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Private Bag X177
Centurion
0047
South Africa

Tel: +27 12 641 6000
Fax: +27 12 641 6435

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Annual Report 2008 – 2009

31 July 2009

Mr P Gordhan
Minister of Finance

Report of the Director of the Financial Intelligence Centre for the period 01 April 2008 to 31 March 2009

I have the honour to submit the Annual Report of the Financial Intelligence Centre which gives an account of the Centre's activities and achievements for the period 1 April 2008 to 31 March 2009.

M Michell
Director

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ADMINISTRATIVE INFORMATION

DIRECTOR
Mr M Michell

CHIEF FINANCIAL OFFICER
Ms A Puoane

POSTAL ADDRESS
Private Bag X177
Centurion 0047
South Africa

PHYSICAL ADDRESS
Lakeside Building A
54 Embankment Road
Centurion
South Africa

TELEPHONE
+27 12 641 6000

FAX
+27 12 641 6435

WEBSITE
www.fic.gov.za

BANKERS
Standard Bank

ACRONYMS USED IN THIS REPORT

ADLA	Authorised Dealer in Foreign Exchange with Limited Authority
AFU	Asset Forfeiture Unit
AML/ CFT	Anti-Money Laundering/ Combating of Financing of Terrorism
BSD	Banking Supervision Department of the South African Reserve Bank
CCR	Cash Courier Report
CENTRE	Financial Intelligence Centre, as established under the FIC Act
CIPRO	Companies and Intellectual Property Registration Office
CTR	Cash Threshold Report
DSO	Directorate of Special Operations
EAAB	Estate Agency Affairs Board
Egmont Group	Organisation of financial intelligence units from 112 different countries
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group[1]
FATF	Financial Action Task Force[2]
FIC Act	Financial Intelligence Centre Act, Act No. 38 of 2001
FIC	Financial Intelligence Centre, as established under the FIC Act
FIU	Financial Intelligence Unit
FSB	Financial Services Board
FSRB	FATF-Style Regional Body
IRBA	Independent Regulatory Board of Auditors
MOU	Memorandum of Understanding
NGB	National Gambling Board
PLA	Provincial Licensing Authorities
POCA	Prevention of Organised Crime Act, Act No. 121 of 1998
POCDATARA	Protection of Constitutional Democracy Against Terrorist and Related Activities Act, Act No. 33 of 2004
SAPS	South African Police Service
SARB	South African Reserve Bank
SARS	South African Revenue Service
STR	Suspicious Transaction Report

[1] ESAAMLG comprises of the following 14 Member States, namely: the Republics of Botswana; Kenya; Malawi; Mozambique; Mauritius; Namibia; South Africa; Seychelles; Tanzania; Uganda; Zambia and Zimbabwe; and the Kingdom's of Lesotho and Swaziland.

[2] The FATF comprises the following members: Argentina; Australia; Austria; Belgium; Brazil; Canada; China; Denmark; European Commission; Finland; France; Germany; Greece; Gulf Co-operation Council; Hong Kong, China; Iceland; Ireland; Italy; Japan; Kingdom of the Netherlands*; Luxembourg; Mexico; New Zealand; Norway; Portugal; Russian Federation; Singapore; South Africa; Spain; Sweden; Switzerland; Turkey; United Kingdom; United States. Countries with observer status are India and South Korea.

ACCOUNTING AUTHORITY'S STATEMENT

The year under review has been an important landmark for the Financial Intelligence Centre and for South Africa's anti-money laundering and combating of terrorist financing (AML/ CFT) system. The year marks the completion of the first full five-year period since the establishment of the Centre and the implementation of the country's AML/ CFT framework as a "total system".

South Africa's AML/ CFT framework and system, including a detailed scrutiny of the Centre, was the subject of a full audit of its accomplishments and achievements over the past five years. This was a rigorous, peer review process called a "Mutual Evaluation" assessment and was conducted jointly by the Financial Action Task Force (FATF) and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). The Financial Intelligence Centre was mandated by the Minister of Finance to facilitate and coordinate government's interactions and engagements with the FATF/ ESAAMLG over the assessment process period.

All the departments and staff at the Centre, one way or another, were involved in the preparation for the Centre's input and response as part of the Mutual Evaluation process. Many had the additional responsibility to facilitate the South African response to the process and draft reports. Their effort far exceeded what had been anticipated and placed a huge burden on them. The positive results speak for themselves.

The results of the Mutual Evaluation assessment provide an important insight into the extent and depth of South Africa's AML/ CFT system development over the past five years and the enormous efforts that have been made in doing so. They show that the South African Government has made a strong political commitment to implement its AML/ CFT system, that it has invested in the essential building blocks and started to fully utilise the measures and tools made available to them in the legal framework. The results place the country firmly amongst those countries with a sound AML/ CFT framework and system.

The results of the assessment show that the Centre has been able to successfully meet its mandate, objectives and goals over the past five years and is now poised to move into the next phase of its lifecycle. The Centre is proud to have reached this important point in its history and is geared to move into the next period.

The assessment shows that notwithstanding the huge effort that Government has made to develop and establish a coherent and comprehensive AML/ CFT framework, the system remains young and immature. The objectives over the next period will be to ensure that the system becomes fully operational and effective. This will involve an "all-of-government" effort across all of the relevant government departments and agencies, as well as include the business community.

Sometimes the reasons behind this effort and the associated costs are easy to forget. In 2004 the Minister of Finance at that time told Parliament "…Money launderers view the financial system as a device to transfer the proceeds of their crime and to legitimise their activities. When they involve the financial system in money laundering schemes, they necessarily involve the institutions that provide access to the system. This can lead to the involvement of financial institutions in criminal activity, even if unknowingly. It can result in the erosion of public confidence of our financial institutions and undermine the stability of the system…None of us – not the banks, not ordinary citizens – want this to happen." South Africa made the commitment to join the global effort to combat money laundering and terror financing by joining the FATF in 2003.

The challenge to implement an anti-money laundering system is also the challenge to maintain the integrity of the country's financial system. Money laundering is a method to introduce the proceeds of crime into a country's financial system and thereby into the global financial system. The integrity of the global financial regulatory system has taken a serious knock of confidence over the past year in the context of the financial crisis and demonstrated integrity failures.

The G-20 governments have set out a plan to review and enhance the elements integral to the financial regulatory system which includes the FATF, the AML/ CFT standards and monitoring non-cooperation by jurisdictions. The G-20 has called upon the FATF and its members, the Basel Committee on banking and the OECD Global Forum on tax to work together to ensure greater integrity and coherence in the world's financial system. South Africa has heavily invested in developing these measures and actively participates in all of the structures and processes through the coordinated activities of National Treasury, while the Centre leads efforts in the FATF.

The Financial Intelligence Centre is gradually maturing as an institution. After an initial five-year developmental period, the Centre is set to enhance its core set of capabilities in order to meet its mandate and objectives, and to fulfill its objectives in a more meaningful manner.

The Centre has now received a total of 112 829 suspicious transaction reports, commonly known as "STRs", from business, and the process of referrals to the law enforcement authorities has become more efficient, with an increasing number of referrals made each year. During the past year, the Centre increased the number of referrals it has made to the law enforcement authorities to assist in their investigations by 22%. The value of these referrals amounted to nearly R6 billion, which represents a 195% increase year-on-year. There are important signs that the authorities are now better able to use the information in their investigative work.

The financial value of suspicious transaction reports is not the only value they have. The reports help to maintain the integrity of the country's financial system by identifying pools of cash derived from the proceeds of crime. They also increase the risk associated with criminal behaviour by, for example, helping to take the business out of crime. Importantly, they assist the law enforcement authorities by creating a paper trail which can be followed in an investigation. These factors increase the risks and costs for criminals.

There is also a common assumption that a single suspicious transaction reported to the Centre automatically leads to a referral from it to the investigating authorities. This is not the case. The FATF/ ESAAMLG Mutual Evaluation Report makes the point clearly when it states, "The Centre does not contemplate achieving a 1:1 ratio between STRs received and matters referred to law enforcement agencies. Typically the Centre's reports may involve information from a number of STRs where there is some underlying link in the information reported. The possibility even exists that information from a particular STR may be referred to law enforcement on more than one occasion"[3]

The analysis of suspicious transaction reports and making referrals to the law enforcement authorities for investigation is a central feature of the Centre's work. So is that of the Compliance and Prevention department, which liaises closely with the various supervisory bodies and monitors compliance of the FIC Act. During this past year it undertook a series of 199 joint audit reviews of businesses and 30 independent audits of post office branches.

While the Legal and Policy department has the responsibility for the administration of the FIC Act and consistently monitoring policy developments at home and abroad, it also had the task to organise the preparation for the Mutual Evaluation assessment of South Africa's anti-money laundering and terror financing system by the FATF/ ESAAMLG. Together with other departments in the Centre and supervisory bodies, it has also mapped out the implementation process for the FIC Act amendments of 2008.

The activities of these departments are underpinned and supported by the Administrative Support Services department, without which the Centre could not receive its results. The Centre spends much effort in order to ensure that it continues to develop as a sustainable institution which improves in its all-round capabilities – the number and quality of its staff, their skills and their career development; striving to introduce a sophisticated and automated ICT infrastructure; a financial management system which closely monitors budgeting funding allocation and spending; and a secured facilities environment which enables the Centre to produce the results set out in its annual plans.

Management is extremely proud of the fact that the Centre has received another unqualified audit report from the Office of the Auditor-General of South Africa for this past financial year.

Yet these nevertheless remain early steps in the journey to create a sustainable and consolidated

[3] Mutual Evaluation Report of South Africa, FATF/ ESAAMLG, paragraph 224.
The full report can be accessed at http://www.fatf-gafi.org/dataoecd/60/15/42432085.pdf

AML/ CFT system within South Africa. The Centre itself has the challenging mission which is to – *"To establish and maintain an effective policy and compliance framework and operational capacity to oversee compliance and to provide high quality, timeous financial intelligence for use in the fight against crime, money laundering and terror financing in order for South Africa to protect the integrity and stability of its financial system, develop economically and be a responsible global citizen."*

The Centre is proud that the report of the Mutual Evaluation assessment conducted by the FATF/ ESAAMLG during the past year indicates that the Centre is well on the way to achieving its mission. While the Centre has made great progress in fulfilling its mandate during the past year, this has been possible because of the relationships with the many different stakeholders which continue to be developed and deepened.

There has been a significant and positive qualitative change in the interaction with the wide range of accountable and reporting institutions and businesses. This has had a positive effect on the compliance environment. There has also been a significant improvement of the relationship with the various supervisory bodies, which are now better able and equipped to implement their responsibilities with respect to the FIC Act. This was illustrated in the serious manner in which all the supervisory bodies interacted with the FATF/ ESAAMLG during the Mutual Evaluation process. The same applies with regard to relationship between the Centre and the law enforcement authorities. There was a noticeable increase in cooperation and coordinated activity between the Centre and the authorities in the past year which has created a solid platform for future interaction.

Among the achievements for the past financial year and set out in detail in this report, the Centre:

- Together with several government departments and other entities, supervisory bodies and relevant businesses, received the final published Mutual Evaluation Report of South Africa by the FATF and ESAAMLG, which shows significant progress made by the country with its AML/ CFT system, while highlighting areas of additional work;
- Started the preparations based on the Mutual Evaluation feedback and the internal review process to further enhance South Africa's capabilities in AML/ CFT;
- Completed 229 joint inspections audits for FIC Act non-compliance together with the relevant supervisory bodies for casinos and bookmakers, estate agents, authorised dealers in foreign exchange, insurance companies, financial service providers, collective investment scheme managers, members of the JSE and branches of the Post Office bank;
- Continued to hold feedback sessions with accountable institutions, supervisory bodies and law enforcement authorities to improve the quality of reporting and to introduce remedial action for improved compliance;
- Received 22 762 suspicious transaction reports during the 2008/ 2009 financial year and made 1 221 referrals to the law enforcement authorities for investigation as part of its responsibility to capture, analyse and refer reports;
- The value of referrals amounted to nearly R6 billion;

- Provided feedback to banks and other accountable institutions based on the trends of reports made to the Centre;
- The FIC Act was amended and the preparatory work is presently under way to draft the regulations to the Act and to create the infrastructure and capability to give effect to the changes envisaged;
- Completed the detailed system design and specification identification for the Centre's next generation ICT system and completed full roadmap for the implementation and development process;
- Occupied new premises and successfully moved the entire business with minimal disruption to operations;
- Continued to develop close working relationships with the various supervisory bodies enabling the transference of knowledge the different industry sectors and the skills determine compliance in terms of the FIC Act;
- Strengthened working relations with the various law enforcement authorities and liaised closely in order to ensure greater use of the Centre's information for investigations;
- Deployed an official to the Secretariat of the ESAAMLG has provided invaluable assistance to enable the organisation to become functional;
- Continued to recruit staff and introduced various talent management initiatives to ensure that the Centre is able to maximise its potential to retain skilled and enthusiastic staff; and
- Received an unqualified audit from the Office of the Auditor-General for the 2008/ 2009 financial year.

The Centre's staff complement has continued to grow during the year. I want to recognise and express my deep appreciation for the contribution made by every person in the Centre to our success this year. This has often involved working late and long hours, often at short notice. I want to single out the extra effort that was made in preparation for the Mutual Evaluation. The results are a noted success for the Centre and for the country.

During the course of the year, and partly as a result of the Mutual Evaluation process I have developed close relationships with the heads of government departments, supervisory bodies, accountable institutions and many other people, who have all contributed enormously to the progress made to implement the country's AML/ CFT system. Their support has been an important contribution to getting the Centre established and a critical factor in our success thus far. This set of relationships shall continue to grow and together we shall ensure the country's AML/ CFT can go from strength-to-strength.

The National Treasury continued to support the Centre in various ways. During the year the Centre finally vacated its offices which occupied vital floor space in the Treasury building. We have been grateful beneficiaries of Treasury's hospitality and support since our inception.

Accounting Authority's Statement

The Centre is also particularly grateful for the support of National Treasury's Technical Assistance Unit for their special efforts of assistance, especially in overseeing and advising the Centre on the development of its future ICT systems, as well as all manner of strategic planning processes.

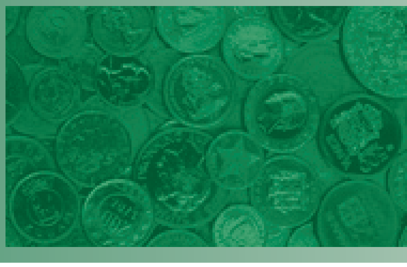
I wish to thank Mr Clive Kneale, Chairperson of the Centre's Audit Committee and all members of the Committee who have provided me and the Centre's management with support and guidance during the past year. The Committee has closely monitored our activities and sought to keep us focused on the tasks at hand. This has paid off handsomely and the Centre has again received a clear audit from the Auditor-General for the past financial year.

I wish to reserve a particular word of gratitude to the former Minister of Finance, Mr Trevor Manuel, MP who had oversight of the process to establish the Centre and who always fully engaged us on our progress and on AML/ CFT issues, a sometimes obscure subject matter. He never hesitated to probe about the Centre's activities or to raise concerns when he thought appropriate.

I want to thank the Deputy Minister of Finance, Mr Nhlanhla Nene, MP for his ongoing support of the Centre and involvement with our work during the past year. This is a relationship which started while he was the National Assembly's Chair of the Portfolio Committee of Finance.

I wish to extend my congratulations to Mr Pravin Gordhan on his appointment as Minister of Finance. He has the total support of the Centre and all staff, and we trust that over the forthcoming period we shall establish a strong and close relationship. We take pleasure in being able to work under his guidance and direction.

Murray Michell
Director
25 July 2009



Director's Report

DIRECTOR'S REPORT

BACKGROUND

Introduction

During the course of the past financial year of 2008/ 2009 South Africa's anti-money laundering and combating of terror financing (AML/ CFT) system and its effective implementation was the subject of an intense review and assessment. The process was conducted by a joint team of experts chosen from amongst the members of the Financial Action Task Force (FATF) and its regional body, the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). This assessment, called a Mutual Evaluation, included a comprehensive audit of the functioning of the Financial Intelligence Centre.

In the words of the Mutual Evaluation Report published as a result of the assessment, the FATF stated that "...The development of AML/ CFT systems in South Africa represents work in progress. South Africa has demonstrated a strong commitment to implementing AML/ CFT systems which has involved close cooperation and coordination between a variety of government departments and agencies. The authorities have sought to construct a system which uses as its reference the relevant United Nations Conventions and the international standards as set out by the Financial Action Task Force."[4]

The systems to combat money laundering and terror financing in South Africa remain relatively young. One of the overall results of the FATF Mutual Evaluation was to illustrate that while South Africa's legislative framework and the essential building blocks of its anti-money laundering and terror financing system had been put into place, the system has not yet matured sufficiently for it to yield full results. So for example, money laundering convictions remain at a relatively low level, even though the report finds that there has been a gradual increase in money laundering cases, especially in the past couple of years. It stands to reason that this should indeed be the case as the various authorities become acquainted with the elements of the system and it gets used in investigative as part of investigations.

The current provisions dealing with the manipulation of the proceeds from unlawful activities are contained in the Prevention of Organised Crime Act. This Act contains three offences which combine to criminalise a wide range of money laundering activities. These are the offences of money laundering (ML), assisting another to benefit from the proceeds of crime and of acquisition, possession or use of such proceeds. These provisions came into force in January 1999.

[4] Mutual Evaluation Report on South Africa, FATF: paragraph 4 of Executive Summary

South Africa has developed a comprehensive overarching legal structure to combat money laundering and financing of terrorism. This comes about as a result of the interplay between three main statutes, the *Prevention of Organised Crime Act, 1998 (POCA), the Financial Intelligence Centre Act, 2001 (FIC Act) and the Protection of Constitutional Democracy Against Terrorism and Related Acts, 2005 (POCDATARA).*

The FATF explains the money laundering components of the POCA in the following way, "…South Africa has criminalised ML in three separate provisions of the Prevention of Organised Crime Act, 1998 (POCA), which cover the conversion or transfer, concealment or disguise, possession, acquisition of property in a manner that is largely consistent with the 1988 United Nations (UN) Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention) and the 2000 UN Convention against Transnational Organised Crime (Palermo Convention)"… "South Africa adopts an "all crimes" approach which covers a range of offences in each of the 20 designated categories of offences. There is also a broad range of ancillary offences to the money laundering offences. Liability for money laundering extends to both natural and legal persons, and proof of knowledge can be derived from objective factual circumstances. The penalties for money laundering are a fine not exceeding ZAR 100 million or imprisonment for a period not exceeding 30 years"[5]

The introduction of the FIC Act and the development of the Financial Intelligence Centre after 2003 served to give impetus to the objectives as originally contained in the POCA.

The FIC Act[6] has as one of its principle objectives the establishment of the Centre, which is tasked with functioning in order to assist in the identification of the proceeds of unlawful activities and the combating of money laundering activities and, more recently, the financing of terrorist and related activities. The FIC Act also introduces a regulatory framework of measures concerning client identification, record-keeping, reporting of information and internal compliance structures which apply to a broad range of financial and non-financial institutions as well as defines the anti-money laundering responsibilities of supervisory bodies.

The POCDATARA was introduced in 2005. This Act criminalises acts of terrorism, as well as a range of activities specified in various United Nations Conventions on matters such as hostage taking, threatening the safety of civil aviation and terrorist bombings, for example. It also criminalises the financing of terror activities.

[5] Mutual Evaluation Report on South Africa, March 2009, FATF: paragraph 5 of Executive Summary

[6] All countries are required to set up a financial intelligence unit as set out in Recommendation 26 of the Financial Action Task Force: "Countries should establish an FIU that serves as a national centre for receiving (and if permitted, requesting), analysing, and disseminating disclosures of STR and other relevant information concerning suspected ML or FT activities. The FIU can be established either as an independent governmental authority or within an existing authority or authorities".

In addition to these measures, South Africa has a very sophisticated structure for recovery of the proceeds of criminal activity or asset forfeiture. The South African model includes a conviction-based confiscation procedure, as well as a so-called civil forfeiture procedure which does not require a conviction.

This legal framework provides a comprehensive and integrated framework for the country's anti-money laundering and terror financing efforts. However, this is a system that now needs to become fully utilised in order to demonstrate its full effectiveness. Over the past five years South Africa has been involved in a process of developing and bedding down the structures to give effect to the measures referred to above, such as the development of the Financial Intelligence Centre and the capacity to investigate and prosecute money laundering cases, as well as to oversee compliance with regulatory measures.

The Financial Intelligence Centre

The Centre was established in terms of Section 2 of the FIC Act. The principle objective of the Centre is to assist in the identification of the proceeds of unlawful activities and combating money laundering activities and the financing of terrorist and related activities. But the objective is for the Centre to do this as an institution integrated into a complex system involving a wide range of different government and business partners, all of which are required to carry out their responsibilities in the overall "value chain" process in order for it to work effectively and efficiently.

The Centre is also required to:

- Make information collected by it available to investigating authorities, the intelligence services and the South African Revenue Service to facilitate the administration and enforcement of the laws of the Republic; and
- Exchange information with similar bodies in other countries regarding money laundering activities and similar offences.

In terms of section 4 of FIC Act the Centre must also perform the following functions in order to achieve its objectives:

- Monitor and give guidance to accountable institutions, supervisory bodies and other persons regarding the performance by them of their duties and their compliance with the provisions of the FIC Act; and
- Retain all information received pursuant to compliance with the provisions of the FIC Act.

If the FIC Act defined a number of specific objectives for the Centre, the long-term outcome Government anticipated was that the Centre will contribute to the country's efforts to ensure that its financial system has integrity, has stability and that the economy is able to develop to its full potential, freeing its people from poverty and the legacy of apartheid.

For the AML/ CFT system to be more effective and successful several laws and regulatory processes shall need to be amended for the major stakeholders to cooperate and collaborate. Such a complex environment cannot be constructed quickly.

A successful and effective system requires that all those individuals and entities involved in money laundering or terror financing would need to be successfully prosecuted before the country could say with confidence that it is free of these crimes. The role of the Centre is to ensure that the information it is able to provide to law enforcement authorities is used in a non-partisan manner and for use in cases that can have high-impact through their successful prosecution. This will require a high degree of compliance and accountability from all those businesses which are required to implement the provisions of the anti-money laundering laws as well as report to the Centre. This degree of compliance will be an indication of the extent to which systemic prevention has been entrenched within the business community.

This requires that the Centre's mandate and responsibilities are understood by all its partners and stakeholders. Moreover, business and the general public should be aware of money laundering and terror financing threats and understand why certain measures are needed to reduce the threats. An important element of this, which is also a demonstration of compliance, will be for business to ensure that it has systems and capacity to administer its compliance obligations, while being able to report to the Centre. On the other hand, the Centre needs to demonstrate to the law enforcement authorities that the information it provides them is relevant, of high quality and can make a difference to their investigations.

Illustration 1: The anticipated outcomes from the introduction of South Africa's AML/ CFT system

SA financial system has integrity and is stable and the economy develops

Those involved in ML / TF are successfully prosecuted	RSA is free of ML/ TF

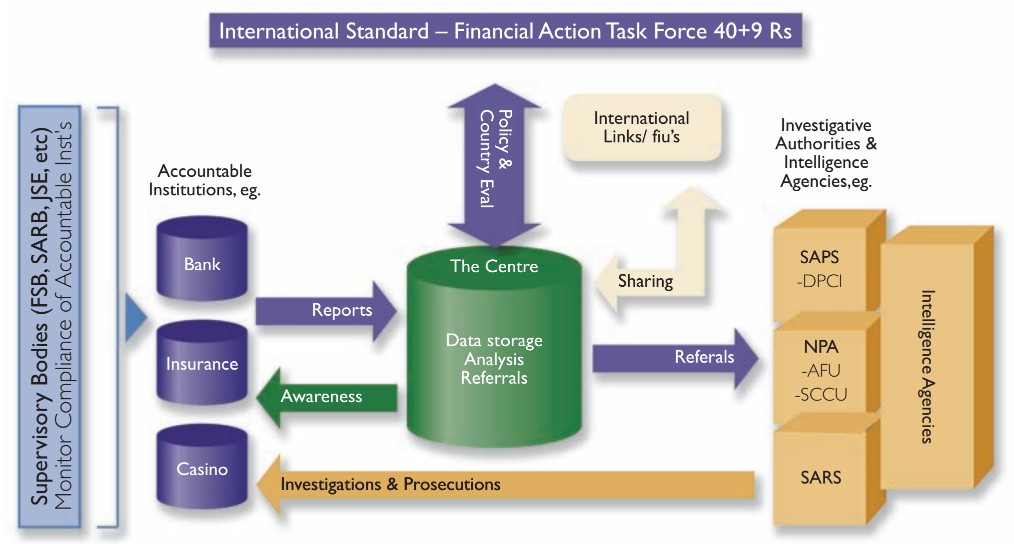
The Centre's Intelligence is used in non-partisan enforcement in high profile and high impact AML/ CTF cases *(Use of Centre outputs)*	Responsible, accountable and reporting institutions and businesses comply with AML/ TF requirements *(Provision of inputs to the Centre)*	Business and the public avoid getting involved in ML/ TF and are not abused by criminals and their networks in this regard *(Systematic prevention)*

The Centre's mandate is understood by all the relevant partners	The Law enforcement authorities regard the information from the Centre to be relevant and of high quality	Business and the public are aware of the AML/ CFT vulnerabilities and threats and the need for the prevention thereof	Businesses have the systems and capacity in place to deal with and report on ML/ TF

South Africa's anti-money laundering and combating of terror financing should be understood as a single system, a "generic value chain", which involves the coordinated and integrated efforts from a wide range of different partners. The partners range from the business sector, the supervisory bodies, the Centre itself, the law enforcement authorities and the prosecution services. In addition the Asset Forfeiture Unit is able to use the information to seize the assets involved in the criminal activity, while the Revenue Service can benefit from tax liabilities. These roles are dependent on one another.

For example, the FIC Act requires that various businesses must comply with the relevant laws, and therefore need to know their customers and report suspicious transactions to the Centre. The Centre receives these reports and subjects them to scrutiny. If it deems that there is indeed suspicious transaction activity, a referral is then made to the relevant authorities for investigation and eventual prosecution. The steps in the process are dependent on one another. The system as a whole cannot become fully functional or effective if the different component parts do not properly function as a unit within this chain (refer to Illustration 2, below).

The Architecture of South Africa's AML/ CFT Framework



The Centre has been mandated to facilitate and enable the development of a system to comprehensively combat money laundering and the financing of terrorism, especially in relation to protecting the integrity of the country's financial system.

The Centre has been given the responsibility to act as the pivot in the transfer of information, but also in ensuring that the total, environment or system becomes and remains functional. This requires a dynamic partnership approach which facilitates interaction between the private and public sectors. It also requires that the Centre take responsibility, as the "glue", for ensuring that the system as a whole is held together. This is part of an "all-of-government" approach within South Africa.

Illustration 3: Value chain for AML/ CFT

The "value chain" can be illustrated as in Illustration 3, where compliant businesses report to the Centre where the information is processed and analysed before it is used in the investigation and prosecution process.

This mandate requires that the Centre work across sections of business to facilitate partnership arrangements with various government departments and agencies. The FIC Act requires that the Centre has a regulatory oversight of the supervisory bodies listed in the schedule to the FIC Act to ensure that they properly monitor the levels of compliance by accountable institutions.

Of particular importance is that an "all-of-government" system be developed to AML/ CFT, which typically involves far more than only the law enforcement authorities. Within the AML/ CFT framework various government departments play an important role in this system. For example, the National Treasury (with responsibility for financial sector policy and remittance matters), Departments of Home Affairs (identity issues and immigration), Foreign Affairs (United Nations interactions and foreign policy matters), Social Development (for overseeing issues pertaining to the functioning of non-government organisations), Trade and Industry (which has oversight for policy and monitoring of industry sectors such as gambling and real estate, as well as the registration of companies), public entities (for example the Postbank) and others.

This is an approach which is required of all countries by the FATF[7] which formulates and sets the list of standards for all countries to meet. These standards are expressed through a series of "Recommendations", forty which deal with combating money laundering and another nine "Special Recommendations" for the financing of terrorism. The so-called "40+9" encourage a range of partnership arrangements, especially within and between various government departments, entities and agencies.

[7] South Africa became a member of the Financial Action Task Force in June 2003. South Africa had already become a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) in August the previous year.

Box 1: FATF 40+9 Recommendations and Standards

These objectives, responsibilities and obligations contained in South Africa's anti-money laundering and combating of financing of terrorism legislation derive from certain United Nations Conventions and Security Council Resolutions. The Conventions have been translated by the Financial Action Task Force (FATF) into a set of globally-accepted standards dealing with the combating of money laundering and financing of terrorism (40 Recommendations against money laundering and 9 Special Recommendations against financing of terrorism – the "40+9"). The FATF is composed of 34 countries and of which South Africa became a member in 2003. Thus far 186 countries have consented to implement and apply the AML/ CFT standards.

The standards require that all countries implement a range of core measures to give effect to the standards. These include the need for countries to:

Criminalise, in legislation, money laundering and financing of terrorism.

Implement administrative preventative measures to be taken by financial institutions and non-financial businesses and professions. These include rigorous reporting requirements (eg suspicious transactions; terror finance); customer due diligence such as full knowledge of their customers and their business; record keeping; staff training; and the appointment of a compliance officer. Sanctions are required for non-compliance.

Law enforcement authorities must have the legal capacity to investigate and prosecute and other measures; availability of resources.

A financial intelligence unit (such as the Centre) should be established to act as an intermediary between the private and public sectors facilitating and enabling various relationships. It should also be enabled to receive data from the reporting businesses, analyse it and refer the results of the process to law enforcement for investigation when necessary. The Centre is required to function independently of interference and be fully resourced.

All countries must ensure that various forms of international cooperation are made possible, including information sharing between financial intelligence units, mutual legal assistance, extradition, and various forms of technical assistance, including training and support to other countries and their AML/ CFT entities.

These are all important elements of the system which cannot work properly if they are not attended to.

The Centre is created as a statutory body with legal personality and operates outside the public service but within the public administration, as envisaged in section 195 of the Constitution of the Republic of South Africa, 1996. It is registered as a section 3(a) entity in terms of the Public Finance Management Act.

This status enables the Centre (as per section 5 of the FIC Act) to develop its own policies and frameworks, such as remuneration and determine its staffing and skills requirements.

The Director, who is the Accounting Authority for the Centre, reports directly to the Minister of Finance and to Parliament on the performance of the Centre. The Director of the Centre has the authority to take all decisions of the Centre in the exercise of its powers and the performance of its functions. The Director shall however perform these functions subject to any policy framework which may be prescribed by the Minister. Consequently the Centre only provides strategic information to the Minister and policy makers.

The sources of the Centre's funds are restricted by law to money appropriated annually by Parliament for the purposes of the Centre, any government grants made to it and any other money legally acquired by it. The Centre may accept donations only with the prior written approval of the Minister.

The Centre is not an investigative agency and does not form part of any of the local law enforcement agencies or the domestic intelligence community.

The Centre has interpreted its mandate as a series of strategic objectives in which it seeks to:

- Assist the investigating authorities, intelligence services and the SARS in the identification of the proceeds of unlawful activities and the combating of money laundering activities and the financing of terrorist and related activities;
- Make information collected by it available to these departments and entities to facilitate the administration and enforcement of the laws of the Republic; and to
- Exchange information with financial intelligence units in other countries regarding money laundering activities and similar offences.

These objectives are premised on the Centre's vision, mission and values.

Mission

To establish and maintain an effective policy and compliance framework and operational capacity to oversee compliance and to provide high quality, timeous financial intelligence for use in the fight against crime, money laundering and terror financing in order for South Africa to protect the integrity and stability of its financial system, develop economically and be a responsible global citizen.

Vision

The Financial Intelligence Centre will strive to be the leading player in the aggressive combating of money laundering and terror financing to reduce crime for the benefit of South African citizens today and in the future.

The Centre will earn the trust, respect and support of our stakeholders for the quality of our information, be recognised for the sustainability of our organisation with the loyalty and achievements of skilled staff and the success of our efforts.

Values

The values of the Financial Intelligence Centre provide the platform for its future success. The Centre seeks to ensure that all staff incorporate and utilise these values as a reference for all of their work and activities. To this end, all of the Centre's staff will:

- In the spirit of Ubuntu, demonstrate integrity in everything that we do (with amongst others, respect, honesty, trust, discipline, humility and loyalty);
- Demonstrate pride and discipline in our work, accepting accountability and being prepared to 'go the extra mile';
- Strive for excellence and professionalism by effectively making a difference in executing our mandate by offering solutions, while not presenting problems only;
- Value individuals and allow space for creativity and growth;
- Optimise our relationship with stakeholders and partners; and
- Ensure the security of organisational assets and information.

The Centre makes a serious effort to ensure that these values are continuously integrated into all aspects of its work.

Box 2:

The Financial Intelligence Centre became operational on 3 February 2003 at which time banks and other reporting institutions started reporting to the Centre electronically. All suspicious transaction reports (STRs) received as per the legislation is received by the Centre in Pretoria which is South Africa's national centre for the receiving, analysing and dissemination of information. Every disclosure received by the Centre undergoes an initial evaluation process and is assessed against internal rules to identify cases which have possible money laundering and/or terror financing indicators. Once such an instance has been identified the matter is allocated to an analyst. Thereafter the intelligence cycle is followed to develop a tactical / strategic intelligence product.

The Centre does not investigate crime. Rather, the information it produces is meant to support the existing investigative bodies and other role players in the intelligence and criminal justice system.

The Centre also monitors and gives guidance to relevant entities regarding their compliance with the FIC Act, which it does in terms of section 4(c) of the FIC Act.

The Centre has access to a variety of sources of financial, administrative and law enforcement information through a number of mechanisms in order to effectively realise its objective of receiving, analysing, and disseminating valuable financial Intelligence. The primary source of financial intelligence is STR information the Centre obtains from various accountable institutions, businesses or people with statutory reporting obligations. In this regard section 28A and section 29 of the FIC Act are applicable.

The Centre has both direct and indirect access, by arrangement, to non-publicly available databases maintained by certain other government departments or government agencies. In these instances, the Centre depends on the relevant governmental agency maintaining the database to extract the required information at the Centre's request. Having the ability to access these sources of information ultimately adds value to the analysis product of the Centre and can assist law enforcement agencies in their investigations.

Furthermore, the Centre access to commercial databases that would afford it a variety of information, giving the Centre access to information pertaining to registered legal entities and the composition of their governing structures, credit histories of individual and entities, as well as ownership of property.

Other methods to access information include secondments, memoranda of understanding and information shared with other financial intelligence units via the Egmont secure web. The Centre also makes use of open sources of information such as internet and the media.

With the ability to access these different types of databases and sources of information, the Centre is able to produce a balanced product that enables the Law Enforcement Agencies to better focus on and investigate its targets. The combination of the information from various sources mentioned above, together with the analysis of STRs and additional documents, enable the Centre to properly undertake its mandate.

The Centre is therefore entitled to disseminate a broad category of information to domestic authorities for investigation or action, when the Centre reasonably believes such information is required to investigate suspected unlawful activity. The Centre is mandated in terms of its objectives under section 3 of the FIC Act to make information collected by it available to investigating authorities, the South African Revenue Service and the intelligence agencies.

The FIC Act (section 40) provides for information to be provided either upon the initiative of the Centre or upon written authority of an authorised officer in these government entities.

The Centre performs analysis on selected STRs before dissemination. The Centre refers a package of information, which will normally includes the demographical profile of the subject, banking exposure and transacting pattern with specific reference to any unusual or suspicious transacting, corroborated with specific examples to this effect. Information referred to domestic authorities therefore includes the Centre's analysis and interpretation of the reported information and where possible, substantiated conclusions regarding possible involvement with certain predicate offences. This is done with the understanding that information provided should be integrated into the intelligence bases of the domestic authorities and investigated in line with their respective mandates.

In addition to disseminating self-initiated reports to domestic law enforcement authorities, the Centre also supplies information drawn from STR's to law enforcement upon request from a particular agency. Normally this information is required to be used in a pending investigation. All responses must be made to an appointed Authorised Officer so that the legal obligations are met and to ensure integrity of the requesting process. The Centre is kept informed of the current Authorised Officers appointed within the domestic authorities and provides training to them to ensure that the integrity of information is maintained even during the investigation stage.

The Centre's reputation depends on the integrity, accuracy and reliability of the information it receives and that which it disseminates. It has therefore put in place a number of risk mitigating measures to guard against violations of information integrity.

Dissemination of information is legislated in section 40 of the FIC Act. It provides for the dissemination of information to investigating authorities, the South African Revenue Service and intelligence services. It also provides for the dissemination of information to entities outside the Republic which performs similar function as to those of the Centre.

It also clearly stipulates who is entitled to request information from the Centre and defines the requirements to access information from the Centre.

To ensure that the Centre disseminates information in accordance with the relevant legal provisions, referrals of information must be approved by the Director or a designated senior official of the Centre and be collected by an Authorised Officer of the recipient agency. This is a controlled process where the Authorised Officer has to formally acknowledge receipt of the product. Another mode of delivery is the secure Egmont website which enables information exchange amongst the Egmont members.

The Centre releases information, including the Annual Report, which is published on the Centre's website at www.fic.gov.za. The Centre's Annual Report is a valuable source of feedback, especially to accountable institutions. The Annual Report contains information on the following:

- The number of requests received from local and international stakeholders;
- The number of STRs received from accountable institutions; and
- The number of referrals disseminated to various domestic authorities.

The Centre also conducts stakeholder feedback sessions with various stakeholders to discuss past activities, challenges and successes, emerging trends and typologies, with a view to improving their anti-money laundering efforts and future cooperation. In addition the Centre provides public feedback by means of an electronic query facility. Members of the public can make enquiries relating to the FIC Act and the Centre via the Centre's website. A response is forwarded within five (5) days of the initial query. During this financial year the Centre responded to 368 queries.

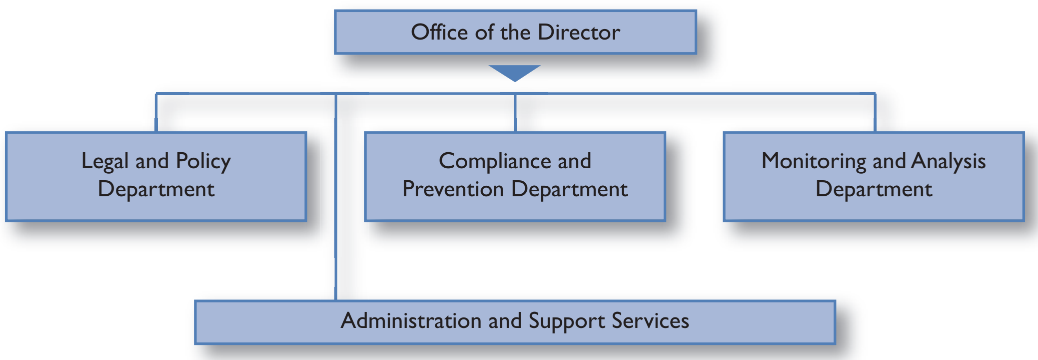
The Centre became a member of the Egmont Group of Financial Intelligence Units in 2003. In doing so the Centre agreed to the adherence of the principles laid out in the Egmont Group Charter. The Centre supports the widest possible co-operation and exchange of information amongst Egmont members. This is done on the basis of reciprocity or mutual agreement and following the rules established in the Egmont Principles of Information Exchange. To give effect the above, the Centre promotes: free exchange of information for purposes of analysis at FIU level; no dissemination or use of the information for any other purpose without prior consent of the providing FIU; and protection of the confidentiality of the information. Furthermore the Centre's decision to exchange information is not affected by the status of other FIU's.

The Centre is steadily increasing the number of Memoranda of Understanding that it has with its FIU counterparts within Egmont.

Communication between the Centre and other countries takes place directly via the Egmont Secure Web without the interference of any intermediary bodies. Requests from counterpart FIU's are dealt with in the same manner as a domestic disclosure, but as a matter of higher priority. All international requests are submitted in compliance with the Principles for Information Exchange that have been set out by the Egmont Group, considering provisions of information sharing arrangements as set out in agreements amongst the Centre and other FIU's.

Structure and Activities by Department for 2008/09

The Centre is structured into several business units.



The management of the departments and business units within the Centre meet regularly as a management executive to oversee the effective performance of the organisation, to share information and to coordinate its activities. For the Centre to achieve its various mandates and to perform against its strategic objectives, it strives to ensure as much interaction and cooperation between the work of the various departments.

Legal and Policy Department

The work of the **Legal and Policy department** presently involves three major areas of responsibility:

- Administration of the FIC Act;
- Engagement with international and regional policy forming and standard-setting organisations (such as the FATF and the ESAAMLG; and
- Provision of policy advice on matters of a strategic nature concerning money laundering and terrorist financing.

Improved AML/ CFT framework in South Africa

The processes to improve the AML/ CFT framework in South Africa included one to develop a set of amendments to the FIC Act with a view to improve the legal framework for the supervision of compliance with the provisions of the Act. This process, which was the responsibility of the Legal and Policy Department, included participation in the committee processes in the course of the Parliamentary passage of the Financial Intelligence Centre Amendment Bill.

Following the passage of the Financial Intelligence Centre Amendment Act, 2008, the Centre embarked on a process of developing the content of the regulations that would be required to support the implementation of the Amendment Act.

The process of amending the FIC Act indicated the need to review the list of supervisory bodies contained in Schedule 2 to the Act. The Centre has embarked on this process through consultations with a number of bodies including various Provincial Gambling Boards, the Law Society of South Africa as well as the regional Law Societies, the National Treasury, the Financial Services Board and the South African Reserve Bank.

The Centre expects to bring the Amended Act into effect during 2010. However, this will have provided all supervisors and other stakeholders the opportunity to have done sufficient preparation to carry out their obligations and to budget accordingly. It is also assumed that the new provisions will require an initial training and awareness effort amongst supervisors.

South Africa's Mutual Evaluation and its Preparation

South Africa, as a member of the FATF underwent a mutual evaluation by it and the ESAAMLG to assess the extent to which the systems and mechanisms to combat money laundering and terror financing in South Africa meet the requirements of the international standards. These are set out in the FATF's Forty Recommendations on Money Laundering and the Nine Special Recommendations on Terror Financing. The evaluation process required a vast amount of collaboration between a number of public and private sector bodies. The preparation for this process and the coordination between the organisations which were involved in the process was facilitated by the Legal and Policy department on behalf of the Centre. This required an enormous effort, greatly beyond what was originally planned.

In its initial phase the evaluation process entailed the compilation of a questionnaire providing the FATF assessment team with all the relevant information to describe the South African anti-money laundering and terror financing framework.

This was followed by a series of one-on-one preparatory meetings with all stakeholders, public and private sector workshops (including a simulated FATF assessment) and collection of all the relevant documentation which the assessment team would require in the course of the evaluation. The Centre developed and hosted a secure website which was used as a communication medium between the South African participants as well as an efficient mechanism to present the relevant information and supporting documentation to the assessment team.

The evaluation process included a two week on-site visit by the assessment team to South Africa, during which the team interviewed all the government stakeholders and private sector institutional participants in relation to the South African AML/ CFT regime over the course of 30 meetings. Apart from participating in many of the discussions with the assessment team and providing the team with information on a number of aspects relating to the South African AML/ CFT regime, the Centre also facilitated all the logistical arrangements for the on-site visit.

Regular communication with the assessment team and all stakeholders took place throughout the process following the on-site visit. This included responding to additional requests from the assessment team by obtaining the relevant information from the appropriate stakeholders and providing the information to assessment team

Once the draft Mutual Evaluation Report was presented to the South African authorities, the Centre distributed it to all the stakeholders with requests for specific responses on issues of concern in the report. The Centre also conducted a feedback workshop in order to obtain further information by way of responses to the draft report and to develop a strategy for further engagement with the assessment team in the course of the finalisation of the draft report.

The Centre collated the comments from all the South African authorities, including the Centre itself, and submitted these to the assessment team with motivations for upgrades of certain ratings in the draft report.

The process of commenting on the draft report was concluded by a face-to-face meeting with the assessment team in Paris, France, in January 2009. The Centre also made the logistical arrangements for the face-to-face meeting with the assessment team and led the South African delegation to meet with the assessment team.

The evaluation process culminated in a debate on the South African Mutual Evaluation Report at a plenary meeting of the FATF which took place in Paris, France in February 2009. The Centre facilitated the attendance of this meeting by the South African delegation as well as the preparation of the delegation for the discussion of the report.

Improved AML/ CFT Capacity in the ESAAMLG Region

The Centre recognises as a strategic issue the importance of having a robust network of jurisdictions within the Eastern and Southern Africa regions with the capacity to collaborate in combating money laundering and terror financing. Against this background the Centre, through the coordination of the Legal and Policy department, has established a programme of engagement with jurisdictions within these regions as well as with the ESAAMLG in order to provide assistance in various forms towards the development of measures and institutions to combat money laundering and terror financing.

In the context of this programme the Centre has engaged with the authorities in Namibia who were responsible for the establishment of the Namibian Financial Intelligence Centre. This engagement included the hosting an official from the Namibian FIU on a secondment visit to the Centre and facilitating a meeting between a Namibian delegation and various South African authorities, such as the National Gambling Board and Gauteng Provincial Gambling Board.

The Centre also supported the admission of Malawian financial intelligence unit to the EGMONT Group of FIUs. This support included the attachment of an analyst from the Malawian financial intelligence unit to the Centre.

The Centre entered into a cooperation agreement with the authorities in Mozambique which are responsible for establishing the financial intelligence unit in that country. The support provided to the authorities in Mozambique consisted of policy advice as well as assistance for the Centre's ICT department.

In addition the Centre also hosted study visits by delegations from within the Eastern and Southern Region, such as a delegation from Kenya for example, to demonstrate the functioning of a financial intelligence unit.

Apart from assistance provided on a bilateral basis the Centre is also supporting the ESAAMLG directly by the secondment of an official of the Centre to the ESAAMLG Secretariat.

Compliance and Prevention Department

The Compliance and Prevention department is responsible for compliance oversight of the FIC Act. It monitors and gives guidance to accountable and reporting institutions, supervisory bodies and other persons regarding the performance by them of their duties under the provisions of the Act and in their compliance therewith.

In this regard the department informs, advises and collaborates with the supervisory bodies to ensure their effective supervision of compliance of accountable institutions regulated by them under the FIC Act. It is also required to engage accountable and reporting institutions to assist them in applying and implementing the compliance provisions of the FIC Act within their respective institutions.

The preventative focus includes a public awareness outlook for the general public, the formulation and issuance of guidance notes for accountable institutions and the provision of compliance training on FIC Act obligations to affected entities.

Operational Achievements

The Compliance and Prevention department was responsible for a number of initiatives during the past financial year. One of the key focus areas for the financial year was to strengthen relationships with supervisory bodies and accountable institutions. This was done in various ways such as monthly meetings, training and joint inspections were held to monitor and ensure that stakeholders understand their supervisory and compliance obligations under the FIC Act.

Another avenue was through compliance audits. In the period under review, the Compliance and Prevention department conducted a series of on-site compliance audits together with several supervisory bodies, as reflected in **Table 1 below.**

Table 1: Compliance Audits conducted during the period April 2008 to March 2009

Industry/ Sector	Supervisory Body under FIC Act	Number of Compliance Audits
Casino Industry	National Gambling Board (NGB)	7
Bookmaker Industry	NGB	43
Estate Agents	Estate Agency Affairs Board (EAAB)	24
Authorised Dealers in Foreign Exchange with Limited Authority	The Exchange Control Department of the South African Reserve Bank	43
Insurance Companies	Financial Services Board (FSB)	16
Financial Service Providers	FSB	3
Collective Investment Scheme Managers	FSB	30
Authorised Members of the Johannesburg Stock Exchange (JSE)	JSE Limited	9
Post Office / Bank Branches	Financial Intelligence Centre	30
Attorneys	Law Society of South Africa	27

Table 2 below reflects the growing evolvement of the on-site compliance audit process and the strengthening of the partnerships between a supervisory bodies and the Centre together to make South Africa a more compliant nation in the area of AML/ CFT compliance.

Table 2: Compliance Audits conducted for the three-year Financial Year period of 1 April 2006 to 31 March 2009

Supervisory Body	Industry/ Sector	Audits Conducted		
		FY2006/ 2007	FY2007/ 2008	FY2008/ 2009
National Gambling Board	Casinos	27	24	7
National Gambling Board	Bookmakers	–	42	43
Estate Agency Affairs Board	Estate Agents	8	13	24
The Exchange Control Department of the South African Reserve Bank	Authorised Dealers in Foreign Exchange with Limited Authority	16	25	43
Financial Services Board	Insurance Companies	0	52	16
Financial Services Boarda	Financial Service Providers	0	26	3
Financial Services Board	Collective Investment Scheme Managers	0	24	30
JSE Limited	Stockbrokers on the JSE	0	3	9
Financial Intelligence Centre	Post Bank	0	27	30
Law Society of SA	Attorneys	0	0	27
Total		51	236	232

The general finding is that there continues to be a broad measure of compliance across all reviewed sectors which mostly resulted in "partially compliant findings". The identified areas for remedial action by accountable institutions will henceforth be more closely monitored by the lead supervisory bodies and then supported on request by the Centre's Compliance and Prevention department.

Overview of Stakeholder Sectors

One of the key projects undertaken by the Compliance and Prevention department has been to conduct on-site compliance audits of accountable institutions to assess if their anti-money laundering and terror-financing controls have been implemented. The results obtained are largely in keeping with those contained in the Mutual Evaluation Report of the FATF.

Financial Services Sector

The Financial Services Board and the Centre worked closely to assess compliance with the FIC Act of the accountable institutions under the supervision of the FSB. Based on the on-site compliance audits conducted at the long-term insurers and the collective investment scheme managers there appeared to be a concerted commitment to comply with the requirements of the FIC Act. Furthermore, there have been amendments to systems and processes in order to improve compliance.

Banking Sector

During the past financial year, the Centre, led by the Compliance and Prevention Department held monthly meetings with the major South African banks (e.g. ABSA Bank Ltd, First Rand Bank Group, Investec Bank Ltd, Nedbank Ltd, The Standard Bank of SA Ltd,). The purpose of these meetings were to enhance the Centre's relationship with the banking sector and to ensure that as an organisation we are aware of the issues facing the banking sector in complying with the FIC Act.

The Centre has appointed a liaison officer to become the nodal point in the relationship with each bank and to facilitate communication between the Centre and the bank should a need arise. This was welcomed by the banks as it allows each bank to have a central point of contact and an interactive relationship with the Centre. The engagements have provided the banks with an opportunity to address their concerns and to obtain clarity on the various challenges experienced in implementing the FIC Act.

Representatives of the Banking Supervision Department (BSD) of the SARB also regularly formed part of the monthly engagements with the banks. This ensured that both the BSD and the Centre were aware of the anti-money laundering and terror-financing issues being raised by the banks and that the banks could raise any banking related issues. The combination of the BSD and the Centre attending these monthly engagements proved fruitful as decisions were taken in unison and this also enhanced the relationship between the Centre and the BSD.

South African Post Office and the Postbank

The Centre worked closely with the South African Post Office and the Postbank, a member of the Post Office Group, on their FIC Act compliance and conducted thirty (30) voluntary audits. In November 2008, an audit was conducted of account files opened at the branch level and stored at the Post Office in Bloemfontein. The aim of this project was to audit the files from different branches to assess the level of compliance in terms of various relevant sections of the FIC Act. Two areas of non-compliance were identified. Firstly, there were insufficient controls in place to ensure that all documents sent to Bloemfontein were properly safeguarded in the files. In addition, there was uncertainty with regard to product requirements in respect of identification and verification of clients. For example, the FIC Act Exemption 17[8] was being used for products which used threshold limits, which was not the intention or purpose of the Exemption. The Post Office and the Postbank have subsequently taken measures to rectify the situation.

[8] Exemption 17 to the Money Laundering Control Regulations of the FIC Act makes provision for easier access to finance for those customers who transact below a defined threshold by not requiring them to undergo a full identification verification process.

Casinos

During the financial year 2008/ 2009, seven (7) on-site compliance audits of casinos were conducted. The positive outcome of these audits was that casinos are partially compliant with the requirements of the FIC Act. The areas of non-compliance highlighted during the audits included the fact that a casino's client identification and verification records were not fully retained by the casino. Another concern has been that casinos have adopted a set of internal rules which are generic in character, while the requirements are for the internal rules to be specific to the circumstances of each particular entity. In addition, it was found that some casinos were not fully aware of all the requirements of FIC Act section 28A, which deals with property associated with terror financing. The Centre will continue to liaise with casinos and to assist them in dealing with the issues identified for remedial action.

Bookmakers

During the past financial year, forty-three (43) compliance audits of bookmakers were conducted with the National Gambling Board. The audits have revealed that very few bookmakers are compliant with the requirements of the FIC Act. This industry will need special attention in the forthcoming period.

Members of the JSE Limited

During the past financial year, the Centre together with the JSE Limited conducted nine (9) on-site compliance audits at members of the JSE. In general the members were compliant with the requirements of the FIC Act and Regulations, but some areas for improvement were identified and communicated to JSE Limited.

Attorneys

During the past financial year twenty-seven (27) voluntary, on-site compliance audits were conducted with attorneys across the country. The Centre conducted the on-site audits without the presence of a supervisory body, as the Law Society of South Africa (LSSA) has no supervisory or enforcement powers. Requests for conducting voluntary on-site audits had been sent to fifty-two (52) randomly selected law firms. The purpose of these voluntary, on-site audits were twofold – namely, to ascertain the level of compliance within the law firms and also to provide a mechanism whereby they could raise practical difficulties experienced with the implementation of the FIC Act.

This initiative was generally welcomed by the attorney's profession and valuable information was obtained from the industry, which will assist the Centre in its compliance function.

The LSSA has also worked with the Compliance and Prevention department on FIC Act training initiatives. Consideration will be given to making the provincial law societies a supervisory body for attorneys under Schedule 2 to the FIC Act, which identifies and lists the relevant supervisory bodies responsible for overseeing the proper adherence to the FIC Act in a particular industry sector or profession.

Authorised Dealer in Foreign Exchange with Limited Authority (ADLAs)

During the financial year, the department assisted the Exchange Control Department of the South African Reserve Bank with forty-three (43) joint compliance audits of ADLAs which were conducted at various branches around the country. The general areas of non-compliance highlighted were that staff in branches have not been adequately trained to deal with the FIC Act obligations on ADLAs, not all branches have internal rules and where internal rules are available, these have not been regularly updated. The Centre will liaise with the respective ADLAs to ensure that remedial action is taken during the forthcoming financial year.

Motor Vehicle Dealers

The Compliance and Prevention department has maintained a relationship with the National Automobile Dealers Association (NADA) which is a voluntary industry association body that represents more than 80 % of the new car sales dealerships. Currently motor vehicle dealers are not recognised as accountable institutions in terms of schedule 1 of the FIC Act which implies they are not required to fulfil all of the obligations on accountable institutions. Instead, motor vehicle dealers have been listed only as reporting institutions in the FIC Act.

The challenge in supervising this industry is that there is no direct regulatory body for the purposes of oversight of the FIC Act, although the FSB does have an indirect role under the FAIS Act, 2001. During the year, the Centre commenced consultations with NADA regarding the transition of motor vehicle dealers to the status of accountable institutions under schedule 1 of the FIC Act.

Guidance Notes

As a result of the Centre various interactions with accountable institutions and supervisory bodies, the department formulated draft guidance notes for accountable institutions in several areas. These will be finalised in the next financial year and published. Such guidance under preparation includes a note on the application of Exemption 17 to the FIC Act which seeks to assist accountable institutions in interpreting the provisions of the Exemption. Other draft guidance include notes for the casino industry; estate agents; on terror financing reporting; and "know-your-customer" requirements for non-banking financial institutions.

Accountable Institutions Registry

The Centre initiated a process to develop a register of all accountable institutions aimed at improving FIC Act compliance. This is a collective effort which involves the close involvement of the Information and Communication Technology (ICT) department.

Cash Threshold Reporting – Casinos

The main objective of this project was to develop a pilot compliance solution for a cash threshold reporting (CTR) system and to fulfill the requirements of section 28 of the FIC Act. This was accomplished in close cooperation with the ICT department and other departments in the Centre, together with one of the casinos. This has enabled the Centre to test the proposed reporting formats and alternative data reporting mechanisms. The CTR system enables casinos to report cash threshold transactions to the Centre in a web form, through batch file upload and through system to system reporting, by using an automated web service. The Centre aims to roll-out the CTR system to the entire casino industry by the end of the next financial year.

Cash Declaration Project

The primary objective of this project was to improve the current system of cash declarations/cash conveyance at the ports of entry, both inbound and outbound in South Africa. The Centre was also involved in investigating the manner in which the established custom's system could be further complemented by the implementation of section 30 of the FIC Act which deals with the reporting of cash movements across the country's borders. The pilot project was conducted at OR Tambo International Airport where the newly revised customs declaration forms were introduced.

Training and Presentations

The Compliance and Prevention department conducted several training sessions throughout the year. These focused on enhancing stakeholder understanding on the requirements of the FIC Act as well as the practical application thereof. Training sessions were held with the following stakeholders:

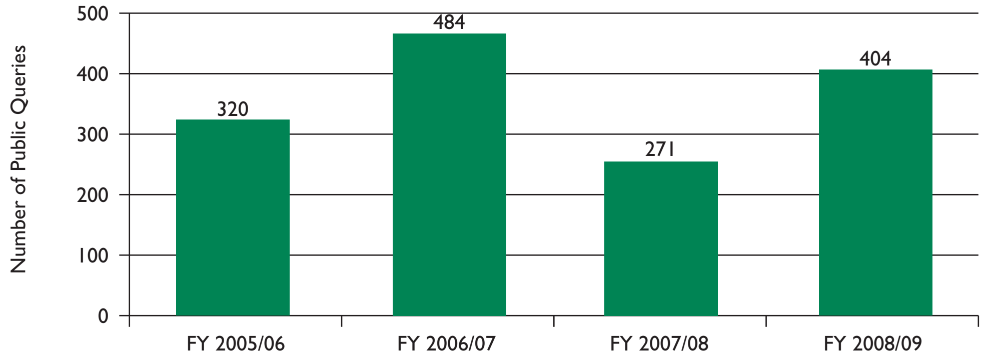
Training Sessions conducted by the Compliance and Prevention Department in the Financial Year 2008/ 2009	
Attorneys	4
Estate Agents	11
Special Commercialised Crime Unit	7
Financial Services Board	1
Nedbank	1
Post Bank	1
Total Training	25

Public Queries

The Compliance and Prevention department runs the public queries section for the Centre, through which the Centre provides feedback to enquiries relating to the FIC Act and the functioning of the Centre. These questions have also formed the basis for the Centre's responses in the "Frequently Asked Questions (FAQs)", which are posted on the Centre's website.

During the financial year under review the Centre responded to 404 queries raised by members of the public. Of these, 324 were made through the e-mail based public "feedback box", while 80 of these were telephonic queries. The majority of these queries concerned practical challenges that accountable institutions and the public are confronted with in respect of the application of the FIC Act.

The graph below illustrates the year-on-year use of the public enquiries facility within the Centre by members of the public



Inspections and Enforcement

The main objective of this project within the department was to establish the Inspectorate Unit, an Appeal Board and a framework for the Centre to enable the Centre to take administrative action in cases of compliance violations and if necessary, refer to the investigative authorities for criminal prosecution.

A draft framework was developed and approved for implementation for the 2009/ 2010 financial year. It is envisaged that an Appeal Board and the Inspectorate Unit will be fully operational on the commencement of the FIC Amendment Act 2008 in 2010.

Risk-Based Approach to Compliance

The Centre has continued to develop and give consideration to the requirements of a risk-based approach to AML/ CFT compliance in the South African regulatory environment. The FATF announcements in this area have guided the approach on the practical implementation aspects, including how to translate such guidance into the domestic environment. It is envisaged that this process may take at least 2 years before it is fully implemented.

Monitoring and Analysis

Reporting to the Financial Intelligence Centre

The Centre received 22 762 suspicious transaction reports ("STRs") in the 2008/2009 financial year submitted by accountable institutions, other businesses and private persons. These reports are submitted to the Centre when reporters believed that a particular transaction, or a series of financial transactions, were suspicious and could be linked to a crime recognised in South Africa law or were actions involving money laundering. This represents a 7% decrease in the number of reports received compared to those in the previous financial year. However, the quality of the reports continues to improve, much of which can be attributed to a maturation of the system and greater understanding by institutions with reporting obligations of what is required by the Centre, enhanced cooperation between the Centre and institutions with reporting obligations, the publication of guidance notes, as well as training and improved liaison.

Table 3: The Centre has received a total of 112 829 STRs since its inception

Suspicious Transaction Reports made to the Financial Intelligence Centre		
Financial Year	No of STRs	Accumulated Total
2002/2003	991	
2003/2004	7 480	8 471
2004/2005	15 757	24 228
2005/2006	19 793	44 021
2006/2007	21 466	65 487
2007/2008	24 580	90 067
2007/2009	22 762	112 829

Every STR received by the Centre is scrutinised by the Monitoring and Analysis Department. This process is well described by the FATF in its Mutual Evaluation Report on South Africa, "Every STR received by the Centre undergoes an initial evaluation process and is assessed against internal rules to identify cases which have possible ML/FT indicators. Once such an instance has been identified the matter is assigned to an analyst. Thereafter, the intelligence cycle is followed to develop a tactical/strategic intelligence product and the powers to gather more information as described above are utilised, as appropriate."[9] The STRs selected for further scrutiny were thereafter analysed and referred to law enforcement agencies, the South African Revenue Service, the various supervisory bodies or the state security services for investigation. Information received by the Centre and not used is stored in the Centre's database for possible future use.

The information referred by the Centre to the law enforcement authorities includes "a package of information, which will normally include the demographical profile of the subject, his/her banking exposure, and his/her transacting pattern with specific reference to any unusual or suspicious transacting corroborated by specific examples to this effect. Information referred to the domestic authorities will therefore include the Centre's analysis and interpretation of the reported information and where possible, substantiated conclusions regarding possible involvement with certain predicate offences. Demographical information will include all relevant information which the Centre has

[9] Mutual Evaluation Report on South Africa, FATF, paragraph 221

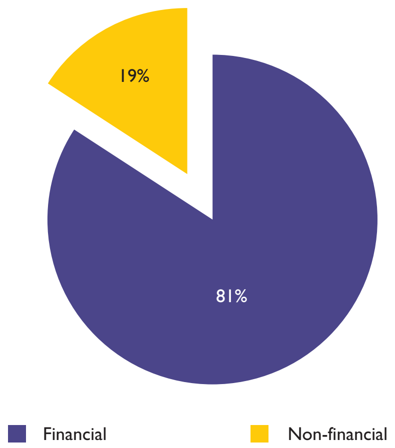
direct or indirect access to (e.g. ID and passport number, marital status, children, previous convictions, the subject's involvement with legal entities, credit history, immovable property registered in name of the subject, entities/people associated with the subject, cross border movement and tax status). This is done with the understanding that information provided should be integrated into the intelligence bases of the domestic authorities and investigated in line with their respective mandates."[10]

During the past year the Centre concluded an agreement with the South African Revenue Service Customs Service for it to report cash declarations to the Centre which had been made in terms of the Customs Act when the cash declared exceeded an amount of USD 10 000 or equivalent in SA rand. These reports enable the Centre to enrich its database and the analytical products the Centre makes to law enforcement agencies. At least 116 such declarations were submitted to the Centre, which amounted to R23.6 million in cash having been brought into the country in this manner. This agreement was implemented as a project on cash reporting which was conducted together with the South African Revenue Service. While it has been tested at limited ports of entry, the system will be implemented during the next financial year and roll out over the following three year cycle at other such border entry points.

All of these reports play a crucial role in enabling the Centre to identify a wide variety of criminal activities such as fraud, various scams, tax evasion, corruption, money laundering or regulatory non-compliance.

The banking sector once again played the biggest role in reporting to the Centre this year, representing 81% of all reports made.

Graph 1: Percentage of reports received by financial and non-financial institutions



[10] Mutual Evaluation Report on South Africa, FATF, paragraph 223.

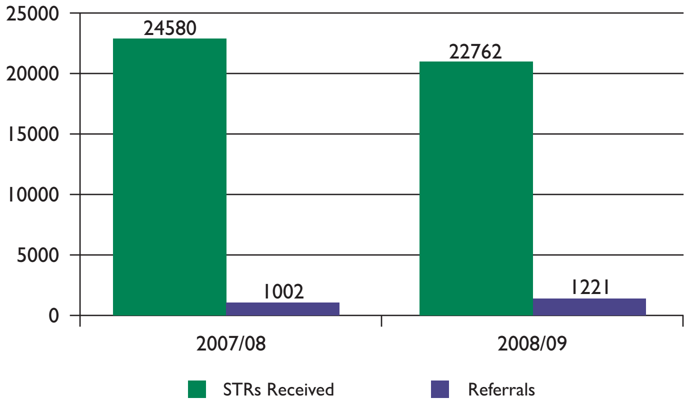
Financial intelligence and law enforcement agencies

In the 2008/ 2009 financial year the Centre, mainly through the Monitoring and Analysis department, continued to play an important role to support law enforcement agencies abilities to combat crime complex financial and organised crimes. The Centre assisted the authorities by tracing the movement of money, identifying assets and other previously unknown suspects.

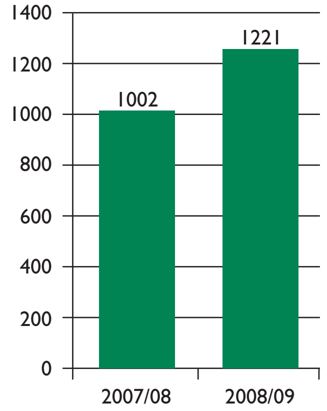
The department disseminated 1 221 analysed reports to partner agencies such as the South African Police Service, the Asset Forfeiture Unit, various supervisory bodies, the Intelligence Services and the South African Revenue Service. This figure also includes 9 spontaneous disclosures to foreign counterparts. This constitutes a 22% increase in the number of reports disseminated in comparison to the previous reporting year.

The Centre referred matters to the value of R5,996 billion to law enforcement authorities in the course of this year.

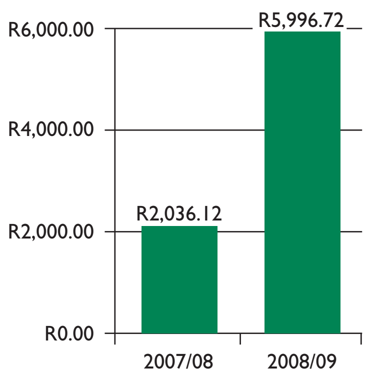
Graph 2: STRs received/ Referrals made



Number of referrals disseminated
(including spontaneous disclosure)



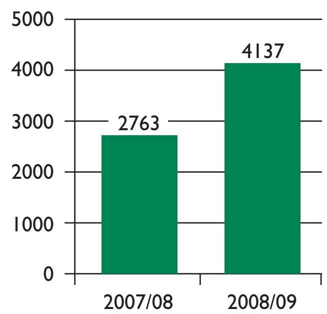
Financial value of referrals in millions
(including spontaneous disclosures)



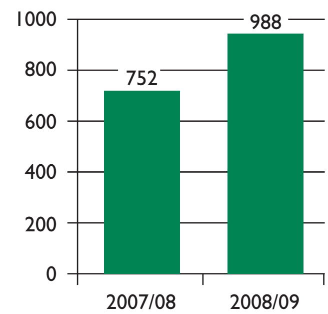
There were 199 authorised officers registered with the Centre's who had the ability to access information held by the Centre. Information supplied by the Centre was used in 251 investigations during the past year. Approximately 61% of all feedback received from authorised officers or requestors of information indicated that the information supplied by the Centre was valuable to their investigation and 37% found the information to be directly relevant to the crime being investigated.

The department performed more than 4 137 queries into financial profiles and gathered approximately 988 sets of additional financial information from accountable institutions during the year. This amounted to approximately 105 enquiries a week. The Centre also issued 15 interventions in 2008/ 2009 to block funds reasonably believed to be the proceeds of crime, thus enabling other state institutions to obtain court orders reclaiming these funds for the Criminal Asset Recovery Account.

Section 27 requests for information on accounts, sent to accountable institutions



Section 32 requests for additional documentation sent to institutions that sent STRs



International Cooperation

International cooperation is fundamental to tracing the movement of the proceeds of crime as criminals often operate with a global perspective when looking for vehicles to conceal the origins of their ill gotten gains. In the financial year under review the Centre entered into 4 new Memoranda of Understanding for information exchange with FIUs from United States of America, Malawi, Sweden and Nigeria.

The Centre also received 72 requests for information from foreign jurisdictions and disseminated 9 spontaneous alerts to foreign FIUs where the Centre was in possession of information that it deemed suspicious and relevant to its foreign counterparts' mandate.

Egmont Group

The Egmont Group is an international body that works to improve international cooperation and information sharing, training and sharing of expertise amongst FIUs globally. In the past financial year the Centre participated in the Egmont Group Plenary meeting held in Seoul, Korea in May 2008 and two inter-sessional meetings held in Toronto, Canada.

International visitors and ESAAMLG

From time-to-time the Centre hosts delegations from international counterparts, usually in order to enable them to benefit from the Centre experience. In turn, the Centre benefits from strengthened relations with counterpart FIUs from African countries, as well as gaining knowledge of experiences in other jurisdictions. In the past financial year the Department hosted delegations and attachments of senior officers from Mauritius, Malawi and Namibia.

The Centre also participated in the discussion workshops held in Tanzania regarding the role of an FIU in the fight against ML and TF and participated in the on-site visit for the assessment and validation of the existence of the Malawian FIU as part of the Egmont Outreach Program. Malawi was successfully admitted as an Egmont member.

Feedback to accountable institutions

Feedback to accountable institutions is critical in maintaining a robust AML/ CFT framework. The Centre has established a liaison mechanism whereby the Compliance and Prevent and the Monitoring and Analysis Departments regularly meet with the major accountable institutions to share information and perspectives on money laundering and terror financing matters. In the past financial year the Department held fifteen meetings with accountable institutions. The meetings included sanitised feedback from the Centre on reports made to the Centre and subsequent actions; sanitised case studies with the purpose of identifying ML indicators and the modus operandi employed by the criminal syndicates; and feedback on cases where their reports added value to criminal investigations.

Research and Typologies

In the past financial year the Centre introduced a tactical research and typology analysis section. The objective is to periodically undertake tactical research on topical issues in the public arena or prevailing crimes in the law enforcement areas of operation. The aim is to use these research products as guidance tools for the Centre and institutions with reporting obligations. The section will also participate in a typology analysis to identify the methodologies used by criminals to launder money and to develop indicators for early warning and detection. These indicators will then be shared with partners to identify money laundering tendencies in their sphere of responsibility.

Box 3: Typologies highlighted during the year

Use of "Mules" To Remit and Receive Money/ Possible Movement of proceeds of crime

The Centre received a number of suspicious transaction reports concerning South Africans remitting and receiving funds on behalf of foreign nationals. Analysis into this phenomenon *revealed that often it was young and poor African women that were being recruited as "mules" to perform these transactions in return for a small fee or other benefits.*

The modus operandi used by the foreigners indicated that once they reached the threshold of their foreign transaction allowance, they would recruit a "mule" to provide an account. In most cases, the "mule" did not know the details of the transaction and would be accompanied by the recruiter when sending or receiving funds. Such occurrences were prevalent in areas with a high concentration of foreign nationals and illegal immigrants. Most of the funds were remitted to or received from destinations such as West Africa, South America and South Asia.

This conduct often raised suspicions of exchange control violations and the movement of funds for narcotics trafficking. The reports were sent to law enforcement agencies for further investigations

Indicators identified:

- *Multiple transaction form many different individuals ("mules") sending funds to one beneficiary;*
- *Transaction activity inconsistent with client's profile;*
- *Frequent sending and receiving of moneygrams;*
- *"Mules" accompanied to the banks by foreign nationals who did not participate in the actual transaction; and*
- *Using third parties to conduct wire transfers.*

Money laundering by abusing insurance products

The Centre received numerous suspicious transaction reports from insurance institutions concerning suspicious and unusual utilisation of investment and insurance products. The analysis of these reports showed that various investment policies and insurance products were opened and soon thereafter received large cash deposits. However, soon after opening and after receipt of these deposits, immediate withdrawals followed. These actions served to conceal the true origins of the cash and created a seemly legitimate source of the funds once withdrawals were made. Some of the methods used included:

- *Cash deposits followed by immediate withdrawals/ disinvestments;*
- *Withdrawing large sums of money from the policy and leaving the policy with a minimum value although enough to keep the investment policies active;*
- *Withdrawing the entire amount and closing the facility soon after opening it;*
- *Cash deposits followed by immediate instructions/ applications for zero interest loans (ZILs);*
- *Applications for loans against the policy being made within a relatively short period of time (1 week) after depositing; or*
- *Applications for loans attached to the initial cash deposits to be made into an investment account.*

The reports raised the suspicion of contraventions of the Income Tax Act and money laundering. These specific indicators include:

- *Opening a policy with a large amounts of cash;*
- *Early surrender of insurance policy incurring substantial financial losses;*
- *Insurance policy being closed followed by a request to make payment into the third party's account;*
- *Surrendering of policies way before maturity; and*
- *Application for loans attached to cash deposits.*

Training and awareness

The Centre continues to support its partners in ways other than investigations. It conducted regular training and awareness campaigns in the 2008/ 2009 financial year. The Centre cooperated with the Justice College as well as law enforcement agencies to provide lectures to 379 prosecutors, investigators and state advocates on anti-money laundering and the role of the Centre in combating crime. This has been a joint activity involving senior officials from the Centre, including the Monitoring and Analysis department.

Administration and Support Services

The Administration and Support Services provide the infrastructure to support and enable our work in the Centre. The primary functions within this division include those of office management, financial and administrative management, procurement and supply chain management, human resources, registry and document storage services, in-house staff training and development, security services, marketing, in-house legal services, and information and communication technology.

IT development

Information Technology development

The ICT department continued to make significant progress to develop the Centre's new systems development (FICCITS) project. Two pilot projects, one which designed a Cash Courier Reporting solution and another on CTR, have been completed and are ready for roll-out during the next financial year.

The primary objective of the cash courier reporting (CCR) project was to improve the current system of monitoring cash conveyance and cash declarations reporting at the ports of entry. The Centre was also involved in investigating the manner in which the established customs system could be further complemented by the implementation of section 30 of the FIC Act which deals with the reporting of cash movements across the country's borders. The ICT Department with SARS developed a solution to enable capturing and reporting information obtained from passengers

The main objective of the CTR project was to develop a pilot solution system and to fulfill the requirements of section 28 of the FIC Act. The Compliance and Prevention department together with the ICT department embarked on a pilot project with one of the casinos to enable the Centre to test the proposed reporting formats and alternative data reporting mechanisms. The CTR process enables casinos to report cash threshold transactions to the Centre in a web form, through batch file upload and through system to system reporting, by using an automated web service. The Centre aims to roll-out the CTR system to the entire casino industry by the end of the next financial year.

The FICCITS project has moved into the implementation stage and new capabilities with new applications are to be rolled out in the new financial year.

The ICT department has continued to enhance Information Security across the organisation. This is being done in a context in which there is a growing threat of cyber and other ICT security attacks. The department has taken a range of technical measures in this regard and accompanied this with awareness messaging and training for the Centre's staff. All new staff upon joining the Centre are made aware of the strict need for information security.

The Centre has firmed up its ability to recruit trained and proficient ICT staff. It seeks to recruit staff in the ICT area with right skills and competencies to support the software and hardware tools used to accomplish business goals of Centre. The department has a plan to retain these staff and to develop career-pathing options for them so that they do not easily get lost to the Centre after the investment in them and the knowledge they have acquired.

The ICT department is also extending its services by offering technical assistance in information technology to other countries within the ESAAMLG region. Department staff visited Mozambique in March to assist the Mozambican Government establish its financial intelligence unit and in particular, to advise on setting up its ICT infrastructure.

Financial Management

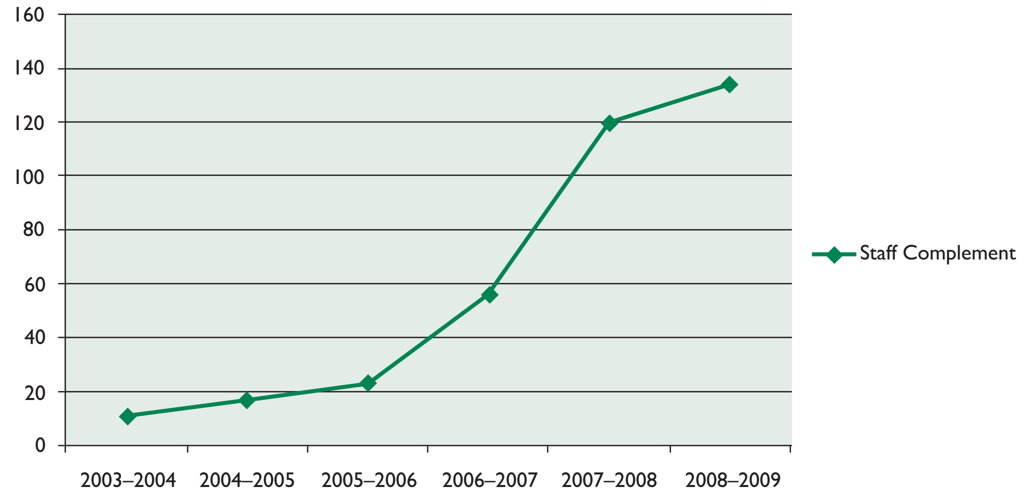
The budget of the Financial Intelligence Centre is developed and determined by the Centre itself, in accordance with all section 3(a) public entities registered and operating in terms of the Public Finance Management Act. This process happens as part of the three-year planning cycle which includes the formulation of strategic goals which are matched against annual performance reporting.

During the year under review, an employee of the Centre committed financial misconduct. This did not result in any significant changes in our internal controls, but resulted in an internal disciplinary hearing which concluded in a decision of immediate dismissal and criminal proceedings being instituted. As a result, a net amount of R187,000.000 is disclosed in the annual financial statement, after recovery of R216,000.00.

Human Resources

During the 2008/ 2009 financial year, the Centre made several human resource interventions to ensure that it was able to achieve its strategic objective of ensuring that it becomes a sustainable and capable institution. For example, the Centre's generic behavioral competencies and job profiles were assessed so that it would be better placed to recruit people with appropriate skills, ensure a better fit of jobs and skills, as well as be able to better plan for their career development. The Centre has registered with the Financial, Accounting, Services SETA (FASSET) and one area of focus in the new financial year will be to implement the workplace skills plan. A skills audit of the Centre's managers was also conducted in order to identify to their skills and development needs.

The Centre's staffing levels for the past and current operational year are indicated in the table below



The Centre formed an Employment Equity Committee which has finalised an employment equity plan in consultation with all stakeholders. The Centre also set up its Remuneration Committee.

The Centre continued with a small pilot process for internship in which the Compliance and Prevention department hosted university graduates as interns and provided them with practical training. Each intern has been provided with a mentor who provides structured coaching. Some of the past interns have subsequently joined the Centre as Assistant Compliance Officers.

In line with the Centre's vision to empower and develop staff, forty-six (46) employees were granted bursaries during the past year.

During the past year the Centre provided a wide range of generic workplace skills training, as well as specific training suited to the particular workplace situation. These are indicated as examples in the following table:

Training Focus	Number of Staff
Information and Technology	46
Administration	8
Management	20
Life skills	28
Advance Analysis	4
Money laundering detection	12
Human resource issues	24
Compliance	9

Facilities Management

During the past year the Centre moved from the offices it had occupied in the National Treasury building in Pretoria to new premises in Centurion. This was because of the growth in the size of the organisation as well as the increasingly complex environment within which it worked. The move into the Centurion offices took place in two phases. During the first phase, core functions of the Centre moved or were set up, for example the ICT department which created an initial infrastructure. The remaining staff moved over from the National Treasury's premises in the last quarter of the 2008/ 2009 financial year. The relocation process adhered to strict security control and the move plan was effected so that staff were able to commence work within twenty-four hours of their relocation.

The Centre has set up its Facilities Management department with responsibilities which have been benchmarked against local and international best practice, which includes using strict security standards.

Way Forward

The Centre has grown steadily since its establishment, yet it is not operating at anywhere near full capability. Additional development is required before it reaches a first threshold to meet its current mandate and obligations. It is anticipated that this threshold will have been reached at the end of this next three-year cycle. There have been countless challenges and tasks over the period, but the Centre and its staff can look back on its several achievements with pride.

Over the next three years the Centre will focus its activities within the following framework in order to fulfill its mandate and to achieve a series of objectives:

- The information from the Centre should be recognised as relevant and of high quality and to be fully utilised by the country's law enforcement authorities, security agencies and the Revenue Service;
- The Centre shall increase the understanding that the various stakeholders have of its

mandate, functions and responsibilities and thereby be better able to use the Centre's products;

- A better platform for increased preventive actions requires that the public and accountable institutions should have an increased awareness of AML/ CFT vulnerabilities and threats;
- Those sectors of business which are vulnerable to being abused by money laundering activity should be encouraged to grow a culture of compliance, which is properly supervised (by supervisory bodies) and implemented in accordance with the FIC Act as recently amended;
- In order to effectively combat ML/ FT the country's legal framework in this regard needs to be relevant, adequate and aligned with global standards through intensive interaction with the relevant international bodies; and
- The Centre should be a sustainable and a capable institution to give effect to the mandate and objectives placed before it.

These objectives provide the strategic framework and six focus areas for the Centre over the next three-year cycle, in addition to its ongoing business which captured in its operational plans and performance agreements.

Over the next three years, the Centre's staff shall need to build their work programmes around the objectives set out above and captured in six focus areas for its work. Firstly, the Centre will continue to strive to provide to domestic law enforcement authorities, and when applicable, its international counterparts with information of the highest integrity and quality, thus enabling immediate, thorough and successful investigations. Accuracy and speed will need to be twinned and neither should be achieved at the expense of the other. Performance targets should be met despite increases in the scope and scale of the information being received.

A second aspect is for the Centre to develop an approach in which it provides active analytic and other support to investigations and projects to enable successes, which means that the Centre's analytic capability should be located close to investigations and should provide active backup to these. The Centre will track investigations in order to measure and quantify its impact. Further assistance over and beyond the initial referral or response will be required to ensure that investigations lead to prosecutions and prosecutions turn into convictions. Critical to the success of this focus is that the various stakeholders have an increased understanding of the Centre and its mandate, functions and responsibilities and can better utilise its products.

Thirdly, the Centre will seek to promote full compliance by accountable and reporting institutions and individuals whereby they effectively implement control measures and effective compliance approaches to minimise, if it is not possible to entirely eliminate, money laundering and terrorist financing through their institutions and employees on a voluntary basis. The development of such a compliance culture is also dependent on stakeholders, including the public at large, understanding the various threats and being aware of what factors can lead to money laundering and financing of terrorism. Thus a focus on awareness generation is important if the Centre wishes to create circumstances for the prevention and reduction of laundering or terror financing.

Fourthly, the Centre should also play its role as the institution primarily responsible for developing a coordinated and integrated approach to the development of a comprehensive anti-money laundering and terrorist financing environment and system. This is one in which the various stakeholders (from business, supervisory bodies through to investigators) each independently implement their respective responsibilities while doing to in a value chain which provides an end-to-end framework This environment will require the full participation of the various stakeholders within government, enabling each of these to contribute their skills and facilities to a common objective. An important component of this area will be to implement the amendments to the FIC Act and to enable the various supervisory bodies to take up the challenge. For the Centre this will also mean creating an enforcement capability, as well as provide the administrative infrastructure for an appeal process.

Fifthly, a strong relevant and robust legal framework is critical for AML/ CFT successes. This needs to be aligned to the global standards while taking into account the constantly evolving situation. This requires close interaction and engagement with the relevant international bodies, particularly the FATF, but including the ESAAMLG, the Egmont Group and the United Nations amongst others. It also means close interaction with all relevant domestic AML/ CFT stakeholders.

Sixthly, while the Centre has made rapid progress it remains vulnerable in certain areas and remains overly dependent on the core establishment associated with its growth. It needs to entrench various business and other systems, especially IT systems; lock in procedures and processes; be strengthened by bringing in specialised skills; firm up and refine various procedures and processes; and entrench a strong performance culture. Critical to this is the extraction and integration of the expertise and knowledge of founding and core staff in transforming the Centre into a learning organisation that seeks to integrate the knowledge of its entire staff as a platform for future direction and activities. It goes without saying that these factors are all heavily dependent on adequate funding and budgetary resources.

Finally, as a result of the successes achieved in the dynamic and integrated pursuit of its AML/ CFT objectives, South Africa will gain in several ways. The country will enjoy an enhanced reputation for the reduction of crime and the manner in which it implemented AML/ CFT standards. Another result will be that the country will benefit from the improved perceptions of the country's financial stability, thereby improving its credit ratings and be an unquestioned destination for foreign investment.

The results of the Mutual Evaluation show that the country has made significant progress in a short period in implementing an AML/ CFT framework. The Centre itself is well on the way into being developed as a strong and sustainable government agency enabled to fully give effect to the legislative mandate and responsibilities placed on it and its staff by the Minister of Finance.

Performance Report

Goal	Key Performance Indicator	Target	Performance Results	Reason for Variance
The Centre is a sustainable and capable institution	(i) A staffing plan to be compiled and approved to enable the Centre to fill new posts and vacancies	(i) Staffing plan compiled and approved by management by Q4	Draft completed Q4 Final plan approved by Q1	Final departmental business plans completed
	(ii) Implement existing staffing plan	(ii) Existing staffing plan implemented from Q1 to fill new and vacant posts	Communication and marketing Manager appointed COO vacant	Re-advertised Head-hunting continue
	(i) Develop and approve an enhanced Human Resources strategy for the Centre as follows: Identify new HR requirements for strategic implementation	(i) HR strategy approved Q4 New HR requirements identified by Q4 and approved	Process underway appointed a service provider in quarter three HR requirements report completed – Career management and competency framework identified as HR requirements	Draft strategy in place
	(ii) Provide an annual report on staff complement and turnover for baseline information	(ii) Report on staff complement and turnover provided Q4.	114 staff complement 20 resignation 1 dismissal	
	(i) Compile consolidated Facilities Management Strategy (FMS) and develop action plan	(i) Facilities Management Strategy complete and action plan approved	Draft Facilities Management Strategy completed	

Goal	Key Performance Indicator	Target	Performance Results	Reason for Variance
The Centre is a sustainable and capable institution (continued)	(ii) Implement existing Facilities Management components	(ii) Facilities Management components implemented Q4	Occupational Health & Safety Audit completed. Security Staff training completed – refresher training also completed Monthly and quarterly maintenance of electronic security system concluded as per schedule. Registration of delivery vehicle concluded.	
	(iii) Compile relocation plan to Centurion for the staff currently on the 23rd and 24th floors of the 240 Vermeulen Street building. Approval of relocation plans Implement relocation plan	(iii) Approved relocation plan initiatives completed as per the milestones in the relocation plan.	Successful and complete relocation by end February 2009	
Develop and Commissioning of the Centre's Information and Communication Technology System	(i) Finalise ICT Programme Management Plan with baseline schedule and budget for the Centre	(i) ICT Programme Management Plan finalised by June 2008	Approved Programme Management Plan	
	(ii) Complete initiatives in accordance with the milestones as defined in the ICT Programme Management Plan	(ii) Initiatives completed in accordance with the milestones as defined in the ICT Programme Management Plan Q4	Go-AML, a FIU IT solution, developed by UN/ ODC, assessed and recommended to acquire. Technical reference model completed Information Security Standards implemented Information Security Standards implemented	

Goal	Key Performance Indicator	Target	Performance Results	Reason for Variance
Develop and Commissioning of the Centre's Information and Communication Technology System (continued)	(i) Develop process to identify the targeted external stakeholders with whom relationships are to be established and develop action plan for implementation	(i) Strategy and identification of targeted external stakeholders identified completed by Feb 2009	Engagements with NIA to finalise the Information Security project	
	(ii) Identify and pilot additional reporting streams as per the FIC Act to enrich the Centre's products	(ii) Pilot projects initiated	Cash Courier Pilot completed and live in Durban and Cape Town airport – October 2008 Cash Threshold Project – plans have been developed Cash threshold was tested with Tsogo Sun Casinos	
Improved consumption of the Centre's products	(i) Design and conduct annual survey of law enforcement authorities: (a) assess the relevance and use of the Centre's products (b) the status of relationships	(i) Survey designed and conducted Q4	Referrals increased by 21%. – Interventions increased by 275%. – Requests decreased by 21%. Feedback on requests	Requests received by the Centre decreased by 21% as a result of the DSO reshuffle
	(ii) Identify information to which the Monitoring and Analysis department needs priority access	(ii) Information needs identified Q4	Access to Movement Control System implemented Access to Lexis Nexis implemented Access to Enatis, and CIPRO negotiated, implementation in 2009/10 financial year 3 MOUs finalised 100%	

Goal	Key Performance Indicator	Target	Performance Results	Reason for Variance
Improved consumption of the Centre's products (continued)			Discussions with SCCU Western-Cape investigating commercial crime. Official to be attached to SCCU Joint Task Team finalised – Commence June 2009	
Improved FIC Act compliance of accountable institutions and Society in general	(i) Develop and approve a public awareness strategy	(i) Public awareness strategy developed and approved Q4	Approved Communications Strategy	
	(ii) Develop and approve a public awareness action plan to give effect to the strategy	(ii) Public awareness plan developed and approved Q4	Approved Communications Strategy	
	(iii) Complete initiatives in accordance with the milestones defined in the public awareness action plan	(iii) Completed initiatives as per public awareness Q4		Commence Q1
	(i) Compile a formal strategy and action plan to enable the Centre to undertake the activities listed once the FIC Amendment Bill is passed, including training of external stakeholders	(i) Strategy and action plan finalised Q4	Completed	
	(ii) Conduct awareness and training with external stakeholders to familiarise their roles in administrative actions	(ii) Awareness training conducted Q4	Presentations to: • Attorneys; • SCCU; • Estate Agents; and • FAIS members	

Goal	Key Performance Indicator	Target	Performance Results	Reason for Variance
Improved FIC Act compliance of accountable institutions and Society in general (continued)			11 training sessions in conjunction with LEAs 326 Public queries received via feedback box (includes e-mail and telephonic queries)	
	(iii) Gather data and report on the state of non-compliance of audited entities	(iii) Report developed on audited entities for planning purposes	Conducted 234 compliance audits: • 9 Joint Audits with JSE; • 43 Joint Audits with ADLAS with SARB; • 7 Casino Joint Audits with NGB; • 30 Joint Audit with FSB of CIS Managers; • 3 Joint audits with FSB FAIS Department; • 16 Joint audits with FSB of long-term insurers; • 27 Audits with EAAB; • 42 Bookmakers Joint Audits with NGB; • 30 File audits of Post Bank Branches; and • 27 Voluntary audits of attorneys	
	(i) Finalise Compliance Handbook and approve	(i) Compliance Handbook finalised and approved by target date	First Edition of Compliance Handbook completed	

Goal	Key Performance Indicator	Target	Performance Results	Reason for Variance
Improved AML/CFT capacity in ESAAMLG Region	(i) Produce assessment of Centre's range of Technical Assistance capabilities in relation to needs identified in ESAAMLG structures	(i) Assessment completed by Q4	Secondee from the Centre to ESAAMLG Secretariat serving the last of two years Hosted the following countries for Technical Assistance: Malawi; Kenya; Mauritius; Mozambique; and Swaziland	
Improve AML/ CFT framework in South Africa	(i) Compile an action plan to revise and update the FIC Act	(i) Action plan finalised by Q4	Approved	
	(ii) Complete activities complete as per milestones defined in the action plan to update FIC Act	(ii) Activities completed by target dates	Complete	
	(iii) Complete proposals to update FIC Act to enable these to be accepted and given effect through legislative process	(iii) Proposals finalised Proposals enter legislative process Progress of proposals monitored Q4	Not completed	Impact of Mutual Evaluation needs to be incorporated into FIC Act review
	(i) Provide policy documents and advise to assist investigations and prosecutions to e.g. SAPS, NPA, SARS, NT, FSB, BSD	(i) Documents and advice provided to investigators and prosecutors Q4	Formed partnership with CMC Assisted in 17 investigations Scope and project plan for SCCU complete; to implement in 2009/2010	

Goal	Key Performance Indicator	Target	Performance Results	Reason for Variance
Mutual Evaluation	(i) Compile and roll out an awareness plan to ensure South Africa is in a position to be evaluated by the FATF	(i) All initiatives (100%) of the awareness plan rolled-out by target date	Final assessment report issued February 2009	

Audit Committee Report

AUDIT COMMITTEE REPORT

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2009.

Audit Committee Members and Attendance

The audit committee consists of the members listed hereunder and should meet at least four times per annum as per its approved terms of reference. During the current year 4 meetings were held.

Name of Member	Number of Meetings Attended
C Kneale (Chairperson)	4
B Lengane	4
N Khumalo	4

Audit Committee Responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of **Section 51(1) (a)** of the **PFMA** and **Treasury Regulation 27.1.** We further report that we have conducted our affairs in compliance with this charter.

The effectiveness of internal control

The system of internal control applied by the Centre over financial and risk management is effective, efficient and transparent.

In line with the PFMA and the King II Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

Evaluation of Financial Statements

We have:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General South Africa and the Accounting Authority.
- Reviewed the Auditor-General South Africa's management report and management's response thereto;
- Reviewed changes in accounting policies and practices;
- Reviewed the Centre's compliance with legal and regulatory provisions; and
- Reviewed significant adjustments resulting from the audit.

We concur with and accept the Auditor-General of South Africa's report on the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted read together with the report of the Auditor-General South Africa.

Internal audit

We are satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the Centre in its audits.

Auditor-General South Africa

We have met with the Auditor-General South Africa to ensure that there are no unresolved issues.

CLIVE D KNEALE
Chairperson of the Audit Committee

Date: 31 July 2009

Report of the Auditor-General SA

REPORT OF THE AUDITOR-GENERAL SA

TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF FINANCIAL INTELLIGENCE CENTRE FOR THE YEAR ENDED 31 MARCH 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Financial Intelligence Centre which comprise the statement of financial position as at 31 March 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 58 to 100.

The 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 the basis of accounting determined by the National Treasury, as set out in the accounting policy (Basis of preparation) to the financial statements and in the manner required by the Public Finance Management Act, 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.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004)(PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008,* issued in *Government Gazette No. 31057 of 15 May 2008.* 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.
5. 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.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion the financial statements present fairly, in all material respects, the financial position of the Financial Intelligence Centre as at 31 March 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in the accounting policy (Basis of preparation) to the financial statements and in the manner required by the PFMA.

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters:

Basis of accounting

8. The public entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in the accounting policy (Basis of preparation) to the financial statements.

Irregular expenditure

9. As disclosed in note 28 to the financial statements irregular expenditure totaling R1 899 549 was incurred during the year due to the following reasons:
   - R186 694 was due to financial misconduct by a member of the accounting department.
   - R1 591 777 due to the fact that three quotes were sourced rather than the competitive bid process followed as prescribed by the applicable Treasury Supply Chain Management Practice Note.
   - An amount of R121 078 relating to interest payable on the late submission of PAYE.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Governance framework

10. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

11. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Yes	No
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines [section 55 of the PFMA].	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	• The public entity had an audit committee in operation throughout the financial year.	✓	
	• The audit committee operates in accordance with approved, written terms of reference.	✓	

No.	Matter	Yes	No
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee (continued)		
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.	✓	
7.	Internal audit		
	• The public entity had an internal audit function in operation throughout the financial year.	✓	
	• The internal audit function operates in terms of an approved internal audit plan.	✓	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 27.2	✓	
12.	Delegations of responsibility are in place, as set out in section 56 of the PFMA.	✓	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	SCOPA resolutions have been substantially implemented.	n/a	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	

No.	Matter	Yes	No
Issues relating to the reporting of performance information (continued)			
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Financial Intelligence Centre against its mandate, predetermined objectives, outputs, indicators and targets. Treasury Regulation 30.1.	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

Material changes were made to the financial statements due to irregular expenditure as mentioned in paragraph 9 above. Management implemented measures to ensure that irregular expenditure does not occur within the entity.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

12. I have reviewed the performance information as set out on pages 46 to 52.

The accounting authority's responsibility for the performance information

13. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

The Auditor-General's responsibility

14. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008.*
15. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
16. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

APPRECIATION

17. The assistance rendered by the staff of the Financial Intelligence Centre during the audit is sincerely appreciated.

Auditor-General

Pretoria

July 2009

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Financial Statements

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2009

	Note	2009 R'000	Restated 2008 R'000
ASSETS			
Current assets		**3 535**	**1 816**
Cash and cash equivalents	1	1 601	1 180
Receivables	2	992	373
Inventory	3	166	170
Prepayments	4	776	93
Non-current assets		**35 413**	**26 586**
Intangible assets	5	7 378	5 496
Property, plant and equipment	6	27 427	20 542
Financial lease assets	7	608	548
Total assets		**38 948**	**28 402**
LIABILITIES			
Current liabilities		**9 019**	**11 430**
Payables	8	7 362	10 005
Employee Benefits	9	1 261	1 154
Short term lease liability	24	396	271
Non-current liabilities		**278**	**310**
Long term lease liability	24	278	310
Total Liabilities		**9 297**	**11 740**
Total Net assets		**29 651**	**16 770**
Accumulated surplus		29 628	16 639
Revaluation reserves		23	23
Total liabilities and net assets		**38 948**	**28 402**

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2009

	Note	2009 R'000	Restated 2008 R'000
Revenue			
Parliamentary allocations	10	111 474	42 480
Interest received	11	483	1 443
Total revenue		**111 957**	**43 923**
Expenses			
Personnel	12	47 363	34 241
Audit fee	13	645	565
Administrative	14	43 797	23 186
Depreciation and amortisation	15	6 456	1 622
Miscellaneous	16	121	–
Finance Costs	17	122	67
Audit Committee member fees	18	155	108
Total expenses		**98 659**	**59 789**
Surplus / (Deficit) from operations		13 248	(15 866)
Proceeds on sale of property, plant and equipment		33	–
Loss on sale of property, plant and equipment	6	(201)	–
Loss on forex		(141)	(9)
Surplus / (Deficit) for the year		**12 989**	**(15 875)**

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31 MARCH 2009

	Note	Revaluation Reserve R'000	Accumulated Surplus / (Deficit) R'000	Total R'000
Balance at 31 March 2007			**32 514**	**32 514**
Deficit for the period		–	(15 937)	**(15 937)**
Surplus on revaluation		23	–	**23**
Balance at 31 March 2008		23	16 577	**16 600**
Prior year adjustments		–	62	**62**
Restated balance at 31 March 2008	**29**	**23**	**16 639**	**16 662**
Surplus for the period		–	12 989	12 989
Balance at 31 March 2009		**23**	**29 628**	**29 651**

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2009

	Note	2009 R'000	Restated 2008 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts		110 659	45 592
Cash paid to suppliers and employees		(95 148)	(55 366)
Cash utilised in operations	20	**15 511**	**(9 774)**
Interest received	11	483	1 443
Net cash outflow from operating activities		**15 994**	**(8 331)**
CASH UTILISED IN INVESTING ACTIVITIES			
Additions to intangible assets	5	(3 241)	(3 084)
Additions to property, plant and equipment	6	(11 801)	(18 671)
Additions to leased assets	7	(442)	(434)
Net cash outflow from investing activities		**(15 484)**	**(22 189)**
Proceeds from sale of property, plant and equipment		33	–
Finance charges on leased assets		(122)	(67)
Net cash from financing activities		**(122)**	**(67)**
Net decrease in cash and cash equivalent		**421**	**(30 587)**
Cash and cash equivalents at beginning of year		**1 180**	**31 767**
Cash and cash equivalents at end of year	1	**1 601**	**1 180**

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2009

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP	Replaced Statement of GAAP
GRAP 1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP 2: Cash flow statements	AC118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in the items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following changes in the presentation of the financial statements:

1. Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit	Profit/loss
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

1. The cash flow statement can only be prepared in accordance with the direct method.

2. Specific information has been presented separately on the statement of financial position such as:
   (a) Receivables from non-exchange transactions, including taxes and transfers;
   (b) Taxes and transfers payable; and
   (c) Trade and other payables from non-exchange transactions.

ACCOUNTING POLICIES – continued

FOR THE YEAR ENDED 31 MARCH 2009

3. Amount and nature of any restrictions on cash balances is required.

Paragraphs 11–15 of GRAP 1 have not been implemented due to the fact that the local and international budget reporting standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

The financial statements are prepared on the historical cost basis. The presentation currency of the financial statements is in South African rand and figures are rounded to the closest rand. The financial statements are prepared on a going concern basis.

FINANCIAL INSTRUMENTS

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

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

The Centre does not offset the financial assets and liabilities.

Initial measurement
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:

- Cash and cash equivalents are measured at fair value;
- A provision for impairment of trade receivables is established when there is objective evidence that the Centre will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate, and
- Payables are subject to normal trade credit terms and relatively short payment cycle.

ACCOUNTING POLICIES – continued

FOR THE YEAR ENDED 31 MARCH 2009

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.

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.

Cash and cash equivalents

Cash and cash equivalents comprise short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are subsequently recorded at fair value which always approximates face value.

Cash includes cash on hand and cash with banks. For the purposes of cash flow statement, cash and cash equivalents comprise cash on hand and cash held in the bank.

Loans and receivables

Trade and other receivables (excluding prepayments and deposits), and loans that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables.

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.

LEASES

Leases are classified as both finance and operating leases.

ACCOUNTING POLICIES – continued

FOR THE YEAR ENDED 31 MARCH 2009

Finance lease

Finance leases are leases that substantially transfer all risks and rewards associated with ownership of the assets to the Centre, entered into by the Centre.

Assets held under finance lease are capitalized as leased assets. The corresponding liability is included in the balance sheet 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.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

The lease assets are written off over the duration of the lease contract which is 36 months.

Operating lease

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating lease. Operating lease expenses are charged against surplus on a straight line basis over the term of the lease.

Rentals in respect of operating leases with fixed escalation are recognised as an expense on a straight line basis over the term of the lease.

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.

The review of the estimated useful life is performed annually both internally and externally. The estimated useful lives are as follows:

– Computer equipment	5 years
– Furniture	6 years
– Motor vehicle	5 years
– Office equipment	2 to 5 years
– Fixtures & fittings	5 to 10 years

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining the operating surplus / (deficit).

ACCOUNTING POLICIES – continued

FOR THE YEAR ENDED 31 MARCH 2009

The Centre 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 embodied within the part will flow to the company and the cost of such item can be measured reliably. All other costs are recognised in the Statement of Financial Performance as an expense when incurred.

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

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Financial Performance.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of is 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

INTANGIBLE ASSETS

Intangible assets comprise of identifiable, non-monetary assets without physical substance. An intangible asset is recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. After initial recognition, intangible assets shall be carried at their respective costs less any accumulated amortisation and any accumulated impairment losses.

ACCOUNTING POLICIES – continued

FOR THE YEAR ENDED 31 MARCH 2009

The review of the estimated useful life is performed annually both internally and externally.

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. The estimated useful life is as follows:

- Computer software and development 6 years

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

TAXATION

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

REVENUE RECOGNITION

Income

In terms of section 14 of the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001), the Centre will be funded by:

- Money appropriated annually by Parliament;
  Revenue is recognised on an accrual basis and represents the amounts received and receivable by the Centre and is raised in the financial performance statement. Initial recognition of revenue does not include uncollectible amounts in the estimate;
- Government grants; and
- Legally acquired donations approved by the Minister of Finance.

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.

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 Centre has a present obligation to pay as a result of services provided by employees. The provision has been calculated at undiscounted

ACCOUNTING POLICIES – continued

FOR THE YEAR ENDED 31 MARCH 2009

amounts based on the current salary rates, because of short-term nature.

Termination of benefits

Termination benefits are recognised as an expense when the Centre is demonstrably committed, without 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 Centre has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be reliably be estimated.

Retirement benefit

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

ACCUMULATED SURPLUS

The Centre shall apply for retention of surplus funds at end of each financial period, if there is a surplus.

PROVISIONS

Provisions are recognised when the Centre has a present legal obligation as result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. 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.

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 financial year are translated into South African rands at the rates ruling at that date.

Exchange gains and losses on settlement of foreign currency monetary liabilities during the period are recognised in the Statement of Financial Performance.

ACCOUNTING POLICIES – continued

FOR THE YEAR ENDED 31 MARCH 2009

INVENTORIES

Inventory is stated at lower of cost and net realisable value. Cost is based on weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and conditions.

Inventories comprises mainly of stationery and printer cartridges.

FINANCE COST

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 judgments based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Details of management accounting estimates and judgments are disclosed under the relevant notes.

COMPARATIVES

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

		2009 R'000	2008 R'000
1.	**CASH AND CASH EQUIVALENTS**		
	Cash at bank	1 591	1 172
	Cash on deposit	8	7
	Cash on hand	2	1
		1 601	**1 180**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and cash held in the banks.

		2009 R'000	2008 R'000
2.	**RECEIVABLES**		
	Interest receivable	49	26
	Deposits	894	342
	Salary Related Debtors	49	–
	Sundry Debtors	–	5
		992	**373**
	Discounted amount	**936**	**369**

The carrying amount of trade receivables approximates their fair value due to their short-term maturity

Salary related debts are interest free and repayable within the following month.

		2009 R'000	2008 R'000
3.	**INVENTORY**		
	Consumables on hand	**166**	**170**
4.	**PREPAYMENTS**		
	Department of Foreign Affairs	293	–
	Insurance	371	–
	Lease	43	13
	Subscriptions	7	30
	Membership fees	62	50
		776	**93**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

5. INTANGIBLE ASSETS

	Computer Software R'000	Total R'000
31 March 2009		
Cost – opening	6 510	6 510
Accumulated amortisation – opening	(1 014)	(1 014)
Net carrying value – opening	5 496	5 496
Additions	3 241	3 241
Amortisation	(1 359)	(1 359)
Cost – closing	9 751	9 751
Accumulated amortisation – closing	(2 373)	(2 373)
Net carrying value – closing	**7 378**	**7 378**
31 March 2008		
Cost – opening	3 426	3 426
Accumulated amortisation – opening	(666)	(666)
Net carrying value – opening	**2 760**	**2 760**
Additions	3 084	3 084
Amortisation	(348)	(348)
Cost – closing	6 510	6 510
Accumulated amortisation – closing	(1 014)	(1 014)
Net carrying value – closing	**5 496**	**5 496**

During the year ended 31 March 2009 the Centre conducted an annual review of the useful life of its intangible assets, which resulted in no changes in the expected useful life.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

6. PROPERTY PLANT AND EQUIPMENT

	Computer Hardware	Office Equipment	Fixtures and Fittings	Motor Vehicle	Furniture	Total
	R'000	R'000	R'000	R'000	R'000	R'000
31 March 2009						
Cost – opening	12 970	1 863	7 293	129	1 350	23 605
Accumulated depreciation – opening	(1 542)	(539)	(720)	–	(262)	(3 063)
Net carrying value – opening	11 428	1 324	6 573	129	1 088	20 542
Additions	1 585	754	8 574	–	888	11 801
Depreciation	(2 708)	(572)	(1 093)	(26)	(316)	(4 715)
Disposal	(19)	(3)	(179)	–	–	(201)
Cost	(393)	(5)	(276)	–	–	(674)
Accumulated depreciation	374	2	97	–	–	473
Cost – closing	14 162	2 612	15 591	129	2 238	34 732
Accumulated depreciation – closing	(3 876)	(1 109)	(1 716)	(26)	(578)	(7 305)
Net carrying value – closing	**10 286**	**1 503**	**13 875**	**103**	**1 661**	**27 427**
31 March 2008						
Cost – opening	2 615	1 135	1,367	–	481	5 598
Accumulated depreciation – opening	(1 699)	(426)	(443)	–	(138)	(2 706)
Net carrying value – opening	916	709	924	–	343	2 892
Additions	10 950	797	5 926	129	869	18 671
Revaluation						
Cost	(595)	(69)	–	–	–	(664)
Accumulated depreciation	613	74	–	–	–	687
	18	5	–	–	–	23
Depreciation	(456)	(188)	(277)	–	(124)	(1 045)
Cost – closing	12 970	1 863	7 293	129	1 350	23 605
Accumulated depreciation – closing	(1 542)	(539)	(720)	–	(262)	(3 063)
Net carrying value – closing	**11 428**	**1 324**	**6 573**	**129**	**1 088**	**20 542**

During the year ended 31 March 2009 the Centre conducted an annual review of the useful life of its property, plant and equipment, which resulted in no changes in the expected useful life.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

7. FINANCIAL LEASE ASSETS

	Leased assets R'000	Total R'000
31 March 2009		
Cost – opening	819	819
Accumulated depreciation – opening	(271)	(271)
Net carrying value – opening	548	548
Additions	442	442
Depreciation	(382)	(382)
Cost – closing	1 261	1 261
Accumulated depreciation – closing	(653)	(653)
Net carrying value – closing	**608**	**608**
31 March 2008		
Cost – opening	385	385
Accumulated depreciation – opening	(43)	(43)
Net carrying value – opening	342	342
Additions	434	434
Depreciation	(228)	(228)
Cost – closing	819	819
Accumulated depreciation – closing	(271)	(271)
Net carrying value – closing	**548**	**548**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

		Notes	2009 R'000	2008 R'000
8.	PAYABLES			
	Accruals		2 991	6 877
	Salary related accruals		1 582	1 066
	Performance bonuses		2 789	2 062
			7 362	**10 005**
	Discounted amount		**6 945**	**9 779**

The carrying amount of trade payables approximates their fair value due to their short-term maturity.

9. EMPLOYEE BENEFITS

Provision for Leave

An obligation might arise if an employee is retrenched, dismissed or resigns subsequent to year end due to annual leave days accruing at reporting date to employees.

			2009 R'000	2008 R'000
	Provision for Leave			
	Opening balance		1 154	895
	Movement in provision		107	259
			1 261	**1 154**
	Discounted amount		**1 189**	**1 140**
10.	TRANSFERS FROM OTHER GOVERNMENT ENTITIES			
	Parliamentary allocation		**111 474**	**42 480**
11.	INTEREST RECEIVED			
	Current Account		482	492
	Investment Account		1	951
			483	**1 443**

The effective interest rates on cash at bank were between 10,00% and 13,00% in the year under review.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

		Notes	2009 R'000	2008 R'000
12.	**PERSONNEL EXPENSES**			
	Salary costs		38 644	27 759
	Bonus performance		2 934	2 062
	Group life		712	700
	Medical aid contributions		1 570	1 052
	Provident fund		3 346	2 483
	UIF		157	125
	WCA		–	60
			47 363	**34 241**
13.	**AUDIT FEES**			
	External audit		645	565
14.	**ADMINISTRATIVE EXPENSES**			
	Administration fees		288	209
	Internal audit fees		741	985
	Advertising		78	65
	Bank charges		68	30
	Cleaning expenses		204	42
	Computer costs		2 571	322
	Conferences		69	33
	Courier & postage		7	12
	FATF – development programme		–	304
	FIC Academy		20	10
	Insurance		504	63
	Lease costs		95	75
	Legal fees		2	34
	Motor vehicle costs		8	–
	Media, subscriptions and library		1 129	597
	Membership fees		967	235
	Office consumable and refreshments		662	299
	Parking – staff		666	386
	Printing & stationery		503	382
	Professional fees		14 370	6 212
	Mutual Evaluation		67	–
	Recruitment & placement cost		1 667	1 972
	Redeployment costs		898	304
	Refurbishment costs		783	
	Balance c/fwd		**26 367**	**12 571**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

	Notes	2009 R'000	Restated 2008 R'000
Balance b/fwd		**26 367**	**12 571**
Removal expenses		63	16
Rent paid		6 508	3 174
Repairs & maintenance		488	205
Research costs		–	405
Security		689	159
Staff training		1 837	1 847
Subsistence and accommodation – local		528	627
Subsistence and accommodation – overseas		865	508
Telephones, fax and internet		2 316	723
Travel – local		1 536	1 567
Travel – international		1 942	1 063
Water & electricity		618	184
Workshop		30	25
Written off small assets		10	112
		43 797	**23 186**

15. DEPRECIATION AND AMORTISATION

	Notes	2009 R'000	Restated 2008 R'000
Amortisation of intangible assets	5	1 359	348
Depreciation on PPE	6	4 715	1 046
Depreciation on leased assets	7	382	228
		6 456	**1 622**

16. MISCELLANEOUS

	2009 R'000	Restated 2008 R'000
Interest on late payment of PAYE	121	–

The Centre has incurred finance charges charged by SARS on various employee tax payments that were misallocation. Management has submitted an objection and is still awaiting response from SARS.

17. FINANCE CHARGES

	2009 R'000	Restated 2008 R'000
Finance charges on leased assets	122	**67**

18. AUDIT COMMITTEE MEMBER FEES

		2009 R'000	Restated 2008 R'000
Chairperson:	C Kneale	48	45
Other members:	B Lengane	47	26
	N Khumalo	60	37
		155	**108**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

		Notes	2009 R'000	Restated 2008 R'000
19.	RETIREMENT BENEFITS			

Employees of the Centre 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. The contribution rate by the employer is 11.25% (2008: 11.25%) and is calculated on retirement funding income.

		Notes	2009 R'000	Restated 2008 R'000
	Provident Fund contributions	12	3 346	2 483
20.	**CASH UTILISED IN OPERATIONS**			
	Deficit for the year		**12 989**	**(15 875)**
	Adjustments for:			
	Amortisation		1 359	347
	Depreciation – PPE		4 715	1 045
	Depreciation – leased assets		382	229
	Leave provision		107	259
	Interest received		(483)	(1 443)
	Proceeds on sale of property, plant and equipment		(33)	–
	Finance charges		122	67
	Loss on disposal		201	–
	Operating deficit before working capital changes		**19 359**	**(15 371)**
	Working capital changes:			
	(Increase) / decrease in accounts receivable		(1 298)	112
	Increase /(decrease) in accounts payable		(2 550)	5 485
	Cash utilised in operations		**15 511**	**(9 774)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

21. OPERATING LEASE

Operating leases are all those leases whose duration is 12 months and the risks are not transferred to the Centre because as and when equipment breaks the lessor replaces without charge and the lease agreement for office premises.

The Centre has entered into a five year lease contract for the office premises for a building known as Lakeside Building A, which is erected on the site situated at 2004 Gordon Hood Road, Centurion. The lease commenced on 1 July 2008 and terminates 30 June 2013.

Not later than 1 year	5 915
Not later than 1 year not later than 5 years	21 136

22. ACCUMULATED SURPLUS

The management of the Centre has applied for the retention of surplus fund and is confident that National Treasury will grant retention thereof. The surplus amount is not available as cash and cash equivalent but it is tied up in non-current assets.

23. RELATED PARTY TRANSACTIONS

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

Transactions with related parties:

	Transactions R'000 2009	Restated Transactions R'000 2008
1. State Controlled Entities		
Receiving Services	**736**	**413**
Telkom	736	413
Lease – building	**525**	**416**
SARS	525	416

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

2. Key Management Personnel

Name	Position	Cash Component	Bonus	UIF	Provident Fund	Group Life	Medical Aid	Total
MSR Michell	Director	950 467	–	1 465	–	–	20 874	**972 806**
CCM Malan	Snr Manager: CAP	900 583	92 478	1 465	92 461	27 614	20 874	**1 135 475**
P Smit	Snr Manager: L&P	870 074	89 502	1 465	89 490	26 728	20 874	**1 098 133**
A Puoane	CFO	784 347	81 150	1 465	81 143	24 235	20 874	**993 214**
N Mewalall	Snr Manager: M&A	725 033	59 850	1 465	59 855	17 876	20 874	**884 953**

24. FINANCE LEASE

	2009 R'000	2008 R'000
Finance lease obligation	674	581

The Finance leases are in respect of Bizhub photocopiers. The lease periods as shown below have the option of renewal at the end of the periods.

Repayment of finance lease	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Future minimum lease payment	467 181	305 019	–	**772 200**
Finance costs	71 303	26 225	–	**97 528**
Net Present value	395 878	278 794	–	**674 672**

	2009 R'000	Restated 2008 R'000
Total Lease obligation	674	581
Less short-term portion	396	271
Long-term lease obligation	278	310
Within 1 year	396	271
Within 2–5 years	278	310

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

25. RISK DISCLOSURE FOR FINANCIAL INSTRUMENTS

Market Risk

The Centre'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 Centre'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

Bank deposits linked to South African prime rate.

Financial liabilities

Finance lease at a fixed rate of interest.

Management manages interest rate risk by negotiating beneficial rates on floating rate loans and where possible using fixed rate loans.

Foreign Currency risk management

Management accepts the risks as a result of changes in rate of exchange and therefore has not hedged foreign currency risk.

Credit Risk management

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

Maximum Exposure to credit risk

The Centre's exposure to credit risk with regards to loans and receivables are limited.

Liquidity Risk Management

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

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

Categories of financial instruments

	R'000 2009	R'000 2008
Financial assets		
Cash	1 601	1 180
Receivable	992	373
Prepayments	776	93
Financial liabilities		
Finance lease obligations	674	581
Trade and other payables	7 362	10 005
Employee benefits	1 261	1 154

Sensitivity analysis	Rate %	Effect On surplus R'000
2009 Floating rate financial assets		
Banking balances	1%	16.01
Receivables	1%	9.92
Prepayments	1%	7.76
2008 Floating rate financial liabilities		
Finance lease obligations	1%	6.74
Payables	1%	73.62
Prepayments	1%	12.61
2008 Floating rate financial assets		
Bank balances	1%	11.80
Receivables	1%	3.73
Prepayments	1%	0.93
2009 Floating rate financial liabilities		
Finance lease obligations	1%	5.81
Payables	1%	100.05
Employee benefits	1%	11.54

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

26. PRIOR YEAR ERROR

During the year under review the management adopted an inventory accounting policy in order to conform to the latest accounting standard on inventory. Previously the Centre charged all the unissued stationery at year-end to printing and stationery expenses against amounting to R170k and did not reflect it in the statement of financial position as current asset.

Telephone recoveries amounting to R62k from staff members, which was disclosed as revenue in prior year, is now set off against the telephone account expenses. It amounts to R62k.

An amount of R108k paid after the previous year reporting date was not raised as an expense in the correct period.

To provide more reliable and relevant information the management is of the opinion that the treatment of inventory as a current asset will be consistent with best practice.

The change in accounting policy has been accounted for retrospectively and the comparative figures for 2008 have been restated. The effect off is as follows:

Effect on 2008	Effect of error R'000
Financial position	
Increase in current asset – inventory	170
Increase in current liabilities	108
Total	**62**
Financial performance	
Decrease in administrative expenses – printing & stationery	(170)
Decrease in administrative expenses – telephone recoveries	(62)
Increase in administrative expenses – professional fees	108
Decrease in revenue – telephone recoveries	62
Total	**62**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

27. ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE

At the date of authorization of these financial statements, the following accounting standards of Generally Recognised Accounting Principles (GRAP) were in issue, but not yet effective:

GRAP 18 – Segment reporting (not applicable)
GRAP 23 – Revenue from non-exchange transactions (not applicable)
GRAP 24 – Presentation of budget information in financial statements
GRAP 103 – Heritage assets (not applicable)

The management believes the adoption of these standards in future will have no material impact on the financial statements, as the majority of them are not applicable and the relevant one/ones would not change the figures but assist in monitoring financial performance of the Centre.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

28. IRREGULAR EXPENDITURE

	2009 R'000	2008 R'000
Opening balance	–	–
Add: Irregular expenditure – current year	1,900	–
Less: Amounts condoned	1,713	–
Less: Amounts recoverable (not condoned)		
Less: Amounts not recoverable (not condoned)	187	–
Irregular Expenditure awaiting condonation	–	–

Details of Irregular Expenditure – current year

Incident	**Disciplinary steps taken/ Criminal proceedings**	**R'000 Amount**

Details of Irregular Expendinture condoned

Incident		
Inadequate procurement processes	Condoned by Director	1 592
Interest on PAYE submission	Condoned by Director	121
		1 713

Details of Irregular Expenditure not recoverable (not condoned)

Incident		
Material loss through financial misconduct	Criminal proceedings	187

NOTES TO THE ANNUAL FINANCIAL STATEMENTS – continued

FOR THE YEAR ENDED 31 MARCH 2009

29. CONTINGENT LIABILITY

The management of the Centre have decided to disclose the current year accumulated surplus as a contingent liability which is as an obligation that arises from past events whose existence will be confirmed only by occurrence of an uncertain future event/s not wholly within the control of the Centre, because at reporting date an approval to retain the accumulated surplus fund was not yet granted by National Treasury.

	2009 R'000	2008 R'000
Accumulated Surplus	29 628	16 747

30. POST BALANCE SHEET EVENT

The Accounting Authority of the Centre submitted Financial Statements on 31 May 2009. Subsequent to completion of the audit by the Auditor General South Africa, the Director condoned the irregular expenditure amounting to R1, 713m due to inadequate procurement processes and late payment of PAYE.

Notes