markets (asset managers)	Incorporated under item 12	
19	Money remitters	195	215
Schedule 3: Item number			
1	Motor vehicle dealers	1 914	2 368
2	Krugerrand dealers	132	178
Total		**21 866**	**26 316**

Intelligence reports

Table 6 below shows the number of CTRs, STRs and terror property reports[2] (TPRs) that the FIC received from accountable and reporting institutions during 2013/14. CTRs totalled more than 6.1 million and STRs, which may indicate a higher risk of ill-gotten gains, totalled 355 369.

[2] Terror property reports must be filed when accountable institutions suspect they have in their possession or under their control property owned or controlled by an entity that has committed an offence under the Protection of Constitutional Democracy against Terrorist and Related Activities Act, or named in a notice issued by the President under that Act.

CYBERCRIME PERPETRATED AGAINST THE CENTRAL BANK OF A NEIGHBOURING COUNTRY

A neighbouring country's central bank's credit card was skimmed and cloned using sophisticated cyber aids. The bank was defrauded of R7 million and the stolen funds were paid into four different South African bank accounts, held by individuals who did not have any business dealings with the central bank.

The FIC froze the four accounts in terms of section 34 of the FIC Act. The FIC's analysis uncovered that the proceeds were used to buy high-value items. Based on intelligence reports and affidavits prepared by the FIC, the Asset Forfeiture Unit successfully obtained preservation orders in terms of the Prevention of Organised Crime Act.

TABLE 6: CASH THRESHOLD, SUSPICIOUS TRANSACTION AND TERROR PROPERTY REPORTS, 1 APRIL 2013 TO 31 MARCH 2014

		CTRs	STRs	TPRs	Total
Schedule 1: Item number					
1	Attorneys	2 070	124	0	2 194
2	Trust companies	59	14	0	73
3	Estate agents	1 461	13	0	1 474
4	Authorised users of an exchange	83	43	0	126
5	Unit trusts (collective investment scheme managers)	849	21	1	871
6	Banks	5 321 264	110 366	126	5 431 756
7	Mutual banks	1 771	19	0	1 790
8	Long-term insurers	470	55	2	527
9	Gambling	606 576	905	0	607 481
10	Foreign exchange	116 533	125 721	0	242 254
11	Money lenders against securities	177	5	0	182
12	Investment advisors or intermediaries	32 755	9 242	0	41 997
13	Issuers of travellers' cheques and money orders	973	14 847	0	15 820
14	Postbank	19 103	439	8	19 550
15	Stock exchange	Incorporated under item 4			
16	Ithala	308	2	0	310
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	22 006	91 403	0	113 409
Schedule 3: Item number					
1	Motor vehicle dealers	42 650	2 139	0	44 789
2	Krugerrand dealers	877	11	0	888
Total		**6 169 985**	**355 369**	**137**	**6 525 491**

The FIC also received 137 TPRs. In total, 2 863 accountable and reporting institutions submitted financial intelligence reports, up from 2 255 in 2012/13.

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 financial intelligence reports received from accountable and reporting institutions. Banks in particular have been diligent about reporting CTRs, with more than 5.3 million reports. These reports are generally of a high quality due to the validation rules built into the FIC system.

The FIC provides three methods for submitting CTRs and STRs: web form; system-to-system reporting; and batch uploads, which may consist of hundreds of individual transactions, for institutions that submit large volumes of CTRs.

During 2014/15, the FIC will audit each failed batch submission. It will conduct a structured process of remediation with the batch reporters to ensure that no data is lost to the FIC. Where poor delivery concerns are not addressed by the batch reporters within the timelines set by the FIC, these concerns will be reported to the relevant supervisory bodies.

Strengthening a risk-based approach to compliance

In February 2014 the FIC issued guidance (Public Compliance Communication No. 26), which stated that accountable institutions should adopt a "single client view". This is in line with domestic and global moves towards a risk-based approach that requires financial institutions to have systems and processes in place to effectively monitor and manage their clients.

A single client view provides an institution with an accessible, consistent summary of the client's essential information and the scope of their relationship with the business. It allows various business units and product houses within institutions to access an existing client's identification and verification information from a central standpoint. The single client view has enormous benefits for the business, for the client and for the anti-money laundering framework. It allows an organisation to understand a client's value, risk, potential debt exposure and income streams, as well as the sources of their funds and/or wealth. It should eliminate unnecessary paperwork and bureaucratic procedures that clients undergo with their service providers. It also provides crucial information that allows money laundering or terrorist financing risks to be identified.

FIC recommendations on adopting a single client view

The FIC recommends that institutions take the following steps to implement a single client view:

- Improve the existing overall client data management system and create a data repository that will enable a single client view
- Combine data housed in silos in multiple systems, databases and departments, merging different references to create one reference
- Assign a unique identifier to each client to reflect a true, complete and accurate money laundering/terror financing risk
- Amend internal rules to ensure that client identification and verification processes are part of a single view mechanism to be followed by all departments.

The full text is available in Public Compliance Communication No. 26 on the FIC website (www.fic.gov.za).

Strategic Outcome 1: Improved levels of compliance with the FIC Act

Strategic objectives			Actual achievement 2012/13	Planned target 2013/14	Actual performance 2013/14	Deviation from planned target to actual achievement for 2013/14	Comment on deviations
Output		**Performance indicator**					
Supervision and enforcement in terms of the FIC Act	1.1.1	FIC Act Appeal Board functional	• Submitted request regarding remuneration of appeal board members to Minister of Finance • Secured Financial Services Board premises for appeal board hearings • Finalised report on receiving and repayment of R10 000 appeal fee • Finalised document on financial issues regarding administrative sanctioning process and appeal board • Secured funding and appointed appeal board secretariat	FIC Act Appeal Board is fully functional as demonstrated through provision of reports on each hearing	Report provided on the appeal hearing that was conducted	Target achieved	N/A
	1.1.2	FIC inspection reports issued	• Issued 292 inspection reports (2011/12: 220) • Attended to 71 out of 75 inspection requests received (95% response rate)	150 FIC inspection reports issued	167 FIC inspection reports issued	Target achieved	Target exceeded due to efficient FIC processes and effective staff
	1.1.3	Guide and advise supervisory bodies on their FIC Act supervision and enforcement obligations	Held forum meetings every quarter and gave guidance through different platforms	4 supervision and enforcement forum meetings held	4 supervision and enforcement forum meetings held	Target achieved	N/A
			Signed 10 MoUs bringing total MoUs signed to 11 out of a possible 19 (58%)	8 MoUs signed	7 MoUs signed	Target not achieved	Final MoU signed on 22 April 2014

Strategic Outcome 1: Improved levels of compliance with the FIC Act							
Strategic objectives			Actual achievement 2012/13	Planned target 2013/14	Actual performance 2013/14	Deviation from planned target to actual achievement for 2013/14	Comment on deviations
Output	Performance indicator						
Guidance and public compliance awareness provided on obligations in terms of FIC Act	1.2.1	Issue guidance to compliance and supervisory stakeholders	Issued nine guidance products, with a further four products drafted	12 guidance products issued	11 guidance products issued	Target not achieved	7 additional guidance products drafted. Delay in issuing due to extended stakeholder consultations
	1.2.2	Provide public awareness on compliance obligations in terms of the FIC Act	Held 40 public awareness sessions; published 16 articles and 12 notices	36 awareness sessions; 12 media publications	45 awareness sessions; 16 media publications	Target achieved	Sourced free or low-cost publications and participated in compliance awareness sessions held by supervisory bodies at limited cost to ensure that targets were achieved
Risk-based approach to supervisory oversight	1.3.1	All inspections performed in terms of supervisory oversight framework	Reviewed and implemented risk-based framework for supervision	All inspections performed in terms of risk-based approach to supervisory oversight framework	All FIC own inspections (159) performed in terms of risk-based approach to supervisory oversight framework	Target achieved	N/A
Increased registration and reporting by accountable and reporting institutions	1.4.1	Increase in number of accountable/ reporting institutions registered in terms of the FIC Act	Total number of registered accountable and reporting institutions: 21 866 (2011/12: 14 054)	1 093 registrations	4 453 registrations	Target achieved	Target exceeded due to increased awareness activity and the requirement of certain supervisory bodies that institutions' licence renewal depends on FIC registration
	1.4.2	Increase in number of accountable/reporting institutions that report in terms of the FIC Act	Total number of accountable and reporting institutions that reported: 2 255	2 358 institutions reporting	2 863 institutions reporting	Target achieved	Target exceeded due to increased awareness sessions and media publications, which made more institutions aware of the requirement to submit reports

The FIC does not budget by programme activity. Financial information concerning the four organisational components of the organisation can be found in the annual financial statements.

COPPER THEFT

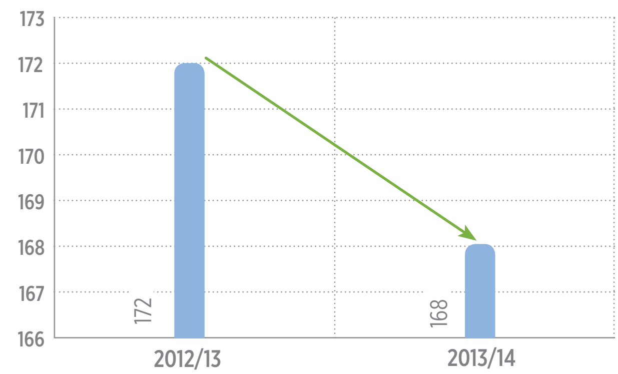
The FIC was involved in a joint task team investigating the theft of copper cables from state-owned companies that were subsequently sold to scrap metal dealers. The FIC identified various payments by the scrap metal dealers to a syndicate. Analysis uncovered the flow of funds to several accounts as well as subsequent asset purchases registered in the names of relatives. These accounts were blocked under the Prevention of Organised Crime Act.

Strategic Outcome 2: Better Utilisation of Financial Intelligence

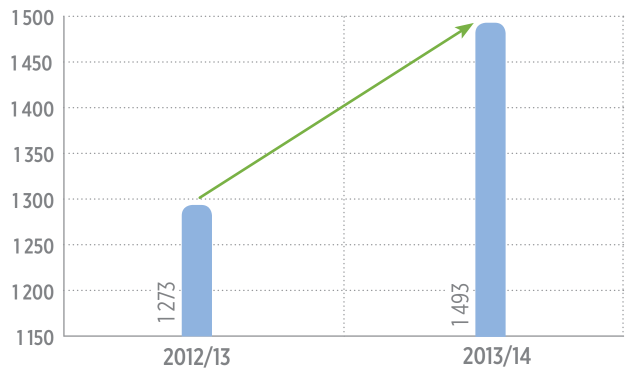
The FIC met all targets for this outcome. During 2013/14 the organisation took significant steps to align its strategic direction with state priorities, and became more directly involved in supporting national security objectives. This, in turn, has allowed the FIC to better align itself with government's efforts to reduce crime and corruption, and to strengthen national security. The FIC is a member of the National Intelligence Co-ordinating Committee and the National Joint Operational Intelligence Structure, and is part of the Anti-Corruption Task Team.

During the reporting period, the FIC responded to 1 661 investigation requests from national and international law enforcement agencies (up 15 percent from the prior year), and referred 883 cases for further investigation. In combination, these figures show the increasing demand for FIC intelligence products among law enforcement and prosecuting agencies.

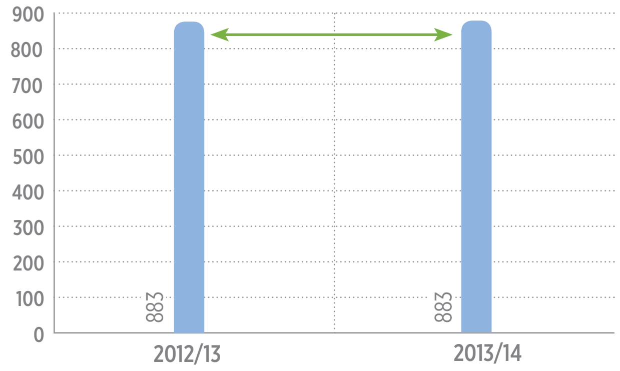
FIGURE 4: REQUESTS FOR INFORMATION FROM FIC AND CASES REFERRED BY FIC FOR INVESTIGATION



Requests by law enforcement and security agencies for financial intelligence (international)



Requests by law enforcement and security agencies for financial intelligence (domestic)



Cases referred by the FIC for investigation

The value of cases referred for investigation was R8.6 billion. This was substantially lower than in 2012/13 as a result of a large, once-off report during that year. The FIC identified and froze R78.9 million in assets during the period.

The analysis of FIC intelligence products used in criminal investigations shows that the majority involve tax-related crime, followed by fraud, money laundering, corruption and narcotics (see Figure 1 on page 6). In addition, the FIC has started to work closely with government departments to help them identify fraudulent procurement, enabling the departments to initiate civil processes to cancel contracts and recover their money over a short period of time, with criminal prosecution to follow.

FIC intelligence products are increasingly used by a wide range of law enforcement, intelligence and prosecuting authorities.

EMPLOYEE FRAUD

The FIC assisted the SAPS in a fraud investigation involving the theft of R1 million from a company by an employee of SAPS. The FIC identified the flow of money associated with the theft, revealing a bank account, insurance policies and immoveable properties. This information was shared with the Asset Forfeiture Unit, which used it to obtain a confiscation order for property valued at nearly R1 million.

PROCUREMENT FRAUD FROM GOVERNMENT DEPARTMENT

A government department was defrauded of R61 million that was illegally paid to a construction company. FIC analysis revealed that numerous accounts were used to launder these funds, and the FIC acted to secure the proceeds through 11 intervention orders. Information collected by the FIC enabled the Asset Forfeiture Unit to obtain orders against property belonging to the company and almost R60 million was recovered. The subjects are currently facing prosecution for fraud and money laundering.

Researching Illicit Financial Flows

An FIC research project is working to estimate the proceeds of crime as part of the illicit economy and illicit financial flows.

What is the illicit economy?

Organised crime and the illicit economy undermine financial stability and the efficient functioning of democratic governments. The global illicit economy moves everything from drugs and weapons to human body parts. Illicit traders generate vast amounts of cash that need to be laundered into global financial systems.

How much money is involved?

Worldwide, illicit financial flows are estimated in excess of US$1 trillion annually from 2007 to 2009. Illicit financial outflows from Africa are estimated to have averaged US$50 billion annually from 2000 to 2008, or $400 billion in total, according to the United Nations High Level Panel on Illicit Financial Flows from Africa.

What form does illicit finance take?

Current definitions of illicit financial flows include commercial transactions involving multinational enterprises that evade taxes through transfer and trade mispricing; the proceeds of criminal activity, such as trade in drugs and weapons; and monies obtained through the theft of public funds.

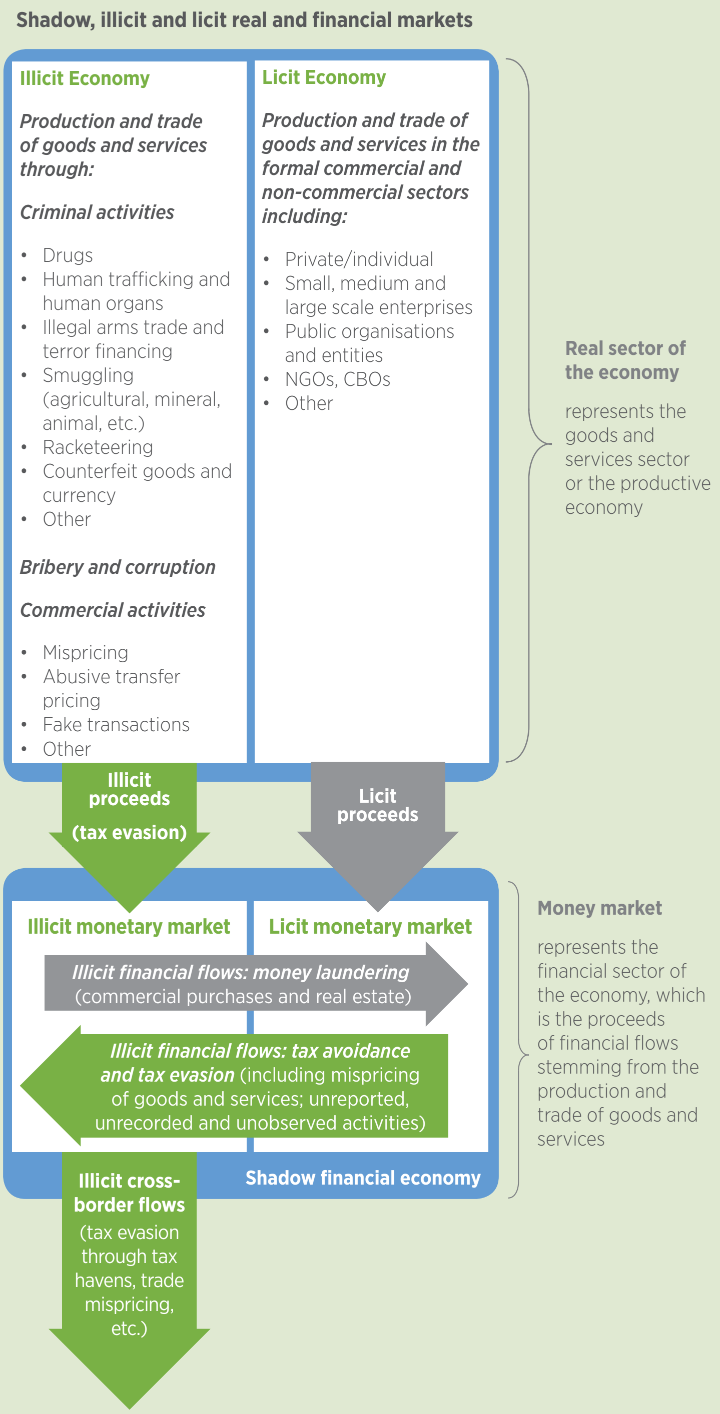
The FIC project is helping to increase the understanding of flows between the legal economy and the shadow economy, with a focus on the proceeds of crime (see figure below).

Observations

To understand the illicit economy, it is useful to note the following:

- Perfectly legitimate forms of demand can produce perfectly deviant forms of supply
- Uneven regulatory structures create illicit arbitrage opportunities
- Pathways for the legitimate economy are also pathways for the illicit economy
- Once an illicit industry professionalises, crackdowns merely promote innovation
- The shadow economy presents an existential challenge to state legitimacy.

FIGURE 5: UNDERSTANDING HOW THE REAL AND SHADOW ECONOMIES WORK



Strategic Outcome 2: Better utilisation of financial intelligence

Strategic objectives							
Output	Performance indicator		Actual achievement 2012/13	Planned target 2013/14	Actual performance 2013/14	Deviation from planned target to actual achievement for 2013/14	Comment on deviations
Increased support to the criminal justice system	2.1.1	Increase the number of cases disseminated for investigation	Number of cases forwarded for investigation: 883 (2011/12: 761)	837 cases disseminated for investigation	883 cases disseminated for investigation	Target achieved	Target exceeded due to efficient FIC processes and effective staff
	2.1.2	Increase number of national and international law enforcement investigations contributed to upon request	Number of national and international investigations assisted upon request: 1 445 (2011/12: 849)	1 078 national and international law enforcement investigations contributed to upon request	1 661 national and international law enforcement investigations contributed to upon request	Target achieved	Increased demand for FIC assistance in investigations due to alignment of intelligence priorities with government outcomes and delivery partners' priorities (SAPS, Directorate for Priority Crime Investigation, State Security Agency and SARS), which resulted in partners finding greater direct value from FIC information and support
	2.1.3	Increase the blocking of suspected proceeds of crime in the financial system	Suspected proceeds of crime blocked using FIC Act section 34: R334 million (2011/12: R7.4 million)	R13 million blocked as suspected proceeds of crime	R76.93 million blocked as suspected proceeds of crime	Target achieved	Received more requests to block funds than anticipated, and requests entailed large sums of money
	2.1.4	Increase in number of prosecutions contributed to	Not a target for 2012/13	Contributed to 16 prosecutions	Contributed to 31 prosecutions	Target achieved	During 2013/14, the State Advocate took more matters to court and the FIC contributed to some cases that reached maturity for court action after several years
	2.1.5	Quantify size of illicit economy	N/A	Report provided on size of illicit economy	Report provided with research model and estimates covering selected sectors	Target achieved	N/A
Create capacity and capability to support provincial crime-combating initiatives	2.2.1	Regional office functional	Regional office is fully operational and achieved the following: • Received 120 case referrals • Forwarded 101 cases for investigation • Contributed to 272 cases out of 307 requests received	Report provided on the maintenance of regional operational activities and staff capacity	Report provided on maintenance of regional operational activities and staff capacity. Regional office contributed to overall FIC achievement of cases disseminated and responses to requests for assistance from law enforcement agencies	Target achieved	N/A

Strategic Outcome 3: Promoting National Interest in Maintaining the Integrity of South Africa's Financial System

The FIC works with government, the private sector and law enforcement agencies to identify and remain abreast of potential threats to the integrity of South Africa's financial system. In doing so, the FIC collaborates with FIUs around the world to strengthen global efforts in combating money laundering and terror financing. The FIC pays particular attention to working to strengthen financial intelligence on the African continent. Most targets for this outcome were met. The FIC responded to all requests for technical assistance – including 12 requests from African countries.

The FIC continues to work towards the next round of mutual evaluations to be conducted by the FATF. The FATF and the ESAAMLG have started training a core group of people who will be carrying 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.

At the regional level, the FIC continued its collaborative efforts in partnership with neighbouring countries to improve their anti-money laundering processes. Most countries in the region have anti-money laundering legislation in place, which includes establishing FIUs as the first step of implementation. Four African delegations (Botswana, Kenya, Nigeria and Zimbabwe) visited the FIC to observe its work during the year, and the FIC has begun partnering with newly founded FIUs to help them apply for membership in the Egmont Group. The FIC has sponsored Egmont applications for Namibia and Tanzania, which are to be reviewed during 2014/15.

PRECIOUS METALS

At a roadblock in Gauteng, the SAPS discovered precious metals and a large amount of cash in a vehicle. FIC analysis shed light on the financial profile of the individual arrested – including regular visits to casinos where he bought chips that were used and later exchanged to pay syndicate members supplying him with these commodities. Relevant accounts were monitored, revealing other beneficiaries of the scheme for the SAPS to investigate.

FIC hosts global meeting of financial intelligence units

In July 2013, the FIC hosted the 21st Egmont Group Plenary. This annual meeting brings together member FIUs and observer organisations for in-depth discussions and to develop the international FIU network.

The 2013 plenary was the largest and most successful meeting in Egmont's 21-year history. It was also the first to be held on the African continent. The plenary was attended by more than 380 participants, representing FIUs from 107 jurisdictions and 15 international organisations. Representatives of the six FIUs from Angola, Benin, Chad, Ghana, Niger and Zambia observed the proceedings.

Notable outcomes included the following:

- The Egmont Group adopted a new charter for international co-operation
- The organisation admitted eight new members, bringing total membership to 139. The new members were FIUs from Algeria, Bangladesh, Bolivia, Burkina Faso, Seychelles, Togo, Trinidad and Tobago and Holy See (Vatican City State).
- Egmont members signed more than 53 bilateral co-operation agreements, signalling a continued commitment to work together and exchange information across borders.

The plenary elected FIC Director Murray Michell to chair the group for a two-year period.

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

Strategic objectives			Actual achievement 2012/13	Planned target 2013/14	Actual performance 2013/14	Deviation from planned target to actual achievement for 2013/14	Comment on deviations
Output	Performance indicator						
Actions by South African authorities to implement the recommendations contained in the FATF Mutual Evaluation Report	3.1.1	Comprehensive report describing follow-up actions of various departments and agencies submitted to FATF	Consolidated report submitted for consideration at February 2013 plenary and approved by FATF	Comprehensive report on follow-up actions approved by FATF by Q4	Comprehensive report on follow-up actions not approved. Awaiting response to proposed amendments to FIC Act submitted to the Minister of Finance in Q3	Target not achieved	Time frame to achieve this output will only become clear once legislative programme on proposed amendments is agreed
Technical support to countries in the ESAAMLG region	3.2.1	Report on priorities and needs for technical assistance within ESAAMLG region	Submission with report on needs assessment and proposed approach to future technical assistance delivery prepared for Executive Committee consideration	Report updated based on new information submitted to FIC director	Report updated	Target achieved	N/A
	3.2.2	Responses to requests for technical assistance from countries within ESAAMLG region	Responded to 100% of requests: • Provided advice in response to two requests from Namibia's FIU • Agreed to receive delegation from Kenya on a benchmarking study tour	Respond to 90% of requests received	Responded to 12 out of 12 (100%) requests for technical assistance, mainly from ESAAMLG countries, including Botswana, Ethiopia, Kenya, Lesotho, Mozambique, Namibia and Zimbabwe	Target achieved	N/A
	3.2.3	Proposal on continued assistance to ESAAMLG secretariat	Engaged secretariat on impact and needs, and prepared report	Proposal document submitted on continued assistance to ESAAMLG secretariat	Proposal document submitted on continued assistance to ESAAMLG secretariat	Target achieved	N/A
Participation in policy-making activities of regional and inter-governmental organisations	3.3.1	Participation in activities of regional and inter-governmental organisations	Submitted reports to the Minister of Finance as part of the next travel submission	Attend and participate in 3 FATF meetings and 2 ESAAMLG meetings	Attended and participated in 3 FATF meetings and 2 ESAAMLG meetings	Target achieved	N/A

Strategic Outcome 4: Reduced Compliance Burden for Clients of Entities Subject to the FIC Act

The FIC achieved the target for this outcome. Some of the activities in this area involved consultative meetings with representatives from the National Treasury, the Financial Services Board and other stakeholders for discussions on the broad areas that are included in the review of the FIC Act.

The primary work for the period was finalising the review of the FIC Act and recommending amendments to the Minister of Finance – a process completed within the reporting period. The FIC recommended that a process of external consultation on these amendments should be initiated, and the Minister agreed. As a result, the FIC is working with the National Treasury to develop a consultative process. The bulk of the proposed amendments involve shifting compliance with the FIC Act from a rules-based approach to a risk-based approach, as discussed on page 9 of this report. In essence, this approach will help businesses to do business with their customers, and clients to avoid unnecessary paperwork. Ease of compliance will also promote greater financial inclusion.

Discussions are under way with supervisory bodies to flesh out the risk-based approach as it may apply to different institutions. Individual experts are also being consulted.

Strategic Outcome 4: Reduced compliance burden for clients of entities subject to the FIC Act							
Strategic objectives			Actual achievement 2012/13	Planned target 2013/14	Actual performance 2013/14	Deviation from planned target to actual achievement for 2013/14	Comment on deviations
Output	Performance indicator						
Proposals to update and improve the FIC Act	4.1.1	Proposed legislative amendments	A bill amending the FIC Act has been prepared and submitted to the Minister of Finance	Proposed amendments submitted for ministerial approval	Proposals to amend the FIC Act were submitted to the Minister of Finance	Target achieved	N/A

The organisation registered several accomplishments in 2013/14, including setting up and relocating to a new head office.

Strategic Outcome 5: Increased FIC Efficiency and Effectiveness

The FIC strives to be a sustainable, highly capable institution that delivers efficiently and effectively on its mandate. The organisation registered several accomplishments in 2013/14, including setting up and relocating to a new head office.

The FIC relies on the gathering, storing and analysis of information using sophisticated ICT systems to deliver on its mandate. The organisation has upgraded its server infrastructure, but improving the network infrastructure has been delayed until funding becomes available.

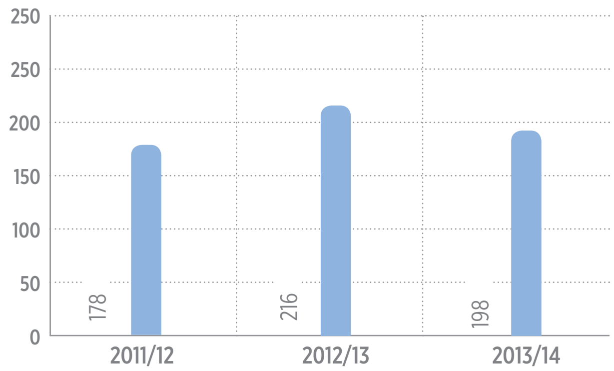
The move to a new office is an important step forward for the FIC. The new premises are highly secure and can accommodate substantial growth in the staff complement, with facilities to host a range of engagements with supervisory bodies, accountable and reporting institutions, law enforcement partners and other parties.

Human resources

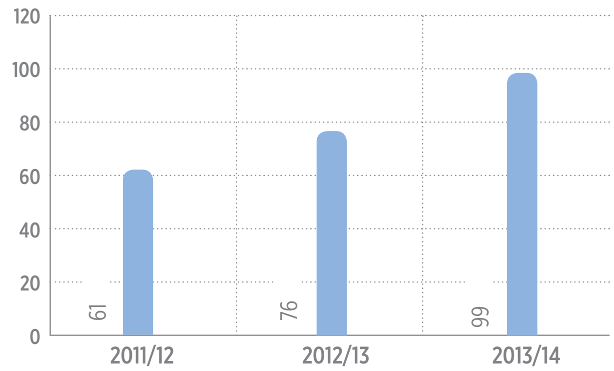
The FIC's staff component declined from 217 in 2012/13 to 197 in the reporting period. The organisation's core business is fulfilled by technical staff and a concerted effort has been made to increase such personnel as a proportion of the overall staff base. Technical staff numbers rose from 76 in 2012/13 to 99 in 2013/14. Maintaining an adequate number of technical staff is challenging due to the highly competitive market for compliance enforcement and ICT skills. The FIC experienced staff losses, particularly in these two areas, during the reporting period.

As part of the effort to grow its own technical skills, the FIC's two-year graduate development programme continued for its second year, with the initial five participants due to complete their contracts at the end of September 2014. Following a selection process, successful candidates will be offered positions as assistance compliance officers. Due to funding constraints, this programme was unable to take on new graduates during the reporting period. The FIC's other internal programme to develop graduates for professional roles within the ICT unit also did not recruit any new participants during 2013/14. Insufficient numbers of technically skilled personnel reduces the FIC's potential impact and its ability to function.

FIGURE 6: STAFF COMPLEMENT AND TECHNICAL STAFF, 2011/12–2013/14

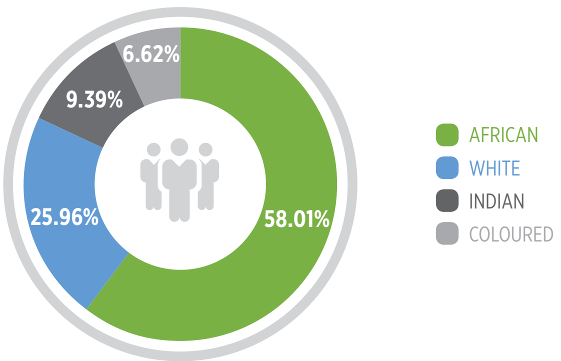


Staff complement



Employees in core business

FIGURE 7: FIC STAFF EQUITY PROFILE, HEAD COUNT PER POPULATION GROUP 2013/14



Strategic Outcome 5: Increased FIC efficiency and effectiveness							
Strategic objectives							
Output	Performance indicator		Actual achievement 2012/13	Planned target 2013/14	Actual performance 2013/14	Deviation from planned target to actual achievement for 2013/14	Comment on deviations
To have suitable enterprise information architecture design in place	5.1.1	Completion of design and implementation of new enterprise information architecture	• Defined baseline enterprise architecture, focusing on application, data and technology architecture • Defined target technology architecture • Delivered architecture definition documents for key projects, including planning documents for information systems modernisation	Completion of enterprise architecture milestones, including design support to analytics solution project	Enterprise architecture function provided design support to analytics project and was further developed through an architecture processes project	Target achieved	N/A
Modernisation of ICT platform and business systems	5.2.1	Completion of ICT platform and business systems milestones	• Assessed information systems infrastructure and designed new platform • Placed order for the first phase of information systems infrastructure	Completion of ICT platform and business systems milestones	Completed first phase of infrastructure upgrade, including hardware installation at primary and disaster recovery sites Configured disaster recovery storage and data migration	Target not achieved	Office relocation delayed stabilisation of production environment; as a result, planned installation of one application was completed a month after year-end
					Analytics application successfully installed and configured in testing and staging environments	Target not achieved	Application configuration timelines were revised due to the office relocation project
	5.2.2	Completion of business continuity milestones	• Developed a business continuity plan and a linked crisis guide • Submitted crisis management and business recovery plans to management for follow-up action	Completion of business continuity management project milestones, including development of crisis guide	Business continuity management crisis guide finalised and simulation exercise conducted	Target achieved	N/A
Customisation of premises for the FIC	5.3.1	Completion of FIC premises customisation milestones	• Obtained approval for new premises project from the Minister of Finance • Appointed a property service provider • Completed space analysis and layout design	Completion of FIC office premises project milestones	Successfully relocated to new FIC building	Target achieved	N/A

Strategic Outcome 5: Increased FIC efficiency and effectiveness

Strategic objectives			Actual achievement 2012/13	Planned target 2013/14	Actual performance 2013/14	Deviation from planned target to actual achievement for 2013/14	Comment on deviations
Output	Performance indicator						
Human resource capacity and capability for the FIC	5.4.1	Success rate for recruitment and placement of staff based on number of interviews held per position	32 positions were advertised, of which 26 were filled (81% recruitment success rate)	Report on efficiency of recruitment and placement of ICT staff based on number of interviews held	Report was provided on the efficiency of recruitment and placement of staff: It took an average of 7 interviews to fill each of the ICT vacancies. In total the FIC filled four new vacancies. No significant recruitment due to general moratorium on recruitment across the FIC	Target not achieved	Budget proposals to be submitted in next planning cycle to close gaps in human resource capacity Additional funding would enable the FIC to lift the moratorium on recruitment, allowing for stabilisation of the staff complement
Increased awareness of the FIC	5.5.1	Completion of stakeholder engagements in support of compliance and awareness requirements	Provided communication services to internal and external stakeholders	Provide FIC documents to support compliance awareness sessions on a case-by-case basis	Provided documents to support 9 compliance awareness sessions	Target achieved	N/A
				Implement 3 monthly staff newsletters	An average of 7 staff newsletters were published per quarter	Target achieved	On average, seven newsletters were published per quarter, representing a significantly higher output than the annual target of three newsletters
Internal processes are institutionalised	5.6.1	Completion of internal control and process improvement milestones aimed at resolving Auditor-General's findings	• Cleared 100% of 2011/12 audit findings • All governance structures are in place and operational	Auditor-General's findings resolved and internal control action plans completed	Resolved all Auditor-General findings from July 2013 audit	Target achieved	N/A

Part C:
Governance

INTRODUCTION

The FIC follows best practice and legislative requirements that apply to a schedule 3A 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 Organizations of the Treadway Commissions' framework to identify, analyse, assess, treat, monitor and communicate risks. This approach ensures that risks are identified and assessed every year, and shared with relevant parties, including the Auditor-General, the FIC's internal audit function and the Risk Committee.

An approved risk management policy and framework is in place. Independent Risk Committee members have been appointed to help embed a risk management culture within the FIC and to advise management on mitigating risk. Risk assessment is an integral and continuous responsibility of management. The Audit Committee also advises the FIC on risk management and independently monitors the effectiveness of risk management systems.

The Risk Committee oversees internal control systems, governance and risk management. The committee is responsible for monitoring risk management processes and providing advice on mitigating short- to long-term risk. Its responsibilities include:

- Reviewing the risk assessment process implemented by management to ensure that the full scope of existing and emerging risks, both internal and external, is identified
- Facilitating and monitoring the co-ordination of all assurance activities
- Reviewing and recommending any risk disclosures in the annual financial statements
- Providing regular feedback to the FIC Director on the effectiveness of the risk management process
- Reviewing fraud prevention controls implemented by management and ensuring that all fraud-related incidents have been followed up appropriately
- Reviewing FIC achievements against targets and performance measurement systems
- Evaluating the overall performance of the risk management function.

The FIC identified five strategic risks and 39 operational risks during 2013/14. Risks were ranked from 1 to 5 (1 = high risk and 5 = low risk). These risks were allocated to various departments and operational action plans were developed to mitigate them. The strategic risks are summarised below:

- **Inadequate security of information, employees and work environment** – The FIC moved into new premises during 2013/14, as discussed in Strategic Outcome 5
- **Inadequate relations with local and international stakeholders** – The FIC took a number of steps to strengthen domestic and international relations, as discussed in the FIC Director's overview, and Strategic Outcomes 1 to 4
- **Inadequate delivery of ICT systems to support business operations** – Actions to address this risk are discussed under Strategic Outcome 5
- **Inadequate resources (human, capital, ICT, skills) to fulfil mandate** – Steps taken to address this are discussed in the Director's Overview and Strategic Outcome 5
- **Inadequate business continuity management process system** – Actions to address this risk are discussed in Strategic Outcome 5.

INTERNAL AUDIT AND AUDIT COMMITTEES

Internal Audit

The internal audit function:

- Helps the FIC to identify and manage risks
- Ensures that significant legislative or regulatory issues affecting the FIC are recognised and addressed
- Assesses the adequacy and effectiveness of the FIC's control environment, and recommends potential improvements
- Develops a rolling three-year strategic internal audit plan in line with the strategic risk assessment report
- Prepares a flexible annual internal audit plan using a risk-based methodology, including any risks or control concerns identified by management, and submits the plan to the Audit Committee for review and approval
- Executes the approved annual internal audit plan, including any special tasks or projects requested by management and the Audit Committee.

During 2013/14, the function conducted audits of compliance and prevention, asset management, supply chain management, predetermined objectives, internal financial controls, occupational health and safety, and general ICT controls. It also followed up on its own previous findings, as well as those of the Auditor-General.

Audit Committee

The Audit Committee is an independent body that reports to the FIC Director through its chairperson. It serves as an objective and independent body that assists FIC management to discharge its duties relating to the safeguarding of assets; procedures and controls; financial reporting and related internal controls; audit processes; and departmental process for monitoring compliance with laws, regulations and the code of conduct. The Audit Committee's most important contribution to assuring ethical conduct is its sincere interest in FIC operations and its advocacy of a high standard of behaviour.

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 by the Public Finance Management Act and the Protocol on Corporate Governance in the Public Sector, and taking cognisance of the recommendations of the relevant King Report on Corporate Governance
- 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 covering compliance with legal, statutory and regulatory provisions, and to note 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, the content of the 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.

Audit Committee members

Member	Qualifications	Status	Appointed	Resigned	Meetings attended
Clive Kneale	Fellow of the Southern African Institute of Chartered Secretaries and Administrators	Independent	28 February 2010	N/A	4
Nonhlanhla Khumalo	Certified Professional Accountant (SA)	Independent	28 February 2010	N/A	4
Bolokang Lengane	Chartered Accountant (SA)	Independent	28 February 2010	N/A	4

COMPLIANCE WITH LAWS AND REGULATIONS

As a public entity, the FIC takes measures to ensure compliance with relevant laws and regulations. During the year under review, the organisation conducted an audit to assess its level of compliance with relevant laws and regulations. The FIC has put measures in place to address the gaps identified during the audit.

FRAUD AND CORRUPTION

The corruption prevention investigation framework and associated implementation plan for 2013/14 were approved by the Risk Committee and the Executive Committee. Updates are provided at quarterly Risk Committee meetings. The FIC manages a dedicated anti-fraud and corruption hotline open to the public at all times. The reports to the hotline are dealt with anonymously. During the reporting period, no cases were received from the national anti-fraud hotline operated by the Public Service Commission. During 2013/14, there were no reports alleging internal FIC corruption or fraud, and no cases were reported against the FIC at the Public Services Commission.

The FIC is a member of the justice, crime prevention and security cluster committee and participates in the Anti-Corruption Task Team.

MINIMISING CONFLICT OF INTEREST

The FIC maintains a policy and procedure on gifts, donations and sponsorships to prevent internal fraud and corruption. 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 FIC Director at least once every year for any external remunerative work.

CODE OF CONDUCT

The FIC code of ethics and conduct is provided to all new staff joining the organisation. During the reporting period there were no reports of the code being breached.

HEALTH, SAFETY AND ENVIRONMENTAL LAWS

An internal committee ensures that all issues of health and safety are addressed, and that incidents are reported and dealt with accordingly. The committee met three times during the year and its members attended various training sessions on health and safety matters. An occupational health and safety policy has been placed on notice boards throughout the new premises, and first aid kits have been distributed throughout the building. A register of all incidents and accidents is maintained. One evacuation/safety drill was conducted.

AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2014.

Audit Committee Responsibility

The Audit Committee reports that it has complied with its responsibilities arising from the Public Finance Management Act and Treasury Regulation 3.1.13. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein, except that we have not reviewed changes in accounting policies and practices.

The Effectiveness of Internal Control

Our review of the findings of the Internal Audit work, which was based on the risk assessments conducted in the public entity, revealed certain weaknesses, which were raised with the entity.

The Internal Auditors have undertaken several assignments, in accordance with the internal audit plan.

All reports were submitted to management, which took appropriate remedial action.

In-year Management and Monthly/Quarterly Report

The public entity has submitted monthly and quarterly reports to the Executive Authority.

Evaluation of Financial Statements

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

Auditor's Report

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

The Audit Committee concurs with and accepts the conclusions of the external auditor on the annual financial statements and is of the opinion that the audited annual financial statements as read with the report of the auditor be authorised by the Director.

Clive Douglas Kneale

Chairperson of the Audit Committee
Financial Intelligence Centre
30 July 2014

Part D:
Financial Information

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 61 to 90, which comprise the statement of financial position as at 31 March 2014, 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 the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and 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 2014 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

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation, as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

7. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected strategic outcomes presented in the annual performance report of the public entity for the year ended 31 March 2014:

   - Strategic outcome 1: Improved levels of compliance with the FIC Act on pages 30 to 31
   - Strategic outcome 2: Better utilisation of financial intelligence on pages 36
   - Strategic outcome 4: Reduced compliance burden for clients of entities subject to the FIC Act on page 41.

8. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
9. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
10. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
11. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected strategic objective.

Additional matters

Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected objective, I draw attention to the following matter:

Achievement of planned targets

12. Refer to the annual performance report on pages 20 to 45 for information on the achievement of the planned targets for the year.

Unaudited supplementary information

13. The supplementary information set out on pages 20 to 29, 32 to 35, 37 to 38, 40 and 42 to 43 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

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:

Annual financial statements

14. 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 expenditure, revenue and trade and other payables, the disclosure notes on prior period adjustments and related parties, as well as the cash flow statement.

Performance information

15. Internal policies and procedures for performance information management and reporting were not developed and approved. This resulted in non-compliance with the National Treasury framework on performance information. I have taken note of the FIC staff guidebook document which assists in managing performance information.

Internal control

16. I did not identify any significant deficiencies in internal control.

Auditor-General

Pretoria

31 July 2014

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

INDEX

The Reports and Statements Set Out Below Comprise the Financial Statements:

ACCOUNTING AUTHORITY'S RESPONSIBILITY AND APPROVAL STATEMENT 59
STATEMENT OF FINANCIAL POSITION 61
STATEMENT OF FINANCIAL PERFORMANCE 62
STATEMENT OF CHANGES IN NET ASSETS 63
CASH FLOW STATEMENT 64
ACCOUNTING POLICIES 65
NOTES TO THE FINANCIAL STATEMENTS 71

ACCOUNTING AUTHORITY'S RESPONSIBILITY AND APPROVAL STATEMENT

The Accounting Authority of the Financial Intelligence Centre (FIC) is pleased to submit his report, together with the FIC's annual financial statements, for the year ended 31 March 2014.

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 PFMA and other applicable legislation, it has developed and maintains a system of internal controls, designed to provide reasonable assurance regarding the achievement of objectives.

1. Establishment, mandate and operations of the FIC

The FIC was established in terms of the Financial Intelligence Act 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 and 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, administrative controls and independent oversight by the Audit and Risk Committees. These are designed to provide reasonable, but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in line with generally accepted business practice, and policies and procedures established by the Accounting Authority. Self-monitoring mechanisms allow actions to be taken to correct deficiencies.

4. Accounting policies

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

5. Corporate governance

General

The Accounting Authority is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the Accounting Authority supports the highest standards of corporate governance and the ongoing application 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 Report on Corporate Governance for South Africa 2002.

Audit Committee

The Audit Committee comprised three members for the year ended 31 March 2014 and met four times during the year, in accordance with its approved terms of reference.

Internal Audit

The FIC has outsourced its internal audit function to Business Innovations Group.

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 2014.

7. Subsequent events

The Accounting Authority is not aware of any matter or circumstance arising since 31 March 2014 and the date of this report, not dealt with in the annual financial statements, which would significantly affect the operations or results of the FIC.

8. Bankers

Standard Bank of South Africa Limited.

9. Auditors

Auditor-General of South Africa.

The financial statements set out on page 61 to 90, which have been prepared on the going concern basis, were approved by the Accounting Authority on 31 July 2014.

Murray Michell

Director and Accounting Authority
Financial Intelligence Centre
31 July 2014

STATEMENT OF FINANCIAL POSITION

as at 31 March 2014

	Note(s)	2014 R'000	2013 Restated* R'000
Assets			
Current assets			
Cash and cash equivalents	10	40 577	19 651
Receivables	9	961	1 038
Inventory	8	217	200
Prepayments	6	3 650	28 533
		45 405	49 422
Non-current assets			
Property, plant and equipment	3	78 729	29 416
Intangible assets	4	16 517	6 790
Deposits – long-term receivables	7	1 060	-
		96 306	36 206
Total assets		141 711	85 628
Liabilities			
Current liabilities			
Finance lease liabilities	11	161	673
Trade and other payables	15	18 839	13 991
Provisions	12	7 000	5 630
Third-party deposits	13	20	20
Income received in advance	14	23 376	-
		49 396	20 314
Non-current liabilities			
Finance lease liabilities	11	57	204
Provisions	12	4 660	-
		4 717	204
Total liabilities		54 113	20 518
Net assets		87 598	65 110
Accumulated surplus		87 598	65 110

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2014

	Note(s)	2014 R'000	2013 R'000
Revenue			
Non-exchange revenue	16	243 424	197 314
Interest received	20	1 367	1 305
		244 791	198 619
Expenditure			
Personnel	18	(130 589)	(117 335)
Audit Committee member fees	19	(167)	(280)
Depreciation and amortisation	31	(19 350)	(15 583)
Losses on financial assets	21	(662)	-
Finance costs	22	(149)	(108)
Allowance for impairment	9	(17)	-
Audit fee	32	(1 777)	(2 624)
General expenses	17	(68 818)	(60 714)
Total expenditure		(221 529)	(196 644)
Operating surplus		23 262	1 975
Loss on disposal of assets and liabilities		(774)	(71)
Gain on foreign exchange		-	2
		(774)	(69)
Surplus for the year		22 488	1 906

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2014

	Note(s)	Revaluation reserve R '000	Accumulated surplus R '000	Total net assets R '000
Opening balance at 1 April 2011	26.2	21	96 121	96 142
Surplus/(Deficit) for the year as previously reported		-	(33 309)	(33 309)
Prior year adjustments	26.1	-	392	392
Opening balance restated at 1 April 2012		21	63 204	63 225
Surplus/(Deficit) for the year as previously reported		-	(951)	(951)
Prior year adjustments	26.1	-	2 857	2 857
Revaluation reserve realised		(21)	-	(21)
Surplus/(Deficit) restated		-	1 906	1 885
Restated balance at 1 April 2013		-	65 110	65 110
Changes in net assets				
Surplus for the year		-	22 488	22 488
Total changes		-	22 488	22 488
Balance at 31 March 2014		-	87 598	87 598

CASH FLOW STATEMENT

for the year ended 31 March 2014

	Note(s)	2014 R'000	2013 Restated* R'000
Cash flows from operating activities			
Receipts			
Cash receipts from grants		241 000	197 314
Interest income		1 307	1 247
		242 307	198 561
Payments			
Suppliers		(167 335)	(212 660)
Finance costs		(23)	(108)
		(167 358)	(212 768)
Net cash flows from operating activities	24	74 949	(14 207)
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(61 899)	(11 930)
Proceeds from sale of property, plant and equipment		178	-
Purchase of other intangible assets	4	(17 443)	(1 811)
Net cash flows from investing activities		(79 164)	(13 741)
Cash flows from financing activities			
Deposits paid by third parties		-	20
Movement in income received in advance		25 800	-
Finance lease payments		(659)	(403)
Net cash flows from financing activities		25 141	(383)
Net increase/(Decrease) in cash and cash equivalents		20 926	(28 331)
Cash and cash equivalents at the beginning of the year		19 651	47 982
Cash and cash equivalents at the end of the year	10	40 577	19 651

ACCOUNTING POLICIES

1. Basis of Presentation

The annual financial statements comply with the Standards of GRAP and are prepared on the accrual basis, using the historical cost basis, except where indicated otherwise. Management has used assessment and estimate 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.

These financial statements have been prepared in South African rands on the accrual basis of accounting and are in accordance with historical cost conventions unless specified otherwise.

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 uncollectibility.

Financial liabilities held at amortised cost

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

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

Effective interest rate method

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

Loans to managers and employees

These financial assets are classified as loans and receivables.

Receivables

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

Long-term receivables

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

Trade and other payables

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

Cash and cash equivalents

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

1.3 Leases

Leases are classified as either finance or operating leases.

Finance leases

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

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

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability, using the effective interest method. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of 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 of deficit on a straight line basis, over the term of the lease. Lease incentives are recognised on a straight line basis as a reduction of the lease payments over the term of the lease.

1.4 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life of the asset.

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

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

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

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

An impairment loss is recognised whenever the carrying amount if 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
Furniture	6 years
Motor vehicles	5 years
Office equipment	2 to 5 years
Computer hardware	3 to 5 years
Furniture and fixtures	5 to 10 years
Security equipment	10 years
Leasehold improvements	Over the lease period

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

1.10 Translation of foreign currencies

Foreign currency transactions

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

Foreign exchange differences on settlement of foreign currency monetary liabilities during the reporting period are recognised in the Statement of Financial Performance.

1.11 Inventory

Initial recognition and measurement

Inventory is stated at cost on initial recognition and measurement and comprises mainly materials and supplies consumed or distributed in the rendering of services.

Subsequent measurement

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 costs is recognised as income of the period in which it becomes receivables.

1.16 Fruitless and wasteful expenditure

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

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

1.17 Irregular expenditure

Irregular expenditure is 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 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.

NOTES TO THE FINANCIAL STATEMENTS

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:

Standard/Interpretation:

- 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.

3. Property, Plant and Equipment

	2014 R'000			2013 R'000		
	Cost/ Valuation	Accumulated depreciation and impairment	Carrying value	Cost/ Valuation	Accumulated depreciation and impairment	Carrying value
Computer hardware	50 413	(20 800)	29 613	33 198	(19 933)	13 265
Fixtures and fittings	6 988	(3 371)	3 617	16 100	(10 226)	5 874
Furniture and fixtures	7 290	(5 123)	2 167	7 043	(4 623)	2 420
Leasehold improvements	39 823	(2 655)	37 168	-	-	-
Motor vehicles	5 244	(1 063)	4 181	5 244	(144)	5 100
Office equipment	5 035	(3 390)	1 645	6 995	(4 578)	2 417
Security equipment	340	(2)	338	340	-	340
Total	115 133	(36 404)	78 729	68 920	(39 504)	29 416

3. Property, Plant and Equipment (continued)

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

	Restated opening balance	Additions	Disposals	Depreciation	Total
Computer hardware	13 265	20 327	(81)	(3 898)	29 613
Fixtures and fittings	5 874	1 287	(158)	(3 386)	3 617
Furniture	2 420	247	-	(500)	2 167
Motor vehicles	5 100	-	-	(919)	4 181
Office equipment	2 417	215	-	(987)	1 645
Security equipment	340	-	-	(2)	338
Leasehold improvements	-	39 823	-	(2 655)	37 168
	29 416	61 899	(239)	(12 347)	78 729

Reconciliation of property, plant and equipment – 2013 (R'000)

	Restated opening balance	Additions	Disposals	Transfers	Other additions	Depreciation	Total
Computer hardware	13 206	5 387	(10)	93	-	(5 411)	13 265
Fixtures and fittings	10 092	-	(38)	(12)	-	(4 168)	5 874
Furniture	3 516	-	(5)	-	-	(1 091)	2 420
Motor vehicles	13	5 115	-	-	-	(28)	5 100
Office equipment	3 108	611	(230)	167	456	(1 695)	2 417
Security equipment	-	340	-	-	-	-	340
	29 935	11 453	(283)	248	456	(12 393)	29 416

Assets subject to finance leases

	2014 R'000	2013 R'000
Office equipment (net carrying values)	202	862

The leased office equipment is encumbered as set out in note 11 and has been understated in the prior year due to the erroneous classification of the liability as an operating lease. Refer note 26.

During the year under review the FIC relocated its offices. Leasehold improvements relate to the set-up and installation costs of the new leased premises and includes the cost to restate the premises at the end of the lease period. Refer note 12.

The useful life of certain property, plant and equipment has been reassessed, resulting in an increase in the carrying amount of property, plant and equipment of R2 401 000 (2013: R nil). Refer note 33.

Certain assets in the fixed assets register have zero values and are still in use.

4. Intangible Assets

	2014 R'000			2013 R'000		
	Cost/ Valuation	Accumulated depreciation and impairment	Carrying value	Cost/ Valuation	Accumulated depreciation and impairment	Carrying value
Computer software	19 649	(7 562)	12 087	16 672	(10 589)	6 083
Computer licences	10 176	(5 746)	4 430	1 795	(1 088)	707
Total	29 825	(13 308)	16 517	18 467	(11 677)	6 790

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	8 559	(10)	(4 826)	4 430
	6 790	17 441	(711)	(7 003)	16 517

Reconciliation of intangible assets – 2013 (R'000)

	Opening balance	Additions	Disposals	Transfers	Amortisation	Total
Computer software	7 658	944	(15)	(21)	(2 483)	6 083
Computer licences	527	887	-	-	(707)	707
	8 185	1 831	(15)	(21)	(3 190)	6 790

The useful life of intangible assets have been reassessed at year end and confirmed. Certain intangible assets have zero values and are still in use.

5. Employee Benefit Obligations

Defined contribution plan

Employees of the FIC are members of Liberty Life Umbrella Provident fund. This fund is a defined contribution fund and it is governed by the Pension Fund Act (1956) as amended.

Employees are able to elect the rate at which the employee contributes towards the Provident Fund. The contribution rates are as follows: 5%, 7.5%, 10%, 12%, 12.5%, 15%, 17.5% and 20%.

	2014 R'000	2013 Restated* R'000
Provident fund contributions	10 853	10 853

6. Prepayments

	2014 R'000	2013 Restated* R'000
Subscriptions	2 789	4 555
Membership fees	-	36
Staff training	16	22
Motor vehicle maintenance agreement	187	324
Computer licences and support	583	14 691
Insurance	-	746
Computer hardware	75	8 159
	3 650	28 533

The opening balance of the prepayments has been restated due to the over release of prepayments in the prior year, which resulted in prepayments being understated. A prior year adjustment has been effected. Refer note 26.

7. Deposits – Long-term Receivables

	2014 R'000	2013 Restated* R'000
Electricity	158	-
Byls Bridge Office Park	902	-
	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.

Refundable deposits were paid for electricity usage and the rent. These deposits will be refunded at the end of the lease term and are disclosed at their discounted values. Refer note 21.

8. Inventory

	2014 R'000	2013 Restated* R'000
Consumables on hand	217	200

Consumables comprise stationery on hand.

9. Receivables

	2014 R'000	2013 Restated* R'000
Deposit	847	831
Less: impairment due to claim	(79)	-
Allowance for impairment	(17)	-
Other receivables	41	49
Accrued interest	169	158
	961	**1 038**

The FIC entered into a 60-month lease contract for the Lakeside Building office premises, which were vacated during the current year. The deposit has been impaired with R79 000 due to a claim by the previous lessor who intends to settle the deposit net of costs recovered. Refer note 21.

The opening balance of receivables has been restated with R36 000 due to expenses paid incorrectly classified as a deposit – R30 000 and costs incurred of R6 000 erroneously classified as a receivable. Refer note 26.

Accrued interest has been restated to include all interest in the period it accrued. Refer note 20 and 26.

The allowance for impairment of R17 000 relates to a deposit paid in the prior year that has not been recovered. The FIC is currently in the process of recovering the deposit.

10. Cash and Cash Equivalents

	2014 R'000	2013 Restated* R'000
Cash and cash equivalents consist of:		
Cash at bank	40 574	19 637
Cash on deposit	-	10
Cash on hand	3	4
	40 577	**19 651**

The cash balance includes R23 376 000, which is ringfenced for the funding of two projects of the Anti-Corruption Task Team.

The opening balance of the bank has been restated due to some of the expenditure not captured in the cashbook. The correction thereof has been accounted as a prior year error and has been disclosed accordingly. Refer note 26.

11. Finance Lease Liabilities

	2014 R'000	2013 Restated* R'000
Minimum lease payments due		
- within one year	174	686
- in second to fifth year inclusive	58	232
	232	918
less: future finance charges	(14)	(41)
Present value of minimum lease payments	218	877
Present value of minimum lease payments due		
- within one year	161	673
- in second to fifth year inclusive	57	204
	218	877
Non-current liabilities	57	204
Current liabilities	161	673
	218	877

The finance leases are secured over the leased assets – refer note 3. The lease liabilities are repayable in monthly instalments of R14 000 at an annual effective interest rate of 9% per annum.

The finance leases were erroneously classified as operating leases in the prior year. The correction thereof has been accounted as a prior year error and has been disclosed accordingly. Refer note 26.

12. Provisions

Reconciliation of provisions – 2014

	Opening balance	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

Reconciliation of provisions – 2013

	Opening balance	Additions	Utilised/ Reversed during the year	Total
Provision for legal fees	-	20	-	20
Provision for bonus	5 897	627	(914)	5 610
	5 897	647	(914)	5 630

	2014 R'000	2013 Restated* R'000
Non-current liabilities	4 660	-
Current liabilities	7 000	5 630
	11 660	5 630

Provision for decommissioning

The provision for decommissioning is an estimated cost to reinstate the leased premises back to a white box as per the lease agreement. Provision has been made for this cost based on the present value of the estimated future cash flow arising from the expected cost at the end of the lease agreement (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 note 3.

Provision for bonuses

The opening balance of the provision for bonuses has been restated due to the over provision in the prior year. Refer note 26.

13. Third-party Deposits

	2014 R'000	2013 Restated* R'000
Deposits paid by third parties – appeal court applicants	20	20

14. Income received in advance

	2014 R'000	2013 Restated* R'000
From non-exchange transactions		
Criminal Assets Recovery Account Funds	23 376	-

15. Trade and Other Payables

	2014 R'000	2013 Restated* R'000
Trade payables	3 383	9 352
Payroll payables	3 851	511
Operating lease payable	7 151	308
Accrued leave pay	4 454	3 820
	18 839	13 991

Certain administrative expenses were duplicated through accruals resulting in the overstatement of costs in the prior year. The opening balances for accruals and retained income have been restated as well as the comparative figures for the affected costs. Refer note 26.

16. Non-exchange Revenue

	2014 R'000	2013 Restated* R'000
Transfer from National Treasury	241 000	197 314
Criminal Assets Recovery Account Funds	2 424	-
	243 424	197 314

17. General Expenses

	2014 R'000	2013 Restated* R'000
Administration fees	-	12
Advertising	174	296
Bank charges	54	69
Cleaning	749	590
Computer expenses	7 658	5 427
Conferences and workshops	7 453	315
Consulting fees	1 312	3 389
Insurance	750	671
Internal audit	1 641	1 984
Lease costs	526	536
Legal fees	667	848
Media, subscriptions & publications	5 093	3 374
Membership fees	1 617	721
Motor vehicle expenses	268	17
Office consumables	570	937
Parking expenses – staff	1 892	1 583
Postage and courier	19	44
Printing and stationery	605	1 275
Professional fees	3 090	7 392
Public relations	860	932
Recruitment and placement costs	783	3 703
Refurbishment costs	2 760	-
Relocation costs	1 270	-
Rent and operating costs	16 964	11 258
Repairs and maintenance	154	459
Risk Committee member fees	172	211
Security	1 807	1 750
Staff training	367	1 409
Subsistence and accommodation – international	993	1 016
Subsistence and accommodation – local	652	706
Telephone, fax and internet	5 599	4 462
Travel – international	1 004	3 098
Travel – local	1 295	2 230
	68 818	60 714

Certain comparative figures have been restated due to the over-provision of costs in the prior year – refer note 26.

18. Personnel Costs

	2014 R'000	2013 Restated* R'000
Salary costs	111 195	100 538
Bonus performance	7 000	5 238
Group life	1 039	998
Provident fund	10 853	10 183
UIF	338	298
WCA	164	47
Other short-term costs	-	33
	130 589	**117 335**

Certain comparative figures have been restated due to the over-provision of costs in the prior year – refer note 12 and 26.

19. Governance Committees

		2014 R'000	2013 Restated* R'000
19.1 Audit Committee member fees			
Chairperson:	C Kneale	78	88
Other members:	B Lengane	35	103
	N Khumalo	54	89
		167	**280**
19.2 Risk Committee member fees			
Chairperson:	C Kneale	79	80
Other members:	B Lengane	64	56
	N Khumalo	29	69
		172	**205**
19.3 Remuneration Committee member fees			
Chairperson:	M Olivier	-	5
Other members	J Partiff (resigned December 2012)	-	4
	V Mtambo	-	10
		-	**19**

20. Interest Received

	2014 R'000	2013 Restated* R'000
Interest revenue		
Interest – earned on amortised financial assets – refer note 9	49	69
Current account	1 318	1 236
	1 367	1 305

Amortised costs are based on the effective interest rate method.

The accrued interest has been restated to include all interest in the period it accrued. The adjustment has been recorded as a prior year error and disclosed accordingly. Refer note 9 and 26.

21. Losses on Financial Assets

	2014 R'000	2013 Restated* R'000
Impairment of deposit paid – Lakeside Building – refer note 9	79	-
Net loss on financial instrument at amortised cost – refer note 7	583	-
	662	-

22. Finance Costs

	2014 R'000	2013 Restated* R'000
Financial instrument at amortised cost – refer note 12	126	-
Finance charges – leased assets	23	108
	149	108

Finance charges on leased assets have been restated due to finance leases relating to office equipment that have been erroneously classified as operating leases. The correction has been recorded as a prior year error and disclosed accordingly. Refer note 11 and 26.

23. Operating Lease

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

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

	2014 R'000	2013 Restated* R'000
Minimum lease payments due		
- within one year	19 743	2 307
- within two to five years	88 878	-
	108 621	2 307

24. Cash Generated from (used in) Operations

	2014 R'000	2013 Restated* R'000
Surplus	22 488	1 906
Adjustments for:		
Depreciation and amortisation	19 350	15 583
Loss on sale of assets	774	71
Gain on foreign exchange	-	(2)
Losses on financial assets	662	-
Allowance for impairment	17	-
Movements in provisions	5 904	(267)
Increase in long-term receivables	(1 594)	831
Realisation of the revaluation reserve	-	(21)
Movement in prepayment	24 883	(27 560)
Other non-cash flow items	2 840	(1 127)
Changes in working capital:		
Inventory	(17)	30
Receivables	(8)	(863)
Trade and other payables	(350)	(2 788)
	74 949	(14 207)

25. Related Parties

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

25.1 State controlled entities

By virtue of the fact that the FIC is a national public entity and controlled by the national government, any other controlled entity of the 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 receive any remuneration.

	2014 R'000	2013 Restated* R'000
Services rendered at no cost		
Technical Assistance Unit (TAU)	1 668	-
The TAU is a section within the Department of Finance. During the year an employee from the TAU participated in the FIC's processes and did not receive any remuneration for the work done.		
Transactions included in revenue		
Criminal Assets Recovery Account Fund	2 424	-

25.2 Key management personnel

Name	Position	Cash component	Bonus	Provident fund
M Michell	Director	1 392	-	-
C Malan	Executive Manager: CAP	1 282	136	385
P Smit	Executive Manager: L&P	1 552	127	161
N Mewalall	Executive Manager: M&A	1 504	137	231
M Maboka	Executive Manager: CS	1 441	104	262
V MarshSmit	Chief Financial Officer	985	74	249
		8 156	578	1 288

26. Prior Period Adjustments

The prior year errors have been accounted for retrospectively and the comparative figures for 2013 have been restated.

26.1 The correction of the error(s) results in adjustments as follows:

	2013 R'000	2012 R'000
Statement of financial position		
(Increase)/decrease in provision for bonuses	914	350
Increase/(decrease) in property, plant and equipment	354	(26)
Increase/(decrease) in intangibles	-	(101)
(Increase)/decrease in trade payables	2 025	-
Increase/(decrease) in prepayments	158	-
(Increase)/decrease in finance lease	(364)	-
Increase/(decrease) in receivables	122	169
Increase/(decrease) in cash and cash equivalents	(214)	-
	2 995	392
Retained earnings		
Increase in interest received	(168)	-
Decrease in operating costs	30	-
	(138)	-
Statement of financial performance		
Increase/(decrease) in legal costs	-	(350)
Increase/(decrease) in depreciation	101	26
Increase/(decrease) in amortisation	-	101
Increase/(decrease) in personnel costs	(1 016)	-
Increase/(decrease) in operating costs	(1 968)	-
Increase/(decrease) in finance costs	24	-
Increase/(decrease) in Audit Committee fees	(9)	-
(Increase)/decrease in interest received	11	(169)
	(2 857)	(392)

During the financial year ended 31 March 2014, management restated certain line items in the financial statements:

Provision for bonuses

The opening balance for provisions has been restated due to the over-provision for the performance bonuses raised in the prior year. Refer note 12.

Property, plant and equipment

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

Trade and other payables

Certain administrative expenses were duplicated through accruals resulting in the over-statement of costs 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 note 15 and 17.

Prepayments

The increase in prepayments relates to an over-release of prepayments to subscriptions. The opening balance on prepayments has been restated accordingly. Refer note 6.

Finance lease

The finance lease adjustment relates to office equipment that was erroneously classified as operating leases and the costs subsequently expensed. The correction has been recorded as a prior year error and disclosed accordingly. Refer note 11.

Receivables

The opening balance of the receivables has been restated due to expenses that were erroneously classified as deposits in the prior years. Refer note 9.

Accrued interest has been restated to include all interest accumulated during the period. Refer note 9.

Cash and cash equivalents

The opening balance of the bank has been restated due to the expenditure not being captured in the cashbook. The correction thereof has been accounted for as a prior year error and has been disclosed accordingly. Refer note 10.

Depreciation

Depreciation has been restated due to a finance lease relating to office equipment that has been erroneously classified as an operating lease. The correction has been recorded as a prior year error and disclosed accordingly. Refer note 31.

Interest received

Accrued interest has been restated to include all interest accumulated during the period. The adjustment has been recorded as a prior year error and disclosed accordingly. Refer note 9 and 20.

Personnel costs, operating costs and Audit Committee fees

Certain expenses were duplicated through accruals resulting in the overstatement of costs in the prior year. Refer note 17, 18 and 19.

Finance costs

Finance charges on leased assets have been restated due to finance leases relating to office equipment that have been erroneously classified as operating leases. The correction has been recorded as a prior year error and disclosed accordingly. Refer note 11 and 22.

26.2 Restated surplus for the year

	2014 R'000	2013 Restated* R'000
Opening balance as previously reported – 1 April 2011		96 151
Prior year adjustment		(30)
		96 121

The opening balance of the receivables has been restated due to the incorrect classification of expenses as deposit paid in the prior years. Refer note 9.

27. Risk Management

Liquidity risk

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

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

Market risk

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

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

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

Interest rate risk management

The FIC's interest rate profile consists of fixed and floating rate loans and bank balances, which exposes the 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 hence resulting in no risk exposure.

Credit risk management

Credit risk refers to the risk that counterparties will default on their 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

	2014 R'000	2013 Restated* R'000
Financial assets		
Cash	40 577	19 651
Receivables	2 021	1 038
Financial liabilities		
Financial lease obligations	218	877
Payables	18 839	13 991
Third-party deposits	20	20
Provisions	11 660	5 630

Sensitivity analysis

	Change in rate	Effect on surplus
2014 floating rate financial assets		
Banking balances	1%	406
Receivables	1%	20
2014 floating rate financial liabilities		
Finance lease obligations	1%	2
Payables	1%	188
Provisions	1%	117
2013 floating rate financial assets		
Banking balances	1%	197
Receivables	1%	10
2013 floating rate financial liabilities		
Finance lease obligations	1%	9
Payables	1%	140
Provisions	1%	56

28. Fruitless and Wasteful Expenditure

	2014 R'000	2013 Restated* R'000
Opening balance	287	287
Less amounts condoned	(287)	-
	-	287

29. Irregular Expenditure

	2014 R'000	2013 Restated* R'000
Opening balance	400	467
Add: Irregular expenditure – current year	69	-
Less: Adjustments – these amounts were erroneously classified as irregular expenditure in the prior years	-	(67)
Less: Amounts condoned	(469)	-
	-	400
Details of irregular expenditure – current year		
Goods procured without following proper procurement processes	69	-

30. Contingent Liability

	2014 R'000	2013 Restated* R'000
30.1 Accumulated surplus		
Accumulated surplus	87 598	65 110

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

30.2 Below is a list of litigation and claims:

Type	Description of matter	Estimate of the financial impact
Dispute regarding the restatement and handover of Lakeside Building Offices.	The matter relates to the building previously leased by the FIC from Broll Properties. The aspect in dispute is whether the FIC has properly reinstated the building in compliance with the contract entered into between the two parties. The parties are in discussion with a view to resolving the matter.	Not known at this point.

31. Depreciation and Amortisation

	2014 R'000	2013 Restated* R'000
Depreciation charge for the year	12 347	12 393
Amortisation charge for the year	7 003	3 190
	19 350	**15 583**

Depreciation has been restated due to finance leases relating to office equipment that have been erroneously classified as operating leases. The correction has been recorded as a prior year error and disclosed accordingly. Refer note 26.

32. Auditor's Remuneration

	2014 R'000	2013 Restated* R'000
Auditor-General SA	1 777	2 624

33. 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
Computer hardware	3 956	2 434	1 522
Office equipment	549	311	238
Motor vehicles	1 023	921	102
Furniture	1 023	484	539
Change in depreciation: 2014	6 551	4 150	2 401

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 R2 401 000 (2013: R nil) and a decrease in the depreciation expense by R2 401 000 (2013: R nil). The effect on future years will be an increase in the depreciation charge of R2 401 000 (2013: R nil), reversing the credit of R2 401 000 (2013: R nil) created in the current year. Refer note 3.

34. Capital Commitments

	2014 R'000	2013 Restated* R'000
Authorised capital expenditure		
Capital expenditure approved and contracted	2 201	14 087

35. Budget Information

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

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