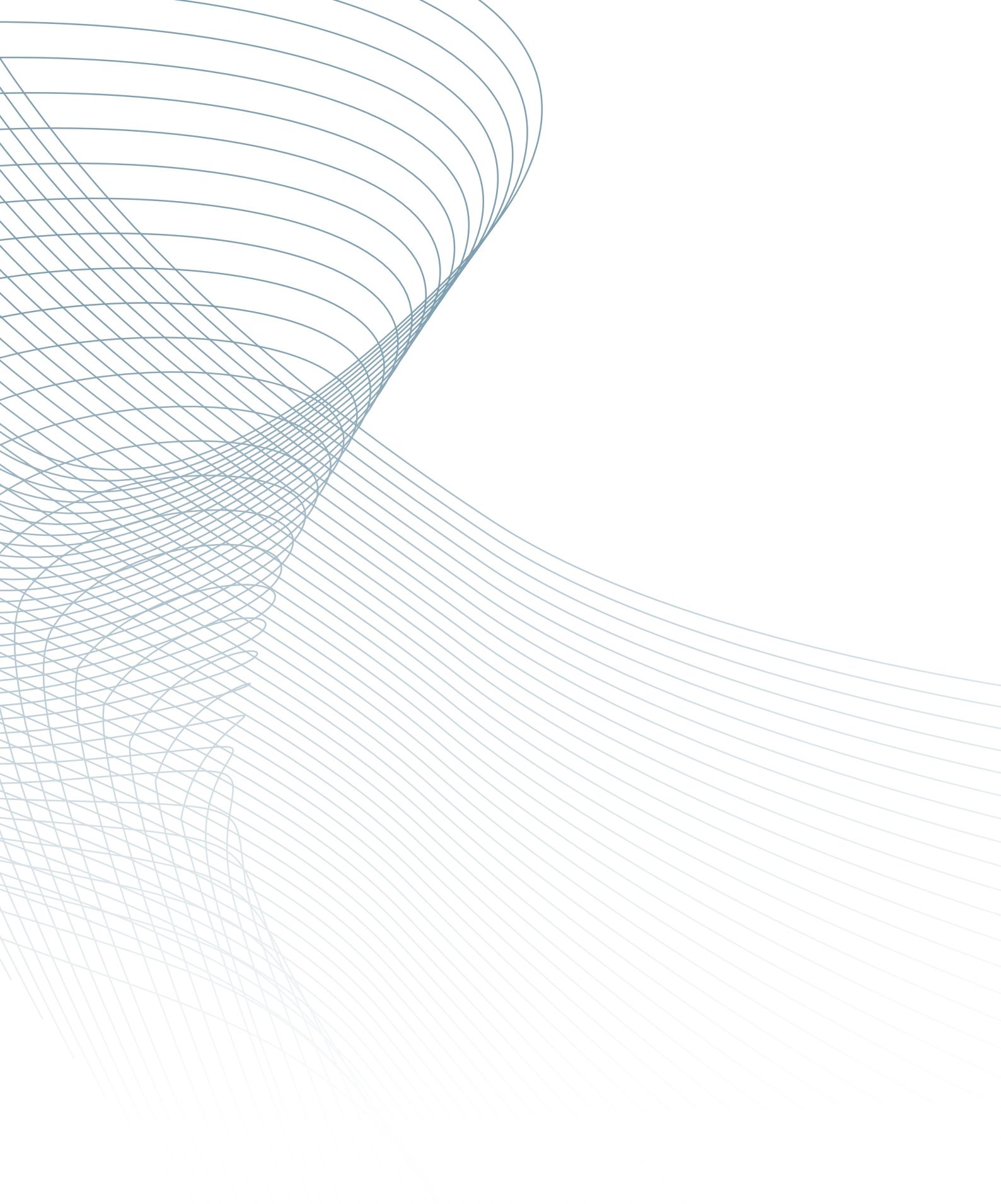




Financial  
Intelligence Centre

ANNUAL  
REPORT  
2016/17





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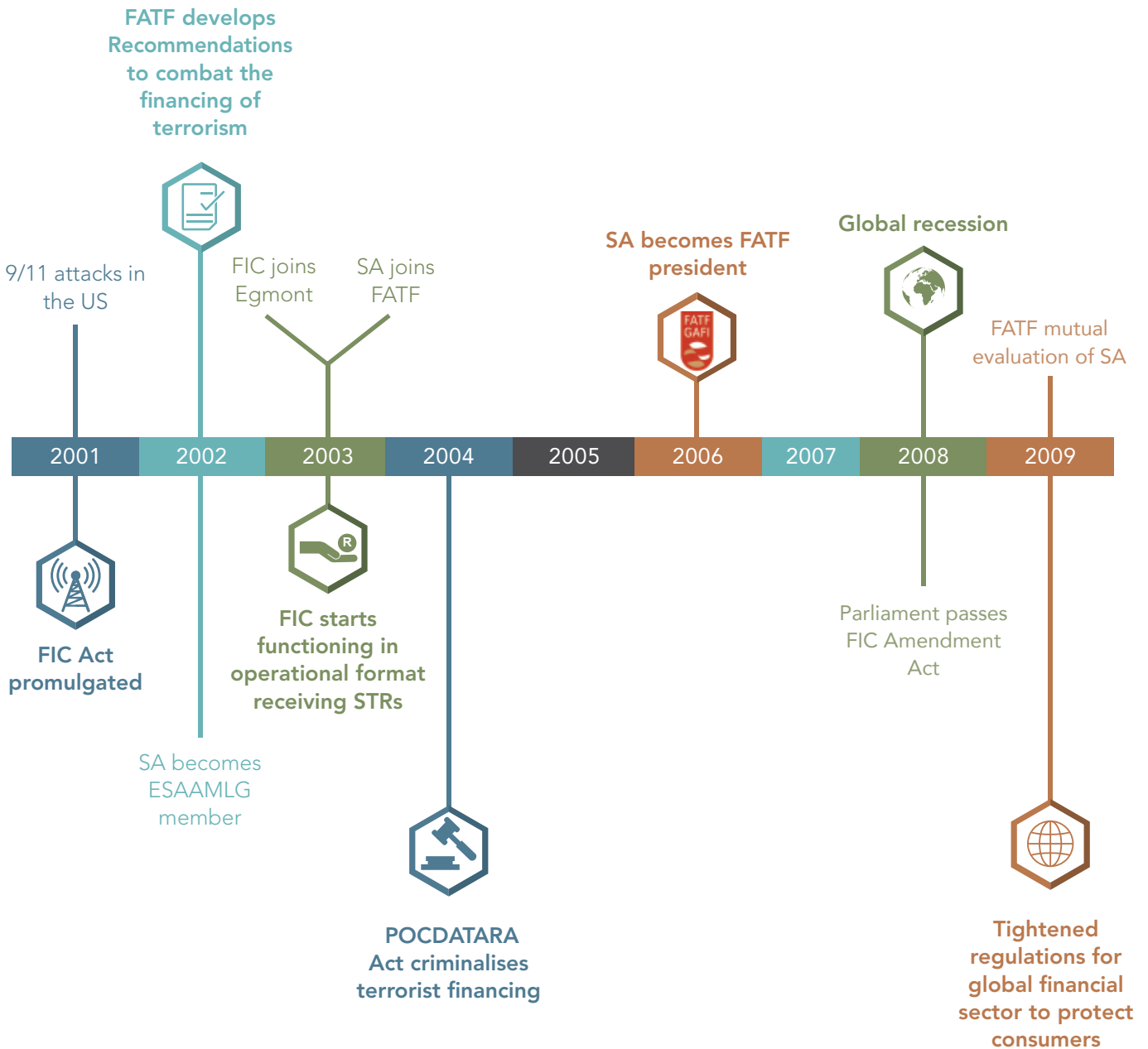
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# Financial Intelligence Centre Annual Report 2016/17

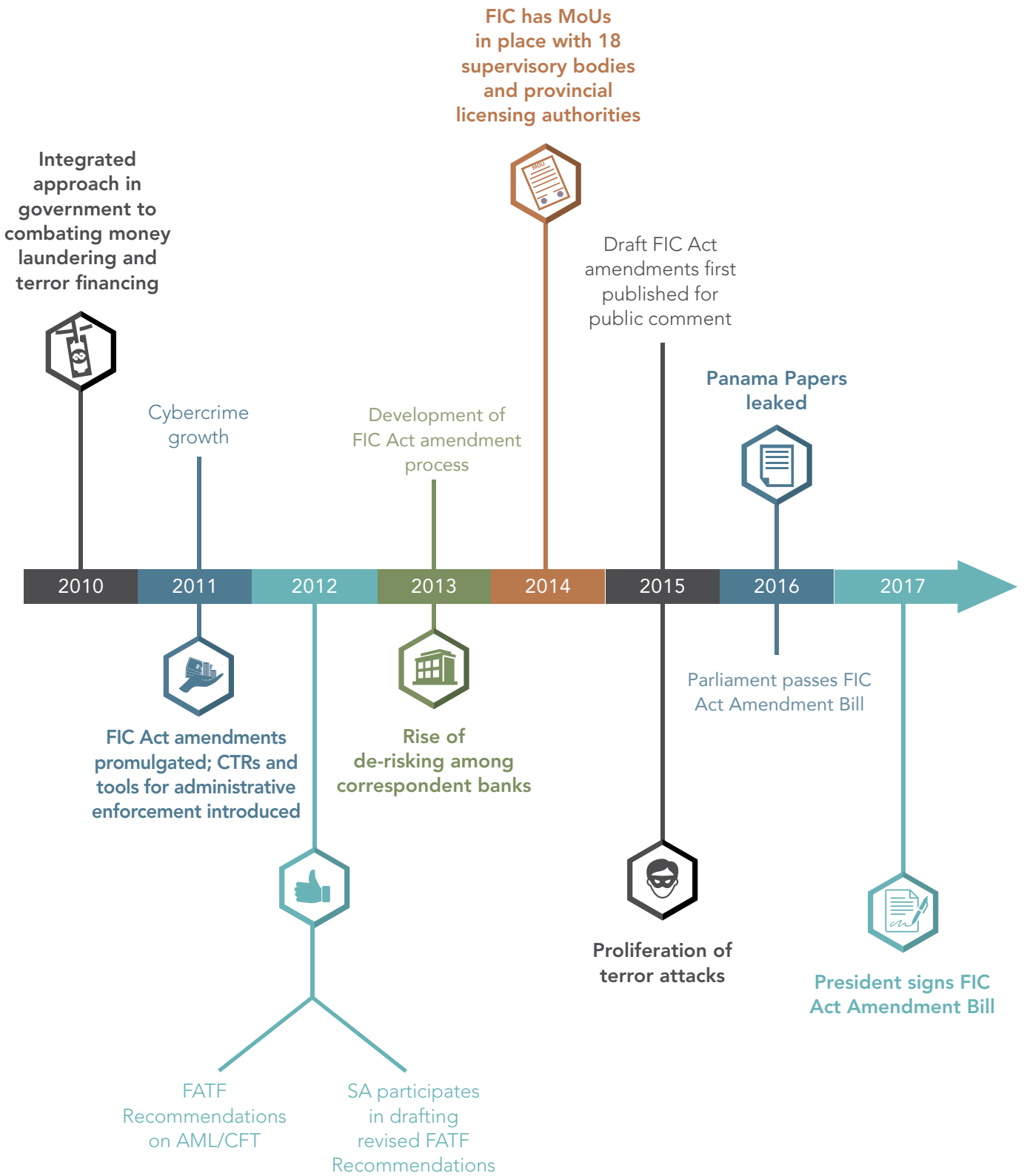
Safeguarding the integrity of South Africa's  
financial system and institutions

FIGURE 1: FINANCIAL INTELLIGENCE CENTRE TIMELINE 2001 TO THE PRESENT



### Legend

|                      |   |
|----------------------|---|
| <b>AML</b>           | Anti-money laundering   |
| <b>CFT</b>           | Counter the financing of terrorism  |
| <b>ESAAMLG</b>       | Eastern and Southern Africa Anti-Money Laundering Group                             |
| <b>FATF</b>          | Financial Action Task Force   |
| <b>MoU</b>           | Memorandum of understanding   |
| <b>POCDATARA Act</b> | Protection of Constitutional Democracy against Terrorist and Related Activities Act |

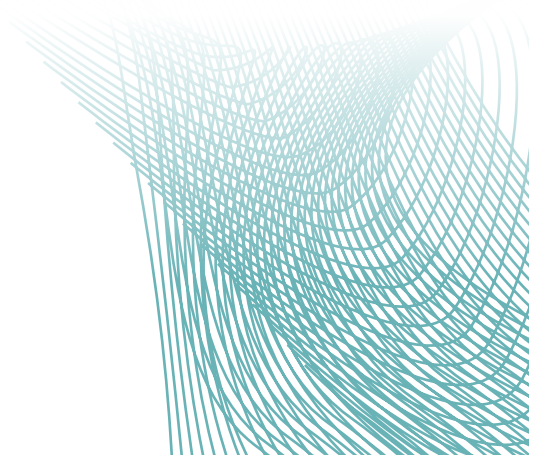




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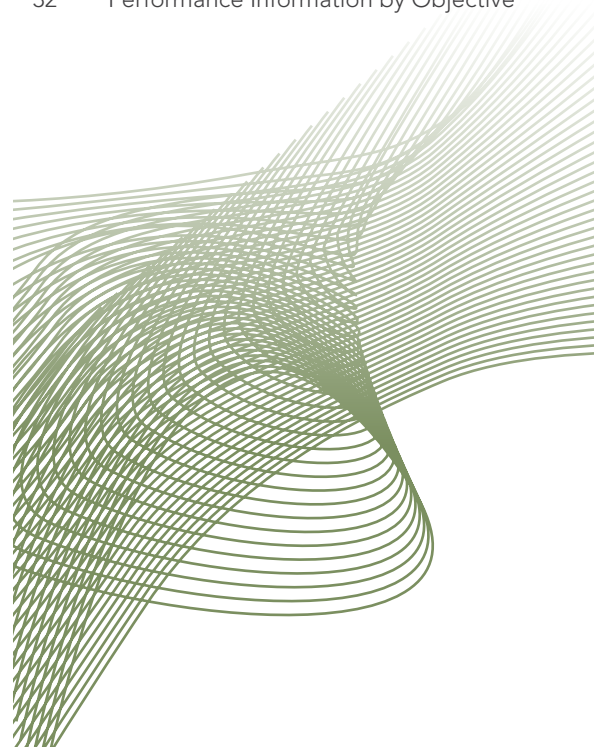
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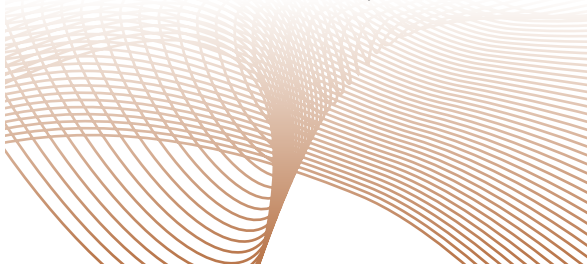




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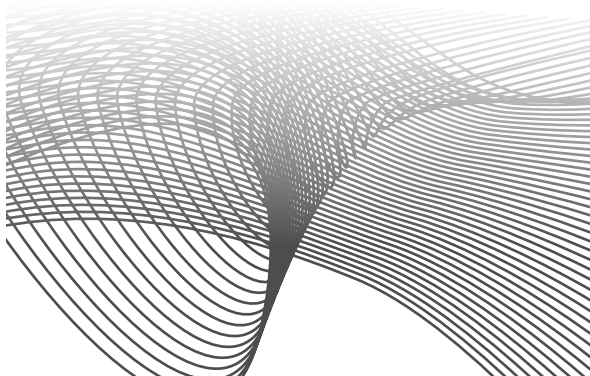
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# SUBMISSION OF THE ANNUAL REPORT TO THE EXECUTIVE AUTHORITY

To the Minister of Finance, Mr Malusi Gigaba

I have the honour of submitting to you the annual report of the Financial Intelligence Centre for the period 1 April 2016 to 31 March 2017.

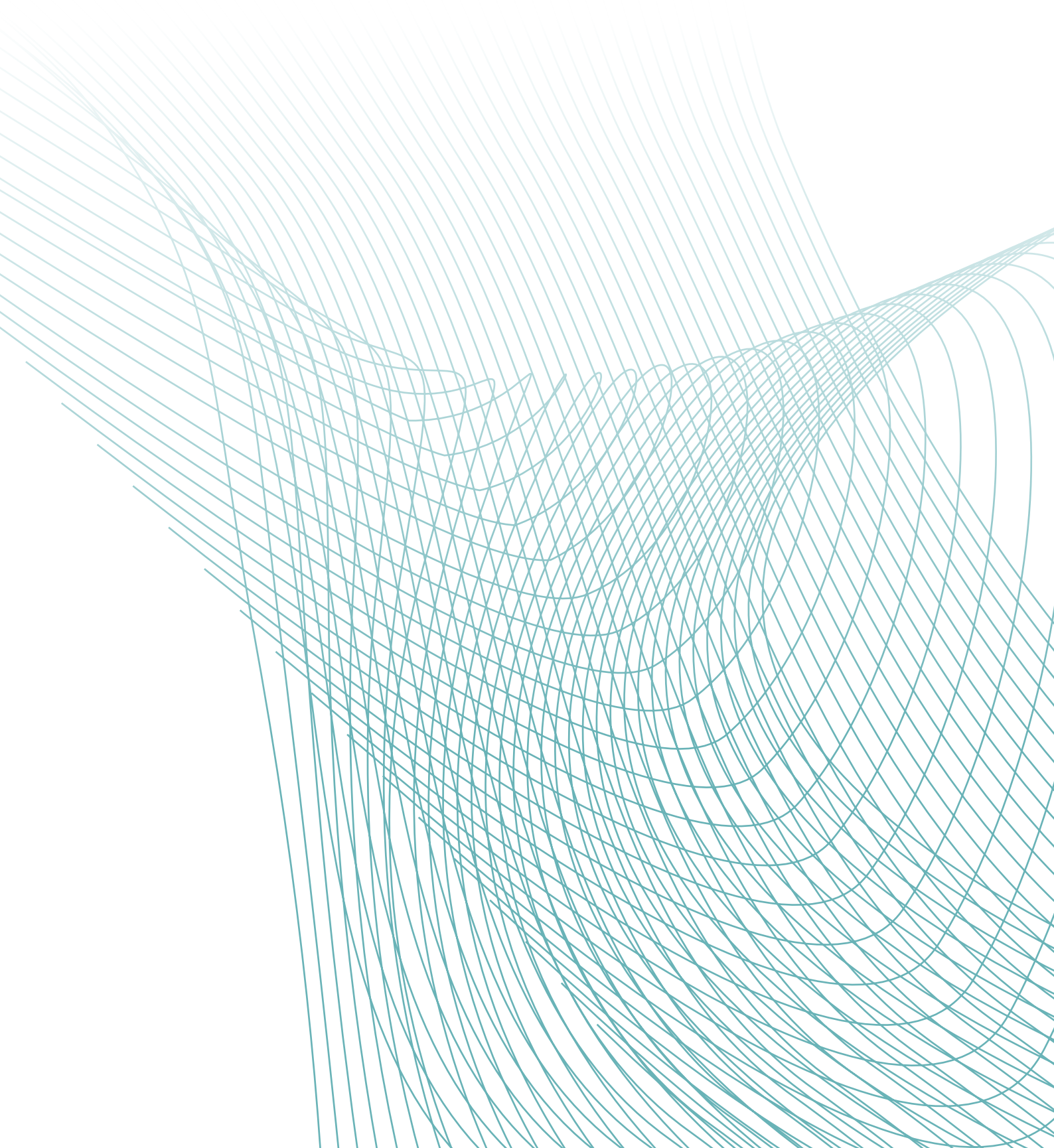


**Murray Michell**

Director and Accounting Authority



# PART A: GENERAL INFORMATION



## FIC GENERAL INFORMATION

|                          |  |
|--------------------------|--|
| <b>Registered name:</b>  | Financial Intelligence Centre                      |
| <b>Postal address:</b>   | Private Bag X177, Centurion, 0046                  |
| <b>Telephone number:</b> | +27 12 641 6000                                    |
| <b>Website:</b>          | <a href="http://www.fic.gov.za">www.fic.gov.za</a> |
| <b>External auditor:</b> | Auditor-General of South Africa                    |
| <b>Bankers:</b>          | Standard Bank, Pretoria                            |

## ABBREVIATIONS/ACRONYMS

|                |  |
|----------------|--|
| <b>AML/CFT</b> | Anti-money laundering and counter the financing of terrorism |
| <b>CTR</b>     | Cash threshold report  |
| <b>ESAAMLG</b> | Eastern and Southern Africa Anti-Money Laundering Group      |
| <b>FATF</b>    | Financial Action Task Force                                  |
| <b>FIC</b>     | Financial Intelligence Centre                                |
| <b>FIC Act</b> | Financial Intelligence Centre Act, 2001 (Act 38 of 2001)     |
| <b>ICT</b>     | Information and communications technology                    |
| <b>STR</b>     | Suspicious and unusual transaction report                    |
| <b>TPR</b>     | Terrorist property report                                    |
| <b>UN</b>      | United Nations   |

# FOREWORD BY THE MINISTER

To speed up inclusive economic growth and transformation, South Africa needs to maintain a safe, stable climate for trade and investment. Achieving our economic goals requires that we ensure the integrity of the country's financial system and its institutions. South Africa's financial architecture must meet global regulatory standards and be highly resistant to crime.

The FIC Act and the FIC itself are integral to these objectives. The FIC is the national centre for the gathering and analysis of data that may point to exploitation of the financial system for criminal purposes and therefore focuses on identifying the funds generated from crime, and combating money laundering and terror financing.

The organisation's delivery of financial intelligence reports, which assists law enforcement and other competent authorities in their actions and follow-up investigations, has grown steadily since the FIC's inception in 2003. So too, have the number of institutions registered with the FIC, as well as the quantum of insert reports submitted to it, as attested in this report. The FIC's work with business, government, supervisory bodies and partners in law enforcement helps ensure that our financial system remains intolerant to criminal abuse.

Central to the FIC's activities over the 2016/17 reporting period was its work, in partnership with the National Treasury, on the FIC Amendment Act. Shortly after the close of the reporting period, I announced the commencement dates for various provisions of the Amendment Act. At the same time, we shared the roadmap to prepare for its implementation. Government is committed to creating

greater transparency in the financial system and advancing the fight against corruption, money laundering and the financing of terrorism. The amended FIC Act also ensures that South Africa continues to meet international standards and best practice for measures to combat money laundering and terror financing.

The amendments introduce a risk-based approach, among other aspects. This gives financial institutions the flexibility to assess and manage their identified risks, depending on product offerings and many other relevant factors.

Greater flexibility in the management of relationships with customers lays the basis for a more customer-friendly approach to the implementation of the measures that enhance the integrity of the financial system. It offers greater ease of doing business and supports the goal of financial inclusion. At the same time, this makes it feasible to widen the safety net for those who are economically active. The FIC Amendment Act's implementation will be brought about in phases in the coming year.

I extend my appreciation to the FIC team for their hard work in 2016/17. The next year is likely to be even busier as we commence the new FIC Act activities.



**Mr MKN Gigaba, MP**  
Minister of Finance

## | DIRECTOR'S OVERVIEW

### Safeguarding the integrity of South Africa's financial system

The Financial Intelligence Centre (FIC) was established in 2003 as South Africa's national centre for the gathering and analysis of financial data. We report to the Minister of Finance and to Parliament. Our primary role is to contribute to safeguarding the integrity of South Africa's financial system and its institutions, and to make them intolerant to abuse.

These efforts to support economic growth and social development are complemented by a range of structures across government and the private sector, including cooperation with supervisory bodies to ensure that businesses comply with the Financial Intelligence Centre Act, 2001 (Act 38 of 2001). In addition, we provide financial intelligence products to investigating authorities.

During the year under review there has been increased public interest in our work. This was the result of debate on proposed legislation to bring South Africa in line with global regulatory standards, as well as growing awareness of the FIC's role in government's broader efforts to combat corruption.

The FIC focuses on identifying the funds generated from crime, combating money laundering and terror financing.

In line with our founding legislation, we oversee compliance by accountable and reporting institutions through a close working relationship with various supervisory bodies. Through this process, banks and other financial institutions provide regulatory reports to the FIC that contain financial and other data. We use this data, and information from public sources, law enforcement and investigative agencies, to create high-quality financial intelligence products, which we refer to as investigative agencies.

The FIC does not refer crimes to be investigated. We provide information that indicates that a crime may have taken place, which may have generated proceeds or may in some other way have involved components of the financial system in its commission. Law enforcement agencies then investigate this information at their discretion. The financial intelligence provided by the FIC is used by investigating agencies in their investigations, but cannot be used as evidence in a court of law. We can be called upon to corroborate evidence that is produced by other government agencies based on information provided by the FIC, but it is incumbent on the law enforcement agencies to provide the evidence that will be used in a prosecution.



Requests for information from law enforcement agencies has steadily increased from **200** in 2004/05 to **2 145** in 2016/17



The FIC referred **1 525** matters to law enforcement for investigation

## Partnering to combat financial crime and corruption

The FIC works with a range of partners to maintain a robust financial system that is resistant to financial crime and corruption. Active collaboration with the private sector is an important part of our work. As this year's report shows, we continued to strengthen such partnerships, although there is always progress to be made.

The FIC collaborates with supervisory bodies to ensure that they fulfil their responsibilities to closely monitor compliance with the requirements of the FIC Act. More than 800 FIC Act inspections were conducted by the FIC and supervisory bodies in 2016/17, resulting in several sanctions and remedial actions being imposed on non-compliant businesses.

As part of the whole-of-government approach to combating financial crime, we continued to integrate our financial intelligence products into the work of broader government in 2016/17 through our participation in bodies such as the Anti-Corruption Task Team and the Justice, Crime Prevention and Security cluster.



### HOW THE SEPARATION OF POWERS SUPPORTS CONSTITUTIONAL CHECKS AND BALANCES

The FIC takes its mandate from the FIC Act. The FIC is not an investigative agency, nor is it an intelligence agency as defined by the National Strategic Intelligence Act, 1994 (Act 39 of 1994). The FIC operates within the narrow definition set out in its founding legislation.

Even though the FIC's financial intelligence plays an important role in many criminal investigations, the FIC itself does not initiate or conduct criminal investigations or prosecutions. The FIC disseminates the financial intelligence it generates to the competent authorities so that they can use it in investigations or other processes within their own mandates. By the same measure, law enforcement agencies do not have access to the confidential information contained in the transaction reports and other information the FIC receives.

This separation of powers between the FIC as a financial intelligence unit, and law enforcement agencies as investigating authorities, is vital to upholding the checks and balances in our Constitution. This balance ensures the continued protection of citizens' constitutional right to privacy.



The FIC blocked **R149 million** as suspected proceeds of crime



The FIC contributed to **26** judicial actions

Demand for the FIC's financial intelligence products during the investigation and prosecution of crimes continues to increase. Requests for information from national and international law enforcement agencies have grown from about 200 in 2004/05 to 2 145 in 2016/17. The FIC provided financial intelligence products based on these requests and referred 1 525 matters to domestic and international law enforcement for investigation during the reporting period.

During 2016/17 the FIC blocked R149 million as suspected proceeds of crime. The majority of these funds were subsequently preserved by the Asset Forfeiture Unit. The FIC provided affidavits in matters during court proceedings on 26 occasions.

Each year, FIC intelligence products help identify a range of suspected criminal activities, from illegal diamond trading to human trafficking.

This year's annual report highlights our activities to identify the proceeds of crime in six areas:

- Environmental crimes
- Narcotics

- Bulk cash smuggling
- Tax-related crimes
- Corruption
- Advance fee fraud (such as so-called '419' or online 'romance' scams).

## Amending the FIC Act to ensure alignment with global standards

A centrepiece of our work during 2016/17 was working with the National Treasury on the amendments to the FIC Act. South Africa has a long-standing commitment to combating money laundering and the financing of terrorism, and to using the international standards and best practices of the Financial Action Task Force (FATF) as the benchmarks for this. The amendments ensure that South Africa's system to combat money laundering and terror financing remains in line with these standards and with various United Nations (UN) Conventions and Security Council Resolutions. The FATF is the international standard-setting body tasked with ensuring that countries comply with best practice in these matters. The international standards have been endorsed by at least 187 countries, all of which undergo periodic mutual evaluation by their peers. These assessment documents are made public and are used to monitor a country's implementation of the standards.

When the FATF evaluated South Africa in 2009, it made a series of recommendations to ensure that the country's financial system and legal framework would be in line with global standards. The FATF international standards were revised in 2012, partly to address the effects of the 2008 financial crisis and recession. The FIC worked over a number of years to develop proposed amendments that would meet these requirements (see, for example, our annual reports for 2014/15 and 2015/16). The amendments, as approved by Cabinet and tabled in Parliament during the financial year, target four key areas to protect the integrity of South Africa's financial system.

FIGURE 2: AMENDMENTS TO THE FIC ACT: FOUR KEY AREAS



### Adopting a risk-based approach to knowing your customer

This approach gives financial institutions the flexibility to assess and manage risk depending on the category of customer. Institutions can vary their approach depending on factors such as the type of customer, business relationship, product and location.



### Identifying who really owns and benefits from companies

Institutions need to know the people behind companies – those who benefit financially – to bring greater transparency to the financial system. This will help authorities detect, investigate and prosecute instances where corporate structures have been used to hide illicit financial dealings.



### Improving the management of relationships with prominent influential persons

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



### Imposing UN Security Council financial sanctions

The Amendment Act establishes a legal framework for applying and administering financial sanctions emanating from UN Security Council Resolutions. The FIC will be required to develop a mechanism to implement the financial sanctions that arise from these resolutions. We will also be responsible for administering the measures requiring accountable institutions to freeze property or transactions that are subject to these Resolutions.

**FIGURE 3: THE FIC ACT AMENDMENTS: WHAT IT MEANS FOR YOU**



- ✓ Lower administrative burden for most customers when conducting business with banks.
- ✓ Enhanced due diligence for prominent influential persons who might be targets of financial crimes or in a higher risk category than most customers.
- ✓ A safer, modern financial system able to prevent and/or identify financial crimes.
- ✓ The country remains a secure investment destination.



- ✗ Does not give banks unlimited power. The Act, not banks and other businesses, defines domestic and foreign prominent influential persons.
- ✗ Does not assume prominent influential persons are involved in financial crime or associated with illicit financial flows – the risk-based approach serves to protect customers.
- ✗ Does not empower the FIC or banks to investigate financial crimes or participate in criminal prosecutions.
- ✗ Does not invade the privacy and dignity of customers.
- ✗ Does not require financial and other institutions to avoid doing business with any category of customers or to end their relationships with customers.

The amendments are necessary to strengthen South Africa’s financial system and to ensure alignment with global standards and best practice. Crucially, they also help to protect South Africa’s status as a secure investment destination.

At an operational level, the amendments widen the pool of authorities to which the FIC can provide financial intelligence products, and broaden the range of businesses required to comply with the requirements of the FIC Act.

The FIC supports government’s efforts to broaden financial inclusion, and it is committed to reducing the compliance burden for customers. An important impact of the amendments will be to make it easier for people to do business with their banks. Rather than applying onerous requirements for all customers when opening an account, the amended FIC Act will enable financial institutions to adopt a more targeted approach as they understand their customers and their categories of risk better. This should make it easier for the average client to comply with the FIC Act (being “FICA-d”).

The shift will result from the risk-based approach introduced by the amended legislation. This stance allows institutions to take a more flexible approach in exploring new and innovative ways of offering financial services to a broader range of customers, and bringing previously excluded sectors of society into the formal economy.

### Evolution of the FIC Act Amendment Bill

The draft legislation was first published for public comment in April 2015. The FIC Act Amendment Bill was introduced in Parliament in October of that same year. Following public consultations and deliberations, Parliament passed the Bill in May 2016; one of the few times in recent years that a piece of legislation has received unanimous support from all political parties in the legislature.

The Bill was subsequently submitted to the President who returned it to the National Assembly in November 2016, with a request for a review, based on concerns regarding the constitutionality of warrantless searches. During the course of reviewing the amendments, objections were raised about the Bill’s approach to prominent influential persons.

Following another round of public hearings and intense deliberations by the Standing Committee on Finance, the National Assembly passed the Bill in February 2017. The amendments reinforced the fact that inspections carried out under the FIC Act are concerned with ascertaining the level of compliance with the FIC Act, and do not lead to criminal prosecutions of inspected institutions or their customers.

In April 2017, after the close of the reporting period, the President assented to the FIC Amendment Act. The Minister of Finance announced the commencement dates for the legislation the following month. During the 2017/18 financial year the FIC, National Treasury, South African Reserve Bank and the Financial Services Board will be involved in an extensive consultation process on the implementation of the new provisions with all stakeholders – the private sector, supervisory bodies and the public sector.



## SOUTH AFRICA GEARS UP FOR 2019 MUTUAL EVALUATION

South Africa is the only African member country of the FATF. In line with the requirements for all members, it has participated in regular peer reviews to test the extent to which its implementation of measures to combat money laundering and terror financing meet global standards. The last full review took place in 2009.

The FATF started its next cycle of evaluations in 2014. All countries that had not yet fixed the shortcomings identified in their previous mutual evaluations, including South Africa, were placed on a list for “targeted follow-up”. In the last two years, the pressure to complete this process has steadily increased, as other FATF members expressed concern about South Africa’s slow pace, since 2009, in addressing the shortcomings relating to customer due diligence measures applied by financial and other institutions.

The amendments to the FIC Act address these shortcomings, and bring South Africa in line with the new international standards, which were developed after the country’s previous mutual evaluation. Delays in implementing these standards would lead to increased peer pressure in the form of a public declaration that South Africa is not sufficiently complying with international standards, and the possibility of suspension from the FATF.

This would have severe consequences, significantly affecting South Africa’s ability to access the global financial system, and hampering investment.

Delayed implementation of the FIC Amendment Act would also affect South Africa’s performance in the next round of FATF mutual evaluations. The country is likely to be evaluated in the second half of 2019, and we will be expected to demonstrate the real-world impact of the measures put in place through the amended legislation. The less time there is to put the measures in place, the less impact we will be able to demonstrate. This could put South Africa in a position where it is always a step behind global standards.



### What is correspondent banking?

The relationship between global banks where one provides services to another, enabling cross-border transactions.



The risk? Some jurisdictions are considered high-risk due to non-compliance with international standards, there are also risks relating to anti-money laundering or counter terrorist financing.

## Global and regional developments

In response to the constantly evolving nature of the world economy, the proliferation of terrorist attacks, and heightened political and economic instability, international agencies and governments are working to strengthen global financial sector regulation. Ensuring the integrity of the financial system has to be balanced with promoting financial inclusion, a necessary precondition for a strong and transparent financial system.

During the reporting period, several countries felt the effects of “de-risking” in the financial sector. On a global scale, this involves several large international banks exiting countries and terminating their correspondent relationships with local domestic banks, or with specific categories of financial institutions, such as money remitters. The de-risking trend is the result of several factors, one of which is growing regulatory compliance demands, often related to combating money laundering and terror financing. Another factor is the high cost of maintaining relationships with banks in what are considered to be high-risk areas.

This has serious consequences for the countries deemed high-risk (see Figure 4 on the dangers of de-risking).

*“De-risking is having a significant impact on correspondent banking relationships around the world. In light of these challenges, there is a need for the industry to address this issue proactively, putting in place measures to keep the wheels moving and to avoid the risk of financial exclusion in affected markets.” – SWIFT, 2016*

During the reporting period, South Africa worked with the FATF on the challenge of de-risking. We helped to develop a guidance document on correspondent banking<sup>1</sup> and will continue to work to combat this negative trend in 2017/18, particularly in support of the FATF’s consideration of the extent to which this guidance is being applied.

1 <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/correspondent-banking-services.html>



FIGURE 4: THE IMPACT OF DE-RISKING



Source: SWIFT 2016 information paper - Addressing the unintended consequences of de-risking: Focus on Africa

### Illicit financial flows


The phenomenon of de-risking makes it more difficult for countries to do business with the rest of the world. It also makes their financial flows more opaque and difficult to track.

Enormous financial flows of capital and cash move around the world every day. The bulk of these flows originate in legitimate trade and institutional arrangements. A portion is the result of activities that may be ethically questionable, but which are legal. Another component reflects the proceeds of criminal activity. Over the past several years, both the illegal flows, and those which are legal but unethical, have come to be termed “illicit”.

The FIC and law enforcement authorities can only act in relation to those flows resulting from the proceeds of crime. The difficulty for the authorities is that flows associated with criminal activity are often disguised within highly complex structures.

In South Africa alone, large flows estimated to be siphoned out of the country every year could be used for much-needed socio-economic development.

The measures introduced in the FIC Amendment Act are part of a broader approach across government to stem the tide of illicit financial flows.

 The FIC and law enforcement authorities can **only** act in relation to illicit financial flows, those flows resulting from the proceeds of crime.



## HALTING ILLICIT FINANCIAL FLOWS

The concept of illicit financial flows is complex, with no globally accepted definition or agreement on its extent.

The African Union/UN Economic Commission for Africa's High Level Panel on Illicit Financial Flows from Africa defines illicit financial flows as the cross-border movement of money that is illegally obtained, transferred or used. This concept is distinct from, but related to that of capital flight, much of which may include outflows obtained or transferred legally.

The FIC was among the first financial intelligence units to undertake research into illicit financial flows. Our interest in the research was to determine what portion of illicit financial flows was the result of illegal activity and thus what portion of the flows could be considered as the proceeds of crime.

The FIC is not solely responsible for halting illicit financial flows. In law, it can only become involved in combating such flows when these are the proceeds of criminal activity. However, a substantial portion of illicit financial flows are linked to these activities, which may be questionable, but which are not illegal, and therefore they fall outside of the FIC's ambit. This is a small but critical distinction. Our mandate is very specific, the FIC identifies the proceeds of crime, combats money laundering and terror financing.

While the FIC cannot tackle the problem of illicit financial flows directly, it can help ensure that South Africa's financial system does not tolerate abuse. The amendments to the FIC Act are part of government's efforts to prevent illicit financial flows. The Act contains several measures specifically intended to minimise illicit financial flows, including requirements that will improve the transparency of the financial system. Transparency is the cornerstone of building a financial system with integrity.



## FOLLOWING THE MONEY TO FIND RHINO POACHERS

A renowned news network broadcast an investigative documentary where they exposed people and powers they believed to be involved in the illegal rhino horn trade. This led to the FIC's involvement in assisting the Hawks in its investigations.

The FIC provided financial intelligence on foreign nationals involved in the syndicate. It was able to identify the methods being used to launder the proceeds of rhino horn trade, which included the use of cash deposits, international fund transfers and electronic transfers, often through the accounts of third parties. The syndicate also used the money to buy cars and immediately changed the ownership.

## Global network of financial intelligence units

The FIC is part of a global network of 154 financial intelligence units, known as the Egmont Group of Financial Intelligence Units, which work together to prevent money laundering and to combat terrorism.

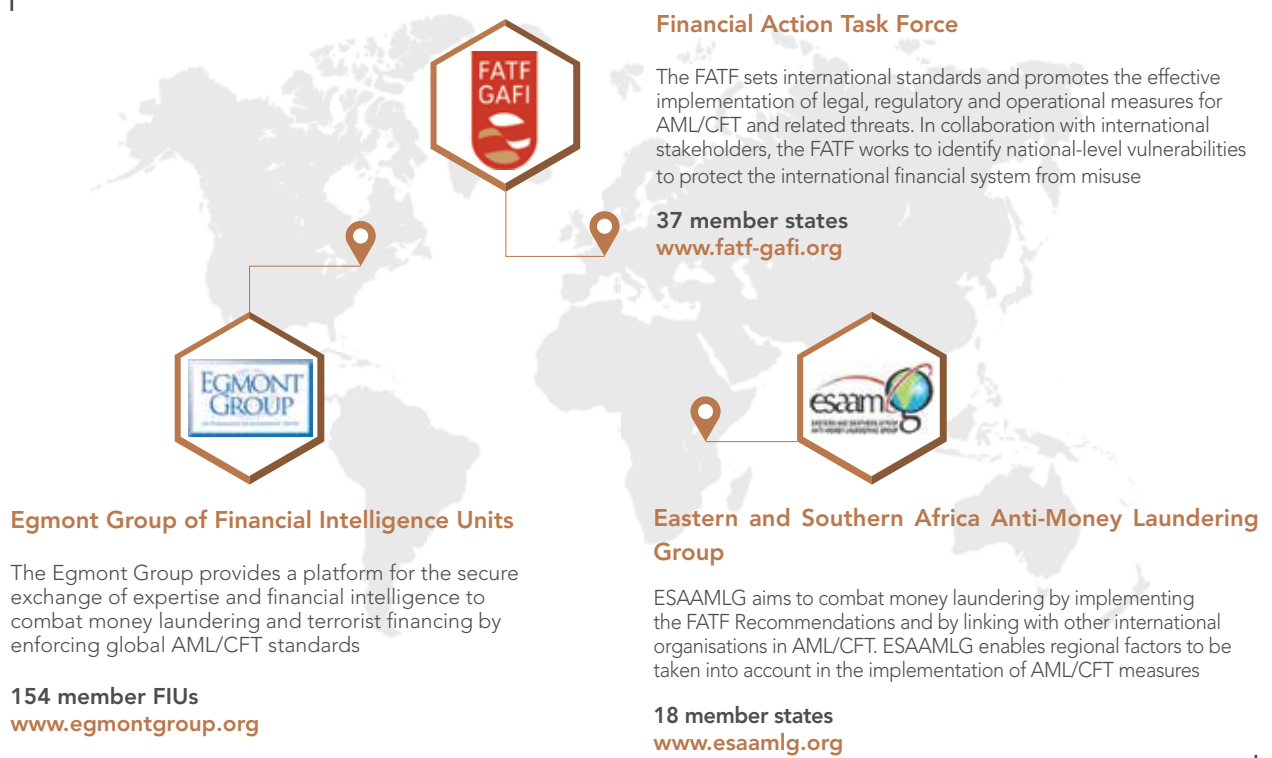
During 2016/17, we continued to actively participate in the Egmont Group, drawing on the vast experience of those involved, and providing our own input. The FIC contributed to the Egmont Group's research on improving the effectiveness of the reporting and analysis of suspicious and unusual transaction reports (STRs).

South Africa is a member of the FATF, which sets global standards in the fight against money laundering and terrorist financing. The FIC participates in this body alongside the National Treasury, and other government departments and entities. During the reporting period, the FIC provided input into a FATF study on the main threats faced by different countries related to the financing of terrorism. It assisted in setting up a FATF research and training centre, based in South Korea.

South Africa is a member of a FATF-style regional body, the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). As part of the FIC's work with the ESAAMLG, it participated in technical assistance missions to Botswana, Lesotho, Swaziland, Uganda and Zimbabwe. A Kenyan delegation visited the FIC in South Africa for technical assistance. The support the FIC provides, helps to financial intelligence units in ESAAMLG towards becoming members of the Egmont Group.

During 2016/17, the FIC signed a Memorandum of Understanding with the financial intelligence unit of the Republic of Cape Verde. Agreements such as these promote the sharing of information between the financial intelligence units of various countries.

FIGURE 5: GLOBAL AML/CFT NETWORK



## Reporting and compliance

A strong base of institutions complying with the requirements of the FIC Act helps to ensure that the South African financial system is safeguarded and made intolerant to abuse. It also ensures that designated businesses report data to the FIC as required by the FIC Act. This in turn allows the FIC to process this financial data, and strengthens government's ability to protect the country and its citizens from financial crimes and other threats that arise within and beyond the country's borders.

The information and data the FIC receives from accountable and reporting institutions, and any other business – in suspicious and unusual transaction reports – form the backbone of its work. The FIC cannot play its role in the combating of financial crime without this information. These and other regulatory reports submitted by accountable and reporting institutions are an essential element of South Africa's anti-money laundering efforts.

Money laundering involves disguising criminal proceeds and then using these proceeds to perform legal and illegal activities. Simply put, money laundering is the process of making dirty money look clean. The intention of criminals is to blur the money trail, making it difficult to trace the source of funds. Often this involves the purchase of houses, luxury vehicles, shares, bonds and life insurance policies, and investment in legitimate businesses.

With the potential for money to be laundered in many different ways through the financial system, businesses that are vulnerable to being abused by criminals and money launderers must always be alert to the attendant risks.

The FIC ramped up its efforts to register new accountable and reporting institutions during 2016/17, conducting road shows and communications campaigns to encourage

The FIC registered **4 681** new institutions, bringing the total number of registrants to **38 841**

The FIC received more than **4.7 million** cash threshold reports



The FIC received  
**358 412**  
suspicious and  
unusual transaction  
reports



**3 326** accountable  
and reporting  
institutions  
submitted more than  
**5 million** financial  
transaction reports

organisations to register with the FIC. Our efforts yielded results: we registered 4 681 new institutions during the year, exceeding our target of 4 352, bringing the total number of registrants to 38 841. This reflects continued growth in awareness of the FIC Act and of the need for affected institutions to register.

We also focused on helping existing registered institutions move over to the FIC's new reporting and registration information platform, which became operational in 2016/17.

The platform improves the FIC's capacity to:

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

Most of the regulatory reports the FIC receives are from South Africa's banks. We continue to work closely with financial

institutions and their supervisory body, the South African Reserve Bank.

We received more than 4.7 million cash threshold reports in 2016/17, down from about 9 million in 2015/16. The decrease in the number of cash threshold reports can be attributed to a spike in the previous reporting period due to the finalisation of outstanding regulatory reports on the registration and reporting platform that was used up to 2015/16.

The FIC received 358 412 suspicious and unusual transaction reports, up from 180 363 in the 2015/16 financial year. See Figure 6 on reporting to the FIC for more information.

The number of institutions that submit regulatory reports remains low when compared with the number of registered institutions. A total of 3 326 accountable and reporting institutions submitted more than 5 million financial transaction reports. In the year ahead we will continue to focus on encouraging institutions to register with the FIC and to raise awareness on the importance of reporting in the fight against crime.



## WHAT THE FIC CAN AND CANNOT DISCLOSE

The FIC protects the confidentiality of information on South African citizens contained in the regulatory reports it receives from accountable and reporting institutions, ensuring their constitutional right to privacy is guarded.

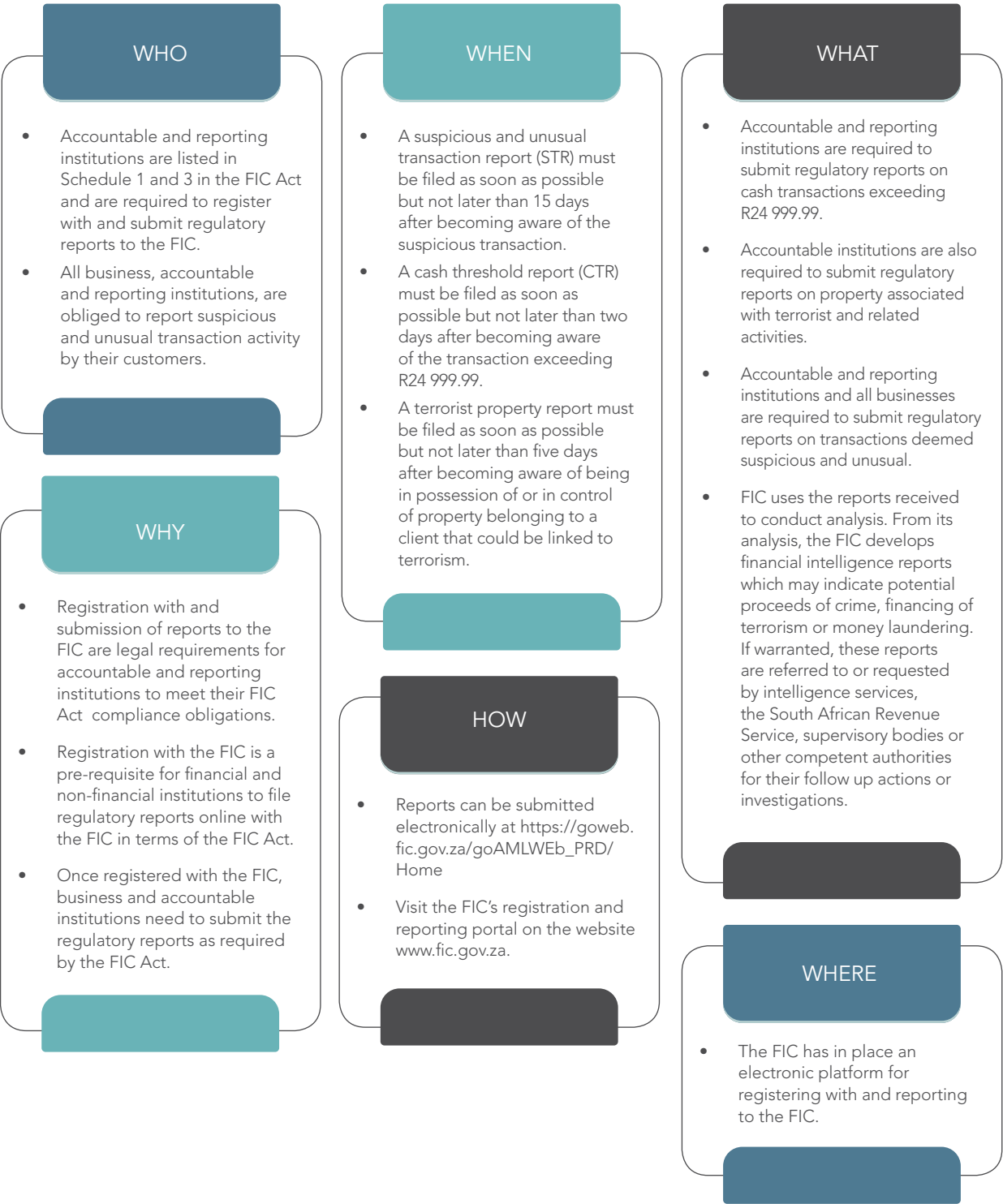
As the only repository for reports on suspicious and unusual transactions in the country, the FIC may receive information about a person's identity, their bank account details, their account signatories, accounts balances and other personal details. It also receives information about financial transactions, including the amounts and parties involved. Such non-public, private and confidential information about a person is protected under the Protection of Personal Information Act, 2013 (Act 43 of 2013) and the Constitution.

The FIC does not supply copies of reports on suspicious and unusual transactions to investigators, politicians or any other person, nor does it allow any such person access to such reports. This includes the FIC's executive authority, the Minister of Finance. Unlawful access to such sensitive information has serious ramifications, including possible criminal liability.

As the gatekeeper of such information, it is the FIC's responsibility to protect and preserve citizens' rights. The FIC acts according to the legislative safeguards put in place by Parliament to protect these rights and to prevent abuse of this information. These safeguards are part of a safety net put in place by Parliament to balance the need to access private information for lawful purposes in the criminal justice system with the protection of the rights of South Africa's citizens.


The FIC only shares information if the requestor has a national mandate to investigate an unlawful activity. The investigating authority also has to indicate the unlawful activity being investigated. Once these criteria have been met, the FIC has no discretion to refuse a request for information.

FIGURE 6: REPORTING TO THE FIC






Received **2 145** requests for information – **1 776** domestic and **369** international



The FIC blocked funds to the value of **R149 million**



The FIC's staff complement increased to **206** in 2016/17 from **185** in 2015/16

## Operational review

The FIC achieved most of its performance targets in 2016/17, and in many instances exceeded them. Highlights include:

- Total of 2 145 requests for information: 1 776 domestic and 369 international.
- Total of 1 525 referrals to competent authorities: 1 505 domestic and 20 international.
- Implementing the FIC's new system for registering and receiving reports from accountable and reporting institutions.
- Holding a series of information sessions to help institutions register on and use the new system.

To ensure our internal systems remain secure and up-to-date, we continued to stabilise and modernise our ICT systems, and implemented additional security solutions.

Due to delays in the signing of the FIC Amendment Act, the FIC did not meet its target under strategic outcome 1 related to the issuing of guidance products.

The FIC blocked funds to the value of R149 million during the year, falling short of its target of R181 million. The blocking of funds is largely dependent on third party requests and the FIC received fewer requests to block funds than anticipated.

The FIC's work relies on a small but highly skilled team with specialist technical knowledge. As part of our efforts to grow our own technical skills, we started to implement a learning and development strategy in 2016/17. As a learning organisation, the FIC aims to provide its employees with opportunities to develop in their chosen careers and to sharpen their skills.

The FIC's staff complement increased from 185 (including nine graduate trainees) in 2015/16 to 206 (including eight graduate trainees) in the reporting period.

The FIC is funded from the national budget, with funds voted as part of the National Treasury budget. The FIC develops its own budget and manages its own funds. The organisation received an increase of 7.1 percent in its baseline allocation for 2016/17. The FIC received an unqualified audit opinion for the 2016/17 financial year.



## PONZI SCHEME UNCOVERED

Through its analysis of suspicious and unusual transaction reports, the FIC identified two business accounts with activities indicative of a Ponzi scheme.

A Ponzi scheme is a fraudulent investment scheme. It offers investors unusually high returns, but the payouts do not come from actual profits. The victim's own money, or money paid by subsequent investors, is used.

Both investment companies promised a 100 percent return on investment within one to five days.

The FIC's analysis revealed:

- Similar transacting patterns involving cash and electronic funds transfers on both accounts.
- A funds transfer between the two entities, linking them to each other.
- The transacting pattern in both accounts reflected an almost equal amount of deposits followed by withdrawals.
- Neither entity was not registered with the Financial Services Board.
- Both directors were under the age of 30 and no movable or immovable assets could be linked to either director.
- The addresses of the entities were the same as the addresses of the directors, in a residential area.

Working with the South African Reserve Bank, the South African Police Service and the Financial Services Board, the FIC shared its transactional analysis for judicial action to recover the proceeds of the scheme.

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## Looking ahead

The FIC plays an important role in a broad system that works to strengthen the economy and protect the people of South Africa. This mandate is closely associated with the responsibilities of the Minister of Finance, to whom we report. The FIC's legal mandate is supported by constitutional checks and balances, which ensure that it is able to fulfil its role while guarding the privacy of all citizens.

Growing demand for financial intelligence, increasing global volatility and the trend of de-risking, among other matters, underline the importance of the FIC in protecting the integrity of the financial system.

The FIC has to be capable and agile in response to the constantly evolving nature of the illicit economy. This will require substantial investment in ICT systems, and the skills needed to operate them and interpret the data, both within the FIC and in the relevant authorities and financial institutions with which we work. Over the next five years, banks will continue to increase their capacity to interpret behavioural patterns and identify risks as part of their cooperative relationship with the FIC.

New and emerging technologies are exciting developments, but they also present substantial challenges for financial institutions, regulators and law enforcement authorities. We remain alert to advances in technology and how these can be distorted and abused for criminal intent.

I would like to thank the staff of the FIC for the enormous contribution they have made toward strengthening the integrity of South Africa's financial system, particularly as they work in an environment in which operational independence is a concern and resources are constrained. In the period ahead we will continue to fulfil our responsibilities as a financial intelligence unit, remaining steadfast in our commitment to working within our mandate.

**Murray Michell**  
Director  
Financial Intelligence Centre

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

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

All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the Auditor-General. The annual report is complete, accurate and free from any material omissions. The report has been prepared in accordance with the annual report guidelines issued by the National Treasury.

The annual financial statements have been prepared in accordance with applicable standards. The Accounting Authority is responsible for the preparation of the annual financial statements and for the judgments made in this information.

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

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

In my opinion, the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the entity for the financial year ended 31 March 2017.

Yours faithfully



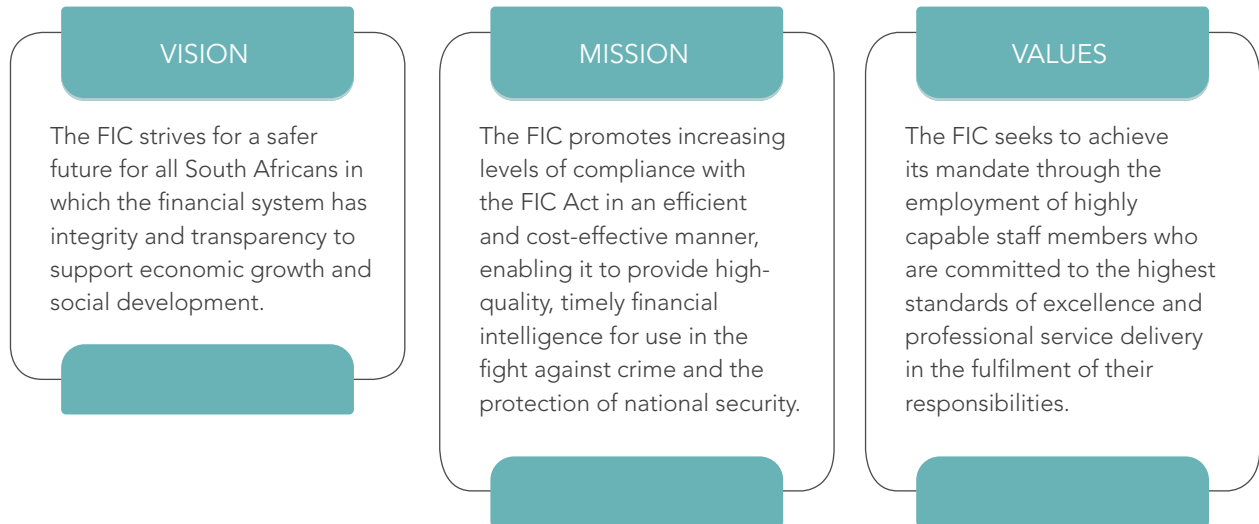
**Murray Michell**

Director

15 June 2017



# STRATEGIC OVERVIEW



## LEGISLATIVE AND OTHER MANDATES

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

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

The FIC Act established the FIC to:

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

### OUR MANDATE IS TO:

- Identify funds generated from crime
- Combat money laundering and terror financing

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

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



### INSTITUTIONS REQUIRED TO REGISTER WITH THE FIC

The FIC Act requires all accountable and reporting institutions to register with the FIC. An accountable or reporting institution is an individual or an institution that, by virtue of the business it conducts, falls within the ambit of Schedule 1 or 3 of the FIC Act. Accountable institutions differ from reporting institutions in terms of their client base, size, operations and the risks to which they are exposed. Their use of branches, divisions and franchises within the same legal entity is also a distinguishing feature.

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



### IMPORT/EXPORT CORRUPTION RING EXPOSED

Through its analysis of financial information, the FIC helped identify a corruption ring involving public officials colluding with an import/export company operating at ports of entry into South Africa. This syndicate was manipulating import/export documentation concerning containers arriving at the border from various international destinations.

The FIC's analysis of financial records enabled law enforcement to identify public officials and the export businesses. The FIC also identified the bank accounts being used to receive the proceeds of crime and determined how the money was laundered.

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

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



## NATIONAL PARK RANGERS ARRESTED FOR RHINO POACHING-RELATED OFFENCES

Two national park rangers were recently arrested for offences relating to rhino poaching. The FIC supported the operation and provided the Asset Forfeiture Unit with financial intelligence to enable it to apply for preservation orders. The FIC identified various cash deposits and electronic transfers made into the rangers' bank accounts, which often exceeded the cash threshold limit. One of the perpetrators bought various vehicles in cash using the proceeds.

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In executing its mandate, the FIC seeks to:

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

The FIC is South Africa's national centre for the development and dissemination of financial intelligence. The FIC identifies the proceeds of crime and contributes to the combating of money laundering and the financing of terrorism. In so doing, it fulfils its primary role to protect the integrity of South Africa's financial system.

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

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

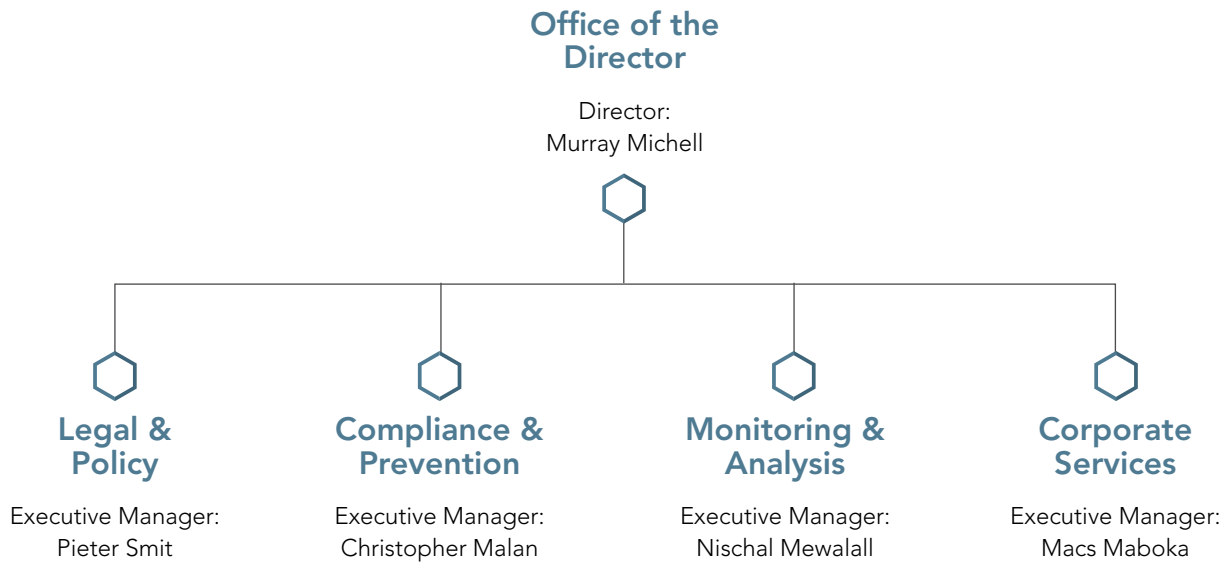
To ensure that South Africa's legal framework against money laundering and terror financing continues to meet international standards and best practice, the FIC and the National Treasury drafted amendments to the FIC Act. The Financial Intelligence Centre Act Amendment Bill seeks to:

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

During 2016/17 Parliament unanimously adopted the Bill. The President signed the FIC Act Amendment Bill into law shortly after the close of the reporting period. The FIC Amendment Act is expected to be brought into operation during the course of 2017/18. It is envisaged that the new features of the FIC Act will be implemented in a phased manner to give institutions time to adapt to the new requirements. See page 12 for an overview of the key amendments to the Act.

# ORGANISATIONAL STRUCTURE

FIGURE 7: FIC ORGANISATIONAL STRUCTURE



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

The FIC is composed of four departments:

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

## Office of the Director

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

## Legal and Policy

The Legal and Policy department is responsible for:

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

## Compliance and Prevention

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

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

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

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

## Monitoring and Analysis

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

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

## Corporate Services

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

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



PART B: PERFORMANCE  
INFORMATION

# AUDITOR-GENERAL'S REPORT: PREDETERMINED OBJECTIVES

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

## SITUATIONAL ANALYSIS

### Service delivery environment

The FIC met most of its targets for 2016/17, and in several instances exceeded them. The targets that were not met were largely due to external factors outside of the FIC's control. For example, the FIC was unable to issue the targeted number of guidance products as these were based on the promulgation of the FIC Amendment Act, which was only signed into law after the close of the 2016/17 reporting period.

### Organisational environment

During the reporting period, the FIC's new reporting and registration platform became fully operational. The new platform will help the organisation achieve its strategic objectives and improve efficiency.

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

### Key policy developments and legislative changes

During 2016/17, Parliament unanimously adopted the FIC Act Amendment Bill. Shortly after the end of the financial year, the President assented to the FIC Amendment Act. During 2017/18, the FIC will focus on a phased implementation of the amendments.

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# STRATEGIC OBJECTIVES

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

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

The FIC's work directly contributes to three of South Africa's national priorities:

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

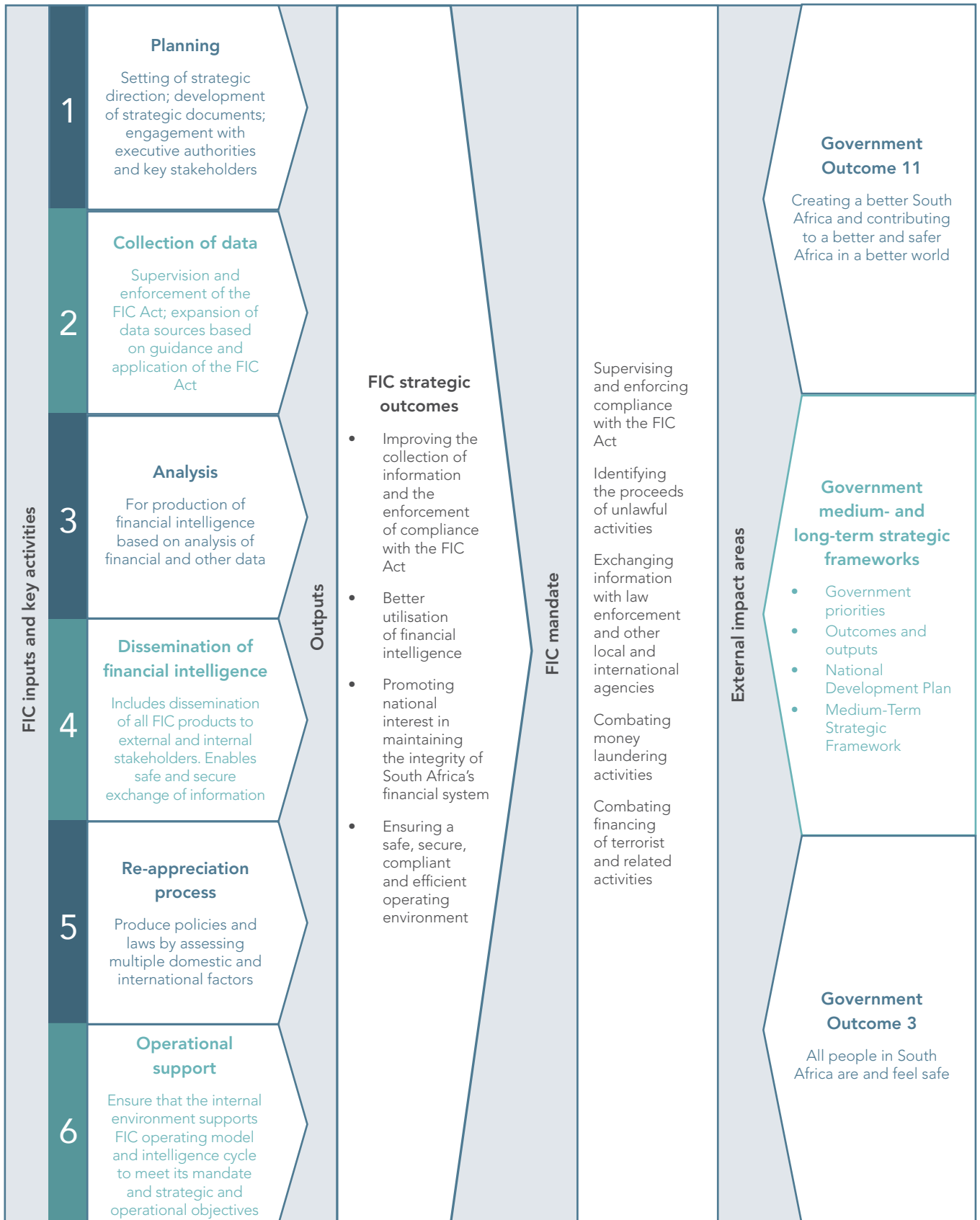
## Link between outcomes and budget programmes

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

- **Budget programme 1: Administration.** This programme has no direct link to the strategic outcomes. The programme provides strategic leadership and internal services to ensure that the organisation is managed efficiently, effectively and in an economical manner. Administration-related objectives can be traced within the objectives and targets that are set in the other two FIC budget programmes.
- **Budget programme 2: Delivery of intelligence on financial crime and FIC Act-related regulatory services.** This programme is directly linked to the FIC's predetermined objectives under strategic outcome 1, pages 32–33, strategic outcome 2, page 46, and strategic outcome 3, page 54.
- **Budget programme 3: Enablement of financial intelligence capabilities.** This programme is directly linked to the predetermined objectives under strategic outcome 4, page 56.



FIGURE 8: FIC OPERATING MODEL



# PERFORMANCE INFORMATION BY OBJECTIVE

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

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

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

Table 1: Sub-programme 2.1

| Strategic outcome 1: Improving the collection of information and the enforcement of compliance with the FIC Act |       |   |                            |                        |                            |                           |  |
|---|-------|---|----------------------------|------------------------|----------------------------|---------------------------|--|
| Strategic objective   |       | Performance indicator   | Actual achievement 2015/16 | Planned target 2016/17 | Actual performance 2016/17 | Performance status        | Comment on deviations  |
| Supervision in terms of the FIC Act   | 1.1.1 | Number of FIC inspection reports issued   | 145                        | 132                    | 132                        | Target achieved           | N/A  |
|   | 1.1.2 | Number of new accountable/ reporting institutions registered in terms of the FIC Act per year | N/A<br>New indicator       | 4 352                  | 4 681                      | Target exceeded [+329]    | Additional road shows focusing on registrations and e-mail reminders sent to unregistered entities to register with the FIC  |
|   | 1.1.3 | Number of institutions reporting as per the FIC Act   | N/A<br>New indicator       | 3 398                  | 3 326                      | Target not achieved [-72] | The number of institutions reporting to the FIC depends on whether the institutions have regulatory reports that must be filed with the FIC<br><br>The FIC implemented a new registration and reporting platform in 2016/17, which places additional stringent requirements for institutions to register and report to the FIC<br><br>This may have adversely affected the number of institutions that reported to the FIC |

Table 1: Sub-programme 2.1 (continued)

| Strategic outcome 1: Improving the collection of information and the enforcement of compliance with the FIC Act |       |  |                            |                        |                            |                          |  |
|---|-------|--|----------------------------|------------------------|----------------------------|--------------------------|--|
| Strategic objective   |       | Performance indicator                      | Actual achievement 2015/16 | Planned target 2016/17 | Actual performance 2016/17 | Performance status       | Comment on deviations  |
| Guidance and public compliance awareness provided on obligations in terms of FIC Act                            | 1.2.1 | Number of guidance products issued         | 8                          | 8                      | 1                          | Target not achieved [-7] | Target not achieved due to the delay in the signing of the FIC Act Amendment Bill<br><br>Delays related to logistics and the statutory consultation process resulted in the guidance only being available for consultation in the latter part of 2016/17 |
|   | 1.2.2 | Number of compliance awareness initiatives | 32                         | 28                     | 46                         | Target exceeded [+18]    | Accepted invitations to participate in more awareness sessions than planned with supervisory bodies and other institutions at reasonable cost  |
|   | 1.2.3 | Number of media publications issued        | 9                          | 9                      | 11                         | Target exceeded [+2]     | The additional publications were issued at no cost   |



## TENDER BRIBERY IN GOVERNMENT DEPARTMENT

The FIC assisted the South African Police Service with a fraud and corruption investigation into the awarding of a tender by a government department. The FIC analysed various financial transactions involving a senior government official's bank accounts. Further analysis revealed that the official owned two companies, which were used as a conduit to pay the bribes.

Over the past 15 years, the FIC has built a rigorous, effective compliance model that builds on partnerships with entities across the private sector. The FIC and supervisory bodies are responsible for monitoring and giving guidance to institutions on complying with the FIC Act.

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

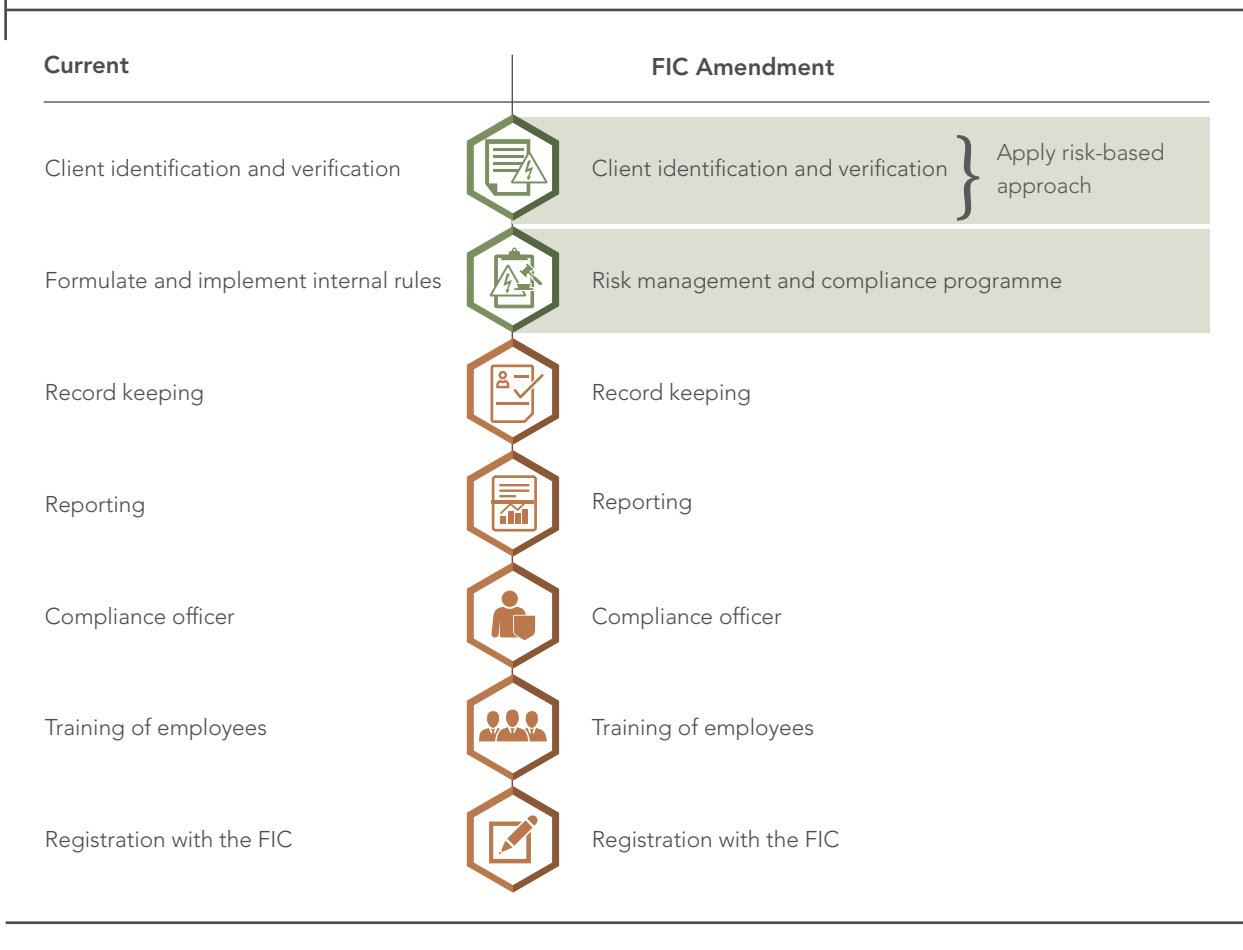
These changes have two practical and immediate consequences for average South Africans. Firstly, consumers will be better protected, and secondly, they will begin to experience a reduced administrative burden in their financial sector interactions. The FIC Act amendments are in line with the global standards derived from the FATF Recommendations and various relevant UN Conventions and Special Resolutions.

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

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

Changes in compliance requirements in terms of the FIC Amendment Act are set out in Figure 9.

FIGURE 9: CURRENT VS NEW COMPLIANCE REQUIREMENTS



### VAT FRAUD BY FARMERS

A family running a large farming operation defrauded the South African Revenue Service of more than R50 million in VAT. The son was a chartered accountant and used his expertise to create trusts to which his parents were trustees. Two companies were used as a front to conduct the scam. The proceeds from the scam were routed through the various accounts of these legal entities and used to pay for farming operations.

The FIC exceeded several of its targets under this objective during 2016/17. Highlights for the year include the following:

- Conducting 46 awareness sessions, including 14 road shows across the nine provinces, six telematics sessions and 26 events at the request of supervisory bodies and stakeholders.
- Publishing 11 awareness-raising media articles.
- Conducting 132 FIC inspections and 54 supported inspections.
- Holding six successful registration events in Gauteng, KwaZulu-Natal and the Western Cape.
- Increasing the number of accountable and reporting institutions registered with the FIC by 4 681, with a total of 38 841 registered at the end of 2016/17.
- Implementing a new registration and reporting system, which became fully operational in 2016.



## WHAT IS A SUPERVISORY BODY?

Supervisory bodies are responsible for the supervision of accountable institutions in their particular business sectors. For example, the Bank Supervision Department of the South African Reserve Bank is the supervisory body for the banking sector. This means that the Reserve Bank conducts inspections of banks to assess their compliance with the FIC Act.

The FIC conducts inspections and enforces compliance on institutions falling within its mandate. The FIC is also authorised to enforce compliance against non-compliant institutions where the supervisory body fails to do so. The entities and sectors over which the FIC carries direct compliance and enforcement responsibilities include:

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



### Purpose of an inspection

The purpose of an inspection is to assess an institution's state of compliance with statutory requirements in terms of the FIC Act. Enforcement serves as a deterrent and encourages institutions to comply with the FIC Act. In turn, this allows the FIC to fulfil its mandate.

## Inspections and sanctions

The FIC provides several direct types of support to supervisory bodies. The FIC's inspectors help supervisory bodies fulfil their inspection responsibilities.

After concluding their inspections, the FIC inspectors draft an inspection report, which is sent to the supervisory body. The FIC also provides training to inspectors, which ensures there is alignment in the interpretation of the FIC Act.

In 2016/17, the FIC conducted 132 inspections. In addition, the FIC and supervisory bodies conducted 54 joint inspections on accountable institutions.

Table 2: FIC Act inspections by supervisory bodies and the FIC in 2016/17

| Total number of FIC Act inspections                         |                       |
|---|-----------------------|
| FIC own inspections   |                       |
| Business sectors inspected                                  | Inspections conducted |
| Trust companies and administrators                          | 6                     |
| Motor vehicle dealers                                       | 101                   |
| Kruger rand dealers   | 19                    |
| Ithala Development Finance Corporation                      | 1                     |
| Postbank  | 1                     |
| Entities that lend money against the security of securities | 4                     |
| Money remitters   | 0                     |
| <b>Subtotal</b>   | <b>132</b>            |

**Table 2: FIC Act inspections by supervisory bodies and the FIC in 2016/17 (continued)**

| <b>Total number of FIC Act inspections</b>                                      |            |
|---|------------|
| <b>FIC/supervisory body inspections</b>   |            |
| Gambling institutions   | 28         |
| Financial Services Board regulated entities                                     | 15         |
| Estate agents   | 0          |
| Attorneys   | 1          |
| Authorised dealers with limited authority                                       | 10         |
| <b>Subtotal (supported inspections)</b>   | <b>54</b>  |
| <b>Inspections conducted by supervisory bodies</b>                              |            |
| Financial Services Board: Financial Advisory and Intermediary Services division | 250        |
| Financial Services Board: Long-term Insurance division                          | 1          |
| Financial Services Board: Collective Investment Schemes Managers division       | 22         |
| Financial Services Board: Capital Markets division                              | 34         |
| South African Reserve Bank: Bank Supervision department                         | 11         |
| South African Reserve Bank: Financial Surveillance department                   | 78         |
| Estate Agency Affairs Board   | 63         |
| Independent Regulatory Board of Auditors  | 1          |
| Provincial Licensing Authority: Gauteng Province                                | 16         |
| Provincial Licensing Authority: Mpumalanga Province                             | 17         |
| Provincial Licensing Authority: Limpopo Province                                | 21         |
| Provincial Licensing Authority: Free State Province                             | 8          |
| Provincial Licensing Authority: KwaZulu-Natal Province                          | 17         |
| Provincial Licensing Authority: Eastern Cape Province                           | 56         |
| Provincial Licensing Authority: Western Cape Province                           | 32         |
| Provincial Licensing Authority: North West Province                             | 100        |
| Provincial Licensing Authority: Northern Cape Province                          | 0*         |
| Law Society of the Northern Provinces   | 0          |
| Law Society of the Free State   | 0          |
| Cape Law Society  | 0          |
| Law Society of KwaZulu-Natal  | 0          |
| <b>Subtotal</b>   | <b>727</b> |
| <b>Grand total – inspections conducted</b>                                      | <b>859</b> |

*Inspection note:*

1. The inspection figure with an \* in the table above has not been verified nor confirmed in writing by the supervisory body
2. In 2016/17, none of the four law societies have conducted any formal compliance inspections in terms of the FIC Act. However, auditors are conducting compliance audits on attorneys. A compliance audit is not regarded as a formal FIC Act inspection as the auditors are not appointed as inspectors in terms of the FIC Act and the audit is not conducted in terms of the FIC Act. However, these compliance audits do undertake a cursory enquiry into the level of compliance with the provisions of the FIC Act and are as such noted in this report.

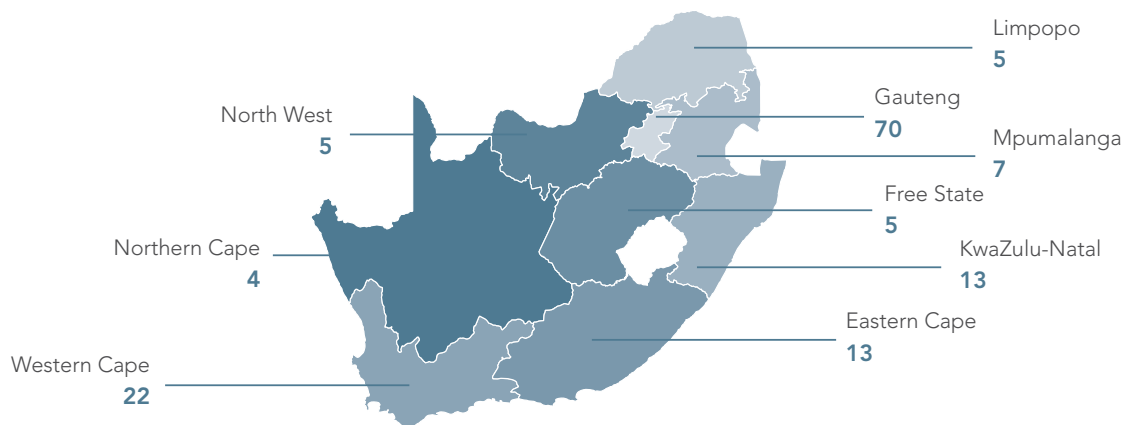


The FIC issued **132** inspection reports

The FIC issued 132 inspection reports to those entities it inspected. The FIC conducts inspections across all the provinces, but the majority took place in Gauteng in 2016/17.

The most common issue found during the FIC own inspections was that institutions were not reporting all identified cash threshold transactions. The FIC will focus on improving this area of reporting in the future.

FIGURE 10: PROVINCIAL OVERVIEW OF FIC INSPECTIONS



#### WHAT IF A BUSINESS DOES NOT COMPLY WITH THE FIC ACT?

Following an inspection, if an institution is found to be non-compliant with the provisions of the FIC Act, the FIC or a supervisory body may refer the matter to the FIC's internal adjudication panel to consider possible administrative sanction. The panel then makes a recommendation to the FIC Director.

The following administrative sanctions may be imposed:

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

Financial penalties are paid into the Criminal Asset Recovery Account. A ministerial committee makes recommendations to Cabinet on the allocation of the funds in the account. The money is allocated to specific law enforcement agencies or institutions, organisations or funds established to render assistance to victims of crime.



## AN ADMINISTRATIVE SANCTION IN TERMS OF THE FIC ACT

Before imposing an administrative sanction, the FIC or the supervisory body must invoke section 45C(5) of the FIC Act and give the institution or person reasonable notice in writing:

- Of the nature of the alleged non-compliance.
- Of the intention to impose an administrative sanction.
- Of the amount or particulars of the intended administrative sanction.
- That the institution or person may, in writing, within a period specified in the notice make representations as to why the administrative sanction should not be imposed.

Before imposing sanction, section 45C(6)(a) requires the FIC or supervisory body to consider any representations received after following the above step:

- The nature, duration, seriousness and extent of the relevant non-compliance.
- Whether the institution or person has previously failed to comply with any law.
- Any remedial steps taken by the institution or person to prevent a recurrence of the non-compliance.
- Any steps taken or to be taken against the institution or person by:
  - (a) Another supervisory body;
  - (b) A voluntary association of which the institution or person is a member.
- Any other relevant factor, including mitigating factors.

In terms of section 45C(6)(b) of the FIC Act, upon imposing an administrative sanction, the FIC or supervisory body must, in writing, notify the institution or person:

- 4.1 of the decision and why the decision was made the reasons therefor; and
- 4.2 of the right to appeal against the decision in accordance with section 45D.

Thereafter and in terms of section 45C(11) of the FIC Act, the FIC or supervisory body must, in the absence of exceptional circumstances or an appeal, publish the administrative sanction.

Once imposed and in terms of section 45D of the FIC Act, the institution has the right to appeal the administrative sanction.

Failure to comply with the abovementioned peremptory procedural steps will render the administrative sanction unlawful and unconstitutional.

The FIC issued nine financial sanctions, against non-compliant motor vehicle and Kruger rand dealers. The penalties issued were in proportion to the nature, seriousness and extent of the non-compliance, taking into account mitigating factors and the total value of the transaction not reported. Appeals have been lodged against two sanctions. Both of these appeals are still pending. The remaining seven administrative sanctions have been published on the FIC website and are detailed below.



**Table 3: Sanctions issued by the FIC in 2016/17**

| Entity                    | Sanction  |
|---------------------------|---|
| Eddies Motors             | R21 787.50<br>50% suspended for two years and a directive to remediate                      |
| Travcor t/a York Motors   | R76 091<br>50% suspended for two years and a directive to remediate                         |
| D & L Motors              | R35 294.25<br>Entire amount suspended for two years and a directive to remediate            |
| Squad Cars                | R201 400<br>50% suspended for two years and a directive to remediate                        |
| Mr Kruger – Magalieskruin | R78 268<br>R50 000 payable – remainder suspended for two years and a directive to remediate |
| Noordrand Motors          | R106 870<br>50% suspended for two years and a directive to remediate                        |
| Tangawizi Motors          | R225 646<br>50% suspended for two years   |



**South African Reserve Bank imposed 10 administrative sanctions against non-compliant institutions, in consultation with the FIC**

During 2016/17, the South African Reserve Bank imposed 10 administrative sanctions in consultation with the FIC, against non-compliant institutions. Appeals have been lodged against two sanctions, which are still pending. The table below details the nature and extent of eight of the administrative sanctions imposed by the South African Reserve Bank, which have not been appealed.

**Table 4: Sanctions issued by the South African Reserve Bank in 2016/17**

| Supervisory body | Entity                               | Sanction  | Reason – non-compliance with the following provisions                       |
|------------------|--------------------------------------|---|---|
| Reserve Bank     | GBS Mutual Bank                      | R500 000, reprimand and directive to take remedial action                           | Sec 21 – Know-your-customer<br>Sec 42 – Internal rules<br>Sec 43 – Training |
| Reserve Bank     | Habib Overseas Bank Limited          | R1 million  | Sec 42 – Internal rules<br>Sec 29 – STR                                     |
| Reserve Bank     | Investec Bank Limited                | R20 million and remedial action   | Sec 21 – Know-your-customer<br>Sec 42 – Internal rules                      |
| Reserve Bank     | South African Bank of Athens Limited | R3 million, reprimand and directive to remediate                                    | Sec 21 – Know-your-customer<br>Sec 42 – Internal rules                      |
| Reserve Bank     | Standard Chartered Bank              | R10 million, a reprimand and directive to remediate                                 | Sec 21 – Know-your-customer Sec 28 – CTR                                    |
| Reserve Bank     | Société Generalé Johannesburg Branch | R2 million penalty conditionally suspended for two years and directive to remediate | Sec 21 – Know-your-customer<br>Sec 22 – Record keeping                      |
| Reserve Bank     | Absa                                 | R10 million and directive to remediate  | Sec 21 – Know-your-customer   |
| Reserve Bank     | Imali Express (Pty) Ltd              | R150 000 with R50 000 conditionally suspended and directive to remediate            | Sec 28A – TPR<br>Sec 43(a) – Appointment of a compliance officer            |



## SANCTION APPEALS

The Appeal Board, comprising Judge Willem Hartzenberg (Chairperson of the Appeal Board), Advocate Harshila Khosaal Kooverjie (Senior Counsel – Appeal Board member) and Advocate Mocheodi Elias Phiyega (Appeal Board member) presided over two appeals against the sanctions imposed by the FIC in the 2015/16 financial year. The board made the following findings in both matters:

- Ignorance of the FIC Act is not an excuse and sanctions may be issued by the FIC or supervisory bodies despite the institution not knowing about their obligations.
- A distinction should be made in regard to wilful non-compliance and negligent non-compliance.
- Financial penalties may be imposed on first-time offenders.
- Wilful non-compliance should be met with harsh penalties.
- Remediation of the non-compliance is a mitigating factor that should be taken into account.
- Other mitigating factors include the nature, duration, seriousness and extent of the non-compliance.
- The purpose of sanctioning is to deter future non-compliance.
- The FIC did not fail in its duty to supervise the institutions that do not have a supervisory body.

The Appeal Board imposed the following revised penalties:

- Cash Inn – financial penalty of R50 000, with R25 000 suspended for two years on condition there are no more FIC Act infringements.
- JHS Motors – financial penalty of R150 000, with R75 000 suspended for two years on condition there are no more FIC Act infringements.

The Appeal Board also presided over an appeal against one of the sanctions imposed by the Financial Surveillance Department of the South African Reserve Bank. The Board dismissed the appeal of Ayoba Foreign Exchange (Pty) Limited, finding that the penalties recommended were appropriate and the sanctioning processes followed by the supervisory body were fair.



The FIC has MoUs with **18** supervisory bodies and national and provincial licensing authorities

Memoranda of understanding set out the terms of the partnerships the FIC has in place with supervisory bodies. The FIC has memoranda of understanding with 18 supervisory bodies and national and provincial licensing authorities, detailing the approach for supervising compliance with FIC Act obligations.



The FIC held **25** bilateral meetings with supervisory bodies during 2016/17

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

The FIC held 25 bilateral meetings with supervisory bodies during 2016/17 to discuss their enforcement of the FIC Act, initiatives to raise awareness of the Act, guidance issued by the FIC, and

the effectiveness of supervision and inspections conducted by supervisory bodies.

The FIC Act Enforcement Forum, which met once per quarter in 2016/17, consists of representatives of supervisory bodies and provides a mechanism for the FIC to monitor the progress made by supervisory bodies in supervising accountable institutions. It also allows supervisory bodies opportunities to share experiences and harmonise approaches to supervision, inspections and enforcement. Between 25 and 30 representatives of supervisory bodies attended each meeting with the FIC during the reporting period and discussed, among other topics:



## HIGH-PROFILE SOUTH AFRICAN HOLDING UNDECLARED FUNDS IN OTHER COUNTRIES

The FIC became aware of a high-profile South African holding substantial funds and assets in a foreign jurisdiction. The FIC's analysis of financial data revealed that he failed to declare these funds and assets to South African Revenue Service. He was also believed to be holding undeclared assets in a second offshore jurisdiction. The FIC shared its findings with South African Revenue Service for further investigation.

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- Risk-based approach to supervision.
- Effective supervision and enforcement.
- How financial intelligence was used to combat crime.
- Terrorism and the funding thereof.

## Guidance products

The FIC develops guidance products to provide practical information on complying with the FIC Act. Supervisory bodies do not develop guidance products, but apply the FIC-issued guidance within their sectors. The FIC consults with supervisory bodies before issuing guidance products to ensure that all industry-related issues have been considered and understood.

During 2016/17, the FIC issued one guidance product (2015/16: 8), falling short of its target of eight. Several products were drafted in preparation for the implementation of the FIC Amendment Act but, due to the delay

- Warrantless inspections.
- Internal rules.
- The FIC Act Amendment Bill.
- The implementation of the new FIC registration and reporting system.

in its promulgation, the products were not issued. Three guidance products were finalised and signed off in March 2017, but only published in April 2017. The FIC also drafted guidance on reporting obligations, but these were not issued because amendments to the reporting regulations were not published during the year. Both sets of products are expected to be published in 2017/18 after further consultation with supervisory bodies and accountable and reporting institutions and in line with the implementation process of the FIC Amendment Act.

## Accountable and reporting institutions registered

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

The number of institutions registered with the FIC increased from 34 255 at the end of 2015/16 to 38 841 at the end of 2016/17, demonstrating continued improvement in levels of compliance with the FIC Act and its requirements (see table on accountable and reporting

institutions registered with the FIC as at 31 March 2017).

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

Table 5: Accountable and reporting institutions registered at 31 March 2017

| Schedule 1: Item no. |   | Total registrations as at 31 March 2016 | Total migrated accountable and reporting institutions | Total new entities registered as at 31 March 2017 | Total registrations as at 31 March 2017 |
|----------------------|---|---|---|---|---|
|                      | Business entity with a reporting obligation in terms of section 29 of the FIC Act |   |   | 38  | 38                                      |
| 1                    | Attorneys   | 11 577                                  | 11 584  | 1 114   | 12 698                                  |
| 2                    | Trust companies   | 140                                     | 140   | 14  | 154                                     |
| 3                    | Estate agents   | 9 055                                   | 9 069   | 930   | 9 999                                   |
| 4                    | Authorised users of an exchange   | 201                                     | 185   | 13  | 198                                     |
| 5                    | Unit trusts (collective investment scheme managers)                               | 78                                      | 69  | 10  | 79                                      |
| 6                    | Banks   | 40                                      | 39  | 1   | 40                                      |
| 7                    | Mutual banks  | 3                                       | 4   |   | 4                                       |
| 8                    | Long-term insurers  | 100                                     | 124   | 38  | 162                                     |
| 9                    | Gambling  | 1 558                                   | 1 572   | 739   | 2 311                                   |
| 10                   | Foreign exchange  | 437                                     | 392   | 21  | 413                                     |
| 11                   | Money lenders against securities  | 58                                      | 58  | 5   | 63                                      |
| 12                   | Investment advisors or intermediaries   | 7 201                                   | 7 120   | 1 346   | 8 466                                   |
| 13                   | Issuers of travellers' cheques and money orders                                   | 157                                     | 156   | 6   | 162                                     |
| 14                   | Postbank  | 1                                       | 1   |   | 1                                       |
| 15                   | Stock exchange (incorporated under item 4)  |   |   |   |   |
| 16                   | Ithala Development Finance Corporation  | 1                                       | 1   | 1   | 2                                       |
| 17                   | Approved person by Registrar of Stock Exchanges (asset managers)                  |   |   |   |   |
| 18                   | Registrar of Financial Markets (asset managers)                                   |   |   |   |   |
| 19                   | Money remitters   | 252                                     | 253   | 28  | 281                                     |
| Schedule 3: Item no. |   |   |   |   |   |
| 1                    | Motor vehicle dealers   | 3 231                                   | 3 229   | 349   | 3578                                    |
| 2                    | Kruger rand dealers   | 165                                     | 164   | 28  | 192                                     |
| <b>Grand total</b>   |   | <b>34 255</b>                           | <b>34 160</b>   | <b>4 681</b>                                      | <b>38 841</b>                           |

## Improving awareness of compliance and the new registration system

An important part of the FIC's work is raising awareness among businesses as well as reporting and accountable institutions, on their compliance obligations in terms of the FIC Act.

A major focus in 2016/17 was on raising awareness about the FIC's new registration and reporting system. This included helping existing registered

institutions migrate to the new platform. The FIC undertook several awareness initiatives and published user guides and demonstration videos (<https://www.youtube.com/watch?v=558MMHjJTCs&feature=youtu.be>) to help reporting entities register and use the new system. The FIC has a dedicated team to help all existing and new users register on the new system.



## PROPERTY FRAUD

The FIC was part of a task team with the South African Police Service to investigate individuals who fraudulently adjusted the market value of properties to the benefit of development companies, resulting in a loss of millions in revenue to local municipalities. Through its analysis, the FIC identified payments made into municipal employees' personal bank accounts originating from property development companies and other entities. These proceeds were then spent on expensive vehicles and properties.

The FIC hosted six registration events in Gauteng, KwaZulu-Natal and the Western Cape. During these events, FIC staff helped reporting entities to capture, update and/or confirm their registration information. As a result, about 440 reporting entities were able to register/or update their details. The FIC also helped more than 80 estate agents with registration and reporting during Estate Agency Affairs Board events.

The FIC conducted 14 road shows to raise compliance awareness among regulated businesses. These events, which attracted about 1 120 participants, took place in the main cities of all nine provinces. The topics covered during the road shows included:

- Compliance with the FIC Act.
- Amendments to the FIC Act.
- Enforcement of the FIC Act.
- Registration and reporting.
- How financial intelligence is used to combat crime.

In addition to the road shows, the FIC conducted 26 compliance awareness sessions at the invitation of various supervisory bodies and stakeholders, and published 11 articles. The articles focused on raising awareness on the FIC's new registration and reporting system among attorneys, estate agents, motor vehicle dealers and financial service providers.

During the year, the FIC introduced a new way to raise awareness. Telematics learning allows the FIC to present information on registration and reporting remotely, while the recording is broadcast to dedicated learning centres. The FIC held six successful telematics sessions, which were attended by 253 people and accessed via streaming by about 3 000 additional viewers. In total, 46 compliance awareness sessions were conducted during the financial year.

The FIC also responded to 14 021 written queries and 29 638 telephonic queries from the public. The exceptionally high call volumes are attributed to the launch of the new registration and reporting system, with most of the queries about how to register, how to update information, and reporting to the FIC.



The FIC responded to **14 021** written queries and **29 638** telephonic queries

## Reporting

The FIC's reputation depends on the integrity, accuracy and reliability of the financial intelligence it provides. In turn, the quality of the financial intelligence the FIC produces is directly linked to the quality of regulatory reports received from accountable and reporting institutions.



## HOW HAS THE NEW SYSTEM IMPROVED REPORTING?

The new system introduced by the FIC improves oversight capability across multiple registered accountable and reporting institutions. Reporting entities are able to submit regulatory reports per report type, making it easier for the FIC to analyse information effectively and to identify sector risks and trends. The FIC has introduced new regulatory reporting forms to improve accuracy. There are still three main report types (suspicious and unusual transaction, cash threshold and terrorist property reports), but the sub-categories have been expanded as follows:

FIGURE 11: REPORTING CATEGORIES



### Terrorist Property Report

#### Section 28A

- Terrorist Property Report



### Cash Threshold Reports

#### Section 28

- Cash Threshold Report (CTR)
- Cash Threshold Report Aggregation (CTRA) – new sub-category



### Suspicious and Unusual Transaction Reports

#### Section 29

- Suspicious Activity Report (SAR) – new sub-category
- Terrorist Financing Activity Report (TFAR) – new sub-category
- Terrorist Financing Transaction Report (TFTR) – new sub-category

The new reporting sub-categories allow reporting entities to differentiate between single transactions and multiple transactions that should be aggregated and reported together. The introduction of the terrorist financing activity reports and terrorist financing transaction reports, for example means that the FIC is now able to receive suspicious and unusual transaction and/or activity reports in terms of section 29 of the FIC Act that deal specifically with the financing of terrorist and related activities.

Previously, the FIC calculated and reported the total number of regulatory reports submitted. With the introduction of the new system, reporting has been adjusted. The new system is transaction-based and the emphasis is on the number of transactions submitted in each regulatory report rather than the total number of regulatory reports received.

Table 6 shows the regulatory reports that the FIC received from accountable and reporting institutions during 2016/17. The FIC received more than 4.7 million cash threshold reports in 2016/17, down from 9 million in 2015/16. This decline can be attributed to a spike in the previous reporting period due to the finalisation of outstanding regulatory reports on the old registration and reporting platform in 2015/16.

The FIC received 358 412 suspicious and unusual transaction and activity reports, up from 180 363 in the previous year. This increase was largely the result of the new reporting types introduced within this category (see box above on how the new system has improved reporting). These reports are categorised as section 29 reports in the Table 6 below.

The FIC received one terrorist property report in 2016/17 (2015/16: 15). The number of reports received in this category tends to be much lower than the other two because terrorist property reports are based on fact rather than suspicion.

**Table 6: Regulatory reporting, 1 April 2016 to 31 March 2017**

| Schedule 1: Item no. |   | CTRs & CTRAs*              | STRs, SARs, TFARs and TFTRs** | TPRs     | Total            |
|----------------------|---|----------------------------|-------------------------------|----------|------------------|
|                      | Business entity with a reporting obligation in terms of Section 29 of the FIC Act |                            | 14                            |          | 14               |
| 1                    | Attorneys   | 2 229                      | 133                           |          | 2 362            |
| 2                    | Trust companies   | 407                        | 22                            |          | 429              |
| 3                    | Estate agents   | 3 753                      | 6                             |          | 3 759            |
| 4                    | Authorised users of an exchange   | 45 888                     | 36                            |          | 45 924           |
| 5                    | Unit trusts (collective investment scheme managers)                               | 1 775                      | 125                           |          | 1 900            |
| 6                    | Banks   | 4 082 641                  | 193 609                       | 1        | 4 276 251        |
| 7                    | Mutual banks  | 4 043                      | 22                            |          | 4 065            |
| 8                    | Long-term insurers  | 1 466                      | 114                           |          | 1 580            |
| 9                    | Gambling  | 332 731                    | 1 373                         |          | 334 104          |
| 10                   | Foreign exchange  | 147 518                    | 54 625                        |          | 202 143          |
| 11                   | Money lenders against securities  | 91                         | 5                             |          | 96               |
| 12                   | Investment advisors or intermediaries   | 16 823                     | 2 410                         |          | 19 233           |
| 13                   | Issuers of travellers' cheques and money orders                                   | 10 351                     | 41                            |          | 10 392           |
| 14                   | Postbank  | 26 314                     | 83                            |          | 26 397           |
| 15                   | Stock exchange  | Incorporated under Item 4  |                               |          |                  |
| 16                   | Ithala Development Finance Corporation  | 354                        |                               | 1        | 355              |
| 17                   | Approved person by Registrar of Stock Exchanges (asset managers)                  |                            |                               |          |                  |
| 18                   | Registrar of Financial Markets (asset managers)                                   | Incorporated under Item 12 |                               |          |                  |
| 19                   | Money remitters   | 27 601                     | 100 519                       |          | 128 120          |
| Schedule 3: Item no. |   |                            |                               |          |                  |
| 1                    | Motor vehicle dealers   | 27 983                     | 5 271                         |          | 33 254           |
| 2                    | Kruger rand dealers   | 954                        | 3                             |          | 957              |
| <b>Grand total</b>   |   | <b>4 732 922</b>           | <b>358 412</b>                | <b>1</b> | <b>5 091 335</b> |

\*CTRA - refers to cash threshold report aggregation and is utilised to report a single client that has performed multiple transactions above the threshold amount of R24 999.99 within the defined aggregation period.

\*\*These reports (section 29) include all suspicious and unusual transaction reports, suspicious and unusual activity reports, terrorist financing activity reports and terrorist financing transaction reports.

A total of 3 326 accountable and reporting institutions submitted just over 5 million financial transaction reports during 2016/17.

Between 2002/03 and 2016/17, the FIC received more than 1.5 million suspicious transaction reports, increasing steadily from 991 received in the first reporting year to 358 412 in 2016/17 – the highest number ever received in a reporting period.

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

Sub-programme 2.2: Monitoring and Analysis provides its clients with products and services resulting from its analysis, interpretation and representation of financial information in a manner that enables law enforcement authorities to identify evidence that can be used in a South African court of law. These services are performed to support a law enforcement agency's efforts to prove crime and involves in-depth planning and co-ordination. This area of work of the FIC gathers and receives information internationally through a network of financial intelligence units.

Monitoring and Analysis primarily focuses on producing financial intelligence that typically:

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

**Table 7: Sub-programme 2.2**

| Strategic outcome 2: Better utilisation of financial intelligence |                       |   |                            |                        |                            |                             |   |
|---|-----------------------|---|----------------------------|------------------------|----------------------------|-----------------------------|---|
| Strategic objective   | Performance indicator |   | Actual achievement 2015/16 | Planned target 2016/17 | Actual performance 2016/17 | Performance status          | Comment on deviations   |
| Increased utilisation of FIC products and services                | 2.1.1                 | Value of funds blocked as suspected proceeds of crime in the financial system | R184.6m                    | R181m                  | R 149m                     | Target not achieved [-R32m] | Blocking of funds is largely dependent on third party requests<br><br>The FIC received fewer requests to block funds than anticipated |
|   | 2.1.2                 | Number of judicial actions contributed to                                     | 26                         | 24                     | 26                         | Target exceeded [+2]        | Higher-than-expected number of judicial actions that required FIC contribution  |
|   | 2.1.3                 | Number of money laundering cases referred for investigation                   | N/A<br>New indicator       | 100                    | 114                        | Target exceeded [+14]       | High volumes of reports with money laundering suspicions were received and subsequently referred to law enforcement agencies          |
|   | 2.1.4                 | Number of training sessions provided to external stakeholders                 | N/A<br>New indicator       | 6                      | 25                         | Target exceeded [+19]       | Accepted ad hoc requests to provide more training sessions than planned   |

*Note: During the 2016/17 financial year, the FIC received higher volumes of reports on suspicious transactions. This resulted in more matters being referred to law enforcement agencies.*





## BITCOIN INVESTMENT SCHEME

An entity hosted meetings and seminars at prominent hotels and casinos throughout South Africa. Participants were charged seminar fees and were encouraged to buy Bitcoin to increase their wealth quickly. The currency seemingly promised a 50 percent return on investment when sold.

The FIC's analysis revealed that the entity's account was not used for formal business activity, but as a front to lure investors into contributing towards an unknown investment goal. Funds in the account were being depleted rapidly and were not being replenished by new contributors.

Working with the South African Reserve Bank, the South African Police Service and the Financial Services Board, the FIC shared its transactional analysis for judicial action to recover the proceeds of the scheme.

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The FIC continues to increase its contributions to combating crime and protecting the financial system by providing high quality financial intelligence to authorised requestors, both in South Africa and internationally.

To meet its obligations, the FIC has access to various sources of financial, administrative and law enforcement information including:

- Suspicious and unusual transaction and activity reports from accountable and reporting institutions, businesses or individuals with regulatory reporting obligations.
- Reports on cash transactions in excess of R24 999.99.
- Reports on cross-border monetary flows by arrangement with the South African Reserve Bank.
- Non-publicly available databases maintained by government agencies.
- Commercial databases on legal entities and property ownership.
- Information shared with other financial intelligence units.
- Open information sources.

FIC intelligence products were used by law enforcement, intelligence and prosecuting authorities to assist in crime detection, investigation and prosecution during the year, and demand for such products continues to rise.

The organisation also continued to participate in bodies such as the Anti-Corruption Task Team and the Justice, Crime Prevention and Security cluster.

To ensure the effective use of its products, the FIC conducted 25 training sessions for users of its financial intelligence products. Training mostly focused on the powers of the FIC to collect information, and how this information is then analysed to support law enforcement efforts. Training was provided to, among other institutions, law enforcement agencies, including various South African Police Service components and prosecutors. Practical case studies were shared with various banks to contextualise areas of concern, to inform and enhance reporting.

The FIC exceeded all but one of its targets for this outcome. During the financial year a lower than anticipated number of requests were received from law enforcement authorities. In 2016/17 the FIC assisted with 2 145 investigation requests (2015/16: 1 979) from national and international law enforcement agencies, and referred 1 525 cases (2015/16: 511) for further investigation. Of the referrals, 114 related to money laundering.

FIGURE 12: HOW THE FIC PRODUCES FINANCIAL INTELLIGENCE REPORTS



Accountable and reporting institutions are legally required to submit regulatory reports to the FIC on suspicious and unusual transactions; transactions over the cash threshold of R24 999.99. In addition, accountable institutions are required to report transactions related to property owned or controlled by or on behalf of a terrorist.



These regulatory reports may include sensitive information such as, for example, information about financial transactions, amounts involved, bank account details and account balances for example.



The FIC is the gatekeeper of this information which is treated as private and confidential, and is only shared in terms of the FIC mandate and legislative parameters.

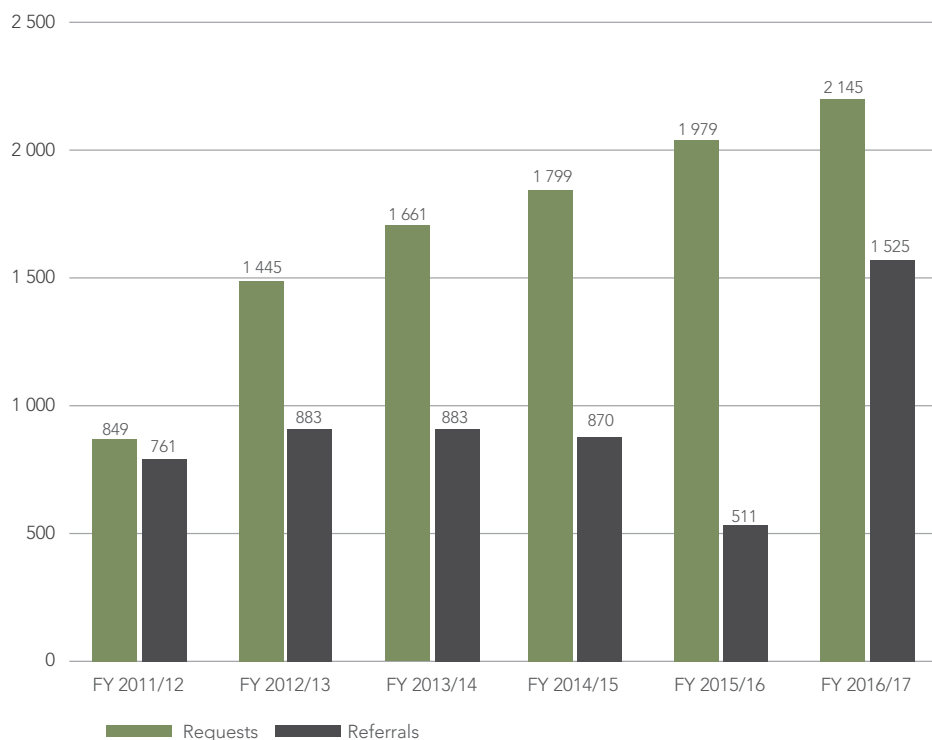


The FIC analyses the information it receives, and produces financial intelligence reports. The information referred for investigation does not contain the actual suspicious and unusual transaction, cash threshold or terrorist property reports made to the FIC. The referral contains descriptions of the transactions and analysis of their potential links to unlawful activity.



The financial intelligence report is handed over to the relevant authorities for further action and/or investigation if necessary. The true value of information held by a financial intelligence unit is to be found not in the reports it receives, but in the integration and evaluation of this information with other data linked to human and social behaviour.

FIGURE 13: REQUESTS RECEIVED AND REFERRALS DISSEMINATED, 2011/12–2016/17



The FIC provided further support to the fight against crime by contributing to 26 judicial actions and blocking R149 million as suspected proceeds of crime during 2016/17, falling short of its target of R181 million. The blocking of funds is largely dependent on third party requests, and the FIC received fewer requests than expected during the reporting period. The FIC blocks funds that are reasonably suspected to be associated with the proceeds of crime and shares this information with the Asset Forfeiture Unit to enable them to seize and take control of the proceeds.

FIGURE 14: SUSPECTED PROCEEDS OF CRIME FROZEN, 2012/13–2016/17

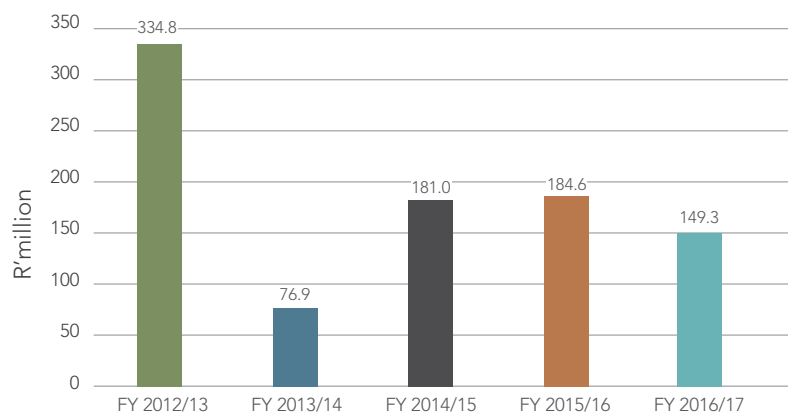
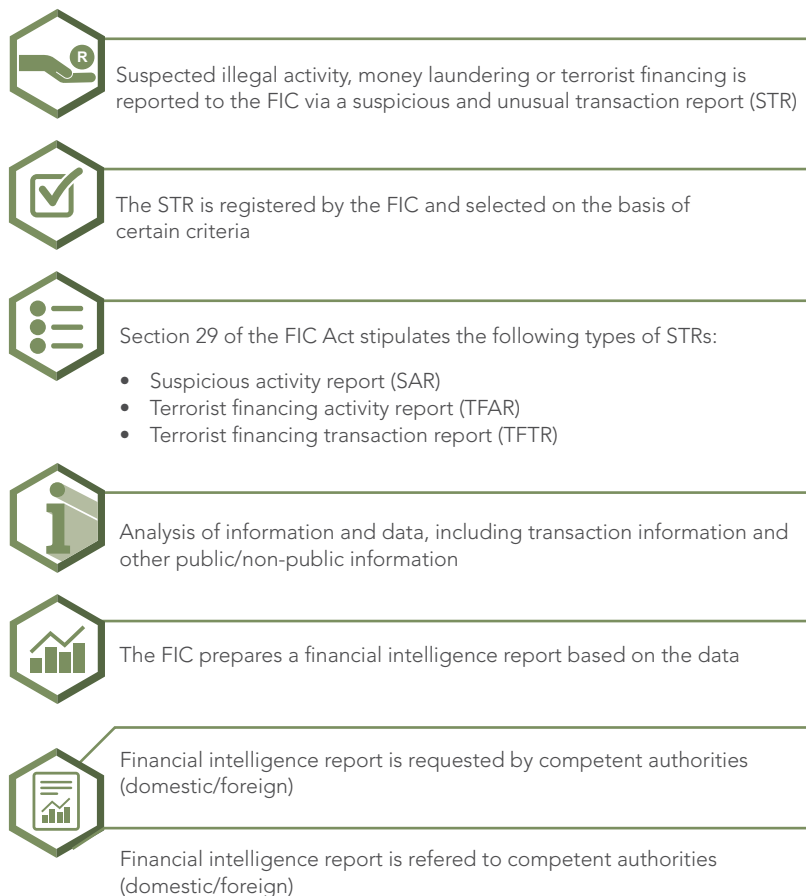


FIGURE 15: SUSPICIOUS AND UNUSUAL TRANSACTION REPORTING VALUE CHAIN



**By submitting STRs, all business can contribute to combating financial crime.**

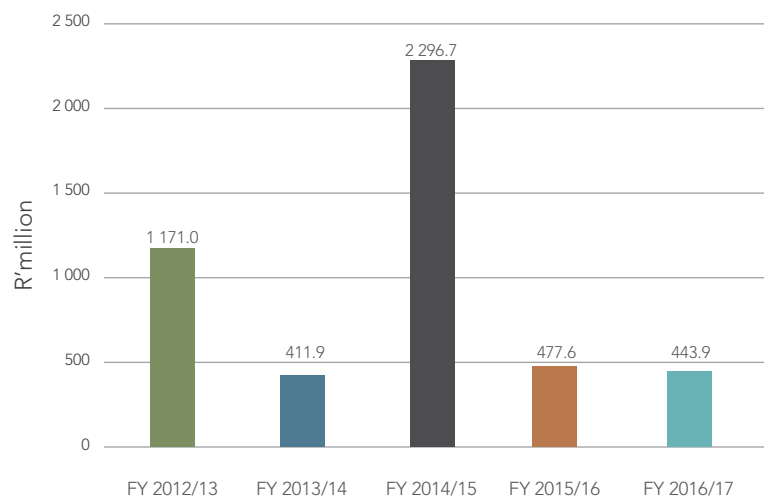


## UNCOVERING DRUG DEALERS IN RURAL TOWNS

In 2016/17, the FIC helped law enforcement authorities identify drug dealers in rural areas. The FIC identified individuals who were receiving large cash deposits into their accounts from various sources in different provinces. The drug syndicate's operations were uncovered using information the FIC received from accountable institutions. While cash deposits were made in rural areas, the proceeds were spent by syndicate members in larger metropolitan areas.

Financial crime affects every South African, directly or indirectly, by robbing individual resources or draining the funds available for the country's development. The FIC contributed to recovering R443.9 million in criminal proceeds during the reporting period. Since 2012/13, the FIC has helped recover more than R4.8 billion in proceeds cumulatively.

FIGURE 16: VALUE OF PROCEEDS OF CRIME RECOVERED, 2012/13 – 2016/17



## MARRIED COUPLE CAUGHT EVADING TAXES

Through its work with one of its international financial intelligence unit partners, the FIC established that a married couple were holding large investments in an offshore location and that they were unwilling to declare this to the South African Revenue Service. The FIC analysed the finances of these individuals and shared the information with the South African Revenue Service for further investigation on the grounds of tax evasion.

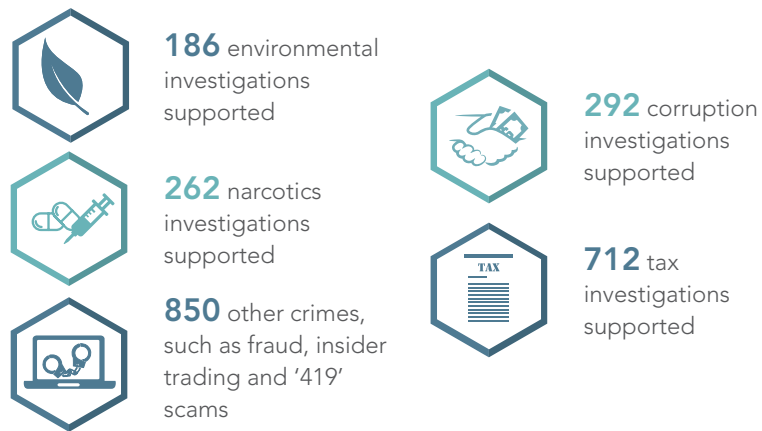
The FIC contributed to investigations involving a range of different types of crime during the reporting period.

This year's report focuses on a selection of prevalent crimes, highlighting the FIC's contribution to investigations in various areas during the year including environmental crimes, narcotics, tax-related crimes, corruption and other crimes such as fraud.

FIGURE 17: INVESTIGATION REQUESTS AND REFERRALS BY CRIME CATEGORY

| Crime type                      | Requests | Crime type  | Referrals | Crime type                      | Requests | Crime type  | Referrals |
|---------------------------------|----------|---|-----------|---------------------------------|----------|---|-----------|
| Fraud                           | 646      |    | 200       | Arms, ammunition and explosives | 15       |    |           |
| Tax related                     | 253      |    | 459       | Murder                          | 13       |    |           |
| Narcotics                       | 200      |    | 62        | Mutual legal assistance         | 9        |    |           |
| Money Laundering                | 188      |    | 114       | Cybercrime                      | 3        |    |           |
| Crimes against the State        | 178      |    | 81        | Theft                           | 3        |    |           |
| Corruption                      | 172      |  | 120       | Non ferrous                     | 3        |  |           |
| Environmental crimes            | 149      |  | 37        | Precious metals and stones      | 2        |  |           |
| Due diligence                   | 111      |  | 1         | Child pornography               | 1        |  |           |
| Human trafficking               | 33       |  | 1         | Illegal mining related          | 1        |  |           |
| Illicit cigarettes              | 27       |  | 7         | Spontaneous disclosures         |          |  | 79        |
| Other                           | 19       |  | 7         | Sanctions                       |          |  | 3         |
| Exchange control contraventions | 6        |  | 145       | Robbery                         |          |  | 2         |
| Gambling related crimes         | 5        |  | 205       | Contraventions of Bank Act      |          |  | 1         |
| Robbery/ Armed robbery          | 108      |  |           | Insider trading                 |          |  | 1         |
|                                 |          |   |           | Total                           | 2 145    |   | 1 525     |

FIGURE 18: FIC'S CONTRIBUTION TO INVESTIGATIONS



### Environmental crimes

South Africa's natural resources continue to be attacked by both domestic and foreign criminal syndicates. These groups have plundered the country's flora and fauna, including rare and endangered animals such as rhino and pangolin. These types of crimes severely damage the country's environment and ecosystem, and they also threaten our tourist industry and the broader economy.

According to the Department of Environmental Affairs, rhino poaching has decreased by 10 percent in the last two years. There has been an increase in arrests related to these incidents over the same period. However, there is still much work to be done in this area.

The FIC is working with its law enforcement partners to fight environmental crimes, supporting 186 criminal investigations in this area during 2016/17.

### Narcotics

The FIC supported at least 262 investigations focusing on narcotics during 2016/17. Drug syndicates traditionally operate in metropolitan areas, but in recent years there has been an increase in drug trafficking in smaller, more rural towns, including in Mpumalanga, Limpopo and the North West. The FIC was able to link new players in smaller towns to individuals known to be involved in drug dealing in the metropolises.

### Bulk cash smuggling

Large amounts of cash are often smuggled out of the country to evade taxes. In the reporting year, the FIC supported at least seven major investigations focusing on bulk cash smuggling. These investigations revealed several trends:

- Couriers involved in these activities do not own the cash being smuggled.
- The cash is mostly destined for Middle Eastern and European countries.
- The cash is transported in normal luggage bags and is not disguised.
- The cash is not declared at customs at the various borders.
- Couriers travelled out of the country frequently (almost three times per week).

Section 30 of the FIC Act addresses the movement of physical cash in and out of South Africa, however, this section of the FIC Act is not yet operative. Once implemented, the information gathered in terms of Section 30 will strengthen the FIC's analysis related to investigations and possible trends.



## DRUG DEALER BUST IN COASTAL PROVINCE

The FIC assisted the South African Police Service with an investigation into drug dealing in a coastal province. The FIC established that the subjects involved were transacting from other geographical areas, which expanded the scope of the investigation. Financial information analysed revealed payments to drug-producing countries in a South American region. The individuals were arrested and their assets were forfeited to the state by the Asset Forfeiture Unit using the FIC's information.

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## Tax-related crimes

During 2016/17 there was increased effort associated with tax-related crimes due to a higher number of requests received as well as matters referred for investigation. In total, the FIC supported 712 matters concerning tax-related crimes during the reporting period.

Cooperation with international FIUs has increased in relation to such crimes, with a notable rise in the number of spontaneous disclosures received about South African citizens and businesses holding funds and assets in offshore locations during the year. All offshore investments, trusts and assets must be declared to the South African Revenue Service to avoid tax and exchange control contraventions.

## Corruption

In 2016, Transparency International ranked South Africa as the 64<sup>th</sup> most corrupt country out of 176 countries in the Index, with a score of 45 out of 100 in the perceived level of public sector corruption (0 as highly corrupt and 100 as very clean).

The FIC supported 292 investigations concerning corruption during the reporting period.

## Advance fee fraud

These crimes usual involve theft and fraud at the expense of others.

These crimes can occur anywhere in the world and may involve cash, assets or virtual currencies. They involve taking advantage of people's trust and manipulating people to part with their money or assets. These highly profitable crimes tend to involve little to no violence, relying on the offender's powers of persuasion instead.

According to South African Police Service statistics, 54 442 cases related to these scams were reported between April to December 2016, an increase of 1.7 percent from the preceding year.

During 2016/17, the FIC contributed to 850 investigations associated with advanced fee fraud crimes, including insider trading, romance scams, Ponzi schemes and investment scams.

## Social responsibility

Another important focus for the FIC during the reporting period was supporting investigations in line with its commitment to social responsibility.

According to the 2011 Census, more than 48 percent of children in South Africa live in single parent households. Many women who raise children alone are reliant on maintenance payments for support, which is often not forthcoming. More than 90 percent of maintenance defaulters are men. During 2015/16, the Department of Justice reported that it received 201 202 enquiries related to maintenance matters.

In 2016/17, the FIC helped the South African Police Service and the Department of Justice by providing analysis to assist in the tracing of maintenance defaulters during the country's 16 Days of Activism for No Violence Against Women and Children.

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

Sub-programme 2.3: Legal and Policy creates focus on administration and providing advice on matters of a strategic nature concerning money laundering and terrorist financing. The area of the FIC's work also engages on behalf of South Africa with international and regional inter-governmental bodies, which formulate and promote policies on combating money laundering and terrorist financing and sets standards on these matters for countries.

Highlights of achievements in Legal and Policy include facilitation of the promulgation of previous amendments to the FIC Act and monitoring the actions by relevant South African authorities to implement the Recommendations from the FATF's mutual evaluation assessment report. In this way, the FIC assists in fulfilling international responsibilities in terms of the FATF's standards and the United Nations instruments.

**Table 8: Sub-programme 2.3**

| Strategic outcome 3: Promoting national interest in maintaining the integrity of South Africa's financial system |                       |   |   |   |   |                    |                       |
|--|-----------------------|---|---|---|---|--------------------|-----------------------|
| Strategic objective  | Performance indicator |   | Actual achievement 2015/16  | Planned target 2016/17  | Actual performance 2016/17  | Performance status | Comment on deviations |
| Technical support to countries in the ESAAMLG region   | 3.1.1                 | Percentage response to requests for technical assistance from countries within the ESAAMLG region | Received 3 requests and responded to all 3 requests from Lesotho, Swaziland and Botswana [100%] | Technical assistance requests responded to [80%]  | Responded to 80% of requests for technical assistance: Botswana (twice), Lesotho, Swaziland, Uganda (twice), Zimbabwe and Kenya | Target achieved    | N/A                   |
| Participation in policy-making activities of regional and inter-governmental organisations                       | 3.1.2                 | Number of policy-making activities attended within regional and inter-governmental organisations  | Attended and participated in 6 FATF meetings and 2 ESAAMLG meetings                             | Attended and participated in 6 FATF meetings and 2 ESAAMLG meetings                                 | Attended and participated in 6 FATF meetings and 2 ESAAMLG meetings   | Target achieved    | N/A                   |
| Actions by South African authorities to implement FATF standards   | 3.1.3                 | Progress report on initiatives taken to comply with FATF standards                                | Report approved by the FIC Director reflecting level of implementation of FATF standards        | Report approved by the FIC Director reflecting level of implementation of FATF standards            | Report approved by the FIC Director reflecting level of implementation of FATF standards  | Target achieved    | N/A                   |
| Ongoing maintenance of the AML/CFT framework   | 3.1.4                 | Progress report on development of amendments to the FIC Act                                       | Report approved by the FIC Director reflecting development of FIC Act amendments                | Report approved by the FIC Director reflecting development and implementation of FIC Act amendments | Report approved by the FIC Director reflecting development and implementation of FIC Act amendments                             | Target achieved    | N/A                   |

The FIC works with financial intelligence units and other stakeholders around the world to strengthen global efforts to combat money laundering and the financing of terrorism.

Money laundering involves disguising the source of criminal proceeds and then using these proceeds to perform legal and illegal activities.

South Africa is part of a global network of close to 200 countries that aims to prevent money laundering and combat terrorism. The global network consists of member jurisdictions of the FATF, the ESAAMLG and eight other regional bodies across the globe. During 2016/17, the FIC continued to actively lead South Africa's delegations





## ONLINE ROMANCE SCAM

The FIC, operating in a task team, identified an individual who used an online dating website to extort funds from his victims, which were paid into an entity's bank account. The FIC was able to identify the signatory on the entity's bank account as being a Nigerian with South African citizenship.

The subject had been running this scam for more than seven years, making about R13 million in Europe and North America. The latest victim, from North America, reported him after losing R1.8 million. The subject laundered the proceeds by using the money to renovate his house, buy expensive clothing and electronic equipment, and pay school fees.

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to the FATF and ESAAMLG. The FIC is a member of the Egmont Group of Financial Intelligence Units. In all these organisations, the FIC and the South African delegations draw on the vast experience of those involved.

The FIC signed a memorandum of understanding with the Republic of Cape Verde in 2016/17, bringing the total number of memoranda of understanding the FIC has with jurisdictions to 85.

Memoranda of understanding help the FIC exchange information with financial intelligence units, strengthening the country's ability to assist and also request assistance from international partners in solving financing crimes.

### ESAAMLG

As part of its work with the ESAAMLG, the FIC provided technical assistance to Botswana, Lesotho, Swaziland, Uganda and Zimbabwe. A Kenyan delegation visited the FIC for technical assistance. The engagements focused mainly on improving analytical capability (including ICT development), building coordinated supervisory frameworks and conducting legislative reviews.

The FIC's support assists the financial intelligence units in the ESAAMLG region towards membership of the Egmont Group. It helps financial intelligence units with building their capability for transaction analysis and for putting in place appropriate processes and systems.

The FIC also participated in an ESAAMLG typologies project on cigarette smuggling. It provided input for the creation of a typology report to help member countries identify methods and techniques used to launder the illicit proceeds from cigarette smuggling.

The FIC will continue to strengthen its regional partnerships, crucial to combating cross-border financial crimes between South Africa and its neighbours.

### The Egmont Group

The FIC contributed to Egmont's international research during 2016/17. It

was involved in a suspicious and unusual transaction reporting project, aimed at improving the effectiveness of these reports in Egmont jurisdictions, through a series of recommendations.

### The FATF

The FIC provided input into a FATF study on the main threats faced by different countries relating to the financing of terrorism. The study was aimed at strengthening information sharing across countries and regions. The FIC contributed to the development of training material; that will be used by the FATF Training and Research Institute (FATF TREIN) that was established in South Korea in the course of the year. The FATF TREIN's first training product is a course on the practical implementation of the FATF's international standards. South Africa participated in initial workshops to select the training material, developed the basis for a case study that will be used in one of the modules in the course and sent a delegation to participate in a pilot event where a prototype of the course was put to the test.

The FIC continued to prepare for the next round of FATF mutual evaluations, which are expected to take place in 2019. A critical part of these preparations is the passing and implementation of the FIC Amendment Act. The amendments address the FATF's findings from its 2009 mutual evaluation of South Africa and, at the same time, the same time bring the country in line with the current international standards and global best practice.

The President signed the FIC Act Amendment Bill into law shortly after the close of the reporting period. The FIC Amendment Act is expected to come into operation in 2017/18. For more information on the passage of the legislation, the amendments, and what they mean for South Africans, see the Director's Overview.

## Programme 3: Enablement of financial intelligence capabilities

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

The enablement functional units are co-ordinated through the Corporate Services department but are distinct from Administration. The former provides delivery-related support, while the latter provides overall organisational support that is not necessarily part of service delivery processes. The primary focus of this programme is on enhancing the ability to deliver services to the organisation's internal clients and other identified stakeholders, thus greatly contributing towards the FIC becoming a sustainable and capable organisation.

**Table 9: Budget programme 3**

| Strategic outcome 4: Ensuring a safe, secure, compliant and efficient operating environment |                       |  |   |   |  |   |                 |
|---|-----------------------|--|---|---|--|---|-----------------|
| Strategic objective   | Performance indicator | Actual achievement 2015/16   | Planned target 2016/17                                | Actual performance 2016/17  | Performance status   | Comment on deviations                         |                 |
| Modernisation of ICT platform and business systems  | 4.1.1                 | Completion of ICT platform and business systems initiatives                      | Implementation: 95% as scheduled                      | Upgraded anti-money laundering analytics solution stabilised in operations with additional enhancements | Upgraded anti-money laundering analytics solution stabilised in operations with additional enhancements  | Target achieved                               | N/A             |
| Ensure compliance with internal control requirements  | 4.1.2                 | Completion of prioritised internal control action plans for clean administration | All Auditor-General findings have been resolved       | All corrective actions implemented for resolution of Auditor-General findings                           | All corrective actions were implemented for resolution of Auditor-General findings   | Target achieved                               | N/A             |
| Human resource capacity and capability for the FIC  | 4.1.3                 | Completion of prioritised human resource capacity and capability development     | Career development framework implementation initiated | Career development framework implementation completed   | Career development framework implementation completed  | Target achieved                               | N/A             |
|   |                       |  | Reward system draft report adopted by management      | Learning and development strategy approved  | Learning and development programmes completed  | Learning and development programmes completed | Target achieved |
| Establish and maintain a safe and secure working environment                                | 4.1.4                 | Completion of safety and security management action plans for the FIC            | Implementation: 95% as scheduled                      | Upgraded safety and security management action plan phase 2 implementation completed                    | Upgraded safety and security management action plan phase 2 implementation completed<br><br>Physical security assessment conducted and report compiled | Target achieved                               | N/A             |



## NEW ICT SOLUTION GOES LIVE

Following several years of preparation, the FIC's new registration and reporting system went live on 1 April 2016, and regulatory reports were received on the platform from 25 April 2016. The old registration and reporting platform was formally de-commissioned by 30 June 2016 after all reporting entities had completed their outstanding regulatory report submissions.

The new platform is an integrated software solution developed specifically for financial intelligent units. It aims to ensure that the South African financial system stays relevant and effective in the global fight against money laundering and terror financing through:

- Enabling the FIC to collaborate more effectively with accountable and reporting institutions, other reporting entities, supervisory bodies and law enforcement agencies.
- Standardising and streamlining all reporting requirements and ensuring that South Africa is aligned with international best practice.
- Enhancing the FIC's ICT systems, strengthening its capability to meet and discharge its legislative objectives and functions.

Following the successful implementation of the initial phase, work has begun on phase 2, which will focus on international funds transfer reporting. This reporting category, in terms of Section 31 of the FIC Act, requires that all electronic transfers of money to or from South Africa on behalf of or on instruction of another person (such as money transfers, credit card purchases and online purchases) be reported to the FIC.



## HIDING ASSETS IN OTHER COUNTRIES

The FIC worked closely with one of its international financial intelligence unit partners to locate funds and assets of substantial value held by a South African in a foreign jurisdiction. The subject indicated to the foreign financial services provider holding these funds that he had no intention of declaring the funds and assets to the South African Revenue Service. The FIC's analysis of financial information at its disposal revealed complex legal structures that the subject was using to hide the movement of the funds out of South Africa. The FIC shared this information with the South African Revenue Service for the collection of taxes due.

The FIC strives to be a sustainable, highly capable institution that delivers efficiently and effectively on its mandate. Achievements in 2016/17 included the successful launch of its new system for registering and reporting, which went live on 1 April 2016.

The FIC continued to maintain and improve internal controls and administration standards, resolving all findings from the 2015/16 annual audit. It also improved workplace safety and security, and conducted a physical security assessment during the reporting period.

The FIC's work relies on a small but highly skilled team with specialist technical knowledge. As part of the effort to grow its own technical skills, the FIC started to implement its learning and development strategy, which was adopted in 2015/16. This includes a career development framework, which aims to ensure that the FIC is a learning organisation that provides its employees with opportunities to develop in their chosen careers and to sharpen their skills.

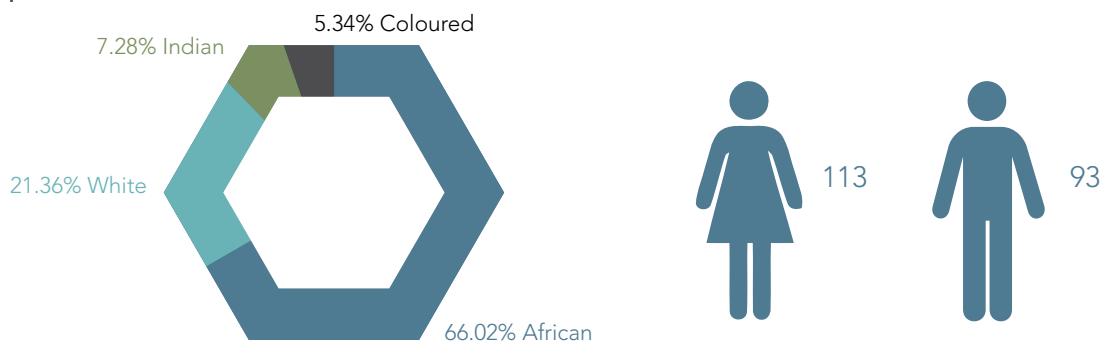
During 2016/17, the FIC:

- Completed 44 technical skills learning interventions.
- Trained 10 coaches.
- Developed four career framework supporting guidelines.
- Helped 21 employees obtain certification.
- Took on board four graduate trainees as part of the FIC's graduate trainee development programme.

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

The FIC's staff complement increased from 185 (including nine graduate trainees) 2015/16 to 206 (including eight graduate trainees) in the reporting period.

FIGURE 19: FIC STAFF EQUITY PROFILE





PART C: GOVERNANCE



# CORPORATE GOVERNANCE

## Introduction

The FIC follows best practice and legislative requirements that apply to a Schedule 3A national public entity. The FIC endeavours to align itself with best practice in governance, including the Public Finance Management Act, the Protocol on Corporate Governance in the Public Sector and the King Code of Governance Principles.

The FIC is in the process of reviewing its corporate governance structures and processes to be aligned with the newly adopted King IV Code on Governance.

## Accounting Authority

The Director of the FIC is the Accounting Authority and reports to the Minister of Finance.

In addition to the day-to-day oversight responsibilities exercised by the FIC Executive Committee, an executive structure, namely, the Executive Oversight Committee, chaired by a FIC executive member, has been established to promptly resolve any issues raised in the Auditor-General's annual audit findings.

## Risk management

The FIC subscribes to the National Treasury's Public Sector Risk Management Framework and other international best practices to identify, analyse, assess, treat, monitor and communicate risks internally. This approach ensures that risks are identified and assessed yearly, and shared with relevant stakeholders, including the Auditor-General, internal audit, and the Risk and Audit committees.

Risk assessment is an integral and ongoing responsibility of Management. The FIC identified six strategic risks and 25 operational risks during 2016/17. These risks were ranked from 0 percent to 100 percent (0 percent = low risk and 100 percent = high risk). All risks were allocated to various departments within the FIC and operational action plans were developed to mitigate these risks. Progress on the implementation of the actions plans was reported quarterly to the Risk Committee.

To mitigate strategic risks, the FIC:

- Was given access to the databases of various industry systems, enabling the FIC to send bulk SMSes to encourage unregistered financial services providers to register.
- Implemented the FIC's new registration and reporting system with 4 681 new registrants as at 31 March 2017.
- Held 46 compliance awareness sessions and published 11 awareness media articles.
- Referred more than 100 money laundering cases for investigation and blocked R149 million as suspected proceeds of crime.
- Participated in local and international bodies and influenced reforms within the FIC's line of work, ensuring that South Africa was kept abreast of developments.
- Completed the stabilisation of ICT systems.
- Improved security measures in the FIC environment.

- Updated all departments' business continuity management, business recovery, battle boxes, emergency and crisis management plans.
- Employees attended 113 learning and development training initiatives, of which 44 employees were technical skills learning initiatives.

An important development in mitigating strategic risks took place shortly after the close of the reporting period, when the President assented to the FIC Act Amendment Bill.

The FIC has appointed a firm to deliver the internal audit function for three years.

## Internal control unit

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

The service provider conducted an enterprise risk management effectiveness review, business continuity management, as well as a follow-up audit on corporate governance during 2016/17. Management tracks and reports on findings during the quarterly Audit Committee meetings.

## Business continuity management and disaster recovery

The FIC has an established business continuity crisis management team. The team receives regular updates. During the year under review, the FIC conducted two evacuation drills to educate staff about business continuity management.

The FIC continued its work to enhance and stabilise its ICT systems, and

improve ICT security. This included implementing additional security solutions, a review of information and security policies, raising user awareness and conducting network vulnerability scans. Nine ICT disaster recovery tests were held, to assess the FIC's readiness to respond to ICT service disruptions.

## Fraud and corruption

Following the development and approval of a corruption prevention, detection and investigation framework in 2015/16, the Executive Committee developed an implementation plan for the framework in 2016/17, which has been approved by the FIC Director. Regular reports on the framework are provided to the Risk Committee.

The FIC manages a dedicated anti-corruption hotline that is available to the public at all times. Reports to the hotline are dealt with anonymously and reference numbers are issued if the reporter wants to follow up. The hotline received no tip-offs during the period under review.

## Minimising conflict of interest

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

sponsorships to prevent internal fraud and corruption.

The FIC aims to implement more integrity checks and lifestyle audits where warranted. It will also organise regular workshops to guide employees on how to conduct themselves during engagements with stakeholders.

The FIC has and continues to update and align its policies and procedures to

comply with the Public Administration Management Act, 2014 (Act 11 of 2014).

## Code of ethics and conduct

The FIC has adopted a code of conduct and ethics that promotes its values and principles. The Code was updated during the financial year to comply with the amended Department of Public

Service and Administration regulations. Staff conduct that does not promote the values and principles of the FIC is reported to the Risk Committee.

## Health, safety and environmental issues

During the year under review, the FIC's Occupational Health and Safety Committee met four times. This Committee is responsible for ensuring that the FIC complies with the Occupational Health and Safety Act, 1993 (Act 85 of 1993). The FIC's occupational health and safety representatives conduct monthly inspections. The reports they generate

are reviewed and action items are identified and implemented.

The Basic Conditions of Employment Act, 1997 (Act 85 of 1997), the Labour Relations Act, 1995 (Act 66 of 1995) and the FIC's Occupational Health and Safety Policy are displayed and accessible to staff on the FIC's premises.

## Social responsibility

As part of its commitment to being a socially responsible organisation, the FIC took a special interest in helping the South African Police Service and the Department of Justice track and trace

maintenance defaulters during the 16 Days of Activism for No Violence against Women and Children in November/December 2016.

## Audit Committee

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

The Committee ensures compliance with the requirements set out in the Public Finance Management Act and the Protocol on Corporate Governance in

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

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



# AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2017.

## Background

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

| Name             | Qualifications  | Date of appointment | Contract end date |
|------------------|---|---------------------|-------------------|
| Mr RN Theunissen | BAcc; CA (SA); RA; Diploma in Criminal Justice & Forensic Auditing (RAU)        | 30 March 2015       | 31 July 2018      |
| Mr P Phili       | BCom (Acc); BCom Hons; CA (SA); Certificate of Advanced Auditing (RAU/UCT) MCom | 30 March 2015       | 31 July 2018      |
| Ms PN Sibiyi     | BAcc; Postgraduate Diploma in Accountancy (UKZN); CA (SA)                       | 30 March 2015       | 31 July 2018      |

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

| Meeting date     | 10 May 2016 | 27 May 2016 | 25 July 2016 | 31 Oct 2016 | 24 Feb 2017 |
|------------------|-------------|-------------|--------------|-------------|-------------|
| Mr RN Theunissen | ✓           | ✓           | ✓            | ✓           | ✓           |
| Mr P Phili       | ✓           | ✓           | ✓            | ✗           | ✓           |
| Ms PN Sibiyi     | ✓           | ✗           | ✓            | ✓           | ✓           |

## Audit Committee responsibility

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

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

- Reviewed the accounting practices adopted by the entity.
- Reviewed the accounting policies adopted by the entity and proposed changes in accounting policies and practices, and recommended any changes considered appropriate.
- Reviewed and recommended disclosed financial information.
- Considered the programmes introduced to improve the overall ethics of the entity and reviewed reports from management and the internal auditors relating to material issues.
- Monitored ethical conduct by the entity, its Executives and senior management.
- Monitored the entity's compliance with all applicable legislation and regulations.
- Reported in terms of any fruitless, wasteful and irregular expenditure in terms of the PFMA.
- Ensured co-operation between the external auditors and internal auditors by clarifying and co-ordinating their roles and functions and that the combined assurance received is appropriate to address all significant risks.
- Considered the King Code of Governance recommendations and their applicability to the entity.
- Assisted Management in carrying out its risk management and ICT responsibilities.

- Receiving and dealing appropriately with any complaints and/or allegations of wrongdoing, including fraud. No such complaints were received during the year under review or to the date of this report.

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

## The effectiveness of internal control

The internal audit function has been outsourced to Grant Thornton throughout the financial year under review. Grant Thornton representatives attended all Audit Committee meetings.

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

Internal audit reports were concluded and discussed with management and action plans were monitored for implementation on a continuing basis. The main areas of concern to the Committee were the performance information indicators and the ICT general controls. Management has taken the necessary corrective action in respect of these areas of concern.

## In-year management and monthly/quarterly reports

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

## Evaluation of financial statements

We have reviewed the annual financial statements prepared by the FIC.

## Auditor's report

We have reviewed the FIC's implementation plan for audit issues raised and we are satisfied that the matters are being appropriately resolved.

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

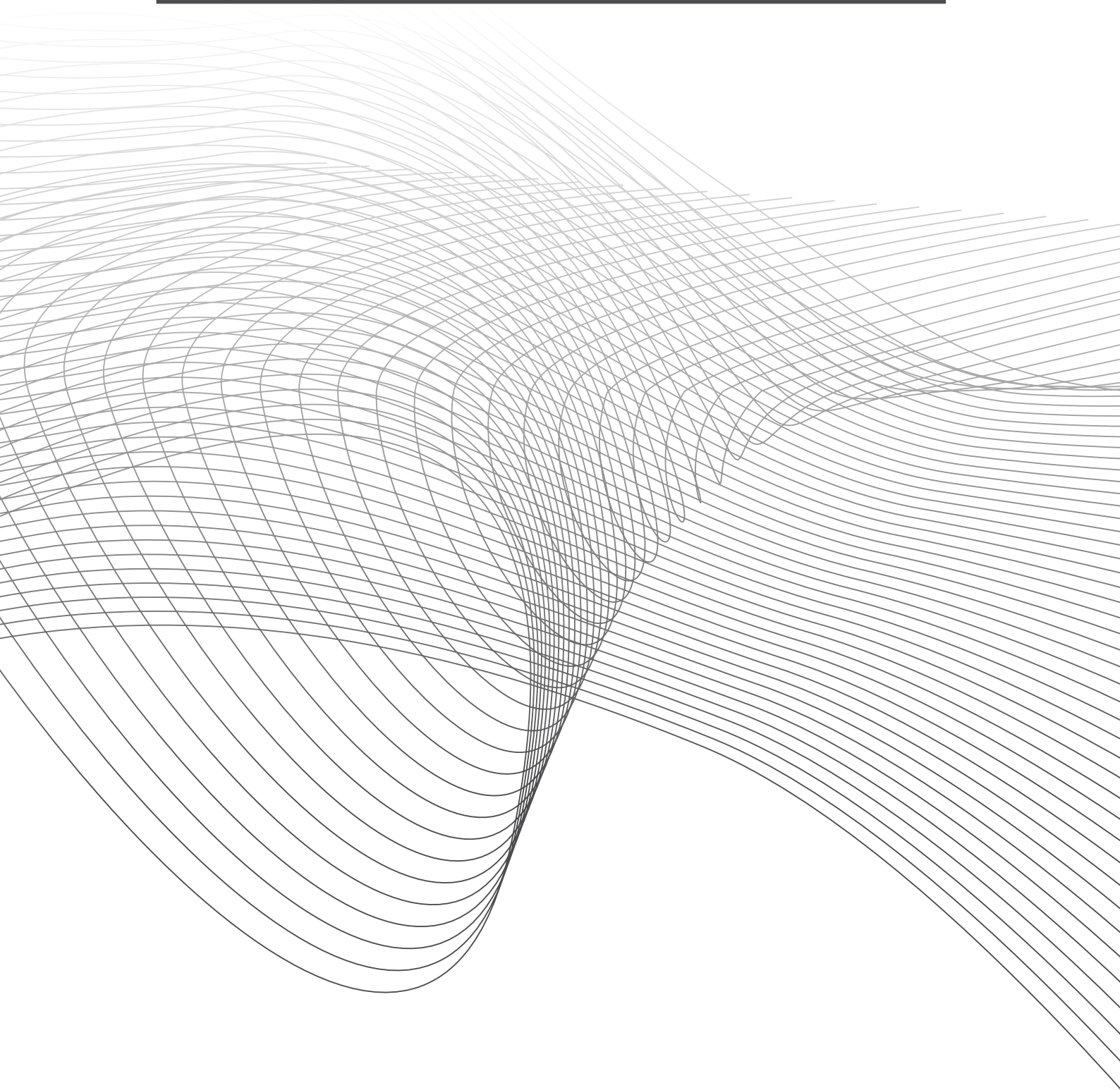


**Robin Neill Theunissen**

Chairperson of the Audit Committee

28 July 2017

# PART D: FINANCIAL INFORMATION





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# REPORT OF THE AUDITOR-GENERAL

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Financial Intelligence Centre set out on pages 74 to 102, which comprise the statement of financial position as at 31 March 2017, the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial Intelligence Centre as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, No. 1 of 1999 (PFMA), as amended.

### Basis for opinion

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

### Responsibilities of Accounting Authority for the financial statements

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

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

8. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud

or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

9. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

10. In accordance with the Public Audit Act of South Africa, No. 25 of 2004 (PAA), and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings, but not to gather evidence to express assurance.
11. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the Performance Management and Reporting Framework, as defined in the general notice, for the following selected programme presented in the annual performance report of the public entity for the year ended 31 March 2017:

| Programme  | Pages in the annual performance report |
|--|--|
| Programme 2: delivery of intelligence on financial crime and FIC Act-related regulatory services | 32 to 33, 46 and 54                    |

13. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
14. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

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

##### **Various indicators**

15. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators listed below. This was due to inadequate technical indicator descriptions that predetermined how the achievement would be measured, monitored and reported, as required by the Framework for Managing

Programme Performance Information (FMPPi). I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

| Indicator  | Reported achievement   |
|--|--|
| Progress report on initiatives taken to comply with FATF standards | report approved by the FIC Director reflecting level of implementation of FATF standards     |
| Progress report on developments of amendments to the FIC Act       | Report approved by the FIC director reflecting level of implementation of FIC Act amendments |

### Other matters

16. I draw attention to the matters below.

### Achievement of planned targets

17. Refer to the annual performance report on pages 32–33, 46, 54 and 56 for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a number of targets. This information should be considered in the context of the findings on usefulness and reliability of the reported performance information in paragraph 15 of this report.

### Adjustment of material misstatements

18. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of 'Delivery of intelligence on financial crime and FIC Act-related regulatory services'. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are included in paragraph 15 of this report.

## Report on audit of compliance with legislation

### Introduction and scope

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

20. The material finding in respect of the compliance criteria for the applicable subject matter is as follows:

### Procurement and contract information

21. Some of the contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, No. 5 of 2000 (PPPFA), and its regulations.

### Other information

22. The Financial Intelligence Centre's Accounting Authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor's report.

23. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
24. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Internal control deficiencies

25. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
26. The accounting authority did not take adequate steps to ensure compliance with the requirements of the National Treasury Framework for Managing Programme Performance Information in the preparation of the entity's strategic documents.
27. Management did not adequately review and monitor compliance with supply chain management prescripts.

*Auditor-General*

Pretoria  
31 July 2017



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*



## Annexure: Auditor-General's responsibility for the audit


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

### Financial statements

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

### Communication with those charged with governance

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



# ACCOUNTING AUTHORITY'S RESPONSIBILITY AND APPROVAL STATEMENT

The Accounting Authority of the Financial Intelligence Centre (FIC) is pleased to submit the report, together with the FIC's annual financial statements, for the year ended 31 March 2017.

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

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

The FIC is established in terms of the Financial Intelligence Centre Act, No. 38 of 2001 (FIC Act) as amended. The FIC Act works in concert with the Prevention of Organised Crime Act (1998) (POCA) and the Protection of Constitutional Democracy Against Terrorist and Related Activities Act (2004) (POCDATARA). The FIC Act seeks to safeguard the South Africa financial system from criminal abuse and introduces obligations on financial and other institutions deemed vulnerable to money laundering and terror financing. The POCA introduces the crime of money laundering onto the statute book and sets the penalties for a conviction, while the POCDATARA introduces measures to address the financing of acts of terrorism.

## 2. Going concern

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

## 3. Internal controls

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

## 4. Accounting policies

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

## 5. Corporate governance

### General

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

### Audit Committee

The Audit Committee comprised three members for the year ended 31 March 2017 and met five times during the year, in accordance with its approved terms of reference that requires a minimum of four meetings.

### Internal audit

The FIC has outsourced its Internal Audit function to Grant Thornton advisory services, which reports functionally to the Audit Committee.

## 6. Review of the financial statements

The financial results are contained in the annual financial statements. In my opinion, the annual financial statements fairly reflect the operations of the FIC for the financial year ended 31 March 2017 and its financial position as at that date.

## 7. Subsequent events

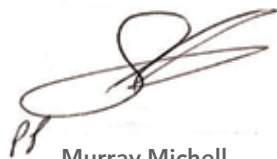
The Accounting Authority is not aware of any matter or circumstance arising between 31 March 2017 and the date of this report, not dealt with in the annual financial statements, which would significantly affect the operations or results of the FIC.

## 8. Bankers

Standard Bank of South Africa Limited.

## 9. Auditors

Auditor-General of South Africa.



**Murray Michell**

Director and Accounting Authority: Financial Intelligence Centre  
31 July 2017

# STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

|   | Notes | 2017<br>R'000  | 2016<br>Restated*<br>R'000 |
|---|-------|----------------|----------------------------|
| <b>ASSETS</b>   |       |                |                            |
| <b>Current assets</b>   |       |                |                            |
| Cash and cash equivalents                                     | 10    | 76 740         | 49 544                     |
| Receivables from exchange transactions                        | 9     | 783            | 287                        |
| Inventories   | 8     | 80             | 87                         |
| Deposits  | 7     | 20             | -                          |
| Pre-payments  | 6     | 3 860          | 963                        |
|   |       | <b>81 483</b>  | <b>50 881</b>              |
| <b>Non-current assets</b>                                     |       |                |                            |
| Property, plant and equipment                                 | 3     | 49 415         | 56 098                     |
| Intangible assets   | 4     | 28 014         | 25 558                     |
| Deposits – long-term receivables                              | 7     | 1 353          | 1 268                      |
|   |       | <b>78 782</b>  | <b>82 924</b>              |
| <b>Total assets</b>   |       | <b>160 265</b> | <b>133 805</b>             |
| <b>Liabilities</b>  |       |                |                            |
| <b>Current liabilities</b>                                    |       |                |                            |
| Finance lease obligation                                      | 11    | 737            | 171                        |
| Trade and other payables                                      | 16    | 16 897         | 10 336                     |
| Provisions  | 12    | 7 200          | 9 468                      |
| Third party deposits  | 13    | 40             | 40                         |
| Income received in advance – Criminal Assets Recovery Account | 15    | 8 043          | 8 043                      |
|   |       | <b>32 917</b>  | <b>28 058</b>              |
| <b>Non-current liabilities</b>                                |       |                |                            |
| Finance lease obligation                                      | 11    | 1 322          | 50                         |
| Operating lease smoothing                                     | 14    | 8 260          | 9 746                      |
| Provisions – decommissioning                                  | 12    | -              | 5 305                      |
|   |       | <b>9 582</b>   | <b>15 101</b>              |
| <b>Total liabilities</b>                                      |       | <b>42 499</b>  | <b>43 159</b>              |
| <b>Net assets</b>   |       | <b>117 766</b> | <b>90 646</b>              |
| <b>Accumulated surplus</b>                                    |       | <b>117 766</b> | <b>90 646</b>              |

# STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2017

|                                | Notes | 2017<br>R'000    | 2016<br>Restated*<br>R'000 |
|--------------------------------|-------|------------------|----------------------------|
| <b>Revenue</b>                 |       |                  |                            |
| Non-exchange revenue           | 17    | 256 372          | 240 178                    |
| Other income                   | 18    | 193              | 18                         |
| Interest received              | 23    | 3 544            | 2 357                      |
|                                |       | <b>260 109</b>   | <b>242 553</b>             |
| <b>Expenditure</b>             |       |                  |                            |
| Personnel costs                | 20    | (145 040)        | (136 844)                  |
| Depreciation and amortisation  | 34    | (22 824)         | (25 246)                   |
| Finance costs                  | 25    | (443)            | (362)                      |
| Impairment of financial assets | 22    | 4 138            | 14                         |
| General expenses               | 19    | (68 610)         | (78 057)                   |
|                                |       | <b>(232 779)</b> | <b>(240 495)</b>           |
|                                |       | <b>27 330</b>    | <b>2 058</b>               |
| <b>Operating surplus</b>       |       |                  |                            |
| Loss on disposal of assets     |       | (181)            | (392)                      |
| Loss on foreign exchange       |       | (29)             | (734)                      |
|                                |       | <b>27 120</b>    | <b>932</b>                 |
| <b>Surplus for the year</b>    |       |                  |                            |

# STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2017

|   | Notes | Accumulated surplus<br>R'000 | Total net assets<br>R'000 |
|---|-------|------------------------------|---------------------------|
| <b>Opening balance on 1 April 2014</b>          |       | 87 464                       | 87 464                    |
| Prior year adjustments                          | 29.3  | 1 141                        | 1 141                     |
| <b>Restated opening balance on 1 April 2014</b> |       | <b>88 605</b>                | <b>88 605</b>             |
| Deficit for the 2015 year                       |       | (843)                        | (843)                     |
| Prior period adjustment                         | 29.2  | 1 952                        | 1 952                     |
| <b>Restated balance on 1 April 2015</b>         |       | <b>89 714</b>                | <b>89 714</b>             |
| Restated surplus 2016                           |       | 932                          | 932                       |
| Deficit as previously reported                  |       | (1 611)                      | (1 611)                   |
| Prior period adjustments                        | 29.2  | 2 543                        | 2 543                     |
| <b>Restated balance on 1 April 2016</b>         |       | <b>90 646</b>                | <b>90 646</b>             |
| Surplus for the year                            |       | 27 120                       | 27 120                    |
| <b>Balance on 31 March 2017</b>                 |       | <b>117 766</b>               | <b>117 766</b>            |

# CASH FLOW STATEMENT

for the year ended 31 March 2017

|   | Notes | 2017<br>R'000    | 2016<br>Restated*<br>R'000 |
|---|-------|------------------|----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                 |       |                  |                            |
| <b>Receipts</b>   |       |                  |                            |
| Recoveries – ex-employee                                    |       | -                | 28                         |
| Cash receipts from grants                                   |       | 256 372          | 239 488                    |
| Interest income   |       | 3 364            | 2 124                      |
| Recoveries – deposit refund                                 |       | -                | 743                        |
| Insurance receipts  |       | 25               | -                          |
|   |       | <b>259 761</b>   | <b>242 383</b>             |
| <b>Payments</b>   |       |                  |                            |
| Suppliers and employees                                     |       | (214 188)        | (205 191)                  |
| Finance cost  |       | (88)             | (29)                       |
|   |       | <b>(214 276)</b> | <b>(205 220)</b>           |
| <b>Net cash flows from operating activities</b>             | 27    | <b>45 485</b>    | <b>37 163</b>              |
| <b>Cash flows from investing activities</b>                 |       |                  |                            |
| Purchase of property, plant and equipment                   | 3     | (5 847)          | (10 447)                   |
| Proceeds from sale of property, plant and equipment         | 3     | 9                | 8                          |
| Purchase of other intangible assets                         | 4     | (12 129)         | (11 892)                   |
| <b>Net cash flows from investing activities</b>             |       | <b>(17 967)</b>  | <b>(22 331)</b>            |
| <b>Cash flows from financing activities</b>                 |       |                  |                            |
| Deposits paid by third parties                              |       | -                | 20                         |
| Finance lease payments                                      |       | (293)            | (213)                      |
| <b>Net cash flows from financing activities</b>             |       | <b>(293)</b>     | <b>(193)</b>               |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |       | <b>27 225</b>    | <b>14 639</b>              |
| Cash and cash equivalents at the beginning of the year      |       | 49 544           | 34 905                     |
| Effect of exchange rate movement on cash balances           |       | (29)             | -                          |
| <b>Cash and cash equivalents at the end of the year</b>     | 10    | <b>76 740</b>    | <b>49 544</b>              |



# ACCOUNTING POLICIES

## 1. Basis of presentation

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

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

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

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

### 1.1 Offsetting

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

### 1.2 Financial Instruments

#### **Classification**

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

#### **Initial recognition and measurement**

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

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

#### **Subsequent measurement**

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

#### **Amortised cost**

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

#### **Financial liabilities held at amortised cost**

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

#### **Effective interest rate method**

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and by allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the



financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

### **Receivables**

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

### **Long-term receivables**

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

### **Trade and other payables**

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

### **Cash and cash equivalents**

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

## **1.3 Leases**

Leases are classified as either finance or operating leases.

### **Finance leases**

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

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

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

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

### **Operating leases**

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

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

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

## **1.4 Property, plant and equipment**

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

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

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

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

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

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of Financial Performance.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to its recoverable service potential, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in surplus or deficit.

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

| <b>Item</b>            | <b>Average useful life</b> |
|------------------------|----------------------------|
| Furniture and fittings | 5 to 15 years              |
| Leasehold improvements | Over the lease period      |
| Computer hardware      | 3 to 5 years               |
| Motor vehicles         | 10 to 15 years             |
| Office equipment       | 2 to 5 years               |
| Security equipment     | 10 years                   |

## **1.5 Intangible assets**

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

Intangible assets are initially recognised at cost.

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

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

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

The estimated useful lives are as follows:

| <b>Item</b>       | <b>Useful life</b> |
|-------------------|--------------------|
| Computer software | 6 years            |
| Computer Licences | 1 to 7 years       |

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

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

## **1.6 Taxation**

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

## **1.7 Revenue recognition**

### **Non-exchange revenue**

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

### **Transfer from the National Treasury**

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

### **Finance income**

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

## **1.8 Employee benefits**

### **Short-term employee benefits**

The cost of short-term employee benefits is recognised during the period in which the employee renders the related service. The provisions for employee entitlements to salaries, performance bonuses and annual leave represent the amounts that the FIC has a present obligation to pay as a result of services provided by employees. Providing for the staff benefits has been calculated at undiscounted amounts based on the current salary rates, because of their short-term nature.

### **Termination benefits**

Termination benefits are recognised as an expense when the FIC is committed, without a realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the FIC has made an offer encouraging voluntary redundancy; it is probable that the offer will be accepted and the number of acceptances can be reliably estimated.

### **Retirement benefits**

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

## 1.9 Provisions

Provisions are recognised when:

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

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

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

## 1.10 Translation of foreign currencies

### Foreign currency transactions

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

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

## 1.11 Inventory

### Initial recognition and measurement

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

## 1.12 Finance cost

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

## 1.13 Critical accounting estimates and judgements

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

## 1.14 Comparative figures

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

## 1.15 Accounting for non-exchange transactions

### Recognition of revenue from non-exchange transactions

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

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

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

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

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

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

## 1.16 Fruitless and wasteful expenditure

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

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

## 1.17 Irregular expenditure

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

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

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

## 2. New standards and interpretations

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

The FIC has not implemented the following standards of GRAP that have been approved but for which the Minister of Finance has not yet determined an effective date:

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 3. Property, plant and equipment

|                        | 2017           |  |                   | 2016<br>Restated* |  |                   |
|------------------------|----------------|--|-------------------|-------------------|--|-------------------|
|                        | Cost           | Accumulated<br>depreciation/<br>impairment | Carrying<br>value | Cost              | Accumulated<br>depreciation/<br>impairment | Carrying<br>value |
|                        | R'000          | R'000                                      | R'000             | R'000             | R'000                                      | R'000             |
| Computer hardware      | 53 973         | (33 790)                                   | 20 183            | 49 400            | (25 103)                                   | 24 297            |
| Fixtures and fittings  | 5 075          | (4 146)                                    | 929               | 6 095             | (4 293)                                    | 1 802             |
| Furniture and fixtures | 8 326          | (5 547)                                    | 2 779             | 8 032             | (5 284)                                    | 2 748             |
| Leasehold improvements | 38 398         | (19 393)                                   | 19 005            | 41 460            | (19 070)                                   | 22 390            |
| Motor vehicles         | 5 244          | (2 898)                                    | 2 346             | 5 244             | (2 857)                                    | 2 387             |
| Office equipment       | 8 137          | (4 200)                                    | 3 937             | 5 433             | (3 229)                                    | 2 204             |
| Security equipment     | 340            | (104)                                      | 236               | 340               | (70)                                       | 270               |
|                        | <b>119 493</b> | <b>(70 078)</b>                            | <b>49 415</b>     | <b>116 004</b>    | <b>(59 906)</b>                            | <b>56 098</b>     |

## Reconciliation of property, plant and equipment – 2017

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

## Reconciliation of property, plant and equipment – 2016

|                        | Opening<br>balance<br>R'000 | Additions<br>R'000 | Disposals<br>R'000 | Depreciation<br>R'000 | Total<br>R'000 |
|------------------------|-----------------------------|--------------------|--------------------|-----------------------|----------------|
| Computer hardware      | 22 982                      | 8 715              | (582)              | (6 818)               | 24 297         |
| Fixtures and fittings  | 2 827                       | 11                 | (187)              | (849)                 | 1 802          |
| Furniture              | 1 948                       | 862                | (10)               | (52)                  | 2 748          |
| Motor vehicles         | 3 260                       | -                  | -                  | (873)                 | 2 387          |
| Office equipment       | 1 672                       | 1 071              | (79)               | (460)                 | 2 204          |
| Security equipment     | 304                         | -                  | -                  | (34)                  | 270            |
| Leasehold improvements | 30 404                      | 286                | -                  | (8 300)               | 22 390         |
|                        | <b>63 397</b>               | <b>10 945</b>      | <b>(858)</b>       | <b>(17 386)</b>       | <b>56 098</b>  |

## Assets subject to finance leases (included in property, plant and equipment)

|   | 2017<br>R'000 | 2016<br>Restated*<br>R'000 |
|---|---------------|----------------------------|
| Office equipment at net carrying values | <b>2 022</b>  | <b>205</b>                 |

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

The useful life of all assets had been reassessed, resulting in an increase in the carrying amount of property, plant and equipment of R5 902 000 (2016: R1 235 000). Included in the reassessed assets were zero value assets with an initial cost of R119 000 (2016: R3 834 000). Refer to note 35.

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

Leasehold improvements relating to the decommissioning requirement of the leased premises at the end of the lease period with a carrying amount of R1 520 000 was derecognised due to a new contract negotiated with the landlord that waived that requirement. Refer to note 12.

During the prior year depreciation on property, plant and equipment has been understated by R20 000. Refer to note 29.1.

All motor vehicles have been reassessed and the residual values re-estimated. The residual values of certain motor vehicles exceeded their carrying value and consequently no further depreciation was calculated on those vehicles. Depreciation will commence once the carrying value again exceeds its residual value.

## 4. Intangible assets

|                   | 2017          |  |                            | 2016<br>Restated* |  |                            |
|-------------------|---------------|--|----------------------------|-------------------|--|----------------------------|
|                   | Cost<br>R'000 | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment<br>R'000 | Carrying<br>value<br>R'000 | Cost<br>R'000     | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment<br>R'000 | Carrying<br>value<br>R'000 |
| Computer software | 29 175        | (10 013)   | 19 162                     | 23 304            | (8 115)  | 15 189                     |
| Computer licences | 20 500        | (11 648)   | 8 852                      | 18 657            | (8 288)  | 10 369                     |
|                   | <b>49 675</b> | <b>(21 661)</b>  | <b>28 014</b>              | <b>41 961</b>     | <b>(16 403)</b>  | <b>25 558</b>              |

### Reconciliation of intangible assets – 2017

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

### Reconciliation of intangible assets – 2016

|                   | Opening<br>balance<br>R'000 | Additions<br>R'000 | Disposals<br>R'000 | Amortisation<br>R'000 | Total<br>R'000 |
|-------------------|-----------------------------|--------------------|--------------------|-----------------------|----------------|
| Computer software | 15 246                      | 1 654              | (22)               | (1 689)               | 15 189         |
| Computer licences | 13 416                      | 3 124              | -                  | (6 171)               | 10 369         |
|                   | <b>28 662</b>               | <b>4 778</b>       | <b>(22)</b>        | <b>(7 860)</b>        | <b>25 558</b>  |

#### 4.1 Prior period error

The FIC had incorrectly accounted for a foreign-denominated software licence which it had acquired in the 2014 financial year. The licence was paid in three equal annual upfront payments. Instead of capitalising and amortising the licence over its useful life of six years, the payments relating to the licence had been incorrectly capitalised and amortised on an annual basis. The opening balance pertaining to the licence and the related amortisation has been restated. Refer to note 29.1.

#### 4.2 Reassessment of useful life

The useful life of intangible assets has been reassessed resulting in an increase in the carrying value of R313 000 (2016: R858 000). Refer to note 35.

#### 4.3 Intangible assets – projects

Included in the carrying amount for intangible assets is an amount of R6 830 000 relating to software which is in a developmental stage and an amount of R399 000 relating to the FIC corporate video.

Both these projects are on track in terms of their respective timelines.



## 5. Employee benefit obligations

### Defined contribution plan

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

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

|                              | 2017<br>R'000 | 2016<br>Restated*<br>R'000 |
|------------------------------|---------------|----------------------------|
| Provident fund contributions | <b>14 024</b> | <b>12 604</b>              |

## 6. Pre-payments

|  | 2017<br>R'000 | 2016<br>Restated*<br>R'000 |
|--|---------------|----------------------------|
| Subscriptions                            | 114           | 75                         |
| Membership and professional fees         | 108           | 25                         |
| Staff training                           | 151           | 53                         |
| Motor vehicle maintenance agreement      | 84            | 215                        |
| Computer licences and support            | 3 391         | 591                        |
| E-tolls                                  | -             | 3                          |
| Office equipment repairs and maintenance | 2             | -                          |
| Advertising and publications             | 6             | 1                          |
| Furniture and fittings                   | 4             | -                          |
|  | <b>3 860</b>  | <b>963</b>                 |

## 7. Deposits

|  | 2017<br>R'000 | 2016<br>Restated*<br>R'000 |
|--|---------------|----------------------------|
| <b>Deposits</b>                        |               |                            |
| Deposits paid on goods to be delivered | 20            | -                          |
| <b>Non-current deposits</b>            |               |                            |
| Electricity                            | 201           | 189                        |
| Byls Bridge Office Park                | 1 152         | 1 079                      |
|  | <b>1 353</b>  | <b>1 268</b>               |

The FIC has entered into a 60-month lease contract for its current office premises. The lease commenced on 1 December 2013 and terminates on 30 November 2018. Refer to note 26.

Refundable deposits were paid for electricity usage and the office rent. These deposits will be refunded at the end of the lease term and are disclosed at their amortised values. Refer to note 23.

## 8. Inventories

|                     | 2017  | 2016      |
|---------------------|-------|-----------|
|                     | R'000 | Restated* |
|                     |       | R'000     |
| Consumables on hand | 80    | 87        |

Consumables comprise stationery on hand.

## 9. Receivables from exchange transactions

|   | 2017       | 2016         |
|---|------------|--------------|
|   | R'000      | Restated*    |
|   |            | R'000        |
| Sundry debtors – ex-staff                         | 4          | 23           |
| Sundry debtors – criminal recovery                | -          | 252          |
| Accrued interest – bank                           | 353        | 258          |
| Staff debtors                                     | 62         | 27           |
| Impairment of debtor                              | (4)        | (273)        |
| Receivable – lease incentive – refer to note 26.2 | 314        | -            |
| Debtors for insurance receipts                    | 54         | -            |
|   | <b>783</b> | <b>287</b>   |
| <b>Reconciliation for impairment</b>              |            |              |
| Opening balance                                   | (273)      | (290)        |
| (Increase)/decrease in provision for bad debt     | (2)        | (11)         |
| Amounts written off                               | 271        | 28           |
|   | <b>(4)</b> | <b>(273)</b> |

### Allowance for impairment of R4 000 comprises:

Debts written off through the authorisation of the Accounting Authority of R271 000 and an increase in impairment of R2 000 in the current financial year.

## 10. Cash and cash equivalents

|                                       | 2017          | 2016          |
|---------------------------------------|---------------|---------------|
|                                       | R'000         | Restated*     |
|                                       |               | R'000         |
| Cash and cash equivalents consist of: |               |               |
| Cash at bank                          | 76 630        | 49 537        |
| Cash on hand                          | 2             | 7             |
| Foreign denominated cash              | 108           | -             |
|                                       | <b>76 740</b> | <b>49 544</b> |

The cash balance includes R8 043 000 (2016: R8 043 000), which is ring-fenced for the funding of a project of the Anti-Corruption Task Team. Refer to note 15.

The foreign denominated cash is petty cash which the FIC keeps on hand for travel-related purposes. It relates to an amount of US\$8 228 which has been translated at the year-end spot rate of R13.18/US\$.

## 11. Finance lease obligation

|  | 2017         | 2016               |
|--|--------------|--------------------|
|  | R'000        | Restated*<br>R'000 |
| <b>Minimum lease payments due</b>                  |              |                    |
| - Within one year                                  | 917          | 184                |
| - In second to fifth year inclusive                | 1 447        | 51                 |
|  | 2 364        | 235                |
| Less: future finance charges                       | (305)        | (14)               |
| <b>Present value of minimum lease payments</b>     | <b>2 059</b> | <b>221</b>         |
| <b>Present value of minimum lease payments due</b> |              |                    |
| - Within one year                                  | 737          | 171                |
| - In second to fifth year inclusive                | 1 322        | 50                 |
|  | <b>2 059</b> | <b>221</b>         |
| Non-current liabilities                            | 1 322        | 50                 |
| Current liabilities                                | 737          | 171                |
|  | <b>2 059</b> | <b>221</b>         |

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

In the current year, no leases had come to an end.

## 12. Provisions

### Reconciliation of provisions – 2017

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

### Reconciliation of provisions – 2016

|   | Opening balance | Additions    | Total         |
|---|-----------------|--------------|---------------|
|   | R'000           | R'000        | R'000         |
| Provision – decommissioning of leasehold improvements | 4 972           | 333          | 5 305         |
| Provision for bonuses                                 | -               | 9 468        | 9 468         |
|   | <b>4 972</b>    | <b>9 801</b> | <b>14 773</b> |

|                         | 2017         | 2016               |
|-------------------------|--------------|--------------------|
|                         | R'000        | Restated*<br>R'000 |
| Non-current liabilities | -            | 5 305              |
| Current liabilities     | 7 200        | 9 468              |
|                         | <b>7 200</b> | <b>14 773</b>      |

### Provision for decommissioning

The provision for decommissioning is an estimated cost to restate the leased premises back to its original state as per the lease agreement. Provision has been made for this cost based on the present value of the estimated future cash flow arising from the expected cost at the end of the lease agreement – 30 November 2018. The discount rate used for the present value was based on the projected inflation rate provided by the developer and amounts to 6.5%.

At 31 March 2017, new terms were negotiated with the lessor that do not require the FIC to reinstate the leased premises back to its original state. The provision for decommissioning of R5 660 000 as at 31 March 2017 has been reversed. Refer to notes 3 and 26.

### Provision for bonuses

The payment of bonuses is dependent on ministerial approval.

## 13. Third party deposits

|                               | 2017      | 2016      |
|-------------------------------|-----------|-----------|
|                               | R'000     | Restated* |
|                               |           | R'000     |
| Opening balance               | 40        | 20        |
| Additions                     | 30        | 30        |
| Paid to National Reserve Fund | (30)      | (10)      |
|                               | <b>40</b> | <b>40</b> |

## 14. Deferred operating lease (smoothing)

|                           | 2017         | 2016         |
|---------------------------|--------------|--------------|
|                           | R'000        | Restated*    |
|                           |              | R'000        |
| Operating lease smoothing | <b>8 260</b> | <b>9 746</b> |

Certain expenses relating to the operating lease liability were understated, resulting in an understatement of the prior year operating lease liability. The current year opening balance for the operating lease liability has been restated by R14 000, reducing the value from R9 760 000 to R9 746 000. The comparative opening balance has also been restated by R20 000, reducing the value from R9 441 000 to R9 421 000. Refer to notes 29.1 and 29.2.

## 15. Income received in advance

|  | 2017         | 2016         |
|--|--------------|--------------|
|  | R'000        | Restated*    |
|  |              | R'000        |
| Criminal Assets Recovery Account funds | <b>8 043</b> | <b>8 043</b> |

The amount of R8 043 000 is ring-fenced and relates to a project of the Anti-Corruption Task Team. Refer to note 10.

## 16. Trade and other payables

|                   | 2017          | 2016          |
|-------------------|---------------|---------------|
|                   | R'000         | Restated*     |
|                   | R'000         | R'000         |
| Trade payables    | 6 754         | 4 634         |
| Payroll payables  | 4 682         | 1 504         |
| Accrued leave pay | 5 461         | 4 198         |
|                   | <b>16 897</b> | <b>10 336</b> |

The comparative for trade payables has been increased by R545 000 and the opening balances of trade and other payables by R545 000. Refer to note 29.1.

## 17. Non-exchange revenue

|  | 2017           | 2016           |
|--|----------------|----------------|
|  | R'000          | Restated*      |
|  | R'000          | R'000          |
| Transfer from National Treasury        | <b>256 372</b> | <b>239 488</b> |
| Criminal Assets Recovery Accounts fund | -              | <b>690</b>     |
|  | <b>256 372</b> | <b>240 178</b> |

## 18. Other income

|                    | 2017       | 2016      |
|--------------------|------------|-----------|
|                    | R'000      | Restated* |
|                    | R'000      | R'000     |
| Insurance receipts | <b>193</b> | 18        |

## 19. General expenses

|   | Notes | 2017<br>R'000 | 2016<br>Restated*<br>R'000 |
|---|-------|---------------|----------------------------|
| Audit Committee member fees                   | 29.1  | 171           | 181                        |
| Advertising                                   |       | 460           | 110                        |
| Audit fees                                    |       | 1 634         | 1 996                      |
| Bank charges                                  |       | 62            | 58                         |
| Cleaning                                      |       | 1 580         | 1 400                      |
| Computer expenses                             |       | 4 496         | 7 002                      |
| Professional fees                             |       | 3 424         | 7 192                      |
| Office consumables                            |       | 489           | 481                        |
| Crockery and cutlery                          |       | 33            | -                          |
| Legal fees                                    |       | 2 617         | 87                         |
| Rent and operating costs                      |       | 22 325        | 22 256                     |
| Research costs                                |       | -             | 3                          |
| Corporate gifts                               |       | 62            | -                          |
| Insurance                                     |       | 758           | 747                        |
| Conferences and workshops                     |       | 507           | 4 597                      |
| Consulting fees                               |       | 18            | 2 263                      |
| Public relations                              |       | 984           | 594                        |
| Media, subscriptions and publications         |       | 6 720         | 8 593                      |
| Motor vehicle expenses                        |       | 367           | 435                        |
| Recruitment and placement costs               |       | 1 942         | 1 673                      |
| Postage and courier                           |       | 24            | 23                         |
| Printing and stationery                       |       | 844           | 623                        |
| Repairs and maintenance                       | 19.1  | 337           | 519                        |
| Security                                      |       | 2 322         | 2 143                      |
| Staff training                                |       | 1 578         | 1 294                      |
| Membership fees                               |       | 1 912         | 1 761                      |
| Telephone, fax and internet                   |       | 4 571         | 3 986                      |
| Subsistence and accommodation – local         |       | 920           | 743                        |
| Subsistence and accommodation – international |       | 964           | 1 101                      |
| Travel – international                        |       | 1 004         | 1 031                      |
| Travel – local                                |       | 1 738         | 1 392                      |
| Internal audit                                |       | 1 143         | 1 285                      |
| Parking expenses – staff                      |       | 2 405         | 2 306                      |
| Risk Committee member fees                    | 29.2  | 199           | 181                        |
|   |       | <b>68 610</b> | <b>78 057</b>              |

Audit fees and Audit Committee member fees have been moved to the general expenses note.

The comparative for conferences and workshops has been restated by R537 000, from R4 060 000 to R4 597 000, due to the costs not being known upfront and the information regarding the service rendered was submitted to a third party. Refer to note 29.2.

The comparative figure for parking expenses – staff has been restated by R5 000, from R2 301 000 to R2 306 000, due to the under-provision of costs in the prior year. Refer to note 29.2.

The comparative figure for public relations has been restated by R8 000, from R586 000 to R594 000, due to the under-provision of costs in the prior year. Refer to note 29.2.

## 19.1 Breakdown of repairs and maintenance

|   | 2017       | 2016               |
|---|------------|--------------------|
|   | R'000      | Restated*<br>R'000 |
| Services paid to service providers              | 267        | 392                |
| Material purchased for general upkeep of assets | 76         | 127                |
| <b>Total</b>                                    | <b>343</b> | <b>519</b>         |

## 20. Personnel costs

|   | 2017           | 2016               |
|---|----------------|--------------------|
|   | R'000          | Restated*<br>R'000 |
| Salary costs  | 124 040        | 114 625            |
| Performance bonuses                                 | 6 542          | 9 468              |
| Group life  | 2 783          | 1 108              |
| Provident fund                                      | 11 241         | 11 251             |
| Unemployment Insurance Fund                         | 346            | 315                |
| Compensation for Occupational Injuries and Diseases | 88             | 77                 |
|   | <b>145 040</b> | <b>136 844</b>     |

## 21. Governance committees

### 21.1 Audit Committee member fees

|                       | 2017       | 2016               |
|-----------------------|------------|--------------------|
|                       | R'000      | Restated*<br>R'000 |
| RN Theunissen (Chair) | 72         | 83                 |
| P Phili               | 48         | 58                 |
| PN Sibiyi             | 51         | 40                 |
|                       | <b>171</b> | <b>181</b>         |

### 21.2 Risk Committee member fees

|                 | 2017       | 2016               |
|-----------------|------------|--------------------|
|                 | R'000      | Restated*<br>R'000 |
| B Mbewu (Chair) | 69         | 77                 |
| RN Theunissen   | -          | 12                 |
| P Phili         | 67         | 52                 |
| PN Sibiyi       | 63         | 40                 |
|                 | <b>199</b> | <b>181</b>         |

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

|  | 2017           | 2016               |
|--|----------------|--------------------|
|  | R'000          | Restated*<br>R'000 |
| Impairment of debtors                      | 2              | (17)               |
| Deposit paid: Lakeside Building            | -              | 3                  |
| Derecognition of decommissioning liability | (4 140)        | -                  |
|  | <b>(4 138)</b> | <b>(14)</b>        |

The requirement to decommission the leased premises of the offices in Centurion has been waived by the landlord in the terms agreed in the new negotiated contract for the premises. Refer to note 3. The derecognition of the decommissioning liability comprised the difference between the carrying value of the related leasehold asset and the provision for the decommissioning of the premises of R4 140 000.

## 23. Interest received

|   | 2017         | 2016               |
|---|--------------|--------------------|
|   | R'000        | Restated*<br>R'000 |
| <b>Interest revenue</b>   |              |                    |
| Interest – earned on amortised financial assets – refer to note 7 | 85           | 109                |
| Current account   | 3 459        | 2 248              |
|   | <b>3 544</b> | <b>2 357</b>       |

Amortised costs are based on the effective interest rate method.

## 24. Auditor's remuneration

|                                 | 2017         | 2016               |
|---------------------------------|--------------|--------------------|
|                                 | R'000        | Restated*<br>R'000 |
| Auditor-General of South Africa | <b>1 634</b> | <b>1 996</b>       |

## 25. Finance costs

|   | 2017       | 2016               |
|---|------------|--------------------|
|   | R'000      | Restated*<br>R'000 |
| Financial instrument at amortised cost – refer to note 12 | 355        | 333                |
| Finance charges – leased assets                           | 88         | 29                 |
|   | <b>443</b> | <b>362</b>         |



## 26. Operating lease

### 26.1 Centurion leased premises

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

During the year the FIC entered into negotiations for a new lease agreement with the current landlord. Favourable terms were agreed upon and the FIC obtained approval from the National Treasury to enter into the new lease agreement for five years with a right to extend for a further five years. Refer to note 12.

### 26.2 Cape Town leased premises

The FIC had a 36-month lease agreement for office premises in Cape Town. The lease commenced on 1 July 2013 and terminated on 30 June 2016. A month-to-month lease agreement for the Cape Town premises was signed for the period of 1 July 2016 to 31 October 2016.

The FIC then entered into a new three-year lease agreement for the same premises in Cape Town. The lease commenced on 1 November 2016 and terminates on 31 October 2019. The lease contains an optional extension period of a further five years, as well as an incentive to the value of R314 000. Refer to note 9.

|  | 2017<br>R'000 | 2016<br>Restated*<br>R'000 |
|--|---------------|----------------------------|
| <b>Present value of minimum lease payments</b> |               |                            |
| Within one year                                | 26 589        | 23 521                     |
| Within two to five years                       | 19 764        | 43 973                     |
|  | <b>46 353</b> | <b>67 494</b>              |

## 27. Cash generated from operations

|   | 2017          | 2016               |
|---|---------------|--------------------|
|   | R'000         | Restated*<br>R'000 |
| Surplus/(deficit)                                   | 27 120        | 932                |
| <b>Adjustments for:</b>                             |               |                    |
| Depreciation and amortisation                       | 22 824        | 25 246             |
| Loss/(profit) on sale of assets                     | 79            | 392                |
| Income amortised – Criminal Assets Recovery Account | -             | (690)              |
| Income amortised – deposits                         | (85)          | -                  |
| Other income  | -             | (18)               |
| Performance bonus provision                         | 6 538         | 9 468              |
| Accrued leave pay                                   | 1 263         | (154)              |
| Finance costs – amortised                           | 355           | 333                |
| Allowance for impairment                            | 2             | (14)               |
| Movements in operating lease incentives             | (1 276)       | (1 233)            |
| Lease smoothing                                     | (522)         | 1 566              |
| Pre-payment releases                                | 17 004        | 21 788             |
| Other income – award from cost in criminal case     | (168)         | (233)              |
| Interest accrued – current year                     | (95)          | -                  |
| Derecognition of decommissioning liability          | (4 140)       | -                  |
| Loss on disposal of intangible assets               | 102           | -                  |
| Loss on foreign exchange                            | 29            | 734                |
| <b>Changes in working capital:</b>                  |               |                    |
| Inventory   | 7             | 12                 |
| Receivables   | (23)          | 774                |
| Pre-payments paid                                   | (19 901)      | (19 712)           |
| Trade and other payables                            | 5 198         | (2 028)            |
| Provisions – bonuses paid                           | (8 806)       | -                  |
| Deposits  | (20)          | -                  |
|   | <b>45 485</b> | <b>37 163</b>      |

## 28. Related parties

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

### 28.1 State controlled entities

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

|   | 2017      | 2016               |
|---|-----------|--------------------|
|   | R'000     | Restated*<br>R'000 |
| <b>Services rendered at no cost</b>           |           |                    |
| Government Technical Advisory Centre (GTAC)   | 87        | 97                 |
| Trade and Industrial Policy Strategies (TIPS) | -         | 255                |
|   | <b>87</b> | <b>352</b>         |

|   | 2017     | 2016               |
|---|----------|--------------------|
|   | R'000    | Restated*<br>R'000 |
| <b>Services received at no cost</b>           |          |                    |
| Government Technical Advisory Centre (GTAC)   | -        | 339                |
| Trade and Industrial Policy Strategies (TIPS) | -        | 690                |
|   | <b>-</b> | <b>1 029</b>       |

During the current financial year, members of the GTAC team were allocated office space at our Cape Town offices at no charge.

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

## 28.2 Key management personnel

### 2017

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

## 2016

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

## 29. Prior period adjustments

The prior year errors have been accounted for retrospectively and the comparative figures of 2016 and 2015 have been restated.

The correction of the errors resulted in the following adjustments:

### 29.1 Statement of financial position

|  | 2016<br>R'000 | 2015<br>R'000 |
|--|---------------|---------------|
| (Increase)/decrease in trade and other payables      | (545)         | (6 380)       |
| (Increase)/decrease in operating lease liability     | 14            | 20            |
| Increase/(decrease) in property, plant and equipment | (20)          | -             |
| Increase/(decrease) in intangible assets             | 6 187         | 9 453         |
|  | <b>5 636</b>  | <b>3 093</b>  |

### 29.2 Statement of financial performance

|  | 2016<br>R'000  | 2015<br>R'000  |
|--|----------------|----------------|
| Increase/(decrease) in general expenses              | 511            | (20)           |
| Increase/(decrease) in depreciation and amortisation | (3 828)        | (2 901)        |
| Increase/(decrease) in foreign exchange losses       | 734            | 969            |
|  | <b>(2 543)</b> | <b>(1 952)</b> |

### 29.3 Accumulated surplus

|  | 2016<br>R'000  | 2015<br>R'000  |
|--|----------------|----------------|
| (Increase)/decrease in opening accumulated surplus | (3 093)        | (1 141)        |
| <b>Total Changes (A+B)</b>                         | <b>(5 636)</b> | <b>(3 093)</b> |

### **Trade and other payables**

The FIC was not aware of an invoice of R537 000 and as such it was not included in the accruals for 2015/16. An amount of R8 000 was erroneously reversed in the prior year, resulting in the understatement of current liabilities. The opening balance for trade and other payables and accumulated surplus have been restated, as well as the comparative figures of the effected costs. Refer to note 16.

### **Operating lease liability**

An incorrect lease term was used when calculating the lease smoothing value, resulting in the overstatement of the non-current liabilities by R14 000. The opening balance for the lease smoothing and accumulated surplus have been restated as well as the comparative figures of the affected costs. Refer to note 14.

### **Property, plant and equipment**

Depreciation was incorrectly calculated on an item of leasehold improvements in the prior year, resulting in the overstatement of property, plant and equipment by R20 000. The opening balance of property, plant and equipment was adjusted as well as the comparative figure of depreciation. Refer to note 3.

### **Intangible assets**

The FIC had incorrectly accounted for a foreign-denominated software licence which it had acquired in the 2014 financial year. The licence was paid in three equal annual upfront payments. Instead of capitalising and amortising the licence over its useful life of six years, the payments relating to the licence had been incorrectly capitalised and amortised on an annual basis. The opening balance pertaining to the licence and the related amortisation has been restated. Refer to note 4.

### **General expenses**

Certain general expenses were understated in the prior year resulting in the understatement of costs in that year. Refer to note 19.

### **Depreciation and amortisation**

Depreciation was understated in the prior year, resulting in the understatement of costs in that year. Amortisation was overstated in the prior year, resulting in the overstatement of costs in that year. Refer to note 34.

### **Foreign exchange losses**

The foreign exchange losses emanate from the foreign exchange differences upon translation and payment of the foreign exchange creditor. The comparative figure has been adjusted appropriately.

### **Accumulated surplus**

The opening balance for accumulated surplus was restated due to the incorrect accounting treatment of a foreign-denominated licence. Refer to note 4.

## **30. Risk management**

### **Liquidity risk**

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

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

### **Market risk**

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

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

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

### **Interest rate risk management**

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

### **Financial assets**

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

## Financial liabilities

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

## Credit risk management

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

## Maximum exposure to credit risk

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

## Foreign currency risk management

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

|                              | 2017<br>R'000 | 2016<br>Restated*<br>R'000 |
|------------------------------|---------------|----------------------------|
| <b>Financial assets</b>      |               |                            |
| Cash                         | 76 740        | 49 544                     |
| Receivables                  | 783           | 287                        |
| Deposits                     | 1 353         | 1 268                      |
|                              | <b>78 876</b> | <b>51 099</b>              |
| <b>Financial liabilities</b> |               |                            |
| Finance lease obligations    | 2 059         | 221                        |
| Trade and other payables     | 16 897        | 10 336                     |
| Third party deposits         | 40            | 40                         |
| Provisions                   | 7 200         | 14 773                     |
|                              | <b>26 196</b> | <b>25 370</b>              |

|  | Change<br>in rate<br>% | Effect on<br>surplus<br>R'000 |
|--|------------------------|-------------------------------|
|--|------------------------|-------------------------------|

### 2017 floating rate financial assets

|                  |    |            |
|------------------|----|------------|
| Banking balances | 1% | 767        |
| Receivables      | 1% | 7          |
| Deposits         | 1% | 14         |
|                  |    | <b>788</b> |

### 2017 floating rate financial liabilities

|                           |    |            |
|---------------------------|----|------------|
| Finance lease obligations | 1% | 21         |
| Trade and other payables  | 1% | 169        |
| Provisions                | 1% | 72         |
|                           |    | <b>262</b> |

### 2016 floating rate financial assets

|                  |    |            |
|------------------|----|------------|
| Banking balances | 1% | 495        |
| Receivables      | 1% | 3          |
| Deposits         | 1% | 13         |
|                  |    | <b>511</b> |

### 2016 floating rate financial liabilities

|                           |    |            |
|---------------------------|----|------------|
| Finance lease obligations | 1% | 2          |
| Payables                  | 1% | 103        |
| Provisions                | 1% | 148        |
|                           |    | <b>253</b> |

## 31. Fruitless and wasteful expenditure

|   | 2017<br>R'000 | 2016<br>Restated*<br>R'000 |
|---|---------------|----------------------------|
| Opening balance                                   | 4             | -                          |
| Fruitless and wasteful expenditure – current year | 8             | 4                          |
| Less amounts written off                          | (12)          | -                          |
|   | <b>-</b>      | <b>4</b>                   |

### Details of fruitless and wasteful expenditure – current year

|   | 2017<br>R'000 | 2016<br>Restated*<br>R'000 |
|---|---------------|----------------------------|
| Cancellation of international trip: accommodation and connecting flight | 8             | 4                          |

## 32. Irregular expenditure

|   | 2017<br>R'000 | 2016<br>Restated*<br>R'000 |
|---|---------------|----------------------------|
| Opening balance                           | 595           | 37                         |
| Add: Irregular expenditure – current year | -             | 614                        |
| Less: Amounts condoned                    | (595)         | (56)                       |
|   | <b>-</b>      | <b>595</b>                 |

### Details of irregular expenditure – current year

|  | 2017<br>R'000 | 2016<br>Restated*<br>R'000 |
|--|---------------|----------------------------|
| Procurement in terms of a deviation without recording the reasons and obtaining prior approval of the Accounting Authority | -             | 34                         |
| Incurred costs after the expiry of contract  | -             | 22                         |
| Amount previously disclosed for exceeding hotel cost threshold should have been reduction of costs within threshold        | -             | (32)                       |
| Non-compliance with supply chain management prescripts: 90/10 principle used in tender process instead of 80/20 principle  | -             | 590                        |
|  | <b>-</b>      | <b>614</b>                 |

## 33. Contingent Liability

### 33.1 Accumulated surplus/(deficit)

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

### 33.2 Litigation and claims

Dispute regarding certificate issued in terms of Section 39 of the FIC Act, which was still pending as at 31 March 2017.

The FIC's legal advisors are of the view that it is unlikely the claim will be successful. However, should it be successful, the FIC may incur legal costs of R500 000.

## 34. Depreciation and amortisation

|                                  | 2017          | 2016<br>Restated* |
|----------------------------------|---------------|-------------------|
|                                  | R'000         | R'000             |
| Depreciation charge for the year | 13 253        | 17 386            |
| Amortisation charge for the year | 9 571         | 7 860             |
|                                  | <b>22 824</b> | <b>25 246</b>     |

The comparative figure for depreciation has been restated by R20 000 increasing the depreciation from R17 366 000 to R17 386 000. The comparative figure for amortisation has been restated by R3 848 000 reducing the amortisation from R11 708 000 to R7 860 000. Refer to note 29.2.

## 35. Change in estimate: Useful life of assets reviewed

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

|  | Initial estimate<br>for 2017<br>R'000 | Revised estimate<br>for 2017<br>R'000 | Increase /<br>(decrease)<br>current year<br>R'000 | Increase /<br>(decrease)<br>future years<br>R'000 |
|--|---------------------------------------|---------------------------------------|---|---|
| <b>Property, plant and equipment</b>       |                                       |                                       |   |   |
| Furniture and fittings                     | 75                                    | 21                                    | (54)  | 54  |
| Computer hardware                          | 44                                    | 9                                     | (35)  | 35  |
| Leasehold improvements                     | 7 469                                 | 1 591                                 | (5 878)   | 5 878   |
| Motor vehicles                             | -                                     | 41                                    | 41  | (41)  |
| Office equipment                           | -                                     | 24                                    | 24  | (24)  |
|  | <b>7 588</b>                          | <b>1 686</b>                          | <b>(5 902)</b>                                    | <b>5 902</b>                                      |
| <b>Intangible assets</b>                   |                                       |                                       |   |   |
| Computer software – change in amortisation | <b>472</b>                            | <b>159</b>                            | <b>(313)</b>                                      | <b>313</b>  |

### Property, plant and equipment

The change in the estimated useful life of property, plant and equipment in the current year resulted in an increase in the carrying amount of property, plant and equipment of R5 902 000 (2016: R1 235 000), and a decrease in the depreciation expense of R5 902 000 (2016: R1 235 000). The effect of the change on future years will be an increase in depreciation of R5 902 000 (2016: R879 000) reversing the credit of R5 902 000 (2016: R879 000) created in the current year. Refer to note 3.

### Intangible assets

The change in the estimated useful life of intangible assets in the current year resulted in an increase in the carrying amount of intangible assets of R313 000 (2016: R858 000), and a decrease in the amortisation expense of R313 000 (2016: R858 000). The effect of the change for future years will be an increase in amortisation of R313 000 (2016: R658 000) reversing the credit of R313 000 (2016: R658 000) created in the current year. Refer to note 4.

## 36. Capital commitments

|  | 2017         | 2016<br>Restated* |
|--|--------------|-------------------|
|  | R'000        | R'000             |
| Approved and committed capital expenditure | <b>8 949</b> | <b>4 647</b>      |

## 37. Budget information

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





# MATERIALITY AND SIGNIFICANCE FRAMEWORK

## Background

According to National Treasury Regulations, the FIC and its Executive Authority are required to develop and agree on a framework of acceptable levels of materiality and significance in terms of the Public Financial Management Act, 1999 (Act 1 of 1999).

The South African Auditing Standards (320.03) define materiality as follows:

*“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point, rather than being a primary qualitative characteristic which information must have if it is to be useful.”*

Accordingly, the FIC looks at both quantitative and qualitative aspects in its framework.

## Quantitative aspects

### Materiality level

The FIC has assessed the level of a material loss to be R1.125 million, based on audited financial statements. This is an average of 0.5 percent of income and expenses and 1 percent of assets.

### Nature of the FIC’s business

The FIC continues to be an operational organisation that utilises public funds to fulfil its legislated mandate. Calculating the materiality value involves balancing expenditure with the total income and value of the institution’s assets.

The FIC is a statutory body that has been formed to give effect to the FIC Act, and has been listed as a PFMA Schedule 3A public entity. Preference has accordingly been given to a relatively low level of materiality because the FIC is closely governed by various acts and the public accountability and responsibility it has to its stakeholders.

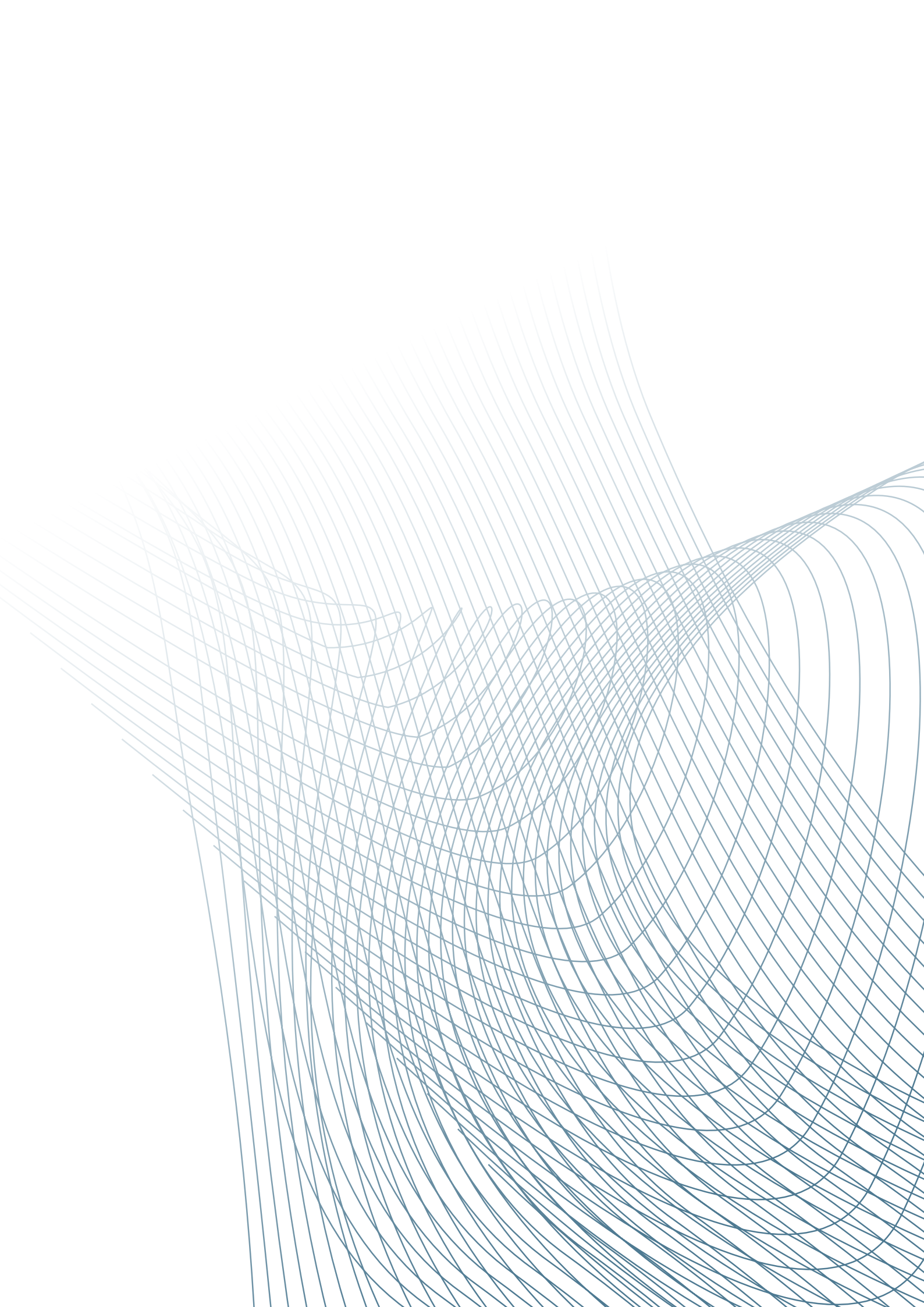
## Qualitative aspects

Items or transactions may be material on qualitative grounds, rather than the amounts involved. These qualitative grounds may include, among other aspects:

- Any new ventures that the FIC may enter into.
- Unusual transactions entered into that are not of a repetitive nature and that should be disclosed because knowledge thereof may affect the decision-making of the user of the financial statements.
- Transactions entered into that could result in reputational risk to the FIC.
- Any fraudulent or dishonest behaviour of an officer or staff of the FIC at senior or management level.

## Application of the FIC materiality and significance framework to the PFMA

| PFMA section  | Quantitative aspects  | Qualitative aspects   |
|---|---|---|
| <p><b>Section 50 (1)</b></p> <p>The accounting authority for a public entity must –</p> <ul style="list-style-type: none"> <li>On request, disclose to the Executive Authority responsible for that public entity or the legislature to which the public entity is accountable, all material facts, including those reasonably discoverable, which in any way influences the decision or actions of the Executive Authority or the legislature.</li> </ul>  | <p>Any facts discovered that in aggregate exceed the materiality figure, which will be calculated on a yearly basis in terms of paragraph 2.1.</p> <p>The FIC has assessed this as R640 000.</p>  | <p>Any item or event of which specific disclosure is required by law. Any fact discovered by which its omission or misstatement, in the opinion of the FIC, could influence the decisions or actions of the Executive Authority or the legislature.</p>   |
| <p><b>Section 55</b></p> <p>Annual report and financial statements</p> <p>The annual report and financial statements referred to in subsection (1)(d) must –</p> <ol style="list-style-type: none"> <li>fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;</li> <li>include particulars of: <ol style="list-style-type: none"> <li>Any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year.</li> <li>Any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure.</li> <li>Any losses recovered or written off.</li> </ol> </li> </ol> | <ul style="list-style-type: none"> <li>Losses through criminal conduct – all losses that are legally confirmed and if the amount exceeds the materiality level.</li> <li>Losses through irregular/ fruitless/wasteful expenditure where transactions/actions are legally confirmed – if the amount exceeds the determined materiality level.</li> </ul>   | <p>The following will be taken into account in measuring materiality for presentation:</p> <ul style="list-style-type: none"> <li>Disclosure requirements.</li> <li>Compliance with legislative requirements, regulations and policies.</li> <li>Possible unauthorised expenditure that must be listed and reported.</li> </ul> |
| <p><b>Section 66 (1)</b></p> <p>Restrictions on borrowing, guarantees and other commitments</p> <ol style="list-style-type: none"> <li>An institution to which this Act applies may not borrow money or issue a guarantee, indemnity or security, or enter into any other transaction that binds or may bind that institution or the Revenue Fund to any future financial commitment, unless such borrowing, guarantee, indemnity, security or other transaction is authorised by this act, and in the case of public entities, is also authorised by other legislation not in conflict with this act.</li> </ol>   | <p>All transactions not in compliance with section 66 (1).</p>  |   |
| <p><b>Section 54</b></p> <p>Information to be submitted by accounting authorities</p> <p>Before a public entity concludes any of the following transactions, the accounting authority for the public entity must promptly and in writing inform the relevant treasury of the transaction and submit relevant particulars of the transaction to its Executive Authority for approval of the transaction:</p> <ol style="list-style-type: none"> <li>Establishment or participation in the establishment of a company.</li> <li>Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement.</li> <li>Acquisition or disposal of a significant shareholding in a company.</li> <li>Acquisition or disposal of a significant asset.</li> <li>Commencement or cessation of a significant business activity.</li> </ol>                               | <p>Unless exempted in terms of section 54(4), the following will apply:</p> <ol style="list-style-type: none"> <li>Any of the transactions or actions to be entered into Part (2) (a)–(c) will qualify to be included as these are not the normal business of the FIC.</li> <li>Asset acquisition or disposals that exceed R10 million in value.</li> <li>Any commencement or cessation of significant activity, irrespective of amount.</li> </ol> |   |





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