Financial Intelligence Centre

Annual Report
2018/19

Contents

Submission of the annual report to the executive authority

To the Minister of Finance, TT Mboweni, MP

I have the honour of submitting to you the annual report of the Financial Intelligence Centre for the financial year 1 April 2018 to 31 March 2019.

Adv Xolisile J Khanyile
Director and Accounting Authority

Part A:
General Information

FIC general information

Registered name:	Financial Intelligence Centre
Postal address:	Private Bag X177, Centurion, 0046
Telephone number:	+27 12 641 6000
Website:	www.fic.gov.za
External auditor:	Auditor-General of South Africa
Bankers:	Standard Bank, Pretoria

Abbreviations/acronyms

AML/CFT/PF	Anti-money laundering, combating the financing of terrorism and proliferation of weapons of mass destruction
CTR	Cash threshold report
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FIC Act	Financial Intelligence Centre Act, 2001 (Act 38 of 2001)
MoU	Memorandum of understanding
STR	Suspicious transaction report
TPR	Terrorist property report

Foreword by the Minister

Under the FIC's leadership South Africa's policies and legislation against money laundering and terrorist financing are aligned with international standards.

South Africa needs to maintain a well-regarded and resilient financial system to achieve its goals of attracting new foreign direct and portfolio investment, which will place the country on a higher economic growth trajectory and create millions of jobs to overcome the current realities of unemployment, poverty and inequality.

With this in mind, we cannot afford any deterioration in our international reputation as a jurisdiction with a sophisticated economy of broad-based potential, supported by deep and liquid financial markets, and most importantly, of high financial integrity. We cannot permit a slide in our hard won reputational standing as a robust, well-regulated financial system, composed of complex, sophisticated banking and other world-class financial institutions. There are many moving parts in the machinery that keeps our financial eco-system operating efficiently and effectively, not least of which is the Financial Intelligence Centre (FIC). All the institutions in this machinery need to work in concert to ensure the financial system is resilient and sound, that its integrity remains intact, and that its valued reputation remains preserved.

The FIC works, directly and indirectly, to protect the integrity of the country's financial system, which contributes to South Africa's financial stability and attractiveness as an investment destination for global funds. It does this by co-ordinating and collaborating with key government agencies, supervisory bodies and others within the country's framework for combating money laundering, the financing of terrorism, and the proliferation of weapons of mass destruction. Furthermore, it provides financial intelligence to law enforcement agencies and other mandated recipients for their follow up actions and investigations in the pursuit of crime. The FIC therefore plays a significant enabling and facilitative role directed at:

- Being responsive to money laundering abuse;
- Aiding the fight against corruption;
- Better identifying the criminal misuse of state funds; and
- Disrupting the illicit flow of funds before it leaves our shores.

The FIC has made sound progress in deepening relationships with its partners. In 2018/19, eight memoranda of understanding were signed with stakeholders in the criminal justice system and the financial sector including the South African Reserve Bank, the Special Investigative Unit and the South African Revenue Service.

Government is committed to stemming the tide of illicit finances flowing into and out of the country, and the FIC plays an important role in this effort. It chairs and provides secretariat support to the Inter-Agency Working Group on Illicit Financial Flows, which identified several priority cases for investigation during the reporting period.

The FIC is a member of the Egmont Group of Financial Intelligence Units, a network with more than 160 members from around the world. The objective of the Egmont Group is to promote co-operation and sharing of information among financial intelligence units in support of combating money laundering and terrorist financing.

Under the FIC's leadership South Africa's policies and legislation against money laundering and terrorist financing are aligned with international standards. Since its inception, the FIC has continued to strengthen this area by implementing a series of recommendations from the Financial Action Task Force (FATF) – the body responsible for setting international Standards for combating money laundering and the financing of terrorism and proliferation of weapons of mass destruction.

These recommendations were the result of a FATF-led peer review of South Africa in 2009 to ensure its compliance with its Standards. All 37 members of the FATF undergo these evaluations periodically. As the only African member of the FATF, South Africa has an important responsibility to ensure that it keeps pace with international anti-money laundering and combating of terror financing trends.

Much of the FIC's work since the 2009 review has focused on implementing legislative changes to bring the country in line with the international Standards, and ensure our financial system is robust and resistant to money laundering and terror financing. The most recent amendments to the FIC Act, which took effect in October 2017, have formed the centrepiece of this work. The FIC worked tirelessly in 2018/19 to put the amended Act into practice, and to put the new features of the FIC Act into practice, and bring the final pieces of legislation into effect. Among these has been the implementation of targeted financial sanctions in terms of the United Nations Security Council Resolutions and the introduction of the requirement to report on funds transferred across our borders, which will come into operation in 2019/20.

This year, South Africa is scheduled to be assessed in another FATF mutual evaluation. The FIC has put in much work in 2018/19 in preparing government, business and other stakeholders for this assessment. This evaluation will focus on how well the South African authorities have implemented the international Standards. I am confident that the FIC will lead us well in this regard. This is an important juncture for the country in terms of its capability for combating money laundering and promoting South Africa as a domestic and foreign investment destination.

I would like to thank the FIC team for their continued work in defending the integrity of our financial system.

TT Mboweni, MP
Minister of Finance

Director's overview

The FIC works with a range of partners and stakeholders to maintain a robust financial system that is resistant to financial crime and corruption.

During the 2018/19 financial year, the Financial Intelligence Centre (FIC) continued to work within its mandate to protect the integrity of South Africa's financial system and to ensure that criminals did not benefit from the proceeds of their crimes. In doing so, we contribute to the country's growth and development, and the safety of its people.

The FIC works with a range of partners and stakeholders to maintain a robust financial system that is resistant to financial crime and corruption. In regard to this, the FIC has formed the following relationships and partnerships:

- With government institutions and groups involved in the criminal justice system, including the South African Revenue Service (SARS), the South African Reserve Bank (SARB), law enforcement agencies, prosecutorial authorities and investigative agencies.
- With accountable and reporting institutions, such as banks, casinos and motor vehicle dealers.
- With global bodies engaged in the combating of money laundering, financing of terrorism and proliferation of weapons of mass destruction (AML/CFT/PF) space.
- With neighbouring countries where technical assistance is offered.
- Within the FIC itself, including collaboration across teams and divisions to achieve its mandate.

Deepening domestic partnerships

We do not conduct our own investigations or prosecutions, but the value of the financial intelligence we provide in support of criminal justice is recognised across government. In 2018/19 we responded to 1 840 requests from competent authorities for financial intelligence products.

Mechanisms are being put in place to ensure there is active and ongoing interaction between the FIC and the authorities who request information. We rely on feedback from these authorities to determine the usefulness of the information we provide, as well as the impact of our work. The FIC's feedback mechanism allows authorised users to evaluate the financial intelligence products they receive from the FIC, and to provide detail on the outcomes.

Given the number of information requests we receive, the FIC is implementing a system that allows it to categorise and prioritise the financial intelligence reports sent to stakeholders. We are focusing on proactively detecting potential illicit activity and generating financial intelligence reports for the relevant authorities to investigate, before we are approached for such information.

The FIC's communication and information sharing across the criminal justice network is improving. We participate in several inter-departmental structures, including the Inter-Agency Working Group on Illicit Financial Flows, formed in 2017/18. Led by the FIC, the working group aims to stem the flow of illicit finances. For more information about the members and their work during 2018/19, see the box that follows.

The FIC is also a member of the Anti-Corruption Task Team, where it adds value by contributing financial intelligence on large projects and collaborating on team members' shared priorities.

The FIC is committed to supporting the country's efforts to fight corruption in the public and private sectors, and has shared information with various commissions of inquiry during the reporting period.

In 2018/19 the FIC signed memoranda of understanding (MoUs) with eight stakeholders in the criminal justice system: SARS, the Public Protector, the Special Investigating Unit, the State Security Agency, the Insurance Crime Bureau, the Southern African Fraud Prevention Service, the SARB and the Financial Sector Conduct Authority. These formal agreements commit both parties to collaborating and co-operating to ensure that the financial system is safe, stable and sustainable for all citizens.

The FIC's strengthened relationship with the SARB comes at an important time with the creation in April 2018, of the Prudential Authority. The Prudential Authority, which falls under the authority of the SARB, is responsible for regulating the financial sector and its work is closely linked to that of the FIC.

In the private sector, similarly, the FIC continued to deepen engagement with accountable and reporting institutions. We conducted 68 on-site visits during 2018/19, which enhanced existing relationships with these businesses, and provided an opportunity for open and constructive engagement.

Stemming the tide of illicit financial flows

Every day, vast amounts of money and capital move around the world. Most of these flows are legitimate, resulting from trade and institutional arrangements. Some, however, are the illegal proceeds of crime, while others arise from activities that are legal, but unethical.

The magnitude of illicit financial flows is still not known. During 2018/19, the FIC requested that the National Intelligence Co-ordinating Committee conduct an assessment to clarify the extent of illicit financial flows and to quantify the amount of money lost to the country. A range of stakeholders are contributing to this study.

The FIC leads and provides secretariat support to the Inter-Agency Working Group on Illicit Financial Flows, which includes the following members:

Financial Sector Conduct Authority	Financial Intelligence Centre	Hawks Directorate for Priority Crime Investigation	National Prosecuting Authority
Special Investigating Unit	South African Reserve Bank	South African Police Service	South African Revenue Service

In 2018/19, the working group built on their actions of the previous year, which included:

- Implementing an approved work plan
- Overseeing risk management
- Overseeing the monitoring of statistics on illicit financial flows
- Providing strategic and policy feedback to working group principals.

Priority cases involving illicit financial flows have since been earmarked for investigation, each case exceeding a minimum financial threshold of R100 million. These cases are cross-cutting, falling within the focus areas of several of the member agencies of the working group. The investigations are under way and will continue in 2019/20.

As part of our endeavour to understand the money laundering and terrorist financing risks faced by specific sectors in South Africa, in 2018/19 we conducted risk assessments of: the Postbank, mutual banks, the Ithala Bank, unit trust companies, trust companies, attorneys and motor vehicle dealers. We also updated sector risk reports which had originally been compiled in 2017/18. The latter risk reports were on money remitters, banks, estate agents, motor vehicle dealers and the gambling sector. The assessments help the various sectors consider their potential vulnerabilities, and also contribute to South Africa's national risk assessment, which is under way.

The national risk assessment forms part of preparations for the upcoming mutual evaluation of the country in 2019. The assessment will be conducted by a team from the International Monetary Fund (IMF), the Financial Action Task Force (FATF), the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). The FIC is leading the country's preparations for the assessment, and is working closely with partners across the public and private sector to ensure the country is ready.

How the FIC works with its partners

South Africa's efforts to combat money laundering and terrorist financing can be viewed as a single system, involving the co-ordinated and integrated efforts of a wide range of partners. These role players include the FIC, accountable and reporting institutions, supervisory bodies, law enforcement and prosecution authorities, investigative agencies, and other competent authority partners domestically and abroad. Each partner has a role to play and these roles are dependent on one another.

Data/Info

- Accountable institutions
- Reporting institutions
- Government departments (CIPC, DHA, NT, SARB)
- Data providers
- SABRIC/SAFPS/SAICB

Admin Actions

- South African Revenue Service
- Special Investigating Unit
- Public Protector
- Supervisory bodies
- National Treasury
- Commissions of inquiry

FIC
Financial Intelligence Centre

Section 40

Crime

- Justice, Crime Prevention and Security Cluster
- SA Police Service
- National Prosecuting Authority
- Independent Police Investigative Directorate
- An investigative division in an organ of state
- An investigating authority

National Security

- National Intelligence Co-ordinating Committee
- State Security Agency
- Defence Intelligence
- Foreign financial intelligence units
- Department of International Relations and Co-operation

Section 40: FIC makes information reported to it, and information obtained in terms of its mandate, available to specified stakeholders

Partners

Abbreviations:

CIPC	Companies and Intellectual Property Commission
DHA	Department of Home Affairs
NT	National Treasury
SARB	South African Reserve Bank
SABRIC	South African Banking Risk Information Centre
SAFPS	South African Fraud Prevention Service
SAICB	South African Insurance Crime Bureau

The FIC's role

The Financial Intelligence Centre Act, 2001 (Act 38 of 2001) requires all businesses to report suspicious and unusual transactions to the FIC. These reports are analysed, and if necessary, the FIC uses the information to compile a financial intelligence report. These reports are referred to the relevant authorities for investigation and potential prosecution. The system as a whole cannot be effective if the various component parts do not properly function within this chain.

The FIC is not an investigative agency. Its role within the criminal justice value chain is to focus on the financial aspects of crime. The FIC follows the money to identify criminal proceeds. This information is used to compile financial intelligence reports which supports law enforcement and other competent authorities in their follow up actions, investigations and prosecutions.

Strengthening international collaboration

It is important that the eastern and southern African region has a strong network of financial intelligence units with the capacity to collaborate in combating money laundering, terrorist financing and the proliferation of weapons of mass destruction.

The FIC represents South Africa in ESAAMLG, which promotes the formulation of policies to prevent money laundering and terrorist financing in the region.

South Africa is a member of the FATF, which is the international co-ordinating body for the development of policy and the promotion of measures against money laundering, terrorist financing and the proliferation of weapons of mass destruction.

The FIC is a member of the Egmont Group of Financial Intelligence Units, a network with more than 160 members from around the world. The Egmont Group promotes co-operation and sharing of information among financial intelligence units in support of national and international efforts to combat money laundering and terrorist financing.

The FIC provides assistance to other financial intelligence units within the eastern and southern African region to mentor and support them to become members of the Egmont Group. This assistance helps ensure the region has strong networks in place to monitor the large amounts of money flowing between countries, to share quality information and to collaborate to prevent financial crime.

During the reporting period the FIC provided technical assistance to Botswana, Ethiopia and the Kingdom of eSwatini. This type of support, over prior years, has led to Zambia's financial intelligence unit becoming a member of the Egmont Group in 2018/19.

The FIC's international collaboration takes the form of MoUs with financial intelligence units in other countries. In 2018/19, the FIC signed new agreements with the financial intelligence units of Hong Kong and Qatar, bringing to 91 the total number of MoUs with foreign financial intelligence units. These agreements promote the sharing of information through a transnational network of partners.

The FATF sets international standards for combating money laundering and terrorist financing.

All member countries undergo periodic mutual evaluation by their peers to ensure they are effectively implementing the standards.

In 2009, the FATF conducted the second mutual evaluation of South Africa's regime for combating money laundering and terrorist financing. The assessment yielded recommendations for strengthening the country's AML and CFT regime, and other measures to align the country with global standards.

Follow-up on FATF recommendations

Since 2017 the FIC and its partners have been working to implement the amendments to the FIC, based on a roadmap set out by the Minister of Finance. The majority of the provisions of the amendments to the FIC Act came into operation during 2017, on 13 June and 2 October 2017. These provisions included:

- Extending the list of institutions with which the FIC may share information.
- Dealing with the constitutional invalidity of the previous provision on inspections.
- Decriminalising certain conduct under the FIC Act by making compliance failures subject to administrative sanctions.
- Extending the obligations on accountable institutions by requiring them to identify the beneficial owners of their clients.
- Managing relationships with prominent persons and carrying out ongoing due diligence on their business relationships.
- Introducing a requirement for a risk-based approach when establishing a client's identity.

Giving effect to these provisions required substantial regulatory amendments and the withdrawal of exemptions made redundant by the implementation of a risk-based approach. To put the amendments into practice, the FIC worked closely with the National Treasury, the SARB and the Financial Sector Conduct Authority. Together they ensured public consultation on these changes, and prepared the draft amendments and withdrawal notices for the Minister of Finance to table in Parliament and publish in the Government Gazette. The FIC developed the necessary guidance for accountable institutions, to support their compliance with the new requirements.

The remaining sections of the FIC Amendment Act, 2017 (Act 1 of 2017), relating to the implementation of targeted financial sanctions in terms of the UN Security Council Resolutions and introduction of international funds transfer reporting, will come into operation in 2019/20. The sanctions restrict individuals and entities listed by the UN Security Council from accessing funds or property, or receiving financial services relating to such funds and property. The new international reporting obligation will enable the FIC to provide more detailed financial analysis on all reportable cross-border transactions, strengthening its mandate to combat money laundering and terrorist financing.

The Minister of Finance announced the commencement of the targeted financial sanctions shortly after the close of the 2018/19 reporting period.

The FIC led the process to follow up on these recommendations. Central to the process were several amendments to the FIC Act (see box on the FIC Act amendment journey).

In 2019, South Africa will undergo a third assessment. The assessment team will review the country's progress and identify possible areas for improvement for ensuring the financial system is resistant to money laundering and terrorist financing. Much of the FIC's work in 2018/19 has focused on preparing for the upcoming IMF-led assessment of South Africa.

For more information on how the assessment will be conducted and key dates, please see **Figure 10** on **page 43** in **Sub-programme 2.3**.

Focusing on operations

In 2018/19, the FIC met 17 of its 20 performance targets. Of the achieved targets, seven were exceeded. Three targets were not met. More details on the FIC's performance are set out in the programme sections of this report. Highlights include:

- Conducting 138 FIC own inspections and supporting 67 joint inspections.
- Increasing the number of institutions registered with the FIC from 40 799 in 2017/18 to 42 353 in 2018/19.
- Referring 1 054 matters for further investigation.
- Blocking more than R53.6 million as suspected proceeds of crime and contributing to 29 judicial actions.

The FIC has a small, highly skilled workforce. Each division and team plays a critical role in fulfilling the organisation's mandate. The specialised skills required to do the FIC's work are in high demand and we continue to face the challenge of high staff turnover.

As part of our efforts to improve staff retention, in 2018/19 we focused on employee development. We remain committed to providing our employees with opportunities to develop and to sharpen their skills. During the financial year, the FIC provided 97 people with training, awarded 14 bursaries and supported 36 employees working towards their certification. A committee on human resources (HR) and remuneration has been established with the intent of advancing the FIC's people management framework.

For more information about the FIC's staff development contributions and HR performance, please see **Programme 3** and **Part D** of this report.

We continued to invest in information and communications technology (ICT) in 2018/19, ensuring our systems are up to date, secure and able to respond to the constantly evolving nature of the illicit economy.

The FIC develops its own budget and manages its own funds. We are funded from the national budget, with funds voted as part of the National Treasury budget. During the year under review, we spent or committed all of our available funds.

I am pleased to report that the FIC received an unqualified audit opinion for the 2018/19 financial year.

Looking ahead

The year ahead promises to be a busy one, with the FIC playing a lead role in the country's mutual evaluation. Our compliance and work landscape will continue to evolve, and we will need to evolve with it.

I would like to thank the Minister of Finance and the members of the Standing Committee on Finance for their guidance and oversight. My thanks also go to our partners across government and the private sector for their contributions, and their participation in the country's preparations for the upcoming assessment.

Finally, I would like to thank the staff of the FIC, who work tirelessly to fulfil our mandate and strengthen the integrity of South Africa's financial system.

Adv Xolisile J Khanyile
Director
Financial Intelligence Centre
31 July 2019

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 of any material omissions.

The report has been prepared in accordance with the annual report guidelines issued by the National Treasury.

The annual financial statements have been prepared in accordance with applicable standards.

The accounting authority is responsible for the preparation of the annual financial statements and for the judgements made in this information.

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

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

In my opinion, the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the entity for the financial year ended 31 March 2019.

Yours faithfully

Adv Xolisile J Khanyile
Director
31 July 2019

Strategic overview

Vision

The FIC strives for a safer future for all South Africans in which the financial system has integrity and transparency to support economic growth and social development.

Mission

The FIC promotes increasing levels of compliance with the FIC Act in an efficient and cost-effective manner, enabling it to provide high quality, timely financial intelligence for use in the fight against crime and the protection of national security.

Values

The FIC seeks to achieve its mandate through the employment of highly capable employees who are committed to the highest standards of excellence and professional service delivery in the fulfilment of their responsibilities.

Legislative and other mandates

The FIC was established in terms of the Financial Intelligence Centre Act, 2001 (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).

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 provides 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 and the financing of terrorist and related activities.
- Implement financial sanctions in terms of resolutions adopted by the UN Security Council, including requiring accountable institutions to freeze property and transactions in terms of these sanctions.
- Share information with investigating authorities, including the National Prosecuting Authority, law enforcement authorities, intelligence services, the Public Protector, SARS and supervisory bodies.
- Exchange information with relevant bodies in other countries regarding money laundering and the financing of terrorist activities.
- Supervise and enforce compliance with the FIC Act.
- Facilitate effective supervision and enforcement by supervisory bodies.

The FIC Act requires all businesses to report suspicious and unusual financial transactions to the FIC. The Act introduces a regulatory framework of compliance control measures requiring certain categories of business (defined as accountable institutions in terms of the FIC Act) to fulfil compliance obligations. These are: to adopt a risk-based approach to customer due diligence and the development of a risk management and compliance programme; to keep records of customers' transactions, to appoint a compliance officer; to train employees on how to comply with the FIC Act; to submit regulatory reports and to register with the FIC.

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 terrorism and related activities. The FIC has signed MoUs with some of its supervisory bodies, which govern how these bodies relate to the FIC and how they in turn engage with the entities that report to them in terms of FIC Act compliance requirements.

Supervisory bodies are responsible for ensuring that the accountable institutions in their particular business sectors comply with FIC Act requirements. For example, the Prudential Authority of the SARB is the supervisory body for the banking sector. This means the SARB conducts inspections to assess the banking sector's compliance with the FIC Act and helps banks comply with the Act's regulations.

The FIC itself conducts inspections and enforces compliance where no supervisory body exists, or where the supervisory body fails to enforce compliance despite the FIC's recommendations.

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.

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. Conglomerates must ensure that all accountable and/or reporting institutions in the group are registered under the correct Schedule of the FIC Act. In some instances, institutions must register per branch. The FIC's Public Compliance Communication 5B explains the registration requirements for all accountable and reporting institutions.

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.
- Initiate analysis, where appropriate, based on information in its possession.
- Inform, advise, co-operate with and make its financial intelligence products available to investigating authorities, supervisory bodies, intelligence services, the National Prosecuting Authority, the Public Protector and the SARS to facilitate the country's administration and enforcement of laws.
- Exchange information with similar bodies in other countries.
- Monitor and give guidance to accountable and reporting institutions, supervisory bodies and individuals regarding their compliance with the FIC Act.
- Provide information and guidance to accountable institutions in meeting requirements to freeze property and transactions related to the UN Security Council Resolutions.
- Supervise and enforce compliance with the FIC Act in affected institutions and by individuals not regulated or supervised by a supervisory body, or where the supervisory body is unable to act.
- Implement a registration system for all affected institutions and individuals.
- Annually review the implementation of the FIC Act and report on this to the Minister of Finance.

In executing its mandate, the FIC 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.

In identifying the proceeds of crime and assisting in combating money laundering and the financing of terrorism, the FIC fulfils its primary role of protecting the integrity of South Africa's financial system and making it intolerant to abuse.

To ensure that South Africa's legal framework against money laundering and terrorist financing continues to meet international standards and best practice, the FIC and the National Treasury amended the FIC Act to:

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

The amendments were signed into law on 26 April 2017. Based on a roadmap set out by the Minister of Finance, the majority of the amendments came into effect in 2017/18. The sections relating to the implementation of targeted financial sanctions under the UN Security Council Resolutions came into operation shortly after the close of the 2018/19 reporting period.

For more on the implementation of the amended FIC Act, please see the information box in the **Director's Overview (page 10)** and **Sub-programme 2.3**.

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 (Act 1 of 1999) (PFMA). 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 five divisions:

- Office of the Director
- Legal and Policy
- Compliance and Prevention
- Monitoring and Analysis
- Corporate Services.

OFFICE OF THE DIRECTOR

Director:
Adv Xolisile J Khanyile

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

LEGAL AND POLICY

Executive Manager:
Pieter Smit

The Legal and Policy division is responsible for administering the FIC Act, including assisting in drafting legislative amendments when necessary.

The division engages with international and regional inter-governmental bodies and co-ordinates the FIC's technical assistance to countries in eastern and southern Africa.

The Legal and Policy division provides strategic policy advice on money laundering and terrorist financing, including improvements to the legislative framework.

The division provides in-house legal advice, governance and compliance and secretariat support to the Appeal Board.

COMPLIANCE AND PREVENTION

Executive Manager:
Christopher Malan

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

The division conducts inspections, both on its own and in support of supervisory bodies, to determine the level of compliance with the FIC Act. It monitors and gives guidance to accountable and reporting institutions, supervisory bodies and others regarding FIC Act obligations. It also manages a registration system for accountable and reporting institutions.

The division develops and issues guidance in consultation with Legal and Policy, 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

Executive Manager:
Dr Michael Masiapato

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

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

CORPORATE SERVICES

Executive Manager:
Macs Maboka

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

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

Chief Financial Officer:
Veronica MarshSmit

Figure 1: FIC organisational structure

Part B:
Performance Information

Auditor-general's report: predetermined objectives

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

Situational analysis

Service delivery environment

During 2018/19, the FIC was operating in the broader context of a changing financial regulatory system and preparing for the country's upcoming mutual evaluation by the IMF, the FATF and the ESAAMLG. Both aspects have affected the FIC's work as it deepens partnerships for a more integrated financial regulatory system and leads preparations for the assessment.

The FIC met most of its targets for 2018/19, and in many instances, exceeded them. Targets not met were largely due to external factors outside of the FIC's control.

For a detailed account of the FIC's performance, see the programme reports from **page 20**.

Organisational environment

The FIC's main organisational challenge continues to be staff attrition in an environment of increasing demand for its products. To increase its effectiveness, the FIC requires scarce skills, which are difficult to find. The FIC is committed to fostering a positive work environment, focusing on skills development and improving staff retention. It has several strategies and frameworks in place for this purpose.

For more information, please see **Programme 3**.

Key policy developments and legislative changes

The majority of the FIC Act amendments came into operation in 2017/18. Draft regulations to implement section 31 of the Act, which pertains to the reporting of cross-border financial transactions, were published for public comment shortly before the close of the reporting period. The provisions relating to financial sanctions in terms of the UN Security Council Resolutions came into effect after the period under review, on 1 April 2019.

For more information on the implementation of the FIC Amendment Act, please see the **Director's Overview** and **Sub-programme 2.3**.

Case study: Fraud and corruption

The FIC received an STR linked to a businessman, which indicated that his transactional activities had criminal features of fraud and corruption.

When the subject opened his personal bank account he claimed to be employed by an entity and provided a payslip from this entity. However, the FIC's analysis revealed that the subject only received one payment from this entity into his personal account over a two-year period. Most of the funds emanated from the subject's business bank account and an investment bank account. The business bank account was being credited with large amounts of money from three entities, including the entity the subject claimed was his employer.

Funds were mostly disposed of through cash withdrawals and electronic fund transfers to different bank accounts linked to the subject. Large sums were paid to different individuals and car dealerships. The business bank account did not reflect transactions indicative of operational expenses, such as salary payments for employees.

Following its analysis, the FIC developed a financial intelligence report, which was submitted to the South African Police Service for investigation.

Strategic outcomes

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.
- Increasing utilisation of FIC products and services.
- 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 provides strategic leadership and internal services to ensure that the organisation is managed efficiently, effectively and economically. 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 outcomes 1 (page 20), 2 (page 32) and 3 (page 38).
- **Budget programme 3: Enablement of financial intelligence capabilities**
  This programme is directly linked to the predetermined objectives under strategic outcome 4 (page 47).

Case study: International money mules

The FIC received regulatory reports on deposits into the accounts of 21 individuals predominantly from low income rural areas. The FIC's analysis revealed that the individuals had given their personal details to a money remittance syndicate, enabling it to open accounts with a crypto currency exchange. Over a period of four months the syndicate deposited R415 million into the 21 accounts held with the crypto currency exchange. The funds were exchanged for Bitcoin and a total of XBT3 081 was transferred to and withdrawn from Chinese crypto currency exchanges.

The accounts were being accessed from outside South Africa, predominantly from Hong Kong and Beijing, which was not possible as none of the implicated individuals had passports and therefore could not travel to these countries.

The FIC prepared financial intelligence reports and referred the matter to law enforcement agencies. The implicated individuals were referred to the South African Police Service and the SARB for contravening exchange control regulations, evading tax and money laundering.

FIC INPUTS AND KEY ACTIVITIES

1. Planning
Setting of strategic direction; development of strategic documents; engagement with executive authorities and key stakeholders

2. Collection of data
Supervision and enforcement of the FIC Act; expansion of data sources based on guidance and application of the FIC Act

3. Analysis
For production of financial intelligence based on analysis of financial and other data

4. Dissemination of financial intelligence
Includes dissemination of all FIC products to external and internal stakeholders. Enables safe and secure exchange of information

5. Re-appreciation process
Produce policies and laws by assessing multiple domestic and international factors

6. Operational support
Ensure internal environment supports FIC operating model and intelligence cycle to meet mandate, strategic and operational objectives

OUTPUTS

FIC strategic outcomes

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

FIC MANDATE

Supervising and enforcing compliance with the FIC Act

- Supervising and enforcing compliance with the FIC Act
- Identifying the proceeds of unlawful activities
- Exchanging information with law enforcement and other local and international agencies
- Combating money laundering activities
- Combating terrorist financing and related activities

EXTERNAL IMPACT AREAS

Government Outcome 3

- All people in South Africa are and feel safe

Government Outcome 4

- Decent employment through inclusive growth

Government Outcome 11

- Create a better South Africa, a better Africa and a better world

Government medium- and long-term strategic frameworks

- Government priorities
- Outcomes and outputs
- National Development Plan
- Medium-term Strategic Framework

Figure 2: FIC operating model

Performance information by programme

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

Sub-programme 2.1: This sub-programme provides guidance to accountable and reporting institutions, and monitors supervision by supervisory bodies under the relevant legislation. It focuses on improving compliance with the FIC Act through the following activities:

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

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

Strategic objective	Performance indicator	Actual achievement 2017/18	Planned target 2018/19	Actual performance 2018/19	Performance status	Comment on deviations
Improved compliance through supervision.	1.1.1 Number of FIC inspection reports issued.	133	138[1]	138	Target achieved.	N/A
	1.1.2 Percentage response to supervisory body requests to participate in joint inspections.	73%	60%[2]	67%	Target exceeded (+7%).	Annual percentage target exceeded due to supervisory bodies submitting timeous requests and availability of inspectors. 100 valid supervisory body invitations received of which 67 inspections were supported by the FIC.
Improved collection of information for compliance with the FIC Act.	1.2.1 Number of identified compliance matters addressed through guidance products issued.	100% (KPI changed from % to number from 2018/19 onwards).	8[3]	7	Target not achieved.	Target not achieved due to consultation process and delayed external approval of amended regulations. Two additional guidance products have been drafted and are pending the consultation process.
	1.2.2 Number of FIC identified compliance awareness initiatives.	17	16[4]	17	Target exceeded (+1).	Additional webinar session hosted in Q4, at no cost to the FIC.
	1.2.3 Percentage response to invitations to participate in stakeholders' compliance awareness initiatives.	90%	80%[5]	93%	Target exceeded (+13%).	The Estate Agency Affairs Board (EAAB) shared their awareness calendar in advance with the FIC and this enabled the FIC to assign resources to support 14 of the 30 sessions of EAAB compliance awareness initiatives. Furthermore 16 of the 30 sessions were attended in Gauteng with limited travel cost implications. Received 30 invitations and participated in 28 compliance awareness initiatives.
	1.2.4 Number of media publications issued.	14	12	13	Target exceeded (+1).	4 free publications were issued during the financial year.

1 Current focus is on improving the quality of inspections conducted by being more in-depth and increasing the sampling percentage when on-site, where applicable. The number of inspections has been projected to increase on average by 4 percent for subsequent years based on current resources and inflationary budget increases.

2 The FIC will respond to at least 60 percent of requests received for joint inspections, capped at a maximum of 70 joint inspections annually, due to budget and staff constraints.

3 The number of identified compliance related matters will be addressed through the issued guidance products.

4 The KPI measures compliance awareness initiatives arranged and conducted by the FIC only, and excludes invitations to participate in stakeholders' compliance awareness initiatives, which is covered under KPI 1.2.3. Therefore there is a decrease in compliance awareness initiatives from 46 initiatives in 2016/17 to 16 initiatives targets from 2017/18 onwards.

5 KPI reports on FIC's response to invitations to participate in stakeholders' (mainly supervisory body and industry association) compliance awareness initiatives.

During 2018/19, the FIC achieved, and in most instances exceeded, five of its six targets under this sub-programme. It did not meet one target, as a result of delayed consultation processes for amended regulations.

Highlights for the year include:

- Increasing awareness and compliance among stakeholders, participating in 28 awareness sessions on request, and conducting 68 on-site visits to various businesses to build relationships and help improve their compliance.
- Supporting the SARB with the development of a payment regime that is efficient and resilient against abuse.
- Engaging closely with supervisory bodies and accountable institutions to ensure they deepen their understanding of beneficial ownership and the importance of knowing their customers.
- Conducting 138 FIC own inspections and supporting supervisory bodies in 67 joint inspections.

Accountable and reporting institutions registered

The FIC receives reports from accountable and reporting institutions. These are financial and non-financial institutions in various sectors, such as banks, estate agents and casinos, which have a legal obligation under the FIC Act to report suspicious and unusual transactions by their customers.

The information and data the FIC receives from accountable and reporting institutions is central to its work and South Africa's anti-money laundering efforts. The FIC cannot play its role in the combating of financial crime without this information.

All accountable and reporting institutions are required to register with the FIC. The number of institutions registered with the FIC increased by 3.8 percent from 40 799 at the end of 2017/18 to 42 353 at the end of 2018/19.

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

Table 1: Institutions registered with the FIC as at 31 March 2019

Schedule 1: Item number		Total registered institutions at 31 March 2018	Total registered institutions at 31 March 2019	Variance
	Business entity with a reporting obligation in terms of section 29 of the FIC Act	91	128	37
1	Attorneys	13 322	14 298	976
2	Trust companies	173	189	16
3	Estate agents	10 242	10 444	202
4	Authorised users of an exchange	184	156	(28)*
5	Unit trusts (collective investment scheme managers)	85	77	(8)*
6	Banks	41	37	(4)*
7	Mutual banks	4	4	0
8	Long-term insurers	89	94	5
9	Gambling	3 130	3 590	460
10	Foreign exchange	362	289	(73)*
11	Money lenders against securities	73	79	6
12	Investment advisors or intermediaries	8 556	8 441	(115)*
13	Issuers of travellers' cheques and money orders	165	159	(6)*
14	Postbank	1	1	0
15	Stock exchange (incorporated under Item 4)			
16	Ithala Bank	1	1	0
17	Approved person by Registrar of Stock Exchanges (asset managers) (incorporated under Item 12)			
18	Registrar of Financial Markets (asset managers) (incorporated under Item 12)			
19	Money remitters	265	252	(13)*
Schedule 3: Item number				
1	Motor vehicle dealers	3 809	3 891	82
2	Kruger rand dealers	206	223	17
Grand total		**40 799**	**42 353**	**1 554**

* During the period, the FIC confirmed active registrations. As a consequence, non-operational, duplicated or unlicensed registrations were deactivated, hence the variance figures.

Moving businesses onto updated registration and reporting system

The FIC implemented an updated registration and reporting platform (goAML) in April 2016. In preparation for this a total of 34 163 accountable and reporting institutions, registered with the FIC on its old registration and reporting platform, were migrated to goAML by the end of March 2016.

As part of the migration preparations, the FIC issued an instruction to accountable and reporting institutions to update their registration and entity details on the new system. To be considered activated and compliant, an entity must have:

- An activated user
- Valid and updated business type and reporting obligation fields
- Completed name and trade as fields on the system
- Valid and updated incorporation or registration number fields
- A contact person
- Valid e-mail address, telephone number and trading address.

Several steps have been taken to assist entities that have migrated to become compliant. Some of these steps have included:

- Liaising with supervisory bodies to assist with awareness and registration of their members.
- Deactivation of entities with lapsed licences or which are closed or non-operational, based on comparisons with supervisory body databases.
- Updating of outdated entity details on behalf of accountable and reporting institutions where a user was successfully registered.
- Hosting registration roadshows to assist accountable and reporting institutions update their entity details.
- Identifying and deactivating duplicate registrations after receiving confirmation from the accountable and reporting institutions.
- Assisting with setting up delegation structures where there are branch structures.
- Contacting accountable and reporting institutions telephonically to follow up on registration progress.

Despite several initiatives, during 2016 and up to 2019, a substantial number of migrated entities remain inactive, or their registration incomplete. Over the last two financial years letters of demand have been sent to accountable and reporting institutions for them to update their user account and registration details:

- 1 April 2017 up to 31 March 2018 – 18 070 letters of demand were sent
- 1 April 2018 up to 31 March 2019 – 13 724 letters of demand were sent.

As at 31 March 2019, 34 percent (11 648) of migrated accountable and reporting institutions remain non-compliant. Many of these entities cannot be reached as their contact information on the FIC database is outdated.

In terms of section 43B of the FIC Act, all accountable and reporting institutions must register with the FIC. Failure to adhere to this instruction as contained in Directive 4 of 4 March 2016 will result in enforcement action by the FIC and may lead to the imposition of a financial penalty of at least R5 000.

Repositioning motor vehicle dealers from reporting to accountable institutions

Large amounts of cash flow through motor vehicle dealerships every day, making these businesses prime targets for illicit financial activity. Motor vehicle dealerships are currently classified as reporting institutions in the FIC Act, which means they have certain obligations to submit regulatory reports and information to the FIC.

During the course of 2019/20, motor vehicle dealerships will be reclassified as accountable institutions. This will place additional regulatory reporting obligations on them to ensure the FIC receives comprehensive compliance information that will strengthen the organisation’s ability to identify and combat financial crime in this industry.

Compliance inspections

Supervisory bodies are responsible for overseeing accountable institutions in their particular business sectors to ensure that the institutions comply with the FIC Act.

In 2018/19, supervisory bodies conducted 737 inspections. The FIC conducted 138 of its own inspections and 67 joint inspections were conducted with supervisory bodies.

The most common issue found during the FIC's own inspections was that institutions were not reporting all cash transactions above the threshold of R24 999.99. This has been an ongoing deficiency among affected institutions that have FIC Act reporting obligations, despite regular forums, awareness-raising sessions, training and the publication of user information.

During the year, extensive engagements were held with institutions on the subject of cash thresholds. As a result, the threshold for the submission of cash threshold reports (CTRs) will change in 2019/20 from R24 999.99 to R49 999.99. This is intended to ease the burden of reporting.

For more information, see the box on new reporting provisions and regulations on **page 31** of this section.

Table 2: FIC Act inspections by supervisory bodies and the FIC in 2018/19

Total number of FIC Act inspections conducted per business sector	
FIC own inspections conducted per business sector	**Inspections conducted**
Business sectors inspected	
Trust companies and administrators	6
Motor vehicle dealers	112
Kruger rand dealers	12
Ithala Development Finance Corporation	1
Ithala Bank	1
Postbank	1
Entities that lend money against the security of securities	4
Post Office as a money remitter	1
Sub-total	**138**
FIC/supervisory body inspections conducted per business sector	
Gambling institutions	32
Financial Sector Conduct Authority	16
Prudential Authority	0
Authorised users of an exchange	7
South African Reserve Bank: Financial Surveillance Department	11
Estate Agency Affairs Board	1
Sub-total (supported inspections)	**67**
Supervisory body own inspections conducted per supervisory body	
Financial Sector Conduct Authority: Financial Advisory and Intermediary Services division	297
Financial Sector Conduct Authority: Collective Investment Schemes Managers division	23
Financial Sector Conduct Authority: Capital Markets division	36
South African Reserve Bank: Prudential Authority	12
South African Reserve Bank: Financial Surveillance department	68
Estate Agency Affairs Board	130
Independent Regulatory Board of Auditors	0*
Provincial Licensing Authority: Gauteng Province	30
Provincial Licensing Authority: Mpumalanga Province	22
Provincial Licensing Authority: Limpopo Province	12
Provincial Licensing Authority: Free State Province	0*
Provincial Licensing Authority: KwaZulu-Natal Province	14
Provincial Licensing Authority: Eastern Cape Province	70
Provincial Licensing Authority: Western Cape Province	23
Provincial Licensing Authority: North West Province	0*
Provincial Licensing Authority: Northern Cape Province	0*
Sub-total	**737**
Grand total – inspections conducted	**875****

* Denotes supervisory bodies which have not submitted inspection figures.

** Denotes total of FIC own and supervisory body own inspections conducted up to 31 March 2019.

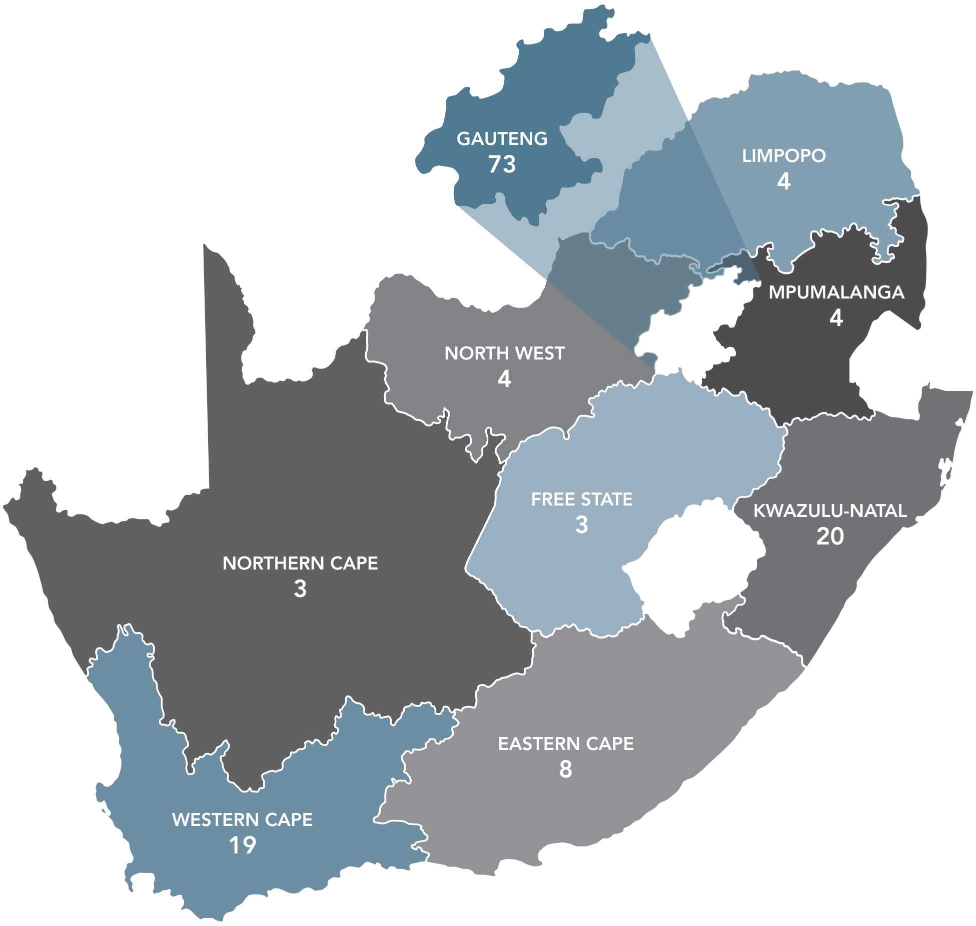


Figure 3: The FIC's 138 inspections – provincial overview

Why FIC Act compliance inspections are conducted

Inspections are conducted to assess whether businesses are complying with the FIC Act. To confirm, for example, if the business is properly registered with the FIC, keeping full records, identifying and verifying its clients, submitting reports where appropriate, and training its staff on the Act's requirements.

Compliance inspections are not intended to detect criminal activity. If an inspector does suspect criminal activity, the matter is referred to law enforcement for investigation.

After concluding an inspection, the inspector issues an inspection report, which is submitted to the institution for comment. A final inspection report is drafted, incorporating the institution's comments, which is then communicated to the institution.

The FIC provides training to inspectors, ensuring that inspections are thorough and of a high standard. The training is also an opportunity for the FIC to ensure that there is alignment in the interpretation of the FIC Act.

Sanctions for non-compliance

The FIC or a supervisory body may impose a penalty – referred to as an administrative sanction – if it is found that an institution or person with an obligation to submit regulatory reports has not complied with the FIC Act and its directives. The sanction may include:

- 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 National Revenues Fund, as per section 45C(7)(a) of the FIC Act.

The FIC issued 21 sanctions against non-compliant motor vehicle dealers during the reporting period. The sanctions issued were in proportion to the nature, seriousness and extent of the non-compliance, and took into account mitigating factors. Five dealerships have lodged appeals against the sanctions imposed. Table 3 sets out the sanctions issued to the remaining 16 dealerships in 2018/19. The sanctions amounted to approximately R12 million.

Table 3: Sanctions issued by the FIC to motor vehicle dealers in 2018/19

Entity	Non-compliance	Sanctions imposed
Select Auto Group (Pty) Ltd t/a Centurion Select	Failure to file CTRs	R1 170 363 R600 000 payable immediately, R570 363 suspended for 3 years and a directive to remediate
Luxury Tech CC t/a Right Cars	Failure to file CTRs	R3 658 686 R900 000 payable immediately, R2 758 686 suspended for 3 years and a directive to remediate
Lemontco (Pty) Ltd t/a Eldoraigne Motors Centurion	Failure to register	R5 000 Directive to remediate
Strauss & Reynders CC t/a The Motor Land Group	Failure to file CTRs	R359 851 R50 000 payable immediately, R309 851 suspended for 3 years and a directive to remediate
Barons Bellville	Failure to file CTRs	R191 531 R95 756.50 payable immediately, R95 756.50 suspended for 3 years and a directive to remediate
Toyz Auto	Failure to file CTRs	R239 880 R50 000 payable immediately, R189 880 suspended for 3 years and a directive to remediate
Inspecta Car Gezina	Failure to file CTRs	R503 549 R100 000 payable immediately, R403 549 suspended for 3 years and a directive to remediate
BB Mount Fuji Motors	Failure to file CTRs	R1 131 848 R65 924 payable immediately, R65 924 suspended for 3 years and a directive to remediate
Human Motors Bloemfontein (Pty) Ltd t/a Human Auto	Failure to file CTRs	R594 152 R100 000 payable immediately, R494 155 suspended for 3 years and a directive to remediate
Werda Toyota Louis Trichardt	Failure to file CTRs	R1 052 678 R250 000 payable immediately, R802 678 suspended for 3 years and a directive to remediate
Lisabank Repossession Warehouse	Failure to file CTRs	No financial penalty Reprimand and caution issued
Variety Motors CC	Failure to register Failure to file CTRs	R372 507 R20 000 payable immediately, R352 500 suspended for 3 years and a directive to remediate
Atlantis Motor Group (Pty) Ltd t/a Mahindra Centurion	Failure to file CTRs	R102 273 Directive to remediate
Autocare Car Sales (Pty) Ltd	Failure to register Failure to file CTRs	R113 440 R50 000 payable immediately, R63 440 suspended for 3 years and a directive to remediate
Yunizam Motors CC t/a Aksons Wheels	Failure to file CTRs	R175 570 R87 785.50 payable immediately, R87 785.50 suspended for 3 years and a directive to remediate
Sandown Motor Holdings (Pty) Ltd t/a Mercedes Benz Northcliff	Failure to file CTRs	R2 282 489 R570 000 payable immediately, R1 712 489 suspended for 3 years and a directive to remediate

During 2018/19 the SARB, in consultation with the FIC, imposed five administrative sanctions. Of these, three included financial penalties to the value of more than R20.5 million. The Financial Sector Conduct Authority imposed one administrative sanction of R60 000 against a non-compliant institution. Table 4 details the nature and extent of the administrative sanctions imposed by the two supervisory bodies.

Table 4: Sanctions issued by supervisory bodies in 2018/19

Supervisory body	Entity	Sanction
SARB	HSBC	Non-compliance with: ‣ Section 42 – internal rules (inadequate processes and methods in their risk management and compliance programme) ‣ Section 29 – filing of STRs. Financial penalty: R15 million with R7.5 million payable immediately and the remaining R7.5 million suspended for 3 years from 6 November 2018, subject to HSBC adhering to certain conditions imposed by the SARB
SARB	Bidvest Bank	Non-compliance with: ‣ Section 28 – filing of CTRs ‣ Section 43 – training on the FIC Act and the accountable institution's internal rules Financial penalty: R5.25 million
SARB	Tower de Change (Pty) Ltd	Non-compliance with: ‣ Section 21 – identification and verification of clients ‣ Section 28 – filing of CTRs ‣ Section 29 – filing of STRs Financial penalty: R280 000
SARB	Sikhona Forex (Pty) Ltd	Non-compliance with: ‣ Section 21 – identification and verification of clients ‣ Section 22 – obligation to keep customer due diligence records Caution
SARB	Travelex Africa foreign Exchange (Pty) Ltd	Non-compliance with: ‣ Section 29 – filing of STRs ‣ Section 43 – training on the FIC Act and the accountable institution's internal rules Reprimand and a directive to take remedial action
Financial Sector Conduct Authority	Satrix Managers (RF) (Pty) Ltd	Non-compliance with: ‣ Section 43B – registering with FIC ‣ Section 21 – identification and verification of clients ‣ Section 28 – filing of CTRs Financial penalty: R60 000

Regulatory reporting

The FIC's efforts to ensure compliance and raise awareness among accountable and reporting institutions have led to consistent increases in the number and quality of regulatory reports received.

A total of 3 453 accountable and reporting institutions, submitted a combined total of just over 5.5 million reports during 2018/19. The increase in reporters (3 394: 2017/18), indicates a continued improvement in awareness of the reporting requirements among accountable and reporting institutions.

The FIC received 5.21 million CTRs, up from 4.88 million in 2017/18, which is an increase of 6.7 percent on the previous financial year.

A total of 288 434 suspicious and unusual transaction reports (STRs) were submitted to the FIC in 2018/19 (330 639: 2017/18). These reports are categorised as section 29 reports in Table 5, because they are received in terms of that section of the FIC Act. The FIC received 308 terrorist property reports (TPRs) in the reporting period. Of these, 306 reports were submitted in error by accountable institutions. The relevant accountable institutions were informed of their mistake.

Table 5: Regulatory reporting, 1 April 2018 to 31 March 2019

Schedule 1: Item number		Cash threshold and cash threshold aggregation reports*	Section 29 reports**	Terrorist property reports	Total
	Business entities with reporting obligations in terms of the FIC Act	14	78		92
1	Attorneys	2 504	430		2 934
2	Trust companies	616	15		631
3	Estate agents	5 032	71	306	5 409
4	Authorised users of an exchange	27 120	106		27 226
5	Unit trusts (collective investment scheme managers)	1 165	29		1 194
6	Banks	4 460 375	175 580	2	4 635 957
7	Mutual banks	118	70		188
8	Long-term insurers	6 574	205		6 779
9	Gambling	439 022	2 064		441 086
10	Foreign exchange agent or company	163 667	29 457		193 124
11	Money lenders against securities	966	8		974
12	Investment advisors or intermediaries	11 770	2 294		14 064
13	Issuers of travellers' cheques and money orders	5 609	46		5 655
14	Postbank	30 748	363		31 111
15	Stock exchange (incorporated under Item 4)				
16	Ithala Development Finance Corporation	337	1		338
17	Approved person by Registrar of Stock Exchanges (asset managers) (incorporated under Item 12)				
18	Registrar of Financial Markets (asset managers) (incorporated under Item 12)				
19	Money remitters	26 725	67 245		93 970
Schedule 3: Item number					
1	Motor vehicle dealers	31 071	10 274		41 345
2	Kruger rand dealers	1 135	98		1 233
Grand total		**5 214 568**	**288 434**	**308**	**5 503 310**

* Cash threshold aggregation reports are used to report a single client that has performed multiple transactions which amount to R24 999.99 and above, within the defined aggregation period.

** Section 29 reports include all STRs, suspicious activity reports, terrorist financing activity reports and terrorist financing transactions.

What is a regulatory report?

Under the FIC Act, accountable and reporting institutions are required to report certain information to the FIC:

- Cash threshold reporting – on transactions above a cash threshold of R24 999.99.
- Terrorist property reporting – property associated with terrorist and related activities.
- Suspicious and unusual transaction reporting – transactions that are unusual or arouse suspicion in terms of money laundering or terrorist financing activities.

Case study: Drug lab bust in Limpopo

Limpopo has seen an upsurge in drug abuse recently. In 2018, the FIC was part of an intelligence-led narcotics operation in the province. Several dealers had been identified and arrested. By gathering and analysing financial information, the FIC was able to identify a Nigerian national who was receiving cash payments from individuals in Polokwane, Bela Bela and Mokopane who were later identified to be drug syndicate members. A large portion of the funds received were then transferred to another individual whom the FIC had previously identified. The FIC compiled a profile, which indicated that both these individuals, who lived in Kempton Park, Gauteng, could be supplying drugs to Limpopo.

In 2019, law enforcement conducted a search and seizure operation and arrested six suspects. Law enforcement found and dismantled a laboratory, which contained nyaope and heroine worth millions of rands. Money as well as machines used in the production of drugs were also seized.

Raising awareness to improve compliance

The FIC monitors the reports it receives to ensure they are complete, accurate and submitted in the reporting periods as defined in the FIC Act. Where the data received is incomplete or inaccurate, the FIC engages with the entities concerned so that they can correct the report or submit outstanding information.

These correction requests often stem from a lack of understanding of the FIC's regulatory reporting requirements. Compliance with the FIC Act cannot be achieved without awareness.

The FIC continues to engage with businesses across South Africa to ensure they understand their FIC Act requirements and regulatory reporting obligations. This includes engagement through roadshows, telematics sessions and other initiatives. The FIC has also published several documents on its website, including user guides and YouTube videos, on how to report. A report user group has been set up to discuss reporting matters and to exchange information. The report user group will comprise the Prudential Authority and banks operating in South Africa and the FIC. The report user group is scheduled to meet bi-monthly in the next financial year.

Adopting a risk-based approach

The FIC Act amendments, made in response to the country's 2009 mutual evaluation, have prompted a shift in the way accountable institutions approach compliance. A new risk-based approach has been adopted, in which businesses understand and take ownership of their risks in relation to money laundering and terrorist financing. Using this approach, institutions identify and assess risks, and use systems and controls to mitigate these risks. The measures, in place to prevent such criminal activities, are in direct proportion with the risks identified.

The FIC Act requires accountable institutions to develop, maintain and implement a risk management and compliance programme. The programme must set out the institution's policies, procedures, systems and controls for a risk-based approach to money laundering and terrorist financing. Businesses need to regularly review and update their programmes to respond to their changing environment.

Key elements of a risk management and compliance programme

Risk identification	Accountable institutions must identify, monitor, mitigate and manage the risk that the products and services they provide may involve or facilitate money laundering or the financing of terrorist activities.
Customer due diligence	Accountable institutions must establish and verify the identity of their customers. They may not establish a business relationship or conclude a single transaction with an anonymous client, or a client with an apparent false or fictitious name.
Transactional monitoring	An accountable institution must determine whether transactions that will be performed in the course of the business relationship are consistent with the institution's knowledge of the prospective customer.
Record keeping	This is an essential component of a successful system to combat money laundering and terrorist financing. Accountable institutions are obligated to keep records of client information and transaction records.
Reporting to the FIC	In terms of the FIC Act, there are a number of regulatory reports that must be filed with the FIC.
Extended registration model of entity	A group of companies or a legal entity may contain more than one accountable or reporting institution, and must ensure that all accountable and reporting institutions in the group are registered under the correct Schedule item of the FIC Act.
Implementation of a risk management and compliance programme	All accountable institutions must develop and implement a programme for AML/CFT risk management and compliance.

Awareness-raising initiatives

During 2018/19, the FIC conducted a range of initiatives and engagements to raise awareness about FIC Act compliance among accountable and reporting institutions.

The FIC hosted four telematics learning sessions during the year, which were broadcast to dedicated learning centres.

The FIC's system for receiving public queries helps businesses comply with the FIC Act by providing specialist advice and guidance. It also provides the FIC with a better understanding of its stakeholders' needs, challenges and concerns. This information has often been used to determine the content of guidance, publications as well as topics for discussion at awareness events. In June 2018, the FIC updated its system for receiving public queries, helping to streamline its responses to queries.

The FIC responded to 6 093 written queries and 14 525 telephonic queries from the public during 2018/19.

Compliance on-site visits

To strengthen relationships with accountable and reporting institutions, the FIC conducted 68 on-site visits during the reporting period. These visits allow for open and constructive engagement. They also help the FIC to better understand the working environment and challenges institutions face. In turn, the business receives guidance and support from the visiting FIC team to help them comply with the Act.

The FIC selected the accountable and reporting institutions for visits based on their impact on reporting, possible challenges with registration and reporting, and requests from certain institutions.

Guidance products

The FIC develops guidance products to provide practical information on complying with the FIC Act. It publishes a draft version of the guidance so that accountable institutions, supervisory bodies and other affected entities can provide feedback. The comments received are considered before guidance products are updated, where necessary.

During 2018/19, the FIC issued seven guidance products, predominantly focused on the amendments to regulatory reporting obligations in terms of the FIC Act.

Table 6A: Guidance products issued in 2018/19

Public Compliance Communications and Guidance notes		Guidance product name
1	PCC05C	Updated guidance on registration with the FIC
2	PCC39	On mandated entities access to information
3	PCC31A	Acceptance of funds prior to client identification and verification
4	PCC40	Supervisory body licensing conditions
5	Guidance Note 4B	Updated guidance on reporting STRs in terms of section 29 of the FIC Act
6	Guidance Note 6A	Updated guidance on reporting TPRs in terms of section 28A of the FIC Act
7	Directive 5	Guidance on the use of automated transaction monitoring systems

The guidance products in Table 6B below were drafted and published for comment on the FIC website in 2018/19. They will be formally published in 2019/20 when the consultation process is complete.

Table 6B: Guidance products issued for consultation in 2018/19

Public Compliance Communications and Guidance notes		Guidance product name
1	Guidance Note 5C	Updated guidance on reporting CTRs in terms of section 28 of the FIC Act
2	Guidance Note 104	Guidance on reporting international funds transfer reporting in terms of section 31 of the FIC Act

New reporting provisions and regulations

Cross-border flows

International funds transfer reporting, set out in section 31 of the FIC Act, is a new reporting obligation which will impact certain accountable institutions.

International funds transfer reporting deals with any cross-border flow of funds into and out of the country on behalf, or on the instruction, of another person. Section 31 of the FIC Act is only applicable to accountable institutions that are involved in cross-border money transfers and who are licensed by the SARB to perform such transactions.

The regulations propose that all electronic cross-border transactions from R5 000 and above be reported to the FIC. Internationally, cross-border funds reporting thresholds are generally set at low levels because terrorist financing can be executed using small amounts of money.

The FIC has been engaging with the relevant institutions since September 2016 to explain the new reporting requirements. The accountable institutions have also been given access to the FIC's ICT testing environment for registration and reporting, where they are able to practice how the new report type will work. The FIC has engaged supervisory bodies, including the SARB's Financial Surveillance and National Payment Systems departments, as well as other stakeholders, such as the Payment Association of South Africa, to understand the cross-border information that the applicable institutions have and how this information is reported in existing payment systems. Discussions are also continuing with the banking sector on the implementation of section 31 of the FIC Act.

The reporting of cross-border electronic transfers of money was provided for in the original FIC Act, 2001. This reporting stream will further strengthen South Africa's commitment to the implementation of FATF Recommendations 16 (wire transfers) and 29 (timely access to information relevant to money laundering, associate predicate offences and terrorist financing). It will also enable the FIC to provide more detailed financial analysis on all reportable cross-border transactions.

Draft guidance on the reporting obligation was released for public consultation in 2018/19. The closing date for comments was 1 April 2019.

Reporting cross-border electronic transfers will commence on the promulgation of section 31 of the FIC Act.

Targeted financial sanctions

South Africa is a member of the UN. As such, section 26A, B, C and section 28A(3) of the FIC Act provide for an institution to terminate a business relationship with any individual or entity included on the UN targeted financial sanctions register and to report such individual or entity to the FIC. These sections of the Act are in line with Recommendation 7 of the FATF, which requires member countries to implement the targeted financial sanctions as proposed by the UN Security Council.

The provisions relating to financial sanctions came into effect shortly after the close of the 2018/19 financial year. The FIC has regularly engaged with accountable institutions and issued guidance to ensure they are ready for the new requirements. It will maintain an updated list of sanctioned persons and entities on its website, and provide for institutions to apply online to make funds available to sanctioned businesses or individuals to pay for basic living expenses.

Consultation on a package of regulatory reporting amendments

The FIC's fight against money laundering and other financial crimes relies on the receipt of quality information in regulatory reports submitted to it. It is more effective for the FIC to receive fewer, high-quality CTRs and STRs than large volumes of reports.

The proposed amendments to regulations governing regulatory reporting include:

- Increasing the cash threshold amount from R24 999.99 to R49 999.99.
- Dispensing with cash threshold aggregation reporting, which required institutions to treat multiple cash transactions over a 24-hour period as a single transaction if the total cash amount exceeded the applicable threshold.
- Increasing the period for reporting CTRs to the FIC from two to three days.

Removing the cash threshold aggregation reporting stream is intended to ease the burden on reporting institutions and reduce the pressure on the FIC's resources and systems.

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

Sub-programme 2.2: This sub-programme provides with unique, intelligence-based services that entail the analysis, interpretation and representation of financial information in a manner that can be admitted as evidence in a court of law. These services are performed to support law enforcement agencies' efforts to prove crime and involve in-depth planning and co-ordination. This sub-programme gathers and receives information internationally through a network of foreign information sources known as financial intelligence units.

The primary deliverable of this sub-programme is to produce financial intelligence that typically:

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

Strategic outcome 2: Increased utilisation of FIC products and services

Strategic objective	Performance indicator	Actual achievement 2017/18	Planned target 2018/19	Actual performance 2018/19	Performance status	Comment on deviations
Utilisation of financial intelligence increased.	2.1.1 Number of public awareness reports on the utilisation of financial intelligence.[6]	2	4	4	Target achieved.	N/A
	2.1.2 Number of identified stakeholder engagements conducted for utilisation of FIC products.[7]	132% (KPI changed from % to number 2018/19 onwards).	30[8]	44	Target exceeded (+14).	Unforeseen training opportunities materialised.
	2.1.3 Percentage of requests for information responded to.[9]	New indicator.	Responded to 100% of the annual set target of 1 775 requests.	104%	Target exceeded (+4%).	Target overachieved due to high influx of requests – staff worked overtime to address as many responses as possible. Responded to 1 840 requests for information against the annual set target of 1 775 requests.
	2.1.4 Percentage response to requests to block funds.	New indicator.	100%	100%	Target achieved.	Responded to all 38 requests to block funds.

6 Public awareness reports will be on the outreach to citizens on proceeds of crime and alert/awareness on emerging scams. From 2018/19 onwards this is defined as: Public awareness reports constitutes information from a variety of sources available to the FIC, which is analysed and packaged to produce case studies/trends and indicators on emerging crime, in order to provide awareness to citizens and identified stakeholders including the reporting community.

7 Support of crime prevention efforts through the FIC's provision of training to reporting entities, law enforcement communities and tertiary institutions on the FIC's legislative mandate and powers and, where applicable, their interaction with the FIC systems, including the effective use of financial intelligence in combating crime.

8 Percent changed to number: 30 identified awareness/training sessions to reporting entities, law enforcement communities and tertiary institutions on the FIC's legislative mandate and powers and, where applicable, their interaction with the FIC systems, including the effective use of financial intelligence in combating crime.

9 100% of requests for information responded to, subject to an annual maximum of 1 775 in 2018/19, 1 865 in 2019/20 and 1 960 in 2020/21.

During 2018/19, the FIC met all of its targets under this sub-programme, and in two instances exceeded them. Highlights for the year include:

- Blocking more than R53.6 million as suspected proceeds of crime.
- Contributing to 29 judicial actions and the recovery of R2.14 billion in criminal proceeds.
- Responding to 1 840 requests for financial intelligence and referred 1 054 matters for further investigation.
- Improving stakeholder relations, including signing MoUs with key partners such as the SARB and SARS.
- Holding 44 stakeholder engagements on the use of financial intelligence.

Case study: Rhino horn trafficker bust

An investigating team asked the FIC to provide information on individuals allegedly involved in trafficking of rhino horn. The FIC had received several regulatory reports on these individuals.

The subjects, all based in Mpumalanga, were dealing with large amounts of cash, mainly used to recruit people to assist in poaching or procuring rhino horns. The subjects were later linked to several rhino killings in the Kruger National Park and other national parks.

Based on the FIC's financial intelligence, the investigating team conducted surveillance that led to the arrest of the subjects.

Producing financial intelligence that is useful and relevant

The financial year saw continued awareness of and appreciation for the FIC's intelligence products. In 2018/19, the FIC responded to 1 840 requests for financial intelligence from law enforcement and security agencies. This is a slight drop in the number of requests the FIC responded to, as compared to the 2017/18 financial year (2 243).

During 2018/19 the FIC continued to raise awareness among law enforcement agencies on strategically relevant crime types, which in turn, will help the FIC prioritise requests and use its resources effectively.

At the same time, the FIC is working to produce proactive financial intelligence reports outside of these requests so that it can focus on high priority issues of strategic concern for the country. The FIC referred 1 054 matters (2017/18: 1 470) for further investigation during the reporting period.

To help determine the true effectiveness of the financial intelligence it produces, the FIC needs feedback from authorised requestors on the outcome of their investigations. In 2017/18 the FIC implemented an electronic feedback system for agencies receiving financial intelligence reports from the FIC. The feedback system allows authorised users to assess the usefulness of the financial intelligence products they receive from the FIC, and to provide feedback on how they have used the information.

Investigations and their outcomes

Based on the FIC's contributions to investigations, fraud was the most prevalent crime type in 2018/19, followed by tax-related crime, corruption and narcotics. Fighting corruption, in both the private and public sector, is an important aspect of the FIC's work to protect the integrity of South Africa's financial system. The FIC assisted various investigations in this area through the sharing of information concerning the associated financial flows in the reporting period.

While the main crime types do not shift significantly from year to year, the complexities involved are constantly evolving as criminals find new ways to conduct their unlawful activities.

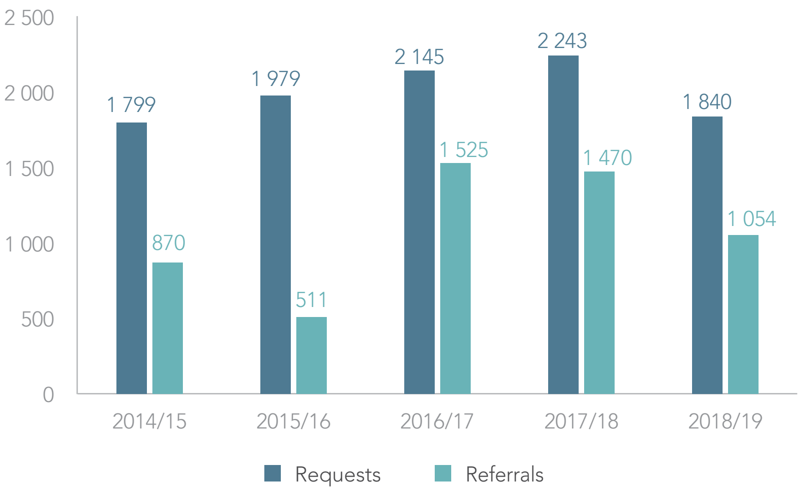


Figure 4: Financial intelligence requests and referrals, 2014/15 – 2018/19

Crime type	2014/15	2015/16	2016/17	2017/18	2018/19
Arms and ammunition	4	0	15	63	**25**
Bulk cash smuggling	0	0	0	0	**6**
Contravention of Banks Act	0	0	1	36	**5**
Corruption	439	302	292	239	**485**
Crimes against the state	24	1	259	15	**5**
Cyber crimes	0	12	3	10	**26**
Environmental crimes	60	80	186	112	**65**
Exchange control contraventions	6	2	151	34	**63**
Fraud	676	642	846	1 073	**555**
Hijacking	19	14	0	15	**9**
Human trafficking	30	32	34	48	**16**
Illicit financial flow	0	0	0	0	**43**
Illegal gambling	9	0	210	17	**38**
Illicit cigarettes	38	39	34	14	**15**
Kidnapping	4	1	0	12	**10**
Money laundering	506	538	302	313	**185**
Murder	23	34	13	18	**41**
Narcotics	236	224	262	341	**267**
Non-ferrous metals	25	15	3	27	**26**
Other	172	155	229	77	**179**
Precious metals and stones	47	72	2	43	**20**
Racketeering	13	13	0	8	**11**
Robbery	53	57	110	66	**85**
Tax crimes	202	162	712	916	**533**
Terrorism	32	44	3	150	**117**
Theft	51	51	3	66	**64**
Total	**2 669**	**2 490**	**3 670**	**3 713**	**2 894**

Figure 5: Investigation requests and referrals by crime category, 2014/15 – 2018/19

FIC: Authority to instruct institutions

The FIC has the power to block funds that are suspected to be the proceeds of crime. It can use a section 34 directive to instruct an institution not to proceed with a transaction for a period of 10 days. This allows the FIC to make the necessary inquiries concerning the transactions and, where necessary, to inform and advise an investigating authority or the National Director of Public Prosecutions. The FIC also shares this information with the Asset Forfeiture Unit, which can seize and take control of the funds if necessary. During 2018/19, the FIC blocked more than R53.6 million as suspected proceeds of crime.

Section 27A of the FIC Act

Section 27A of the FIC Act, introduced in the FIC Act's 2017 amendments, authorises a representative of the FIC to access any records kept by or on behalf of an accountable institution in terms of sections 22, 22A or 24 of the FIC Act, on authority of a warrant issued by a magistrate or judge.

The FIC Act authorises the FIC to gain lawful access to financial records of identified pyramid and Ponzi schemes via a warrant. The Asset Forfeiture Unit can use this evidence to apply for the preservation of the schemes' proceeds. The South African Police Service can use the evidence to investigate, arrest and charge the perpetrators. FIC successfully applied for 16 section 27A warrants during this period.

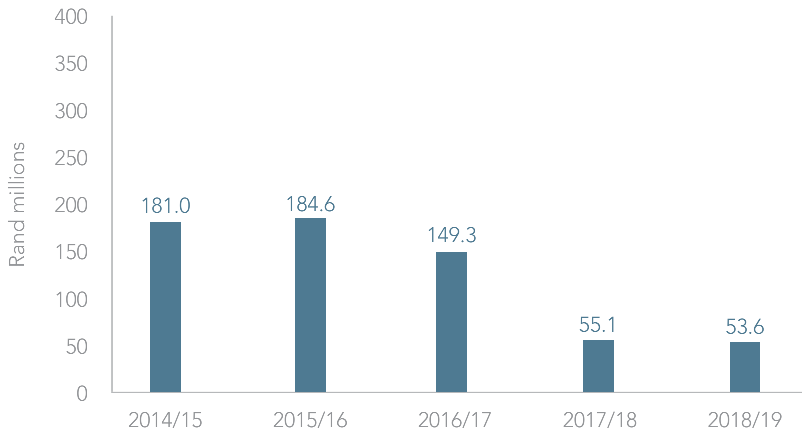


Figure 6: Value of suspected crime proceeds frozen, 2014/15 – 2018/19

The FIC contributed to 29 judicial actions in 2018/19 (2017/18: 37). These contributions take the form of affidavits on matters presented during court proceedings, assisting the court in making a decision following a hearing.

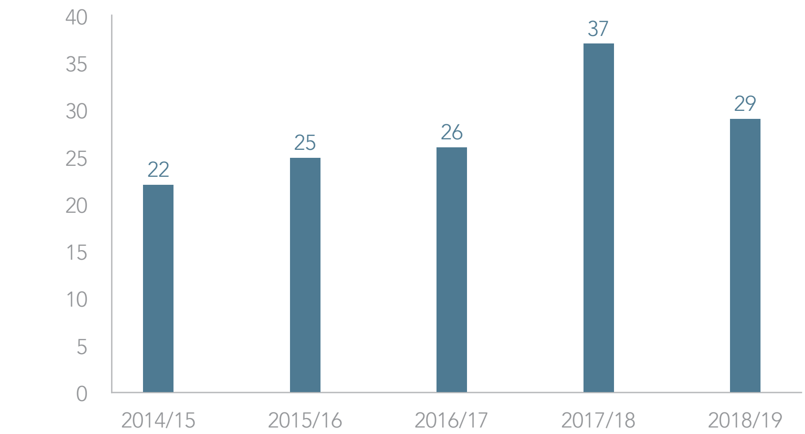


Figure 7: Contribution to judicial actions, 2014/15 – 2018/19

The FIC contributed to recovering R2.14 billion (2017/18: R3.03 billion) in criminal proceeds during the reporting period.

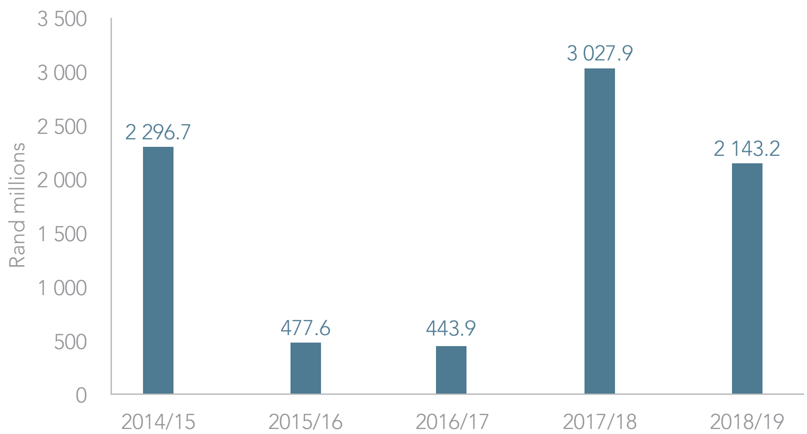


Figure 8: Value of crime proceeds recovered, 2014/15 – 2018/19

Cyber scams publications

In 2018/19 the FIC released four publications to raise awareness of popular scams and how they work. These publications, which are available on the FIC's website www.fic.gov.za, support the FIC's goal of helping to ensure the safety and security of all South Africans.

This year, the publications focused on cybercrime in particular – an increasingly pervasive tool for criminals looking to exploit businesses and citizens alike. Through cybercrime, criminals are assured of gaining access to:

- Anonymity – Criminals can anonymously access their victim's information.
- Data – Continuous improvement in data and information analysis helps criminals build profiles on the movements, worth, value and status of their target.
- Tactical adaptability – Criminals can adapt and plug into their target's desire for instant wealth or helping those in need, for example.
- Ease of access – As technology evolves and improves the lives of users, it also helps criminals exploit others. Transnational financial transactions, for example, have made it easier for illicit money to be moved between jurisdictions.
- Geographical advantage – Technology allows criminals to create domains in one country, operate in another and target victims in a third. By contrast, law enforcement agencies and judicial authorities often have limited jurisdiction over cross-border cybercrimes.

Strengthening partnerships and raising awareness

The use and value of the FIC's intelligence products depend on strong partnerships with stakeholders who understand how these products can be used to detect crime and support investigations.

The FIC met regularly with stakeholders in 2018/19 and signed MoUs with eight partners: the SARB, the Financial Sector Conduct Authority, the SARS, the Public Protector, the Special Investigating Unit, the State Security Agency, the Insurance Crime Bureau and the Southern African Fraud Prevention Service. These MoUs commit both parties to working together to ensure that the financial system is safe, stable and sustainable for all citizens.

The FIC held 44 stakeholder engagements (against a target of 30) on the use of financial intelligence during 2018/19. Through these engagements, aimed mostly at law enforcement agencies, the FIC contextualised its mandate, as well as the proper sharing and use of financial intelligence.

The FIC also released four publications during the year to increase understanding of cybercrimes and to help the public avoid falling victim to common financial crimes, including cyber scams.

Case study: E-mail fraud scams US company

The FIC received a request for information and assistance in a case involving the defrauding of a company registered in the United States. A company employee received a fraudulent e-mail from an address similar to that of a colleague's, instructing him to transfer funds to a bank account for the purchase of a vehicle. The employee transferred R607 000 before realising that the e-mail was fraudulent.

The FIC discovered that part of the funds had already been used and the rest had been transferred to another bank account. After verifying the facts and obtaining the necessary documentation from investigators, the FIC issued an instruction directing the bank not to proceed with any transactions on the two identified accounts, which at the time had a cumulative balance in excess of R500 000.

The Asset Forfeiture Unit was granted a preservation order allowing it to seize the funds in these two accounts.

Case study: Cyber theft in the US

The FIC received intelligence from its counterpart in the United States, the Financial Crimes Enforcement Network, indicating that four subjects with links to South Africa may have been implicated in an international cyber theft scheme that was operating between 2014 and 2018.

The scheme involved phishing, spear-phishing, hacking and intrusion tactics to gain access to victims' e-mail accounts and funds. The subjects then engaged "mules" in the United States to transfer illicit funds to overseas bank accounts. About US$2 million was identified, but according to the Federal Bureau of Investigation between US$5 million and US$10 million may have been transferred to various destinations. Intelligence indicated that the subjects may have several individuals in South Africa assisting with the scheme.

The FIC identified various local bank accounts linked to the subjects and the information was subsequently referred to the Hawks.

Understanding risk

In preparation for the upcoming IMF/FATF/ESAAMLG mutual evaluation, the FIC is working to obtain a better understanding of the AML/CFT/PF risks in the non-financial sectors it regulates.

In 2018/19, the Monitoring and Analysis division compiled sectoral analysis reports for the Postbank, mutual banks, the Ithala Bank, unit trusts and trust companies. It also updated five reports from the previous financial year, regarding money remitters, banks, estate agents, motor vehicle dealerships and the gambling sector.

In 2018/19, the Compliance and Prevention division also conducted sector risk assessments with a focus on designated non-financial businesses and persons. These include estate agents, attorneys, Kruger rand dealers, motor vehicle dealers, the gambling industry and trust service providers. The aim of conducting the risk assessments is to gauge sector participants' understanding and awareness of the risks they faced regarding money laundering and terrorist financing.

The sectoral reports perform a dual function. They improve the FIC's understanding of the risks associated with the various sectors. For the sectors, on the other hand, the reports give them insight into their vulnerabilities as they develop their own risk assessments. Ultimately, this enriches South Africa's national risk assessment, which is under way. In compiling these risk assessments, the FIC drew on a variety of information sources, including questionnaires sent to entities in the sector as well as international guidance.

Combating illicit financial flows

The FIC leads and provides secretariat support to the Inter-Agency Working Group on Illicit Financial Flows, which was established in 2017/18. The working group's remit is to improve co-ordination and co-operation on the use of financial intelligence to combat crime and address illicit financial flows. During the current reporting period, the working group identified large, high priority cases for investigation.

For more information about the working group, see the **Director's Overview**.

Phishing and spear-phishing – what is the difference?

Both phishing and spear-phishing criminals make contact with their victims via e-mail or online.

Spear-phishers target specific victims in an attempt to steal sensitive information, such as bank account details. Spear-phishing is tailored to the victim, with the criminal using personal information about the victim to disguise themselves as a trustworthy friend.

Phishing is a much broader approach where criminals attempt to gain confidential information from many people at the same time. Attackers often disguise themselves as a trustworthy company or person, but their messages do not contain personal details specific to the victim.

Because spear-phishing is more personalised, it is much more difficult to identify as fake and there is a greater chance of fooling the recipient.

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

Sub-programme 2.3: This sub-programme administers the FIC Act and provides advice on matters of a strategic nature concerning money laundering and terrorist financing. It also engages with international and regional inter-governmental bodies on behalf of South Africa, which formulate and promote policies on combating money laundering and terrorist financing, and set standards on these matters for countries.

This sub-programme facilitated the promulgation of previous amendments to the FIC Act and monitored the actions by relevant South African authorities to implement the recommendations from the FATF's mutual evaluation assessment report, thus fulfilling international responsibilities in terms of the task force's Standards and UN instruments.

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

Strategic objective	Performance indicator	Actual achievement 2017/18	Planned target 2018/19	Actual performance 2018/19	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.	58%	Responded to 100% requests for technical assistance.	100%	Target achieved.	N/A
Participation in policy-making activities of regional and inter-governmental organisations.	3.2.1 Number of policy-making activities attended within regional and inter-governmental organisations.	100% (KPI changed from % to number 2018/19 onwards)	Attended and participated in FATF meetings [6] and ESAAMLG meetings [2].	Attended and participated in FATF meetings [6] and ESAAMLG meetings [2].	Target achieved.	N/A
Improve compliance with FATF standards.	3.3.1 Completion of response to FATF recommendations on AML/CFT risk assessment for South Africa.	Target not achieved.	Consultations on concept to undertake AML/CFT risk assessment for South Africa conducted.	Completed consultations on concept to undertake AML/CFT risk assessment for South Africa.	Target achieved.	N/A
Improve AML/CFT legislative framework.	3.4.1 Completion of milestones for implementing amendments to the FIC Act.	Target not achieved. (KPI rephrased 2018/19).	Consultations conducted and Phase 1 implementation of amended FIC Act.	Consultations conducted. Phase 1 implementation of the amended FIC Act has been completed.	Target achieved.	N/A

During 2018/19, the FIC met all of its targets under this sub-programme. Highlights for the year include:

- Supporting partners in the region, including conducting four technical assistance missions.
- Signing MoUs with two financial intelligence units.
- Completing phase one of the FIC Act amendments.
- Leading the preparations for the country's upcoming IMF/FATF/ESAAMLG assessment.

Deepening international collaboration

South Africa is part of a global network of close to 200 countries working to prevent money laundering and to combat terrorism. The network consists of the members of the FATF, the ESAAMLG and eight other regional bodies across the globe. The FIC leads South Africa's delegations to the FATF and the ESAAMLG. The FIC is a member of the Egmont Group of Financial Intelligence Units, which extends the organisation's ability to exchange information with counterparts around the world.

The FIC signs MoUs with financial intelligence units in various jurisdictions around the world. These MoUs improve international co-operation and information sharing, strengthening South Africa's capability for assisting and also requesting assistance from international partners in combating financing crime.

In 2018/19, the FIC signed MoUs with the financial intelligence units of Hong Kong and Qatar, bringing to 91 the total number of MoUs in place with financial intelligence units globally.

During 2018/19, the FIC continued to actively participate in the Egmont Group and ESAAMLG, drawing on the vast experience of those involved and providing its own input.

The FIC provides technical assistance to financial intelligence units in the 19-member ESAAMLG region, with the aim of preparing them to become members of the Egmont Group. During the reporting period, the FIC provided support and guidance to Botswana, Ethiopia and the Kingdom of eSwatini. The FIC's technical assistance in previous years is starting to see results. Technical assistance provided to Zambia in the past has helped that country's financial intelligence unit become a member of the Egmont Group in 2018/19. Uganda and Ethiopia are expected to become members in the next financial year.

Improving the AML/CFT/PF capacity and systems in South Africa's neighbouring countries is important, as large amounts of money flow between countries in the region and co-operation is key to monitoring and preventing financial crime. South Africa would be negatively affected if sanctions were applied to neighbouring countries with weak AML/CFT/PF systems, given the many South African financial institutions and businesses that operate in the region.

Case study: VAT fraudster caught

The FIC assisted the Asset Forfeiture Unit in a case where an employee of a company had defrauded her employer of more than R15 million by colluding with a legitimate supplier of transport services for the company.

Employed as a creditor's clerk, the subject told her company's transport service provider that the employer was purposefully manipulating its invoices to escape their input tax liability and to save money. She said she would ensure that the VAT was correctly calculated and paid into the supplier's account. However, since the employee was doing this without the employer's knowledge or authority, she asked the service provider to transfer half of the "VAT" amount into her personal account as her share for helping the transport provider retrieve the "VAT" that was due to it. This continued for several months. By the time the employee was caught she had stolen more than R15 million.

The FIC analysed the employee's accounts and traced assets that had been bought with the funds. Through this process, a large amount of money left in the employee's account was blocked. The FIC identified that several assets, including immovable property, motor vehicles and other household contents that had been purchased using the stolen funds. Relying on the FIC's financial intelligence, the Asset Forfeiture Unit obtained a restraint order.

FIC MoUs

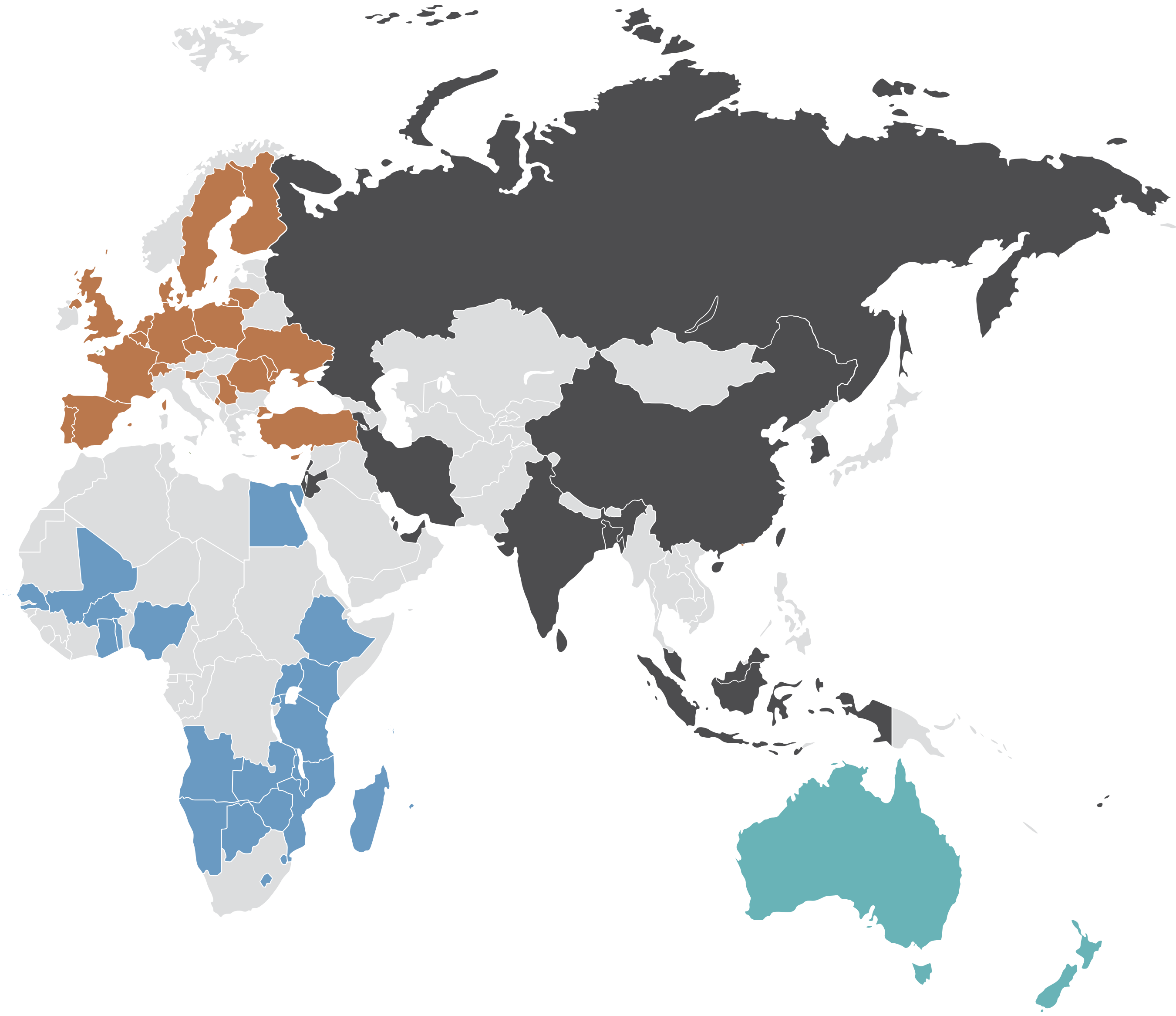
- Bahamas
- Bermuda
- Canada
- Cayman Islands
- Cuba
- Panama
- Sint Maarten
- Turks and Caicos Island
- United States of America

- Argentine Republic
- Brazil
- Colombia
- Cuaçao
- Peru
- Trinidad and Tobago

Figure 9: FIC's global footprint of 91 MoUs

- Albania
- Belgium
- Cyprus
- Czech Republic
- Denmark
- Finland
- French Republic
- Germany
- Gibraltar
- Guernsey
- Isle of Man
- Jersey
- Lichtenstein
- Lithuania
- Malta
- Moldova
- Monaco
- Montenegro
- Netherlands
- Poland
- Portugal
- Romania
- San Marino
- Serbia
- Spain
- Sweden
- Turkey
- Ukraine
- United Kingdom
- Vatican City State

- Armenia
- Bahrain
- Bangladesh
- Hong Kong
- India
- Indonesia
- Iran
- Israel
- Jordan
- Lebanon
- Malaysia
- Quatar
- Republic of China
- Republic of Korea
- Russia
- Singapore
- Sri Lanka
- United Arab Emirates



- Angola
- Botswana
- Burkina Faso
- Cape Verde
- Eqypt
- Ethiopia
- Ghana
- Kenya
- Kingdom of Eswatini
- Lesotho
- Madagascar
- Malawi
- Mali
- Mauritius
- Mozambique
- Namibia
- Nigeria
- Rwanda
- Senegal
- Seychelles
- Tanzania
- Togo
- Uganda
- Zambia
- Zimbabwe

- Australia
- Fiji
- New Zealand

South Africa's mutual evaluation

South Africa is committed to combating money laundering and the financing of terrorism, and to using the international standards and best practices of the FATF as the benchmarks for this.

The FATF is the international body for setting standards on combating money laundering, terrorist financing and the proliferation of weapons of mass destruction. In ensuring that countries comply with best practice in these matters the FATF monitors its members' implementation of measures. The international standards have been endorsed by more than 200 countries, all of which undergo periodic mutual evaluation by their peers. Assessment reports are made public and are used to monitor a country's implementation of the standards.

Mutual evaluations serve to demonstrate to the world that member countries have a sound and safe financial system. It also highlights areas of weakness for the country to address.

The first mutual evaluation was in 2003, when South Africa became a FATF member. In 2009, South Africa underwent its second mutual evaluation, involving an intense review and assessment of its AML/CFT legislative framework and its effective implementation of the framework. The evaluation culminated in a report setting out recommendations for the country to implement in order to strengthen its AML/CFT regime and to align it with global best practice.

The FIC led the process to follow up on the recommendations in the FATF's mutual evaluation report. Central to this work were several amendments to the FIC Act.

See box on the FIC Act amendments on **page 10**.

Now, 10 years since the previous review, South Africa is to undergo a third evaluation to assess progress made and areas where the country can further tighten its systems to ensure it is resistant to financial crime. The assessment will focus on the results achieved with the implementation of the AML/CFT/PF system, as well as the effectiveness of the regime.

The FIC is leading preparations for the evaluation. The country's assessment involves a broad range of public and private players and requires collaboration across all sectors. The AML/CFT/PF system involves a range of authorities and businesses and it can only be effective when these role players work together to protect the financial system. Engaging with these entities and building relationships has been a critical aspect of the FIC's work in the build up to the assessment.

Case study: Collaborating to uncover corruption

The FIC received a request from a neighbouring country's financial intelligence unit for information regarding the alleged misappropriation of funds from a state-owned entity in that country. The funds were believed to have been transferred to South Africa and to involve politically exposed or prominent influential individuals.

The FIC established that the subjects had purchased various moveable assets in South Africa to the value of about R20 million, as well as a number of properties. The FIC subsequently met with the foreign financial intelligence unit to present the results of its analysis. The Asset Forfeiture Unit asked the FIC to support a mutual legal assistance process between South Africa and that country to recover the proceeds. The matter was still in process at the end of the financial year.

The FATF conducts peer reviews to assess each member country's implementation of the FATF Recommendations. South Africa's next assessment commences in 2019. The evaluation involves a series of processes and steps as outlined below, culminating in a final report published in 2020.

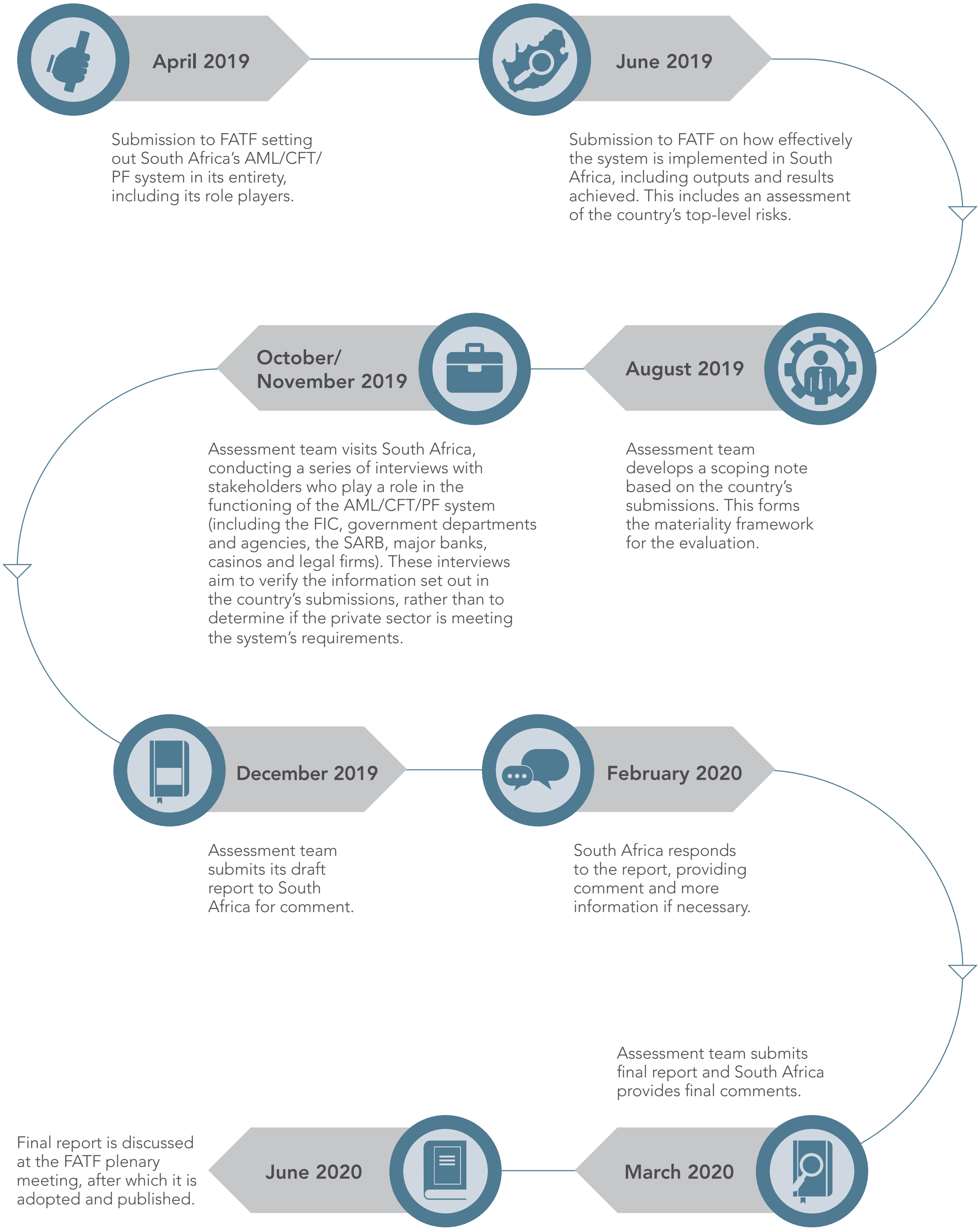


Figure 10: The 2019 mutual evaluation: How it will work and timelines

Case study: Working with Denmark to track stolen funds

Denmark's financial intelligence unit, the Money Laundering Secretariat, asked the FIC to provide information on four Danish nationals (a mother and her three adult children). The main subject (the mother) was suspected of defrauding her former employer, the Danish National Board of Social Services. She had been dismissed by that employer and subsequently fled to South Africa. Through its analysis the FIC identified cash and assets linked to the subject. Based on the Asset Forfeiture Unit's request, the FIC froze R6.7 million. The unit has since seized and returned the funds to the Danish government.

Amendments to the FIC Act

The amendments to the FIC Act amendments seek to address weaknesses in the country's AML/CFT system, including in the areas of: compliance; supervision and sanctions regarding non-bank financial institutions and non-financial businesses and professions; tracking and sharing of information on cross-border cash flows and the pursuit of money laundering and terrorist financing investigations; prosecutions; international co-operation; and extradition by law enforcement and prosecuting authorities.

Following the signing of the FIC Amendment Act into law in 2017, the FIC has implemented the majority of the amendments. The provisions that are now in force include:

- Extending the list of institutions with which the FIC may share information.
- Dealing with the constitutional invalidity of the previous provision on inspections.
- Decriminalising certain failures in compliance requirements such as failure to comply with identification and verification, record-keeping and training now being subject to administrative sanctions only.
- Extending the obligations on accountable institutions by requiring them to identify the beneficial owners of their clients.
- Managing relationships with prominent persons and carrying out ongoing due diligence on their business relationships.
- Introducing a requirement to apply a risk-based approach when establishing the identity of a client.
- Implementation of financial sanctions pursuant to resolutions adopted by the UN Security Council.
- The administration of measures in the FIC Act (section 3(1) and section 3 (2) (aA), which require accountable institutions to freeze property and transactions pursuant to financial sanctions that may arise from resolutions adopted by the UN Security Council.

During 2018/19, the FIC continued to conduct a range of engagements with stakeholders. It held public consultations and issued guidance to help the relevant stakeholders make the necessary changes in line with the Act and prepare for the remaining provisions to come into effect.

For more information on the Act's amendments and implementation, please see the **Director's overview**.

Case study: Abalone poachers arrested

The FIC assisted a law enforcement agency, the National Prosecuting Authority and the Asset Forfeiture Unit with an urgent matter relating to investigations into certain officials in a government department. It was alleged that these officials were involved in an abalone poaching syndicate.

The FIC's financial intelligence was used to trace assets, bank accounts and relevant financial information of the implicated officials and syndicate members. As a result, a number of officials were arrested and charged with racketeering, theft, defeating the ends of justice and corruption.

Broadening the range of business sectors under the FIC Act

During the reporting period, the FIC continued a consultation process with a range of business sectors that may in future be included as accountable institutions. The consultation process commenced in 2017.

Including additional sectors will expand the scope of the FIC Act and, in turn, provide the FIC with richer resources of information to draw upon in combating financial crime. The additional categories include sectors that the FATF has identified for inclusion.

In 2018/19 the FIC held consultations with the following sectors:

- Trust and company service providers
- Co-operative banks
- Credit providers
- High-value goods dealers
- Crypto asset service providers.

The FIC also held consultations with reporting institutions including Kruger rand and motor vehicle dealers on their repositioning to being included as accountable institutions in terms of the FIC Act.

The FIC's process to identify sectors for inclusion as categories of accountable institutions was concluded during this reporting period. To effect the necessary changes to the FIC Act, a proposal will be submitted to the Minister, which will be used in a prescribed consultation process in 2019/20.

Regulating crypto assets

According to the FATF, "crypto assets" are digital representations of value that are electronically traded or transferred and can be used in payment and investments. These digital assets are distinct from a country's "real money" (legal tender).

Crypto assets offer significant economic opportunities, but they can also be easily misused for financial crime or the financing of terrorist and related activities due to their availability, ease of use, anonymity and decentralised nature.

The FIC is a member of the Intergovernmental Fintech Working Group, which aims to develop a common understanding among regulators and policymakers of fintech developments. The group includes members from the National Treasury, the SARB, the Financial Sector Conduct Authority and the FIC. At the start of 2018 the Inter-Governmental Fintech Working Group formed a joint working group to focus specifically on crypto assets. This led to the release of a policy paper on crypto assets in January 2019.

The FIC and its financial sector regulatory partners intend to formulate a policy position on the regulation of crypto asset service providers in the course of 2019/20. This will take account of international best practice and the FATF's Recommendations, and will help ensure South Africa's AML/CFT/PF system remains effective and up to date as technology evolves. The FIC and its partners engaged with various crypto asset businesses in 2018/19 to discuss them joining the regulatory framework. This work will continue in 2019/20.

Several domestic crypto asset service providers that carry on the business of a money remitter have voluntarily registered with the FIC as accountable institutions.

Case study: Tender corruption

The FIC received information that a politically exposed person was allegedly implicated in a multimillion rand tender awarded by a subsidiary of a provincial government in 2017. The subject was a member of Parliament when the tender was awarded to an entity allegedly linked to his spouse. Members of Parliament are prohibited from receiving any benefits from tenders with an organ of state.

The subject insisted that he had no position in the trust that was awarded the tender. Financial intelligence was prepared and a report was submitted to the South African Police Service for further scrutiny.

Assessing South Africa's money laundering and terrorist financing risks

During 2018/19, Cabinet approved the FIC's proposal to conduct a national risk assessment and to form a committee to lead the process.

The aim of the national risk assessment is to identify the AML/CFT/PF risks the country faces so that South Africa can develop a risk-based approach and appropriate responses to these threats.

This approach is central to the FATF's Recommendations and enables countries to prioritise their resources and allocate them efficiently. While the risk assessment does feed into the current FATF mutual evaluation, it will function independently and continue beyond 2019, informing future legislative amendments and resource allocation. The national risk assessment will thus become a decision-making tool for government and other role players to guide the development of policies, institutional frameworks and processes. Because risks evolve over time, the assessment will be updated regularly.

Case study: Exposing corruption and tax evasion

The FIC received information indicating that a politically exposed person had bought various vehicles for his family members using electronic fund transfers.

The FIC's analysis revealed that over a period of seven years the individual had received more than R2 million in cash through his personal account and more than R20 million was paid into an entity's account linked to him.

None of the funds in the entity's account were used on business expenses such as salaries, rent or payments to the SARS. Instead, the money had been transferred between the two accounts and used for personal and lifestyle expenditures.

The FIC sent a referral to law enforcement and the SARS for investigation.

Case study: Ponzi scheme bust

The FIC received several STRs indicating that an entity and its directors may be operating a Ponzi investment scheme. The entity's two bank accounts were receiving large cash deposits. Using information available on the internet, the FIC discovered that the scheme was being advertised online, promising its investors inflated opportunities.

The Ponzi scheme was operating through multiple entities and individuals. Funds were primarily received through cash deposits and then transferred to others involved in the scheme. The funds paid by existing investors were used to pay new investors.

The FIC requested bank statements for all the entities and individuals involved in running the scheme using section 27A of the FIC Act. After receiving the bank statements, the FIC analysed the transactions. The FIC also requested an affidavit from the Financial Sector Conduct Authority, which confirmed that the main entity was not authorised as a financial services provider.

The FIC drafted an affidavit, which led to the Commercial Crime division of the Hawks opening an investigation into the scheme. The Hawks then sent the case to the National Prosecuting Authority for a decision.

Programme 3: Enablement of financial intelligence capabilities

This programme covers internal units that enable the efficient, effective and economical functioning of the FIC's service delivery processes. The enablement functional units are co-ordinated through the Corporate Services division 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 the budget programme is on enhancing the FIC's ability to deliver services to internal clients and other identified stakeholders, enabling it to become a sustainable and capable organisation.

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

Strategic objective	Performance indicator	Actual achievement 2017/18	Planned target 2018/19	Actual performance 2018/19	Performance status	Comment on deviations
Increased internal efficiency, effectiveness and good corporate governance.	4.1.1 Implementation of the ICT platform and business systems initiatives.	Out of 2 targets: 1 target achieved. 1 target not achieved.	Completed implementation of a new ICT system used for FIC Act compliance monitoring and assessment.	Project execution on hold. Contract termination discussions between FIC and service provider finalised. Procurement of new service provider was cancelled due to unacceptable bids received.	Target not achieved.	Contract with the service provider was terminated due to contractor's non-performance.
	4.1.2 Receive unqualified audit opinion from the Auditor-General.	83% (KPI rephrased from 2018/19 onwards).	Receive unqualified audit opinion 2017/18.	Received an unqualified audit opinion for 2017/18 financial year.	Target achieved.	N/A
	4.1.3 Female employees as % of total staff complement in line with Employment Equity Act (EE Act).	New indicator.	>50%[10]	55%	Target achieved.	N/A
	4.1.4 Designated racial groups as a % of total staff complement in line with EE Act.	New indicator.	75%[11]	79%	Target exceeded.	Permanent staff appointments were made with more consideration of racial equity requirements.
	4.1.5 Disabled employees as a % of total staff complement in line with EE Act.	New indicator.	2%[12]	2%	Target achieved.	N/A
	4.1.6 Percentage of compliant creditors' invoices paid within 30 days of receipt.	New indicator.	100%	‣ Apr 99% (219/222) ‣ May 93% (137/148) ‣ Jun 95% (396/417) ‣ Jul 98% (172/175) ‣ Aug 97% (189/194) ‣ Sep 94% (186/197) ‣ Oct 95% (143/150) ‣ Nov 93% (284/304) ‣ Dec 98% (84/86) ‣ Jan 98% (150/153) ‣ Feb 92% (170/185) ‣ Mar 95% (264/277)	Target not achieved.	Internal delays in submitting required documents for the payment process.

10 This is a target that was communicated to public entities by the National Treasury, reflecting a focus on achieving equitable representation of females as a percentage of total headcount. The Employment Equity Act, 1998 (Act 55 of 1998) (EE Act) stipulates what the FIC should address through relevant plans, whereas the annual targets for the female, racial and disabled categories were set at government level.

11 This annual target for designated racial groups was set at government level, towards fulfilling the EE Act requirements.

12 This annual target for the disabled category was set at government level, towards fulfilling EE Act requirements.

Of the six targets in this programme, the FIC exceeded one and met three. Two targets were not achieved.

Highlights for the year include:

- Receiving an unqualified audit opinion.
- Updating various systems, platforms and infrastructure to ensure the ICT environment is secure and up to date.
- Awarding 14 bursaries and helping 11 employees further their studies.

The FIC remains committed to maintaining a transformed and equitable workforce. In 2018/19 it achieved, and in one case exceeded, its performance targets related to employment equity. The review of staff capacity and types of skills the FIC is likely to need in future will continue to be a priority in 2019/20. This review will also help ensure that the technology the FIC uses and the skills of its employees are well matched. The FIC has appointed an HR and remuneration committee to advance the organisation's people management framework. The primary functions of the committee are to: review major changes and developments in the FIC's remuneration; retention and termination policies and procedures for executive and senior management; remuneration policies; superannuation arrangements; human resource practices and employee relations strategies for the organisation.

Staying up to date and secure

The Corporate Services division works to ensure the FIC's systems are secure and up to date with technological developments. In doing so, this helps the FIC fulfil its mandate by receiving, processing and storing vast amounts of sensitive information every day.

During the reporting period, the FIC upgraded its ICT systems, software and infrastructure, taking advantage of new features and protections. Security firewalls were also replaced with models that can handle more data and are fine-tuned to prevent network breaches.

The Corporate Services division implemented a new security and incident event management solution in 2018/19, which detects potential issues early, analyses security alerts in real time and generates reports as necessary.

The division also introduced a new storage area network to cater for increasing volumes of data the FIC receives, produces and stores, successfully moving existing data to the new system without interrupting operations.

The FIC conducts regular disaster recovery and backup tests to ensure that the systems in place work well and support key business processes.

Ensuring the FIC has a skilled and transformed workforce

The FIC's work is highly skilled and of a technical nature, often requiring employees with scarce qualifications and know-how. Keeping the FIC capacitated with such individuals is a challenge. The Corporate Services division works to ensure that the organisation has the skills it needs, and that existing employees are constantly learning and improving their abilities and expertise.

As such, the FIC invests in training and development to ensure that employees are motivated and kept abreast of technological advances. It continued to implement its learning and development strategy, and career development and talent management frameworks in 2018/19.

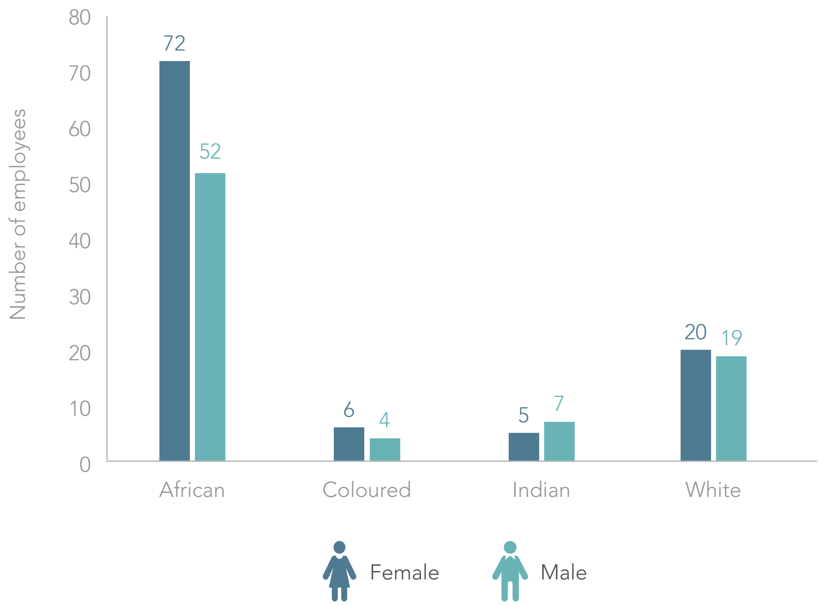
The FIC is committed to developing a pipeline of young South Africans entering the industry through its graduate programme, which helps prepare graduates for a career in compliance and anti-money laundering.

During 2018/19, the FIC:

- Completed 97 technical skills learning interventions
- Supported 36 employees in obtaining professional certifications
- Awarded 14 bursaries.

The FIC had 185 employees, excluding graduates, at the end of the reporting period. The employment equity profile of the 2018/19 staff complement is set out in Figure 11.

See **Section D** for more information about the FIC's HR performance.



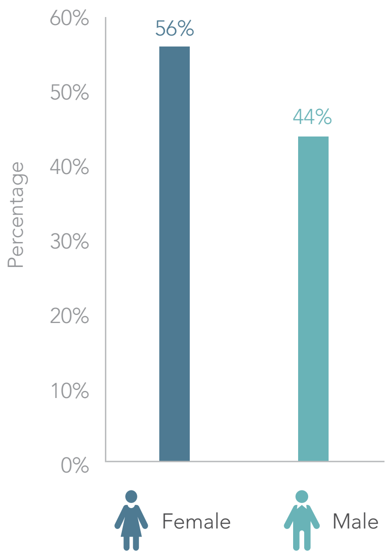


Figure 11: FIC employee equity and gender profile

Case study: VAT fraud

The FIC assisted SARS in a case involving an individual and his business that were allegedly part of a large VAT refund fraud scheme. The scheme used several gold and diamond businesses as a front. The subjects involved were suspected to be "round-tripping" i.e. trading between each other so that the same batch of gold was exported in one form and imported back in a different form. This process was repeated many times in order to claim significant VAT refunds from SARS.

The FIC identified and analysed suspicious transactions, and subsequently issued a certificate on the regulatory reports it had received to confirm that they were admissible as evidence and could be used in court to support SARS' application against the subjects.

Part C:
Governance

Introduction

The FIC's corporate governance model is underpinned by the values of authenticity, ethics, integrity and accountability.

This approach is in keeping with the provisions of the King IV Code of Corporate Governance (King IV Code), which requires that human behavioural traits be aligned with the effective implementation of the corporate governance model. The model is also aligned with the FIC's four strategic objectives to enhance long-term organisational sustainability and performance in line with the outcomes-based approach in King IV.

During the year under review, the FIC undertook to improve its governance, risk and compliance functions through the acquisition of an automated system for dashboard reporting, which will ensure greater efficiency in governance reporting. The organisation has improved its governance and compliance, as evidenced by improved audit outcomes in these areas.

The FIC follows best practice in corporate governance through its oversight structures. The following governance committees help ensure that the FIC meets its strategic objectives and operates in line with its mandate:

- Executive Committee
- Management Forum
- Audit and Risk Committee
- HR and Remuneration Committee
- Information and Communications Technology Steering Committee.

Accounting authority

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

In addition to the day-to-day oversight responsibilities exercised by the Executive Committee, an executive structure has been established to promptly resolve any issues raised in annual audit findings by the Auditor-General of South Africa. The chairperson of this structure is a FIC executive who reports to the Executive Committee.

Enterprise risk management

The FIC subscribes to the Public Sector Risk Management Framework as well as other international best practices to identify, analyse, treat, monitor and communicate risks internally. This approach ensures that risks are continuously identified, assessed yearly and shared with relevant stakeholders.

The objectives of the risk management function are to:

- Integrate risk concerns into the FIC's daily decision-making and implementation processes.
- Identify and manage risks in line with the FIC's risk appetite and risk tolerance parameters, which coincide with the organisation's strategy and objectives.
- Improve the FIC's ability to prevent, detect, correct, escalate and respond to critical issues by executing risk management action plans and recommendations, and to monitor them effectively.
- Comply with appropriate risk management practices in terms of corporate governance guidelines and the King IV Code.
- Create a risk-aware culture and embed risk-based approaches to decision-making at operational, tactical and strategic levels of the FIC.

The FIC has adopted an enterprise-wide approach to managing risk, which is defined in its enterprise risk management framework. The framework defines the FIC's approach to identifying, measuring, managing, reporting and monitoring enterprise-wide risks. The FIC recognises that, in a complex financial sector environment, risk management processes and strategies need to evolve and are therefore subject to ongoing review and modifications. They also need to take into account the risk appetite and risk tolerance of the business, as defined by its enterprise risk management framework.

The principles of the enterprise risk management framework are embodied in the King IV Code, the ISO 31000 standards and the Committee of Sponsoring Organisations of the Treadway Commission frameworks. The principles are also based on:

- Building a strong governance structure
- Defining the FIC's risk appetite and risk tolerance levels
- Instilling a risk-awareness culture
- Developing and implementing risk-related policies
- Introducing processes for identifying, assessing, mitigating, monitoring and reporting all key existing and emerging risks.

In fulfilling its enterprise-wide risk management responsibilities, the FIC uses top-down and bottom-up approaches. The top-down approach entails risk workshops with the Management Forum, the Executive Committee, the Audit and Risk Committee, and the accounting authority. The bottom-up process entails implementing risk management processes, developing operational risk registers and taking action at an operational level to mitigate risks. The focus of these approaches is to identify risks that may prevent the organisation from achieving its strategic objectives, and implement control measures to mitigate these risks.

Achievements in mitigating strategic risks include:

- Securing a tool for governance risk and compliance.
- Deploying a data storage unit to the FIC's disaster recovery primary site.
- Stabilising goAML, preparing for the international funds transfer reporting stream and completing the on-boarding of law enforcement officers for submission of requests for information.
- Providing guidance and raising public awareness on the implementation of the amendments to the FIC Act.
- Updating regulatory reporting user guides to assist accountable and reporting institutions.
- Approving the process of engaging with supervisory bodies in the designated non-financial businesses and professions sector.
- Completing a compliance audit assessment and an ICT environment security assessment.
- Putting in place a continuous service to monitor operational threats.
- Participating in and influencing local and international bodies on reforms within the FIC's line of work, and ensuring that South Africa keeps abreast of developments.

The FIC has appointed an internal audit service provider for a three-year period to deliver on the internal audit function.

Major risk categories

The FIC continuously enhances and updates its enterprise risk management framework to respond to risks. It ensures that the management of these risks are embedded in the FIC's overall corporate governance structures, strategy and strategic planning, annual performance plan, reporting processes, policies, values and culture. Responsibility for implementing and maintaining robust enterprise-wide risk management practices apply to all the FIC's strategic outcome areas. The FIC has identified its principal risk categories as strategic and operational.

Risk category	Strategic outcomes	Risks	Controls
Strategic risks			
Regulatory compliance and legal risks	Implementing and maintaining robust enterprise-wide risk management practices. Improving the collection of information and the enforcement of compliance with the FIC Act.	Non-compliance with laws and regulations.	‣ Ongoing tracking of changes to existing legislation and introduction of new legislation. ‣ Automated regulatory hub in place, which generates automated daily alerts on changes to existing legislation and the introduction of any new applicable legislation. ‣ Regulatory system in place and reviewed annually. ‣ Annual internal and external training provided to staff on key pieces of legislation. ‣ Regular compliance audits to assess compliance levels.
Reputational risks	Ensuring a safe, secure, compliant and efficient operating environment.	Negative perception of the FIC.	‣ Frequent improvement of the business environment and internal control factors ‣ Tracking of reputational key risk indicators to prevent and assess reputational damage.
Operational risks			
Business continuity	Ensuring a safe, secure, compliant and efficient operating environment.	Inadequate business continuity management framework (plans, processes and infrastructure).	‣ Business continuity management and disaster recovery plans are in place. ‣ Crisis management, emergency management and recovery teams are in place. ‣ Health and Safety Committee is in place.
ICT	Ensuring a safe, secure, compliant and efficient operating environment.	Inadequate delivery of ICT services to support the FIC's operations.	‣ Secondary fibre link activated. ‣ Security incident and event management solution implemented. ‣ goAML key capabilities stabilised. ‣ ICT environment security risk assessment completed.

Risk profile

The FIC's corporate risk profile is a function of the inherent and residual risks of all the process-level business risks identified and assessed across the organisation. The corporate risk profile gives an overview of the performance and rating of the FIC's principal risks and risk landscape.

Below is an assessment of the FIC's principal risks:

Number	Principal risk	Inherent risk	Residual risk
SR001	Inadequate collection of information may result in non-compliance with the FIC Amendment Act.	**High**	**Priority 3**
SR002	Inadequate use of FIC products and services by stakeholders.	**Extreme High**	**Priority 3**
SR003	Inadequate promotion of national interests in maintaining the integrity of the South African financial system.	**High**	**Priority 3**
SR004	Inadequate operating environment.	**High**	**Priority 2**
SR005	Inadequate resource and governance.	**High**	**Priority 3**

Risk governance and combined assurance

The FIC has adopted a combined assurance methodology in line with the King IV Code to ensure a more integrated approach to managing risks. This methodology entails collaboration between the management, risk management, compliance and internal audit functions. These internal assurance providers participate in the annual review of the enterprise risk management framework, and the development and assessment of the FIC's risk universe.

The four lines of defence

The "four lines of defence" model provides a simple and effective way to manage risk by clarifying essential roles and duties.

1

The first line of defence is line management, which is responsible for managing risk within divisions and business units. Line managers identify, assess, measure and control risk to achieve business objectives in line with the enterprise risk management framework. They compile information on, and responses to, new and emerging risks, risk incidents, losses and near-misses, key risk indicators and action plans.

2

The second line of defence is made up of risk control and compliance assurance providers. In the FIC, this is the risk management function, including Corporate Legal Services (consisting of the legal and compliance units), the Health and Safety Committee, and the Governance Committee. The risk management function guides line management in its responsibilities by developing frameworks that define the FIC's approach to risk management. It also provides an independent assessment of exposures to specific risks and reports on these to various forums within the FIC.

3

The third line of defence includes risk assurance providers who have greater independence, such as the internal and external audit functions, which report to oversight bodies. These two functions perform regular reviews of the FIC's adherence to the enterprise risk management framework and policy. They assess the effectiveness of the FIC's risk controls through combined planning with the risk management function and other assurance providers to ensure risks are covered and control tests are not duplicated. They provide reasonable assurance that all material risks are identified and provide input on the effectiveness of identified internal controls, based on the results of their audits.

4

The FIC has various independent oversight bodies (the executive authority, the Audit and Risk Committee and the National Treasury) that provide advice and function as a fourth line of defence. These oversight bodies provide assurance to the internal and external stakeholders of the FIC. They have a vested interest in ensuring that the organisation adopts a co-ordinated approach to managing key risks. The oversight bodies are given frequent feedback and they also provide inputs on their areas of responsibility.

Internal controls

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

The internal audit service provider conducted an enterprise risk management effectiveness review and business continuity management audits during the previous financial year. The FIC is addressing the review's findings based on action plans it has developed.

All findings are tracked by management and reported to the Audit and Risk Committee quarterly.

B-BBEE – Compliance performance information

Skills development compliance report

Number of people trained

Permanent FIC employees trained									Total
	A		C		I		W		
Race classification	125		9		15		49		198
Age:									
Youth (ages 18 – 35)	32		2		4		7		198
Middle aged (ages 36 – 50)	85		6		9		31		
Senior (older than 50)	8		1		2		11		
	M	F	M	F	M	F	M	F	
Gender	49	76	3	6	7	8	27	22	198
Disability	0	1	0	1	0	0	0	0	2
	Gauteng				Western Cape				
Training location	192				6				198
	A		C		I		W		
Training (spend)	R1 592 664.48		R56 988.87		R169 290.46		R536 108.88		R2 355 052.69
Bursaries (spend)	R95 095.00		R0.00		R0.00		R20 000.00		R115 095.00
Total training spend	**R1 687 759.48**		**R56 988.87**		**R169 290.46**		**R556 108.88**		**R2 470 147.69**
% of total training spend	68%		2%		7%		23%		100%

Note: Number of people trained include terminated employees during the reporting period.

Temporary (contract) employees trained									Total
	A		C		I		W		
Race classification	19		0		1		1		21
Age:									
Youth (ages 18 – 35)	10		0		0		1		11
Middle aged (ages 36 – 50)	9		0		1		0		10
Senior (older than 50)	0		0		0		0		0
	M	F	M	F	M	F	M	F	
Gender	5	14	0	0	1	0	0	1	21
Disability	0	0	0	0	0	0	0	0	0
	Gauteng				Western Cape				
Training location	19				2				21
	A		C		I		W		
Training value (spend)	R69 254.30		R0.00		R1 462.68		R517.50		**R71 234.48**
% of total training spend	97%		0%		2%		1%		100%

FIC graduates trained									Total
	A		C		I		W		
Race classification	7		0		1		0		8
Age:									
Youth (ages 18 – 35)	7		0		1		0		8
Middle aged (ages 36 – 50)	0		0		0		0		0
Senior (older than 50)	0		0		0		0		0
	M	F	M	F	M	F	M	F	
Gender	5	2	0	0	1	0	0	0	8
Disability	0	0	0	0	0	0	0	0	0
	Gauteng				Western Cape				
Training location	8				0				8
	A		C		I		W		
Training value (spend)	R7 887.22		R0.00		R330.55		R0.00		**R8 217.77**
% of total training spend	96%		0%		4%		0%		100%

Type of training provided to people (permanent, temporary, graduates)

Permanent FIC employees trained

Types of training	Overall number of training programmes per training type	Race and gender classification							
		A		C		I		W	
		390		17		44		125	
		M	F	M	F	M	F	M	F
A – Institution based theoretical instruction alone (e.g. bursaries, diploma, certificates)	12	20	21	0	1	1	1	13	4
B – Institution based theoretical instruction and some practical learning (Mixed mode – theoretical knowledge and workplace experience/internships)	0	0	0	0	0	0	0	0	0
C – Recognised or registered workplace structured experiential learning (e.g. structured learning in the workplace with mentor or coach e.g. doctors, lawyers, accountants)	0	0	0	0	0	0	0	0	0
D – Occupationally directed instructional & work based learning programmes that require a formal contract (results in SAQA registered qualification)	0	0	0	0	0	0	0	0	0
E – Occupationally directed instructional and work based learning programme that does not require a formal contract	0	0	0	0	0	0	0	0	0
F – Occupationally directed informal instructional programmes (e.g. institutions, conferences, meetings)	13	2	12	1	2	3	3	12	6
G – Work based informal programmes (e.g. lead to increased understanding of job)	50	106	229	4	9	17	19	41	49

Temporary (contract) employee training list

Types of training	Overall number of training programmes per training type	Race and gender classification							
		A		C		I		W	
		36		0		1		1	
		M	F	M	F	M	F	M	F
A – Institution based theoretical instruction alone (e.g. bursaries, diploma, certificates)	0	0	0	0	0	0	0	0	0
B – Institution based theoretical instruction and some practical learning (Mixed mode – theoretical knowledge & workplace experience/ internships)	0	0	0	0	0	0	0	0	0
C – Recognised or registered workplace structured experiential learning (e.g. structured learning in the workplace with mentor or coach e.g. doctors, lawyers, accountants)	0	0	0	0	0	0	0	0	0
D – Occupationally directed instructional & work based learning programmes that require a formal contract (results in SAQA registered qualification)	0	0	0	0	0	0	0	0	0
E – Occupationally directed instructional and work based learning programme that does not require a formal contract	0	0	0	0	0	0	0	0	0
F – Occupationally directed informal instructional programmes (e.g. institutions, conferences, meetings)	1	0	2	0	0	0	0	0	0
G – Work based informal programmes (e.g. lead to increased understanding of job)	9	5	29	0	0	1	0	0	1

Graduates training list

Types of training	Overall number of training programmes per training type	Race and gender classification							
		A		C		I		W	
		9		0		1		0	
		M	F	M	F	M	F	M	F
A – Institution based theoretical instruction alone (e.g. bursaries, diploma, certificates)	0	0	0	0	0	0	0	0	0
B – Institution based theoretical instruction and some practical learning (Mixed mode – theoretical knowledge & workplace experience/ internships)	0	0	0	0	0	0	0	0	0
C – Recognised or registered workplace structured experiential learning (e.g. structured learning in the workplace with mentor or coach e.g. doctors, lawyers, accountants)	0	0	0	0	0	0	0	0	0
D – Occupationally directed instructional & work based learning programmes that require a formal contract (results in SAQA registered qualification)	0	0	0	0	0	0	0	0	0
E – Occupationally directed instructional and work based learning programme that does not require a formal contract	0	0	0	0	0	0	0	0	0
F – Occupationally directed informal instructional programmes (e.g. institutions, conferences, meetings)	0	0	0	0	0	0	0	0	0
G – Work based informal programmes (e.g. lead to increased understanding of job)	3	7	2	0	0	1	0	0	0

Enterprise and supplier development

Total procurement spend/budget and number of enterprises:

Total procurement spend		Total number of suppliers	
Total number of Exempted Micro Enterprises (EMEs) supplier	Total value spend	% Black ownership	% Black women ownership
117	R3 196 166.50	63.3	59.63
Total number of Qualifying Small Enterprises (QSEs) supplier	Total value spend	% Black ownership	% Black women ownership
4	R997 640.84	37.80	37.80
Total number of large suppliers		Total value spend	
244		R41 835 600.59	

Business continuity management and disaster recovery

In keeping with the FIC's business continuity management strategy, the organisation has a fully established crisis management team. During the year under review, the FIC conducted workshops to educate staff members about business continuity management and its business impact analysis plans. It also held a crisis simulation and 12 information technology disaster recovery exercises to assess the organisation's readiness to respond to disasters.

Fraud and corruption

The corruption prevention, detection and investigation framework and its associated implementation plan were developed and approved by the accounting authority during the previous financial year. Government has introduced a national anti-corruption hotline (NAHC) for the public service, to deal with the reporting of corruption. The NAHC, which is used by the FIC, is operated by the Public Service Commission to ensure security of information and effective management of the hotline service. It is operational five days a week and 11 hours a day from 08:00 to 19:00. The hotline is available to the public. Reference numbers are issued if reporters wish to follow up.

No corruption cases were received from the hotline during the period under review.

Minimising conflict of interest

The FIC organised awareness sessions on conflict of interest and conducting business with the state during the period under review. All employees are required to declare their interests, irrespective of whether these generate regular income or not. At least once every year, staff are required to secure the consent of the FIC Director for any external remunerative work. The FIC has a policy and procedures regarding the receipt of gifts, donations and sponsorships to prevent internal fraud and corruption.

The FIC continues to update and align its policies and procedures to comply with the Public Administration Management Act, 2014 (Act 11 of 2014). The FIC has also updated employment contracts for all staff joining the organisation.

Code of ethics and conduct

The FIC has adopted a code of ethics and conduct, which is reviewed regularly. Training sessions and information-sharing initiatives are held to remind staff of their commitment and obligations. Breaches of the code are dealt with swiftly and decisively.

Health, safety and environmental issues

The Health and Safety Committee met three times during the year and five incidents were reported with two persons requiring medical treatment in two of the incidents. The health and safety representatives performed 12 safety inspections during the year and all the identified matters were resolved. An evacuation drill was also conducted during the financial year.

Report of the Audit and Risk Committee

We are pleased to present our report for the financial year ended 31 March 2019.

Background

The Audit and Risk Committee (previously known as the "Audit Committee") was reconstituted during the 2018/19 financial year following the end of term of the previous Committee in July 2018. The previous Committee was composed as follows:

Name	Qualifications	Date of appointment	Contract end date
Rob Theunissen (Chairperson)	BAcc; CA(SA); Diploma in Criminal Justice & Forensic Auditing (RAU)	30 March 2015	31 July 2018
Protas Phili	BCom (Acc); BCom (Hons); CA(SA); Certificate of Advanced Auditing (RAU/UCT); MCom	30 March 2015	31 July 2018
Precious Sibiya	BAcc; Postgraduate Diploma in Accountancy (UKZ), CA(SA)	30 March 2015	31 July 2018

The appointed Audit and Risk Committee, effective from 1 August 2018, comprises the following members:

Name	Qualifications	Date of appointment	Contract end date
Bongani Mbewu (Chairperson)	BCom (Acc); BCom (Hons); CIA; CCSA; CGAP; CRMA; MPhil (Int Audit)	1 August 2018	31 July 2021
Protas Phili	BCom (Acc); BCom (Hons); CA(SA); Certificate of Advanced Auditing (RAU/UCT); MCom	1 August 2018	31 July 2021
Precious Sibiya	BAcc; Postgraduate Diploma in Accountancy (UKZ), CA(SA)	1 August 2018	31 July 2021
Thomas Kgokolo	CA(SA), MBA	1 August 2018	31 July 2021
Dr Denisha Jairam-Owthar	BCompt (Acc), MBA, PhD (ICT)	1 August 2018	31 July 2021

The meetings held and attendance at the meetings during the year were as follows:

Meeting date	April 2018	May 2018	July 2018	October 2018	January 2019
Rob Theunissen (Chairperson)	Present	Present	Present	Not a member	Not a member
Bongani Mbewu	Not a member	Not a member	Not a member	Present	Present
Protas Phili	Present	Present	Present	Present	Present
Precious Sibiya	Present	Present	Present	Present	Present
Thomas Kgokolo	Not a member	Not a member	Not a member	Absent with apology	Present
Dr Denisha Jairam-Owthar	Not a member	Not a member	Not a member	Present	Present

Audit and Risk Committee responsibility

The Audit and Risk 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. The Audit and Risk Committee also reports that it has adopted appropriate formal terms of reference as its Audit and Risk Committee Charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein, except that we have not reviewed changes in accounting policies and practices.

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

- 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 governance, risk and control processes.
- Monitored ethical conduct by the entity, its executive and senior management.
- Monitored the entity's compliance with applicable legislative requirements.
- Reported in terms of any fruitless, wasteful and irregular expenditure in terms of the PFMA.
- Ensured co-operation between internal and external auditors by clarifying and overseeing the appropriateness and implementation of the combined assurance plan.
- Considered the King Code of Governance recommendations and their applicability to the entity.

- Assisted management in carrying out its risk management and ICT responsibilities; and
- Received and dealt 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 controls

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

The Internal Audit function is outsourced, and the outsourced internal audit 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.

Oversight of risk management processes

The Audit and Risk Committee is responsible for the oversight of the risk management function. Management reports to the Audit and Risk Committee on the organisation's risk management processes. The Audit and Risk Committee reviewed and recommended for accounting authority approval the risk management policy, risk management strategy, enterprise risk management plan, business continuity management plan, corruption prevention detection and investigation plan and other risk management policies and plans. The Audit and Risk Committee has reviewed the risk register and the reports from management and is generally satisfied with how risks are being managed within the FIC.

In-year management and monthly/ quarterly report

The audit and risk committee has had sight of the quarterly reports submitted to the Executive Authority, the Minister of Finance, during the year under review and can confirm that the entity reported quarterly to the 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 entity's implementation plan for audit issues raised in the prior year and we are satisfied that the matters have been adequately resolved.

The Audit and Risk Committee concurs 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.

Bongani Mbewu
Chairperson of the Audit and Risk Committee
31 July 2019

Part D:
Human Resource Management

Introduction

The FIC continues to implement talent management systems and processes to ensure it effectively manages its talent in line with the HR strategy. During 2018/19 the FIC strengthened its focus on people management, particularly in the following key areas:

- **Skills development**: Conducted a skills audit to determine the skills sets, qualifications and aspirations of FIC staff.
- **Employee relations**: Built employee relations capacity across the organisation to ensure that sound relations are maintained, and that staff and management are able to handle incidents in a professional manner.
- **Performance management**: Enhanced the performance management system to ensure that it is effective, credible and relevant to the FIC environment.
- **Remuneration**: Reviewed the FIC benefit structure to ascertain its competitiveness in terms of attracting and retaining skills.
- **Human resources and remuneration committee**: Strengthened governance and enhanced the people management framework.
- **E-recruitment:** Implemented e-recruitment to improve recruitment turnaround times.
- **Recruitment framework**: Reviewed the recruitment framework to adapt to the changing environment and improve the organisation's ability to attract the relevant skills.

The FIC has exceeded its transformation targets, increasing the percentage of women employees from 49 percent in 2017/18 to 55 percent in 2018/19. It has also exceeded its racial employment equity targets, increasing the percentage of black, coloured and indian employees from 69 percent in 2017/18 to 79 percent in the reporting period. The FIC filled all four vacant management roles with equity candidates.

Attracting and retaining employees, and fostering a people-centred culture remain a challenge and key focus area for the FIC. An integrated and intentional focused approach to talent management is needed to ensure improved co-operation across the organisation.

Going forward, the FIC will focus on:

- Articulating and activating the organisation's brand to drive both attraction and retention of talent
- Reviewing critical competencies
- Building effective teams
- Supporting career development within the FIC.

Human resources oversight statistics

Personnel cost by programme/activity/objective

Programme/activity/objective	Total expenditure for the entity R'000	Personnel expenditure* R'000	Personnel expenditure as a % of total expenditure	Number of employees	Average personnel cost per employee R
Total expenditure	261 186*	160 781	62%	209	769

* Personnel expenditure includes terminations during the reporting period but excludes year-end accrual adjustments and compensation for occupational injury and disease

Personnel cost by salary band

Level	Personnel expenditure R'000	% of personnel expenditure to total personnel cost	Number of employees	Average personnel cost per employee R'000
Top management	12 370	8%	5	47
Senior management	20 883	13%	12	1 740
Professional qualified	33 631	21%	30	1 121
Skilled	78 748	49%	122	645
Semi-skilled	15 149	9%	40	379
Unskilled	0	0%	0	0
Total	**160 781**	**100%**	**209**	**3 043**

Performance rewards

Level	Performance rewards R'000	Personnel expenditure R'000	% of performance rewards to total personnel cost
Top management	694	12 370	0.43%
Senior management	1 446	20 883	0.9%
Professional qualified	2 590	33 631	1.61%
Skilled	4 692	78 748	2.92%
Semi-skilled	737	15 149	0.46%
Unskilled	0	0	0%
Total	**10 159**	**160 781**	**6%**

Training costs

Programme/activity/objective	Personnel expenditure R'000	Training expenditure R'000	Training expenditure as a % of personnel cost	Number of employees trained	Average training cost per employee R'000
Staff training		2 446	2%	157	16
Bursaries		98	0%	14	7
Total	**160 781**	**2 544**	**2%**	**171**	**15**

Employment and vacancies 2018/19

Programme/activity/objective	Number of employees	Number of approved posts	Number of employees	Vacancies	% of vacancies
Top management	5	5	5	0	0%
Senior management	12	12	12	0	0%
Professional qualified	24	25	24	1	4%
Skilled	108	128	108	20	16%
Semi-skilled	35	35	35	0	0%
Unskilled	1	1	1	0	0%
Total	**185***	**206**	**185**	**21**	**20%**

* 185 was the closing headcount as at 31 March 2019

Finding suitable candidates with compliance and ICT skills remains a challenge because these are scarce skills in the labour market. To mitigate this risk, the FIC has a graduate programme to build a pipeline of skilled professionals.

Employment changes

Programme/activity/objective	Employment at beginning of period	Appointments	Terminations	Employment at end of the period
Top management	5	2	2	5
Senior management	12	0	1	11
Professional qualified	24	0	0	24
Skilled	108	22	28	102
Semi-skilled	35	0	1	34
Unskilled	1	0	0	1
Total	**185**	**24**	**32**	**177**

Reasons for staff leaving

Reasons for staff leaving	Number	% of total number of staff leaving
Death	0	0%
Resignation	27	85%
Dismissal	2	6%
Retirement	0	0%
Ill health	0	0%
Expiry of contract	3	9%
Other	0	0%
Total	**32**	**100%**

The main reasons employees leave are to pursue opportunities to grow their career or better earning opportunities. The FIC is enhancing its career development management and framework to address staff turnover.

Labour relations: Misconduct and disciplinary action

Nature of disciplinary action	Number
Verbal warning	4
Written warning	0
Final written warning	0
Dismissal	0

Equity target and employment equity status

	Male							
	African		Coloured		Indian		White	
Levels	Current	Target	Current	Target	Current	Target	Current	Target
Top management	2	1	1	1	0	1	1	2
Senior management	4	3	0	1	1	1	2	1
Professional qualified	5	3	0	1	3	2	3	8
Skilled	36	39	3	7	3	2	13	18
Semi-skilled	4	5	0	0	0	0	0	0
Unskilled	1	1	0	0	0	0	0	0
Total	**52**	**52**	**4**	**10**	**7**	**6**	**19**	**29**

	Female							
	African		Coloured		Indian		White	
Levels	Current	Target	Current	Target	Current	Target	Current	Target
Top management	1	0	0	0	0	0	0	0
Senior management	2	2	0	0	1	1	2	2
Professional qualified	7	3	1	2	0	1	5	4
Skilled	34	39	4	4	4	7	8	10
Semi-skilled	28	25	1	1	0	1	5	4
Unskilled	0	0	0	0	0	0	0	0
Total	**72**	**69**	**6**	**7**	**5**	**10**	**20**	**20**

	Disabled staff			
	Male		Female	
Levels	Current	Target	Current	Target
Top management				
Senior management				
Professional qualified				
Skilled	1		1	
Semi-skilled			1	
Unskilled				
Total	**1**		**2**	

There are no significant variances between targets and current performance. Due to a moratorium placed on vacancies for the past few years, the FIC's targets were based on the staff complement threshold. The FIC's premises cannot accommodate all types of disabilities, but it will continue to make efforts to increase the number of employees with disabilities.

Part E:
Financial Information

Index

The reports and statements set out below comprise the annual financial statements of the Financial Intelligence Centre:

Report of the auditor-general to parliament on the Financial Intelligence Centre

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 72 to 97, which comprise, the statement of financial position as at 31 March 2019, the statement of financial performance statement of changes in net assets and cash flow statement for the year then ended, as well as the notes 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 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

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 this auditor's report.

4. I am independent of the public entity in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code), parts 1 and 3 of the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* 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 codes.

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

Emphasis of matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Irregular expenditure

7. As disclosed in note 28 to the financial statements, the public entity incurred irregular expenditure of R1 885 000, as a result of non-compliance with applicable procurement legislation in the previous financial year.

Restatement of corresponding figures

8. As disclosed in note 28.1 to the financial statements, the public entity restated the corresponding figures for 31 March 2018 as a result of errors in the financial statements for the year ended, 31 March 2019.

Responsibilities of accounting authority for the financial statements

9. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

10. 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 appropriate governance structure either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

11. 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on the audit of the annual performance report

Introduction and scope

13. In accordance with the Public Audit Act of South Africa, 2004 (Act 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.

14. 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 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.

15. 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 2019:

Programmes	Pages in the annual performance report
Programme 2 – delivery of intelligence on financial crime and FIC Act-related regulatory services	20, 32 and 38

16. 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.

17. The material findings in respect of the usefulness and reliability of the selected programme are as follows:

Programme 2 – delivery of intelligence on financial crime and FIC Act-related regulatory services

18. The source information, evidence and method of calculation for achieving the planned indicator were not clearly defined.

Performance indicator	Planned target	Actual performance
3.3.1 Completion of response to the FATF recommendation on AML/CFT risk assessment for South Africa	Consultations on concept to undertake AML/CFT risk assessment for South Africa conducted	Completed consultations on concept to undertake AML/CFT risk assessment for South Africa
3.4.1 Completion of milestones for implementing amendments to the FIC Act	Consultations conducted and phase 1 implementations of amended FIC Act	Consultations conducted and phase 1 implementations of amended FIC Act

Other matter

19. I draw attention to the matter below.

Achievement of planned targets

20. Refer to the annual performance report on pages 20, 32, 38 and 47 for information on the achievement of planned targets for the year and explanations provided for the under /over achievement of a significant number of targets.

Report on the audit of compliance with legislation

Introduction and scope

21. 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.

22. The material finding on compliance with specific matters in key legislations are as follows:

Strategic planning and performance management

23. The strategic plan for 2018-19 to 2022-23 was not submitted for approval by the executive authority, as required by Treasury regulation 30.1.1.

Other information

24. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial

statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

25. 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.

26. 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.

27. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

28. 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 on it. 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 the compliance with legislation included in this report.

Leadership

29. The accounting authority did not take adequate steps to ensure compliance with the requirements of the National Treasury's framework for managing programme performance information and the preparation of the entity's strategic documents.

Financial and performance management

30. Management did not adequately review the performance information which resulted in misstatements being identified during the audit process.

Auditor General

Auditor-General
Pretoria
31 July 2019

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 judgement 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 this 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's 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 this auditor's report. However, future events or conditions may cause a public entity to cease continuing 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, where 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 2019.

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 her in terms of the PFMA and other applicable legislation, she 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, 2001 (Act 38 of 2001). The mandate of the FIC is to identify the proceeds of crime, combat money laundering and the financing of terrorism.

The FIC Act works in concert with the Prevention of Organised Crime Act, 1998 (Act 121 of 1998), the Protection of Democracy Against Terrorist and Related Activities Act, 2004 (Act 33 of 2004).

The FIC Act established the FIC and placed obligations of 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. The Protection of Consitutional Democracy Against Terrorist and Related Activities Act introduced measures to address the financing of acts of terrorism.

2. Going concern

The annual 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 Committee. 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 the National Treasury, and directives issued by the Accounting Standards Board.

5. Corporate governance

General

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

Audit and Risk Committee

During the year under review, the accounting authority decided to combine the Audit Committee and the Risk Committee to form one committee, namely the Audit and Risk Committee.

The Audit and Risk Committee comprised five members for the year ended 31 March 2019 and met five times during the year, in accordance with its approved Charter that requires a minimum of four meetings.

Internal audit

The FIC has outsourced its internal audit function, which reports functionally to the Audit and Risk 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 2019 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 2019 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.

Adv XJ Khanyile
Director: Financial Intelligence Centre
Accounting Authority
31 July 2019

Statement of financial position
as at 31 March 2019

	Notes	2019 R'000	2018 Restated R'000
Assets			
Current assets			
Inventories	3	49	92
Receivables from exchange transactions	4	612	449
Pre-payments	5	7 008	4 510
Deposits	6	-	1 505
Cash and cash equivalents	7	118 646	96 122
		126 315	**102 678**
Non-current assets			
Property, plant and equipment	8	44 806	42 406
Intangible assets	9	31 012	28 288
Deposits – long-term receivables	6	601	-
		76 419	**70 694**
Total assets		**202 734**	**173 372**
Liabilities			
Current liabilities			
Finance lease obligation	10	588	844
Payables from exchange transactions	11	16 334	16 554
Provisions	12	11 044	10 159
Third party deposits	13	50	50
Income received in advance	14	8 020	-
Operating lease	15	105	3 980
		36 141	**31 587**
Non-current liabilities			
Finance lease obligation	10	-	588
Operating lease	15	3 347	242
		3 347	**830**
Total liabilities		**39 488**	**32 417**
Net assets		**163 246**	**140 955**
Accumulated surplus		**163 246**	**140 955**

Statement of financial performance

for the year ended 31 March 2019

	Notes	2019 R'000	2018 Restated R'000
Revenue			
Non-exchange revenue	16	278 716	270 191
Exchange revenue	17	5 836	5 057
		284 552	**275 248**
Expenditure			
Personnel costs	18	(160 781)	(155 598)
Depreciation and amortisation	19	(16 036)	(23 668)
Finance costs	20	(111)	(189)
Impairment of financial assets	21.1	(20)	(24)
Financial instrument adjustments	21.2	(1 030)	-
General expenses	22	(83 208)	(72 390)
Total expenditure		**(261 186)**	**(251 869)**
Operating surplus		**23 366**	**23 379**
Gain/(Loss) on disposal of assets	32	(1 030)	242
Loss on foreign exchange	34	(45)	(4)
Surplus for the year		**22 291**	**23 617**

Statement of changes in net assets

for the year ended 31 March 2019

	Notes	Accumulated surplus R'000	Total net assets R'000
Opening balance on 1 April 2015		**89 714**	**89 714**
Restated surplus 2016		781	781
2016 surplus as previously reported		932	932
Prior period adjustment	33.3	(151)	(151)
Restated balance at 1 April 2016		**90 495**	**90 495**
Restated surplus 2017		26 843	26 843
2017 surplus as previously reported		27 120	27 120
Prior period adjustment	33.2	(277)	(277)
Restated balance on 1 April 2017		**117 338**	**117 338**
Restated surplus 2018		23 617	23 617
2018 suplus as previously reported		24 583	24 583
Prior period adjustment	33.2	(966)	(966)
Restated balance at 1 April 2018		**140 955**	**140 955**
Surplus for the year ended 31 March 2019		22 291	22 291
Balance at 31 March 2019		**163 246**	**163 246**

Cash flow statement

for the year ended 31 March 2019

	Notes	2019 R'000	2018 Restated R'000
Cash flows from operating activities			
Receipts			
Cash receipts from grants		278 716	270 191
Interest income		5 565	4 767
Goods sold		-	25
Insurance receipts		-	67
Other income		(38)	-
		284 243	275 050
Payments			
Suppliers and employees		(246 543)	(229 237)
Finance costs		(110)	(189)
		(246 653)	(229 426)
Net cash flows from operating activities	23	**37 590**	**45 624**
Cash flows from investing activities			
Purchase of property, plant and equipment		(9 103)	(5 753)
Proceeds from sale of property, plant and equipment		58	1 010
Purchase of other intangible assets		(13 087)	(12 320)
Net cash flows from investing activities		**(22 132)**	**(17 063)**
Cash flows from financing activities			
Deposits paid by third parties		-	10
Movement in income received in advance		8 020	(8 044)
Finance lease payments		(954)	(1 146)
Net cash flows from financing activities		**7 066**	**(9 180)**
Net increase in cash and cash equivalents		**22 524**	**19 381**
Cash and cash equivalents at the beginning of the year		96 122	76 740
Effect of exchange rate movement on cash balances		-	1
Cash and cash equivalents at the end of the year	7	**118 646**	**96 122**

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:

Item	Average useful life
Furniture	5 to 20 years
Leasehold improvements	Over the lease period
Computer hardware	3 to 15 years
Fixtures and fittings	5 to 20 years
Motor vehicles	10 to 15 years
Office equipment	2 to 15 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:

Item	Useful life
Computer software	6 to 15 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.

Exchange revenue

Exchange revenue comprises finance income and other income.

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 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; and
- A reliable estimate can be made of the obligation.

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

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

1.10 Translation of foreign currencies

Foreign currency transactions

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

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

1.11 Inventory

Initial recognition and measurement

Inventory is stated at cost on initial recognition and 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 expenses on borrowings, changes in fair value of financial assets at fair value through profit and loss and impairment losses recognised on financial assets. All borrowing costs are recognised in the statement of financial performance using the effective interest rate method.

1.13 Critical accounting estimates and judgements

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

1.14 Comparative figures

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

1.15 Accounting for non-exchange transactions

Recognition of revenue from non-exchange transactions

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

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

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

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

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

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

1.16 Fruitless and wasteful expenditure

Fruitless 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 or approved internal policies.

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 for this 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 approved Standards of GRAP as the Minister of Finance has not yet determined an effective date:

Standard/Interpretation	Effective date	Expected impact
GRAP 32: Service Concession Arrangements: Grantor	Still to be determined by Minister of Finance	No impact on the FIC's Financial Statements
GRAP 108: Statutory receivables	Still to be determined by Minister of Finance	No impact on the FIC's Financial Statements
GRAP 109: Accounting by Principals and Agents	Still to be determined by Minister of Finance	No impact on the FIC's Financial Statements
GRAP 20: Related Party Disclosures	Still to be determined by Minister of Finance	Unlikely there will be a material impact

Notes to the annual financial statements

3. Inventories

	2019 R'000	2018 Restated R'000
Consumables on hand	49	92

Consumables comprise stationery on hand

4. Receivables from exchange transactions

	2019 R'000	2018 Restated R'000
Sundry debtors	89	-
Sundry debtors – ex-staff	13	54
Staff debtors	10	8
Impairment of debtor	(47)	(27)
Accrued interest – bank	547	414
	612	**449**
Reconciliation of impairment		
Opening balance	(27)	(4)
Increase in provision for bad debts – refer to note 21.1	(20)	(23)
	(47)	**(27)**

5. Pre-payments

	2019 R'000	2018 Restated R'000
Subscriptions	69	87
Membership and professional fees	761	1 306
Staff training	295	129
Motor vehicle maintenance agreement	138	213
Computer licences and support	5 731	2 560
Recruitment advertising	-	206
Advertising	2	-
Postage	-	1
E-tolls	12	8
	7 008	**4 510**

6. Deposits

	2019 R'000	2018 Restated R'000
Current deposits		
Electricity	-	224
Byls Bridge Office Park	-	1 281
	-	**1 505**
Non-current deposits		
Electricity	90	-
Byls Bridge Office Park	511	-
	601	**-**

The FIC entered into a 60-month lease contract for its current office premises. The lease commenced on 1 December 2018 and terminates on 30 November 2023. There is an option to renew the lease contract for a further 60 months.

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 notes 17 and 21.2.

7. Cash and cash equivalents

	2019 R'000	2018 Restated R'000
Cash and cash equivalents consist of:		
Cash on hand	6	4
Cash at bank	118 640	96 118
	118 646	**96 122**

The cash balance includes R8 020 400 that was received from the Criminal Asset Recovery Account (CARA) and is ring-fenced for the funding of the Information and Communications Technology Modernisation Programme. Refer to note 14.

8. Property, plant and equipment

	2019			2018 Restated		
	Cost R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Furniture	8 662	(6 029)	2 633	8 679	(5 833)	2 846
Motor vehicles	3 767	(2 140)	1 627	3 767	(2 111)	1 656
Office equipment	10 790	(6 557)	4 233	10 183	(6 081)	4 102
Computer hardware	56 966	(38 396)	18 570	55 722	(40 531)	15 191
Fixtures and fittings	5 174	(4 048)	1 126	5 165	(4 885)	280
Security equipment	332	(200)	132	340	(169)	171
Leasehold improvements	39 240	(22 755)	16 485	39 237	(21 077)	18 160
Total	**124 931**	**(80 125)**	**44 806**	**123 093**	**(80 687)**	**42 406**

Reconciliation of property, plant and equipment – 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Impairment loss R'000	Total R'000
Furniture	2 846	198	-	(341)	(70)	2 633
Motor vehicles	1 656	-	-	(29)	-	1 627
Office equipment	4 102	814	-	(658)	(25)	4 233
Computer hardware	15 191	8 022	(814)	(3 682)	(147)	18 570
Fixtures and fittings	280	31	-	815	-	1 126
Security equipment	171	-	-	(33)	(6)	132
Leasehold improvements	18 160	87	-	(1 744)	(18)	16 485
	42 406	**9 152**	**(814)**	**(5 672)**	**(266)**	**44 806**

Reconciliation of property, plant and equipment – 2018

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Furniture	2 779	386	(5)	(314)	2 846
Motor vehicles	2 346	-	(657)	(33)	1 656
Office equipment	3 937	1 978	(24)	(1 789)	4 102
Computer hardware	20 142	2 667	(82)	(7 536)	15 191
Fixtures and fittings	909	102	(1)	(730)	280
Security equipment	204	-	-	(33)	171
Leasehold improvements	19 005	839	-	(1 684)	18 160
	49 322	**5 972**	**(769)**	**(12 119)**	**42 406**

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

	2019 R'000	2018 Restated R'000
Office equipment at net carrying value	520	1 332

The opening balance of accumulated depreciation was adjusted due to errors in the calculation of depreciation on reassessed assets in the prior years. Refer to note 33.

Reassessment of property, plant and equipment

The useful life of certain assets has been reassessed, resulting in an increase in the carying value of property, plant and equipment to the value of R4 973 921 (2018: R1 851 416). Included in the reassessed assets were zero value assets with an initial cost of R16 934 745 (2018: Rnil). Refer to notes 19 and 35.

Other information

The leased office equipment is encumbered as set out in note 10.

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

9. Intangible assets

	2019			2018 Restated		
	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000
Computer software	46 792	(18 324)	28 468	36 404	(14 172)	22 232
Computer licences	22 082	(19 538)	2 544	25 094	(19 038)	6 056
Total	**68 874**	**(37 862)**	**31 012**	**61 498**	**(33 210)**	**28 288**

Reconciliation of intangible assets – 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Amortisation R'000	Total R'000
Computer software	22 232	10 730	(13)	(4 481)	28 468
Computer licences	6 056	2 371	-	(5 883)	2 544
	28 288	**13 101**	**(13)**	**(10 364)**	**31 012**

Reconciliation of intangible assets – 2018

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Amortisation R'000	Total R'000
Computer software	19 162	7 977	(497)	(251)	(4 159)	22 232
Computer licences	8 852	4 343	-	251	(7 390)	6 056
	28 014	**12 320**	**(497)**	**-**	**(11 549)**	**28 288**

Accumulated amortisation

Accumulated amortisation was understated during the prior year due to the incorrect calculation of amortisation. Refer to note 33.

Reassessment of computer software

The useful life of certain computer software has been reassessed, resulting in an increase in the carying value of intangible assets to the value of R40 959 (2018: Rnil). Refer to notes 19 and 35.

Intangible asset projects

Included in the carrying value of software is an amount of R11 530 140 relating to five projects which are in various stages of development. A project with a carrying value of R3 916 766 has taken a significantly longer period of time to complete than initially expected due to delays from the service provider, limitations in the supporting software as well as the late approval of the retention of surplus.

10. Finance lease obligation

	2019 R'000	2018 Restated R'000
Minimum lease payments due		
- within one year	611	954
- in second to fifth year inclusive	-	612
	611	1 566
less: future finance charges	(23)	(134)
Present value of minimum lease payments	**588**	**1 432**
Present value of minimum lease payments due		
- within one year	588	844
- in second to fifth year inclusive	-	588
	588	**1 432**
Non-current liabilities	-	588
Current liabilities	588	844
	588	**1 432**

The finance leases are secured over the leased assets. Refer to note 8.

During the year, no finance lease agreements had come to an end. The annual effective interest rate for all finance leases is 10.5 percent.

11. Payables from exchange transactions

	2019 R'000	2018 Restated R'000
Trade payables	8 255	6 456
Accrued leave pay	6 256	5 044
Payroll payables	1 823	5 054
	16 334	**16 554**

Trade payables

The comparative figure for trade payables has been restated due to an unrecorded, foreign-denominated creditor. Refer to note 33.

12. Provisions

Reconciliation of provisions – 2019

	Opening balance R'000	Additions R'000	Paid during the year R'000	Total R'000
Provision for bonus	10 159	11 044	(10 159)	11 044

Reconciliation of provisions – 2018

	Opening balance R'000	Additions R'000	Paid during the year R'000	Total R'000
Provision for bonus	7 200	10 159	(7 200)	10 159

The payment of bonuses is dependent on ministerial approval.

13. Third party deposits

	2019 R'000	2018 Restated R'000
Opening balance	50	40
Additions	30	10
Paid to National Reserve Fund	(10)	-
Refunded to applicants	(20)	-
	50	**50**

14. Income received in advance

	2019 R'000	2018 Restated R'000
Criminal Asset Recovery Account funds – refer to note 7	8 020	-

15. Operating lease (smoothing)

	2019 R'000	2018 Restated R'000
Current portion of:		
Operating lease smoothing	105	3 980
Non-current portion of:		
Operating lease smoothing	3 347	242

15.1 Centurion leased premises

The FIC had entered into a new lease contract for its current office premises located in Centurion. The lease contract commenced on 1 December 2018 and terminates on 30 November 2023. The lease contract has an option to renew the lease for a further 60 months. No lease incentive has been received.

15.2 Cape Town leased premises

The FIC had entered into a 36-month lease contract for its office premises located in Cape Town. The lease commenced on 1 November 2016 and terminates on 31 October 2019. A lease incentive of R313 500 was received and is recognised on a straight-line basis over the lease term of 36 months as a reduction of the lease payments.

	2019 R'000	2018 Restated R'000
Minimum lease payments:		
Within one year	23 906	19 352
Within two to five years	113 257	577
Five years +	183 554	-
	320 717	**19 929**

16. Non-exchange revenue

	2019 R'000	2018 Restated R'000
Transfer from National Treasury	278 716	270 191

17. Exchange revenue

	2019 R'000	2018 Restated R'000
Interest income – current account	5 698	4 828
Interest income – amortised financial assets – refer to note 6	126	152
Other income	12	77
	5 836	**5 057**

In the prior year, other income and interest income were disclosed as separate line items on the face of the statement of financial performance. These two items have now been included under exchange revenue with the comparative figures recategorised accordingly.

The recategorisation had no impact on the accumulated surplus.

18. Personnel costs

	2019 R'000	2018 Restated R'000
Salary costs	134 740	130 541
Performance bonus	11 044	10 159
Unemployment insurance fund	335	353
Compensation for occupational injuries and diseases	98	96
Provident fund	11 694	11 577
Group life	2 870	2 872
	160 781	**155 598**

Salary costs

During the year under review, management decided to disclose contractors and interns as separate line items. The comparative figures have been adjusted accordingly, resulting in a decrease in salary costs of R1 172 266. Refer to note 22.4.

19. Depreciation and amortisation

	2019 R'000	2018 Restated R'000
Depreciation charge for the year	5 672	12 119
Amortisation charge for the year	10 364	11 549
	16 036	**23 668**

The comparative figures for depreciation and amortisation have increased by R904 778 and R57 024 respectively due to the incorrect calculation of depreciation and amortisation in the prior years. Refer to note 33.

Depreciation has decreased by R4 973 921 (2018: R1 851 416) due to the reassessment of certain assets. Refer to notes 8 and 35.

Amortisation has decreased by R40 959 (2018: Rnil) due to the reassessment of certain computer software. Refer to notes 9 and 35.

20. Finance costs

	2019 R'000	2018 Restated R'000
Finance charges – leased assets	111	189

21.1 Impairment of financial assets

	2019 R'000	2018 Restated R'000
Impairment of debtors – refer to note 4	20	24

21.2 Financial instrument adjustments

	2019 R'000	2018 Restated R'000
Fair value adjustment of deposits on expiry of office lease contract – refer to note 6	1 030	-

22. General expenses

	Notes	2019 R'000	2018 Restated R'000
Audit and Risk Committee member fees	22.1	591	398
Advertising		731	1 086
Auditor's remuneration	22.2	2 431	1 536
Bank charges		80	84
Cleaning		1 830	1 585
Computer expenses		11 088	6 944
Professional fees		1 759	2 575
Office consumables		580	635
Crockery and cutlery		18	2
Legal fees		2 339	4 717
Rent and operating costs		26 822	22 447
Corporate gifts		159	11
Insurance		623	788
Conferences and workshops		409	276
Consulting fees		34	504
Public relations		1 282	1 160
Media, subscriptions and publications		4 633	5 604
Motor vehicle expenses		335	364
Recruitment and placement costs		1 601	570
Postage and courier		19	14
Printing and stationery		1 085	1 024
Repairs and maintenance	22.3	523	468
Security		2 609	2 438
Staff training		2 544	1 853
Membership fees		2 097	1 986
Telephone, fax and internet		3 504	3 870
Subsistence and accommodation – local		721	548
Subsistence and accommodation – international		1 853	1 046
Travel – international		2 902	1 855
Travel – local		1 076	1 191
Relocation costs		139	189
VAT adjustment account – leases		-	115
Internal audit		1 123	909
Parking expenses – staff		2 675	2 426
Contractors and temporary workers	22.4	2 585	412
Training academy – interns	22.4	408	760
		83 208	**72 390**

22.1 Audit and Risk Committee member fees

	2019 R'000	2018 Restated R'000
RN Theunissen	51	89
B Mbewu	124	66
P Phili	155	125
PN Sibiya	123	118
T Kgokolo	44	-
Dr D Jairam	94	-
	591	**398**

During the year under review, the accounting authority decided to combine the Audit Committee and the Risk Committee to form one committee, namely the Audit and Risk Committee.

The comparative figures have been adjusted accordingly. The adjustment had no impact on the accumulated surplus.

22.2 Auditor's remuneration

	2019 R'000	2018 Restated R'000
Auditor-General of South Africa	2 431	1 536

22.3 Repairs and maintenance

	2019 R'000	2018 Restated R'000
Payments made to service providers	327	320
Material purchased for general upkeep of assets	196	148
	523	**468**

22.4 Contractors and training academy – interns

Contractors and interns previously formed part of salary costs.

During the year, management decided to disclose the costs for contractors and interns as separate line items. Refer to note 18.

The comparative figures have been adjusted to reflect these changes and comprise:

	2019 R'000	2018 Restated R'000
Contractors and temporary workers		
Remuneration	2 529	412
Provident fund and group life contributions	56	-
	2 585	**412**
Training academy – interns		
Remuneration	399	719
Provident fund and group life contributions	9	41
	408	**760**

The changes had no impact on the accumulated surplus.

During the year under review, all interns employed during the prior year were either appointed by the FIC or took up employment elsewhere.

Most of the new interns commenced with their contracts during January 2019.

23. Cash generated from operations

	Notes	2019 R'000	2018 Restated R'000
Surplus/(deficit)		22 291	23 617
Adjustments for:			
Depreciation and amortisation		16 036	23 668
(Gain)/loss on sale of assets		1 030	(242)
Amortised income – deposits		(126)	(152)
Insurance receipts		-	15
Performance bonus provision		11 044	10 159
Allowance for impairment		20	24
Operating lease incentives		-	(1 338)
Intangible asset project operationalised		-	497
Operating lease – smoothing		(770)	(2 804)
Pre-payment releases		23 508	17 393
VAT adjustment on leases		-	115
Impairment of PPE		-	-
Net interest		(133)	(61)
Other income – movement in debtors		(50)	-
Loss on foreign exchange		45	4
Deposit realised		-	20
Inventory write-off		-	16
Fair value adjustments		1 030	-
Changes in working capital:			
(Increase)/decrease in inventories		42	(28)
(Increase)/decrease in receivables		(39)	59
Pre-payments paid		(26 005)	(18 044)
Change in trade and other payables		(174)	(94)
Provisions – bonuses paid		(10 159)	(7 200)
		37 590	**45 624**

24. Employee benefit obligations

Defined contribution plan

Employees of the FIC as well as certain contract workers and interns 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 current contribution rates available for selection are as follows: 10%,15%,17.5% and 20%

	2019 R'000	2018 Restated R'000
Provident fund and group life contributions	14 629	14 476

25. Related parties

25.1 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.

Services rendered at no cost

	2019 R'000	2018 Restated R'000
Government Technical Advisory Centre (GTAC)	14	86

During the year under review, members of the GTAC team had been allocated office space at the FIC's Cape Town offices at no cost. The GTAC members had vacated the FIC's Cape Town offices by 29 May 2018.

During the year under review, no related party services were received.

25.2 Key management personnel

2019 Name	Position	Cash component R'000	Performance bonus R'000	Provident fund R'000	Termination leave pay R'000	Total R'000
Adv XJ Khanyile*	Director	3 207	-	-	-	3 207
C Malan	Executive Manager: Compliance and Prevention	1 697	277	423	-	2 397
P Smit	Executive Manager: Legal and Policy	2 018	244	161	-	2 423
M Masiapato	Executive Manager: Monitoring and Analysis	1 742	-	168	-	1 910
M Maboka	Executive Manager: Corporate Services	1 842	173	325	-	2 340
V MarshSmit	Chief Financial Officer	1 386	106	349	-	1 841
		11 892	**800**	**1 426**	**-**	**14 118**

* Included in the 2019 cash component of Adv XJ Khanyile is an amount of R138 642 relating to the payment of a relocation allowance.

2018 Name	Position	Cash component R'000	Performance bonus R'000	Provident fund R'000	Termination leave pay R'000	Total R'000
M Michell	Director (1 April 2017 – 31 December 2017)	1 826	-	-	69	1 895
Adv XJ Khanyile*	Director (1 January 2018 – 31 March 2018)	864	-	-	-	864
C Malan	Executive Manager: Compliance and Prevention	1 603	119	407	-	2 129
P Smit	Executive Manager: Legal and Policy	1 912	151	154	-	2 217
N Mewalall	Executive Manager: Monitoring and Analysis (1 April 2017 – 27 July 2017)	563	178	117	75	933
M Masiapato	Executive Manager: Monitoring and Analysis (15 January 2018 – 31 March 2018)	367	-	41	-	408
M Maboka	Executive Manager: Corporate Services	1 741	121	312	-	2 174
V MarshSmit	Chief Financial Officer	1 298	125	339	-	1 762
		10 174	**694**	**1 370**	**144**	**12 382**

* Included in the 2018 cash component of Adv XJ Khanyile is an amount of R136 835 relating to the payment of a relocation allowance.

26. Risk management liquidity risk

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

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

Market risk

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

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

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

Interest rate risk management

The FIC's interest rate profile consists of fixed and floating rate loans and bank balances which exposes the 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 to loans and receivables is limited.

Foreign currency risk management

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

These transactions are not of a material nature.

	2019 R'000	2018 Restated R'000
Financial assets		
Cash	118 646	96 122
Receivables	612	449
Deposits	601	1 505
	119 859	**98 076**
Financial liabilities		
Finance lease obligations	588	1 432
Trade and other payables	16 334	16 554
Third party deposits	50	50
Provisions	11 044	10 159
	28 016	**28 195**

	Change in rate	Effect on surplus R'000
2019 floating rate financial assets		
Banking balances	1%	1 186
Receivables	1%	6
Deposits	1%	6
		1 198
2019 floating rate financial liabilities		
Finance lease obligations	1%	6
Trade and other payables	1%	163
Provisions	1%	110
		279
2018 floating rate financial assets		
Banking balances	1%	961
Receivables	1%	4
Deposits	1%	15
		980
2018 floating rate financial liabilities		
Finance lease obligations	1%	14
Trade and other payables	1%	166
Provisions	1%	102
		282

27. Fruitless and wasteful expenditure

	Notes	2019 R'000	2018 Restated R'000
Opening balance		15	-
Fruitless and wasteful expenditure – current year		-	47
Less amounts written off		-	(31)
Less amounts recovered		-	(1)
Less amounts written off – found not to be fruitless and wasteful	27.1	(15)	-
		-	**15**
Details of fruitless and wasteful expenditure			
Increase in flight cost after flight was missed		-	30
Reschedule and upgrade of flights		-	15
Unauthorised use of fleet vehicles by employees		-	2
		-	**47**

27.1 Expenditure found not to be fruitless and wasteful

Costs relating to the reschedule and upgrade of flights were found not to be fruitless and wasteful and the accounting authority approved for the costs to be written off.

28. Irregular expenditure

	Notes	2019 R'000	2018 Restated R'000
Opening balance	28.1	2 557	-
Add: Irregular expenditure – current year		2 235	2 557
Less: Amounts condoned	28.2	(2 907)	-
	28.3	**1 885**	**2 557**
Details of irregular expenditure – current year			
Irregular expenditure relating to Appeal Board member fees		-	62
Supply chain deficiencies	28.1	-	2 495
Irregular expenditure relating to the evaluation of an insurance broker tender		737	-
Council for Scientific and Industrial Research (CSIR) contract	28.4	1 498	-
		2 235	**2 557**

28.1 Prior period adjustment

The comparative figure for irregular expenditure incurred due to supply chain deficiencies has been restated with R171 382 from R2 665 740 to R2 494 358 due to the overstatement of the insurance award in that year. This resulted in a decrease in the opening balance of irregular expenditure in the current year.

28.2 Amounts condoned

Appeal board

During the year, fees paid to Appeal Board members of R61 848 was condoned by the National Treasury.

Insurance broker tender

The Auditor-General was of the opinion that the evaluation criteria for the appointment of an insurance broker had not been consistently applied. In their opinion, the tender was not awarded fairly. The contract was for three years and the irregular expenditure for the 2018/19 financial year amounted to R565 191. The National Treasury condoned the full contract value of R2 131 774.

Siem tender award

The Auditor-General was of the opinion that the criteria of the tender specifications were not properly weighted resulting in the award being deemed irregular. Condonement for the full amount of R1 508 518 was received from the National Treasury.

28.3 Pending condonements

Requests for condonements of R1 884 738 were sent to the National Treasury and are still pending approval.

28.4 CSIR contract

During the 2017/18 audit, the Auditor-General found the second phase of the project irregular as they deemed it to be an extension of an existing contract.

28.5 Possible irregular expenditure

Transactions to the value of R608 029 were identified as possible irregular expenditure and are at different stages of the determination process.

29. Contingent liability

29.1 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 the National Treasury to retain the current year's accumulated surplus. In the preceding years the National Treasury has always allowed the retention of the accumulated surplus. The National Treasury's latest instruction of the calculation of the surplus amounted to zero.

29.2 Litigation and claims

There is a pending dispute regarding a certificate issued in terms of section 39 of the FIC Act.

Due to previous cost decisions taken in favour of the FIC regarding this case, the FIC's legal advisors are of the view that there are no reasonable prospects of success and that it is unlikely that the claim will succeed due to the applicant being placed under business rescue. However, should it be successful, the FIC may incur estimated legal costs of R200 000.

30. Capital commitments

	2019 R'000	2018 Restated R'000
Approved and committed capital expenditure	1 374	8 059

31. 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.

32. Gain/(loss) on disposal of assets

	2019 R'000	2018 Restated R'000
Gain/(loss) on disposal of property, plant and equipment	(1 030)	242

33. Prior period adjustments

The prior year errors have been accounted for retrospectively and the comparative figures of 2018 and 2017 have been restated.

The correction of the errors resulted in the following adjustments:

		2018 R'000	2017 R'000
33.1 Statement of financial position			
Increase in payables from exchange transactions		(341)	(336)
(Increase)/decrease in accumulated depreciation		(996)	(92)
(Increase)/decrease in accumulated amortisation		(57)	-
		(1 394)	**(428)**
33.2 Statement of financial performance			
Increase in general expenses		-	253
Increase/(decrease) in foreign exchange loss		5	(15)
Increase in depreciation expense		904	39
Increase in amortisation expense		57	-
	A	**966**	**277**
33.3 Accumulated surplus			
Decrease due to the prior year errors	**B**	428	151
Total changes (A+B)		**1 394**	**428**

Payables from exchange transactions

A foreign denominated creditor was not accounted for in the prior year, this resulted in an increase in payables. The opening balances for payables and accumulated surplus has been restated as well as the comparative figure of the related membership cost.

Accumulated depreciation

During the prior year, depreciation was incorrectly calculated on reassessed assets. Refer to note 8. This resulted in an increase in depreciation as well as the adjustment of the opening balances for accumulated depreciation and accumulated surplus.

Accumulated amortisation

Computer software and computer licences were amortised over an incorrect period. Refer to note 9. This resulted in an increase in amortisation as well as the adjustment of the opening balances for accumulated amortisation and accumulated surplus.

Foreign exchange loss

The increase/(decrease) in the prior year foreign exchange loss is due to the recording of a foreign-denominated creditor previously unaccounted for. Refer to note 34.

34. Loss on foreign exchange

	2019 R'000	2018 Restated R'000
Loss on exchange differences	(45)	(4)

The comparative figure has been restated from a profit of R868 to a loss of R3 909 due to an unrecorded, foreign-denominated creditor. Refer to note 33.

35. Change in estimate: useful life of assets reviewed

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

	Initial estimate for 2019 R'000	Revised estimate for 2019 R'000	Increase/ (decrease) current year R'000	Increase/ (decrease) future years R'000
Property, plant and equipment				
Fixtures and fittings	182	(817)	(999)	999
Office equipment	48	(997)	(1 045)	1 045
Computer hardware	211	(2 719)	(2 930)	2 930
	441	**(4 533)**	**(4 974)**	**4 974**
Intangible assets				
Computer software	61	20	(41)	41

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 value of property, plant and equipment of R4 973 921 (2018: R1 851 416), and a decrease in the depreciation expense of R4 973 921 (2018: R1 851 416). The effect of the change on future years will be an increase in depreciation of R4 973 921 (2018: R1 851 416) reversing the credit of R4 973 921 (2018: R1 851 416) created in the current year. Refer to notes 8 and 19.

Intangible assets

The change in the estimated useful life of computer software in the current year resulted in an increase in the carrying value of intangible assets of R40 959 (2018: Rnil), and a decrease in the amortisation expense of R40 959 (2018: Rnil). The effect of the change on future years will be an increase in amortisation of R40 959 (2018: Rnil) reversing the credit of R40 959 (2018: Rnil) created in the current year. Refer to notes 9 and 19.

36. B-BBEE performance

Information on compliance with the B-BBEE Act is included in the annual report under the section titled B-BBEE Compliance Performance Information in the Governance section of the report.

Part F:
Materiality and Significance Framework

Materiality and significance framework

Background

This document was developed to give effect to the May 2002 amendment to the Treasury Regulations, whereby the following new requirement was placed on public entities:

Section 28.1.5 –

> *"For purposes of material [sections 50(1), 55(2) and 66(1) of the Public Finance Management Act (PFMA)] and significant [section 54(2) of the PFMA], the accounting authority must develop and agree a framework of acceptable levels of materiality and significance with the relevant executive authority."*

South African Auditing Standards 320.03 defines 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, we will be dealing with this framework under two main categories: the quantitative and qualitative aspects.

Quantitative aspects

Materiality level

The FIC has assessed the level of a material loss as R1.585 million, based on audited financial statements. This is the 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 cost-driven organisation that utilises public funds to fulfil the legislated mandate. Thus, calculation of the materiality value involves expenditure as one of the factors and this is balanced with the total income and the value of the institution's assets.

The FIC is a statutory body that has been formed to give effect to the Financial Intelligence Centre Act, and has been listed as a PFMA Schedule 3A public entity. It was accordingly decided to give preference to a relatively low level of materiality due to the FIC being so 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, amongst others, the following:

- 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 purely due to the nature thereof due to knowledge thereof affecting 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 employee of the FIC at senior or management level.

Application of the FIC materiality and significance framework to the PFMA

<table>
<tr><th>PFMA section</th><th>Quantitative aspects</th><th>Qualitative aspects</th></tr>
<tr><td>Section 50 (1)
The accounting authority for a public entity must –
• 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 influence the decision or actions of the executive authority or the legislature.</td><td>Any facts discovered which in aggregate exceed the materiality figure, which will be calculated on a yearly basis in terms of paragraph titled "Materiality level". The FIC has assessed this as R1 585 343.</td><td>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.</td></tr>
<tr><td>Section 55
Annual report and financial statements
The annual report and financial statements referred to in subsection (1)(d) must –
a) 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.
b) include particulars of:
i. any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year.
ii. any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure.
iii. any losses recovered or written off.</td><td>• Losses through criminal conduct – all losses that are legally confirmed and if the amount exceeds the materiality level.
• Losses through irregular/fruitless/wasteful expenditure where transactions/actions are legally confirmed – if the amount exceeds the materiality level as determined in section titled "Materiality level". 2.1.</td><td>The following will be taken into account in measuring materiality for presentation:
• Disclosure requirements.
• Compliance with legislative requirements, regulations and policies.
• Possible unauthorised expenditure that must be listed and reported.</td></tr>
<tr><td>Section 66 (1)
Restrictions on borrowing, guarantees and other commitments
(1) 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.</td><td>All transactions not in compliance with S66 (1).</td><td></td></tr>
</table>

PFMA section	Quantitative aspects	Qualitative aspects
Section 54 **Information to be submitted by accounting authorities** 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: a) establishment or participation in the establishment of a company. b) participation in a significant partnership, trust, unincorporated joint venture or similar arrangement. c) acquisition or disposal of a significant shareholding in a company. d) acquisition or disposal of a significant asset. e) commencement or cessation of a significant f) business activity.	Unless exempted in terms of Sec 54(4) the following will apply: (a–c) 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. (d) Asset acquisition or disposals that exceed R10 million in value. (e) Any commencement or cessation of significant activity, irrespective of amount.	

Notes

Financial Intelligence Centre

Annual Report
2018/19

WORKING TOGETHER TO STRENGTHEN FINANCIAL INTEGRITY