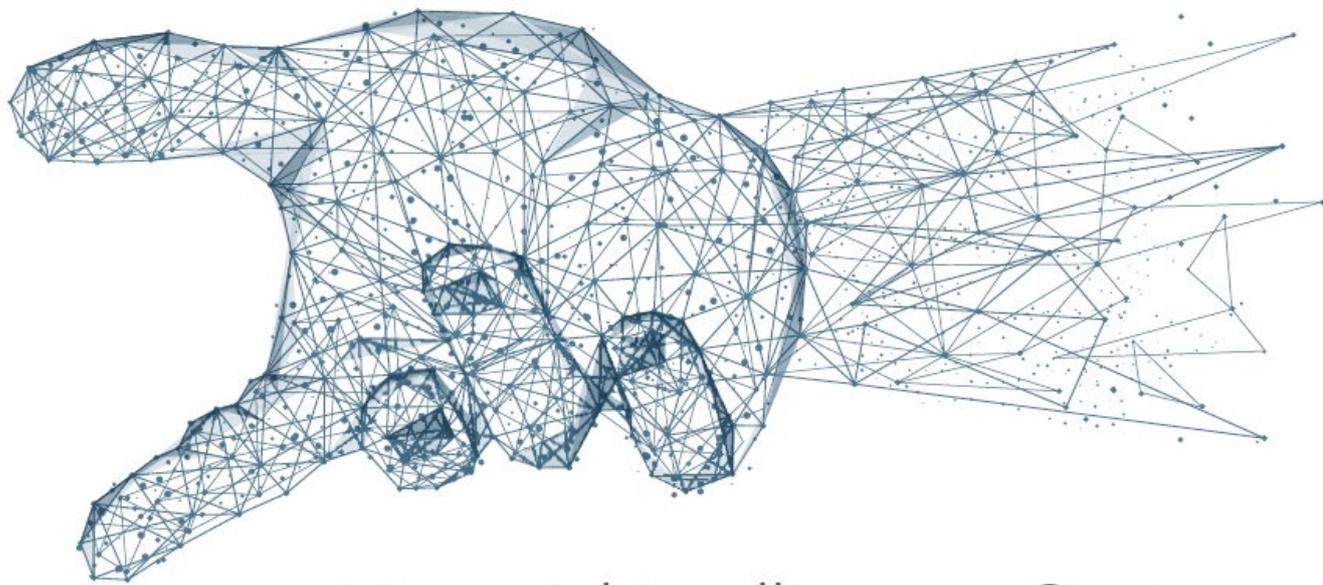




Financial
Intelligence Centre

ANNUAL REPORT
2020/21

Published by the Financial Intelligence Centre
Financial Intelligence Centre Annual Report 2020/21
Private Bag X177
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South Africa
Tel: +27 12 641 6000
Fax: +27 12 641 6215
ISBN: 978-0-621-49500-3
RP: 174/2021



Financial Intelligence Centre
Annual Report 2020/21

**FIGHTING FINANCIAL CRIME IN AN
INCREASINGLY DIGITAL WORLD**



Submission of the annual report to the executive authority

To the Minister of Finance, E Godongwana

I have the honour of submitting to you the annual report of the Financial Intelligence Centre for the financial year 1 April 2020 to 31 March 2021.



ADV XOLISILE J KHANYILE
DIRECTOR AND ACCOUNTING AUTHORITY

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PART A

General Information



FIC general information

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

Abbreviations/acronyms

| | |
|---------------|--|
| AFU | Asset Forfeiture Unit |
| AML/CFT | Anti-money laundering and combating the financing of terrorism |
| AML/CFT/PF | Anti-money laundering, counter the financing of terrorism and proliferation of weapons of mass destruction |
| BASA | The Banking Association South Africa |
| CTR | Cash threshold report |
| DPCI | Directorate for Priority Crime Investigation |
| 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) |
| FSCA | Financial Sector Conduct Authority |
| GRAP | Generally Recognised Accounting Practices |
| IAWG:IFFs | Inter-Agency Working Group on Illicit Financial Flows |
| IFWG | Intergovernmental Fintech Working Group |
| ICT | Information and communications technology |
| IFTR | International funds transfer report |
| MoU | Memorandum of understanding |
| NCR | National Credit Regulator |
| NPO | Non-profit organisation |
| PA | Prudential Authority |
| PFMA | Public Finance Management Act, 1999 (Act 1 of 1999) |
| POCA | Prevention of Organised Crime Act, 1998 (Act 121 of 1998) |
| POCDATARA Act | Protection of Constitutional Democracy Against Terrorist and Related Activities Act, 2004 (Act 33 of 2004) |
| SAMLIT | South African Anti-Money Laundering Integrated Task Force |
| SARB | South African Reserve Bank |
| SAR | Suspicious activity report |
| SIU | Special Investigations Unit |
| SSA | State Security Agency |
| STR | Suspicious and unusual transaction report |
| TPR | Terrorist property report |
| UNSC | United Nations Security Council |
| VDR | Voluntary disclosure report |

Every attempt has been made to ensure all abbreviations/acronyms used in this annual report have been included on this list. Please refer to this list throughout this report.



Foreword by the Minister

“ In executing its mandate and through its work with private and public sector partners, the FIC has provided a bulwark in the collective effort to support the national priorities of fighting crime and corruption and building the capability of the state. ”

The Financial Intelligence Centre (FIC) had to rise to unprecedented challenges brought on by the coronavirus pandemic during the 2020/21 financial year. The FIC's role of assisting in identifying the proceeds of crime and combating money laundering and the financing of terrorism, is central to ensuring the integrity of our financial system, so it was important for the organisation to continue functioning optimally during 2020/21.

Overcoming challenges in order to achieve goals and directives

By intensifying its focus on innovation and automation, the FIC maintained its operations, even during the various levels of the lockdown during the financial year. During this time, the team ensured that its information and communications technology infrastructure remained robust and available so that accountable and reporting institutions could continue to meet their compliance obligations.

By and large, the FIC team also had to adjust their work mode during this time. Many face-to-face meetings were replaced with webinars and virtual meetings, and remote working arrangements became the new normal. In accommodating these new approaches, the FIC was diligent in finding new ways of fulfilling its obligations, within the constraints of a lower operational budget.

The FIC enhanced its supervisory oversight during the 2020/21 financial year by voluntarily assuming the responsibility to supervise the legal practitioners' sector on behalf of the Legal Practice Council and the gambling sector within the Limpopo Gambling Board. This is pending the formal publication of the revised schedules to the Financial Intelligence Centre Act, 2001 (Act 38 of 2001).

Through its financial intelligence reports and FIC Act enforcement work, the FIC was instrumental in ensuring that South Africa's financial system remained resilient and maintained its integrity. In executing its mandate and through its work with private and public sector partners, the FIC has provided a bulwark in the collective effort to support the national priorities of fighting crime and corruption and building the capability of the state. These approaches adopted by the FIC augur well and will establish a legacy that could be transposed to addressing other challenges or large scale projects in the country.

The value of financial intelligence and the support the FIC provides to the criminal justice system is considerable. During the year under review, the FIC produced 3 206 intelligence reports and contributed to the recovery of more than R3 billion in criminal proceeds. It assisted in uncovering terrorist financing networks,

money laundering offences, Ponzi schemes, and shed light on the illegal wildlife trade, among others.

The FIC has refined its integrated approach to the gathering and sharing of intelligence which it has recognised as a key element in South Africa's efforts to effectively tackle money laundering and other financial crimes. Through the work of the collaborative platform provided by the Fusion Centre, and acting within their own mandates, law enforcement authorities and other competent authority partners have made inroads into cases of fraud and corruption related to government's coronavirus pandemic relief funds and measures. The Fusion Centre is a collaborative hub among public bodies in the criminal justice cluster to bring greater efficiency in investigations on corruption, fraud, abuse of power, or maladministration. The initiative has brought together South African law enforcement and the intelligence community, including the National Prosecuting Authority, the Special Investigating Unit, the South African Revenue Service and the Directorate for Priority Crime Investigation.

These cases mainly involved diversion of state resources which were intended to offer social, financial and other relief instruments for the vulnerable and destitute during the pandemic. Financial intelligence provided by the FIC has thus far resulted in 276 criminal investigations and led to the recovery of proceeds of crime to the value of approximately R659 million, which has been returned to the fiscus. This work was undertaken mainly by the Special Investigating Unit, the Directorate for Priority Crime Investigation of the South African Police Service, the South African Revenue Service and the Asset Forfeiture Unit.

In 2020/21, the FIC has played a leadership role in South Africa's engagement with the international body for setting standards on combating money laundering and terrorist financing, the Financial Action Task Force. The FIC also leads South Africa's involvement in the Eastern and Southern Africa Anti-Money Laundering Group, which focuses on combating money laundering and terrorist financing in the region.

Furthermore, the FIC has been instrumental in bringing together role players in the private and public sector around the goal of assisting in combating money laundering. The South African Anti-Money Laundering Integrated Task Force is a financial information sharing partnership led by the FIC, and is made up of 22 national and international banks, banking associations and the regulatory authorities. This is the first partnership of its kind on the continent and has made significant inroads in its first year of operation, while at the same time, contributing to the Fusion Centre's success.

The FIC has in place 33 memoranda of understanding with local law enforcement authorities, supervisory bodies and other entities. It also has memoranda of understanding with 95 financial intelligence units in other countries, four of which were concluded during 2020/21. These agreements facilitate the sharing of information through a transnational network of partners.

The FIC played a central coordinating role in the 2019 mutual evaluation of South Africa by the Financial Action Task Force. The evaluation was conducted during the period under review and will be concluded with the adoption of the mutual evaluation report in June 2021.

An inter-governmental body, the Financial Action Task Force, is responsible for setting global standards on combating money laundering, and terrorist and proliferation financing. From time to time peer reviews are conducted to assess members' compliance with the global standards.

The final evaluation report on South Africa is expected to be published on the Financial Action Task Force website during the second half of 2021. In preparation for remediating the deficiencies identified in South Africa's system for combating money laundering and the financing of terrorism, the FIC is working closely together with the Inter-Departmental Working Group on Preparations for Mutual Evaluation of South Africa and the Inter-Departmental Committee on Anti-Money Laundering and Countering Financing of Terrorism in finalising South Africa's Follow-Up Action Plan. The Plan, which sets specific targets and timelines, will be used by the Financial Action Task Force when reviewing the progress made by South Africa to address the identified deficiencies.

Of particular significance is the leadership role that South Africa plays in the Egmont Group. This international body of 166 financial intelligence units provides a platform for raising levels of capability and for the secure exchange of expertise and financial intelligence to assist in combating money laundering and terrorist financing.

I would like to congratulate the Director of the FIC, Advocate Xolisile Khanyile, on her appointment as one of two deputy vice-chairs to the Egmont Group during the 2020/21 financial year. Thank you for your immense contribution to charting the future course of financial intelligence across the globe.

Keeping sight of medium- to long-term goals

The FIC's work directly contributes to two of the seven national priorities of South Africa as identified in the Medium-Term Strategic Framework of government:

- Priority 6:
Social cohesion and safe communities
- Priority 7:
A better Africa and world.

Financial crimes, money laundering activities and terrorist financing are not only complex, but also constantly evolve. Going forward, the FIC intends to continue focusing on what is commonly referred to as fintech, to help fight financial crime in an increasingly digital environment.

The FIC will also continue to engage with National Treasury as it balances its employee capacity constraints with the budgetary pressures currently straining the fiscus.

Appreciation and conclusion

In conclusion, I would like to congratulate and thank the leadership and employees of the FIC. Thank you for working tirelessly to fulfil our mandate in strengthening the integrity of South Africa's financial system, while playing a leading role internationally and making South Africa proud.



ENOCH GODONGWANA

MINISTER OF FINANCE



Director's overview

“ The 2020/21 financial year saw the FIC strengthen its ability to fight financial crime in an increasingly digital world. ”

From the beginning of 2020, the world as we knew it changed forever. As the coronavirus (COVID-19) carried on its global journey, ravaging the lives of millions of citizens, almost no country was left untouched.

In that time, we developed new ways of interacting and new ways of working. We also gained new insights, all geared to keep us safe and alive as we continue to focus on keeping ourselves protected from the unseen enemy. As social engagements and retail became increasingly impacted, social meeting places, and buyers and sellers in retail markets were nudged along towards online transactions and cyber connectivity. Working and transacting remotely fast became the new normal.

At the FIC our work continued, and we adapted during this time of the pandemic. Where we previously engaged face to face with many of our stakeholders, we adapted our approach in this financial year, as we show in several examples in this report.

We have largely adopted the practice of working virtually and ensured that our offices are as safe as possible for our employees for when they do need to be in office.

I am therefore grateful to be able to report that despite the challenges during 2020/21, the FIC team achieved and exceeded many of its performance targets while carrying out its mandate to assist in:

- Identifying the proceeds of crime
- Combating money laundering
- Combating financing of terrorist and related activities.

In achieving its mandate, the FIC was able to exchange information with law enforcement authorities and other local and international agencies. We also supervised and enforced compliance with the Financial Intelligence Centre Act, 2001 (Act 38 of 2001) (FIC Act) and facilitated effective supervision and enforcement by supervisory bodies.

Using the regulatory reports submitted by financial and non-financial institutions as a basis, the FIC conducted analysis to develop financial intelligence reports. It was these reports that the FIC provided (proactively and upon request) to law enforcement and other competent authorities in the criminal justice system, for their use in investigations and applications for the seizure of assets.

The FIC does not conduct its own investigations. However, the store set by the financial intelligence it provides in support of criminal justice is tangible and considerable. During the year under review, we produced 3 206 intelligence reports and contributed to the recovery of more than R3 billion in criminal proceeds.

Rising to the challenge of COVID-19

Due to government having to redirect much of its spend towards meeting emergency health, social welfare and other costs which arose due to the pandemic, most government departments and entities experienced funding cuts.

The FIC was among those whose funding was reduced during the course of the year under review. In addition, the financial year-end process was extended, which exerted pressure on employees and reduced the time available for the completion of deadline-driven projects during the remaining year.

In managing its operations and effectiveness during the pandemic, the FIC took innovative measures and opted to accelerate the automation of some of its processes.

The information and communications technology (ICT) team played a critical role in enabling these measures, as the technology needs of the FIC and the world in which it operates, changed. Our team rose to the challenge in providing a robust ICT infrastructure and a digital, cyber-safe remote working environment.

Most FIC employees were enabled to work from home when the national lockdown measures came into force.

To make it possible to collaborate and meet remotely, we scaled up our business communication platform, which offered chat, video conference, file storage and application integration, for our employees.

We acknowledge, as in any organisation, some individuals adapt less easily than others to working remotely. With this in mind, we provided four wellness interventions during 2020/21 to assist employees to deal with the prevailing situation and to make the transition to remote working.

The national lockdown and its associated restrictions to contain the pandemic, forced the FIC to rethink its approach on compliance inspections. We created a model for off-site inspections and started implementing that model in the second quarter of 2020/21.

This new approach resulted in a win-win situation namely, better inspection coverage as well as financial savings and effective use of time as inspectors were able to conduct inspections virtually, from anywhere. The off-site inspections proved to be as stringent and thorough as on-site inspections and will be continued in the foreseeable future.

The FIC saw an increase in the number of suspicious and unusual transaction reports (STRs) submitted to the FIC (2020/21: 394 709

vs 2019/20: 299 256). The reports showed a prevalence of Ponzi and pyramid schemes in the financial year.

The FIC started intensifying its analytical capability during 2020/21, assessing regulatory reports to help uncover more high priority crimes, particularly those associated with cryptocurrencies, Ponzi schemes and COVID-19. This focus made it possible to compare data from different sources and alert the relevant authorities, sometimes while the crimes were still in progress.

To improve the use of, and expansion of the intelligence available, in 2020/21 the FIC commenced data analytics on cash threshold reports (CTRs) which were previously only used as secondary data.

Many criminals prefer to use cash as it leaves little to no audit trail. By scrutinising CTRs, the FIC is able to develop financial intelligence which makes it possible for law enforcement and other competent authority partners to close existing loopholes and stymie criminal activity. Going forward, analysis of CTRs may enable law enforcement authorities to set operational priorities regarding money laundering and terrorist financing.

Using the secure technology platforms available, during the year under review, the FIC used digital platforms to engage with accountable and reporting institutions, law enforcement authorities, domestic and international collaborators, and other strategic stakeholders.

The FIC did not discontinue any key activities during the year under review. It was noted that the number of institutions registered with the FIC increased to 44 499 (2019/20: 44 420).

The FIC received fewer CTRs from reporting institutions during 2020/21 (4.85 million), down from 5.93 million in 2019/20.

A new responsibility the FIC took on board in the financial year was to conduct compliance inspections upon legal practitioners. In 2020/21, 212 legal practitioners were assessed for their level of compliance to the FIC Act. This was done in terms of a memorandum of understanding (MoU) between the FIC and the Legal Practice Council, which was signed in 2019/20. Approximately 80 percent of the legal practitioners the FIC inspected in 2020/21 were found non-compliant. These practitioners will be subject to remediation and follow-up inspections during the next financial year.

Collaboration and partnerships

Collaboration with a wide range of national and international partners is critical for the FIC. This makes it possible for us to collect transactional and other information that is reliable, useful, accurate, comprehensive, timeous and up to date. It also makes it possible for us to reciprocate and speedily share quality information with our partners against crime.

During the year under review, the FIC concluded four new MoUs with financial intelligence units in other countries. This brought the number of MoUs in place with foreign financial intelligence units to 95 as at 31 March 2021. These agreements facilitate the sharing of information through a network of transnational partners.

Furthermore, the FIC strengthened its existing relationships 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 authorities, prosecutorial authorities and investigation agencies.
- Accountable and reporting institutions, such as banks, estate agents, casinos and motor vehicle dealers.
- Global bodies such as the Egmont Group of Financial Intelligence Units and the Financial Action Task Force (FATF) that are engaged

in anti-money laundering, combating the financing of terrorism and proliferation of weapons of mass destruction (AML/CFT/PF). The FIC's membership of Egmont, which includes a network of more than 160 member countries from around the world, gives it immediate access to opportunities for information exchange and expertise development. FATF provides direction on international policies and standards on AML/CFT/PF to member countries and the global network. This includes the eight FATF style regional bodies which helps to ensure that the international standards and policies on AML and CFT are propagated globally. FATF monitors the implementation of these policies and standards.

- The FIC leads several inter-departmental structures, including the Inter-Agency Working Group on Illicit Financial Flows (IAWG: IFFs), which was formed in 2017/18. The aim of this working group is to limit the illicit flow of money out of the country.
- The Anti-Corruption Task Team, where the FIC adds value by contributing financial intelligence on large projects and collaborating on shared priorities of the team.
- The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), which promotes the formulation of policies on the prevention of money laundering and terrorist financing in the region.
- Neighbouring countries, where the FIC provides technical assistance.
- Internal teams and divisions within the FIC, to achieve better outcomes.

The FIC has MoUs with 33 domestic law enforcement and other competent authorities, government departments and entities and supervisory bodies. These MoUs commit the FIC and the signatories to exchanging information and working together to ensure that the financial system is safe, stable and sustainable for all citizens.

During the 2020/21 financial year, the FIC disseminated 3 206 financial intelligence reports (2 080 reactive and 1 126 proactive) to law enforcement and other competent authorities. This assisted in a large number of criminal investigations and led to recovery of proceeds of crime to the value of approximately R3.3 billion. Our integrated approach to the gathering and sharing of intelligence has been identified as a key element in South Africa's efforts to effectively tackle money laundering and other financial crimes.

Two initiatives led by the FIC, based on public-public collaboration (Fusion Centre) and on public-private partnership (South African Anti-Money Laundering Integrated Task Force - SAMLIT), are geared towards forging beneficial relationships between multi-disciplinary role players and making optimal use of financial intelligence while strengthening South Africa's financial system.

In late 2019, the FIC led the creation of the private-public sector partnership, SAMLIT. A first on the continent, the partnership took root in the financial year, drawing together 22 domestic and international banks, banking industry representatives SABRIC (South African Banking Risk Information Centre), BASA (The Banking Association South Africa) and regulatory authorities, the SARB's Prudential Authority (PA), Financial Surveillance (FinSurv) and National Payment System (NPS) departments.

At its core, SAMLIT is a financial information sharing partnership between customer-facing entities i.e. the banking sector, and the public sector. The basis for this partnership is to help detect, prevent and disrupt financial crime. The intention is also to enhance members' understanding of national and international crime trends and, through sharing of knowledge and expertise, pave the way for linkages and information sharing, so that rapid action can be taken to address financial crime.

Formed in December 2019, the Fusion Centre is a collaboration of law enforcement authorities and investigative bodies in the Justice, Crime Prevention and Security cluster. The objective of the centre has been to use a multi-agency operational hub to follow up on money laundering matters and other financial crimes.

In forging this collaboration, the Fusion Centre has been able to focus on bringing greater efficiency to investigations on corruption, fraud, abuse of power, or maladministration. It has also been a tangible way of helping to identify, detect, deter and disrupt financial crime. The timing of the implementation of the hub has meant that it has been ideally positioned to investigate crimes and bring to book wrongdoing related to COVID-19 matters.

The FIC is a member of the Intergovernmental Fintech Working Group (IFWG), which aims to develop a common understanding among regulators and policymakers of developments in financial technologies, in particular those related to crypto assets. The group includes members from National Treasury, SARB and FSCA (Financial Sector Conduct Authority). During 2020, IFWG was also joined by the National Credit Regulator (NCR), SARS and the Competition Commission in February, April and October 2020 respectively.

A major achievement for the IFWG is that the working group established an innovation hub at the beginning of March 2020. Some of the participants in the IFWG innovation hub include crypto asset service providers.

Featured across this annual report is a selection of case studies, illustrative of the collaborative relationship between the FIC and its partners, including law enforcement and other competent authorities as well as foreign financial intelligence units.

These case studies highlight the significance and usefulness of the financial intelligence produced and disseminated by the FIC. They also provide insight on crimes uncovered during the reporting period.

Highlights of the year

In 2020/21, the FIC exceeded eight and achieved seven of its 18 annual performance targets.

More details on the FIC's performance are set out in Part B of this report.

Highlights include:

- Overcoming the challenges brought about by the COVID-19 pandemic to such an extent that we simultaneously extended our reach and applied a new model for conducting inspections remotely (2020/21: 381 inspections, whereas in 2019/20: 287 inspections).
- Domestic stakeholder engagements (achieved 46 against a target of 30) on the use of financial intelligence during 2020/21. Given that all engagements were virtual, the FIC was able to extend its reach while saving costs associated with venue hire, transport and hospitality.
- Producing 2 080 reactive and 1 126 proactive reports, an increase in both reactive and proactive financial intelligence report numbers on the previous year.
- Exceeding the publications target at no extra cost.
- Improving the use of and expanding on available financial intelligence by analysing CTRs, which were previously only used as secondary data.
- Contributing to the Fusion Centre's many successes, such as identifying 276 fraud and corruption cases related to COVID-19 relief efforts, which led to the recovery of proceeds of crime to the value of approximately R659 million.

- Focusing more on crimes associated with cryptocurrencies and Ponzi schemes.
- Playing a part in Egmont's Information Exchange Working Group (IEWG) projects, including one specifically focused on cases of corruption emerging in the context of the COVID-19 pandemic.
- Being appointed as one of two deputy vice-chairs to Egmont.
- Exceeding performance targets related to employment equity in terms of designated groups and gender equity.

Human capital

The FIC has a small, highly skilled workforce. Each division and their teams play a critical role in fulfilling the organisation's mandate.

A total of 98 employees attended various technical skills learning interventions. These were aimed at ensuring that employees remained motivated and abreast of advances in their fields of expertise. The FIC also provided 19 bursaries to employees and provided 11 graduates with the opportunity to gain workplace experience at the FIC during the year.

Technology

The FIC continued to invest in ICT in 2020/21 ensuring its systems remained leading edge, secure and able to support all our complex operations.

A security assessment was performed of the FIC domain using an external service provider to increase the security score benchmark. In addition, internal and external network penetration tests were conducted to harden the ICT infrastructure.

The FIC's programme to modernise its infrastructure continued in 2020/21. The multi-year programme involves the implementation of software and hardware to keep up to date South Africa's technology platform for assisting in combating money laundering and financing of terrorism.

Part of the consideration set for the FIC's infrastructure modernisation includes among other aspects, new and emerging technologies such as the internet of things, big data (advanced data analytics and data lakes), artificial intelligence (machine learning and deep learning), and application programming interfaces.

Audit report matters

Good corporate governance and an efficient and effective operating environment enables the FIC to deliver on its mandate. I am pleased to report that the FIC received an unqualified audit opinion with no material findings for the 2020/21 financial year.

General financial review and spending trends

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. For the 2020/21 financial year, the FIC had a final approved budget of R290.2 million (2019/20: R294.3 million).

During the year under review, the FIC's main focus continued to be the improvement of the organisation's capacity and ability to fight financial crime in an increasingly digital world, and to stay up to date with fintech developments.

Supply chain management

The FIC's supply chain management processes and systems comply with the required Regulations and Practices in the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA) and National Treasury regulations. These policies and procedures ensure that the FIC procures goods and services in a fair, competitive, transparent, and equitable manner.

Challenges

The FIC's main organisational challenges continue to be funding, recruitment of specialist skills and the retention of critical staff.

Cuts to the FIC's budget baseline over the last few years have severely restricted the FIC's operations. This is particularly impactful as most of the FIC's peers, who rely on outputs from the FIC have received funds for additional resources during the same periods. The FIC is unable to increase its operations and therefore its outputs, to meet the increased demands of its peers. See page 20 for further detail.

The complexity of financial crime is increasing. Resources and capacity are serious concerns as they impact on the entire value chain. This is especially significant as the FIC's oversight has been expanding to cover entities not previously covered or regarded as accountable institutions and this trend is set to continue in the future. We require employees who have a very specific skills set that includes legal grounding, financial knowledge, experience in forensics, data technology and strategic intelligence.

Plans for the future to address financial challenges include constant interactions with National Treasury to keep them abreast of the extent and effect of our financial situation with special emphasis on the potential effect it may have on our service delivery ability.

Events after the reporting date

The FIC is not aware of any events after the reporting date of 31 March 2021, which are likely to have a material impact on the FIC's financial results or operations.

Acknowledgements and appreciation

I would like to thank the Minister of Finance and the members of the Standing Committee on Finance for their guidance and oversight. I also thank our partners across government and the private sector for their cooperation and collaboration throughout the year.

I would like to thank the FIC's employees who have worked and continue working tirelessly to fulfil our mandate and strengthen the integrity of South Africa's financial system.



ADV XOLISILE J KHANYILE
DIRECTOR AND ACCOUNTING AUTHORITY
FINANCIAL INTELLIGENCE CENTRE

31 July 2021

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 of South Africa.
- The annual report is complete, accurate and is free of any omissions.
- The annual report has been prepared in accordance with the guidelines on the annual report as issued by the National Treasury.
- The annual financial statements (Part E) have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), issued by the Accounting Standards Board and applicable to the public entity.
- 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 designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the annual financial statements.

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

In our opinion, the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the entity for the financial year ended 31 March 2021.

Yours faithfully



ADV XOLISILE J KHANYILE
DIRECTOR

31 July 2021

Strategic overview



VISION

To be a highly capable public entity that produces financial intelligence for making South Africa's financial system intolerant to abuse.



MISSION

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



VALUES

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

The FIC strives to:

- Demonstrate integrity, respect, honesty, trust, humility and loyalty in everything that we do.
- Conduct our work with pride and discipline, accepting accountability and being prepared to 'go the extra mile'.
- Strive for excellence and professionalism - not only identifying problems but providing solutions.
- Value individual staff and provide space for creativity and growth.
- Maintain strong relationships with stakeholders and partners.
- Ensure the security of organisational assets and information.

Legislative and other mandates

The FIC was established in terms of the FIC Act and works in concert with the following Acts:



Prevention of Organised Crime Act, 1998 (Act 121 of 1998) (POC Act)



Protection of Constitutional Democracy Against Terrorist and Related Activities Act, 2004 (Act 33 of 2004) (POCDATARA Act)



South African Police Service Act, 1995 (Act 68 of 1995) (SAPS Act)



National Strategic Intelligence Act, 1994 (Act 39 of 1994) (NSI Act).

The FIC Act places obligations on financial institutions and other business to assist in counteracting money laundering and the financing of terrorism. The POC Act criminalises money laundering and provides for the confiscation and forfeiture of the proceeds of crime. The POCDATARA Act provides measures to counter the financing 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 United Nations Security Council (UNSC), including requiring accountable institutions to freeze property and transactions in terms of these sanctions.
- Share information with investigating authorities, including the National Prosecuting Authority (NPA), law enforcement authorities, intelligence services, the Public Protector (PP), 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 business 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
- Develop a risk management and compliance programme
- Keep records of customers' information and transactions
- Appoint a compliance officer
- Train employees on how to comply with the FIC Act
- Register with the FIC
- Submit regulatory reports to 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 the business sectors under their supervision comply with FIC Act requirements. For example, SARB's PA is the supervisory body for the banking sector. This means SARB conducts inspections to assess the banking sectors'

compliance with the FIC Act and helps banks comply with the regulations.

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

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, cooperate with, and make its financial intelligence products available to investigating authorities, supervisory bodies, intelligence services, the NPA, the PP and SARS to facilitate the country's administration and enforcement of laws.
- Exchange information with similar bodies in other countries.
- Monitor and give guidance to accountable and reporting institutions, supervisory bodies and individuals regarding their compliance with the FIC Act.
- Provide information and guidance to accountable institutions in meeting requirements to freeze property and transactions related to the resolutions of the UNSC.
- 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:

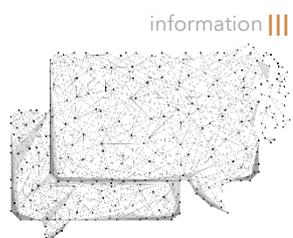
- Protect the integrity of the financial system by making it more difficult for criminals to hide their illicit proceeds in the formal financial sector and cutting off resources for the financing of terrorism.
- Develop policy options for the Minister of Finance based on an assessment of the available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

By 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 in 2017 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, most of the amendments came into effect in 2017/18. The sections relating to the implementation of targeted financial sanctions under resolutions of the UNSC came into operation at the beginning of the 2019/20 reporting period.



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 item of the FIC Act.

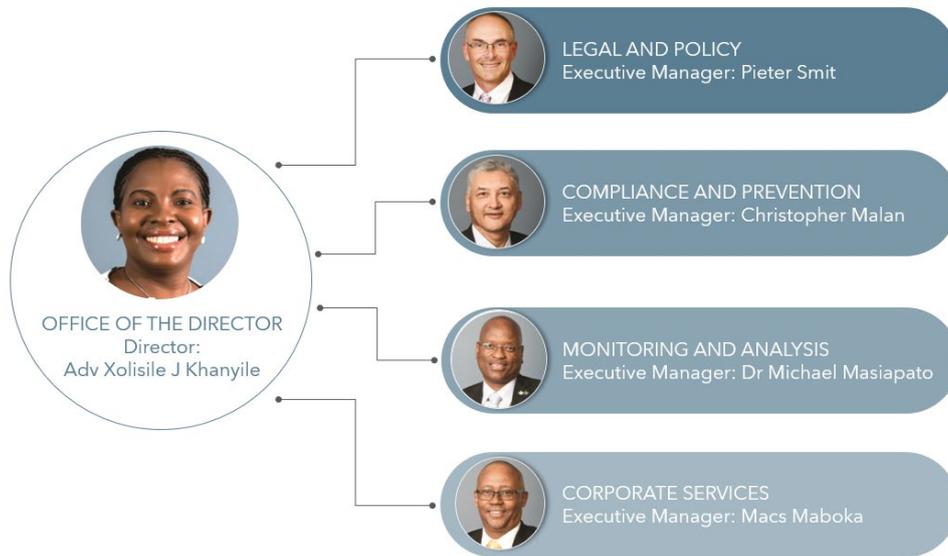
In some instances, institutions must register per branch.

The FIC's public compliance communication 5B explains the registration requirements for all accountable and reporting institutions.

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 PFMA. The Director of the FIC, who is also the Accounting Authority, reports directly to the Minister of Finance and to parliament.

The FIC consists of five divisions: Office of the Director, Legal and Policy, Compliance and Prevention, Monitoring and Analysis and Corporate Services.



Office of the Director

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

Legal and Policy

The Legal and Policy division is responsible for administering the FIC Act. This includes assisting in drafting legislative amendments when necessary. The division engages with international and regional inter-governmental bodies and coordinates 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

The Compliance and Prevention division is responsible for overseeing risk-based supervision and compliance with the FIC Act. This division coordinates 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 the Legal and Policy division, provides training to supervisory bodies, and enhances compliance awareness to combat money laundering and the financing of terrorism by engaging with affected entities. The division also conducts compliance reviews to increase awareness on FIC Act obligations.

Monitoring and Analysis

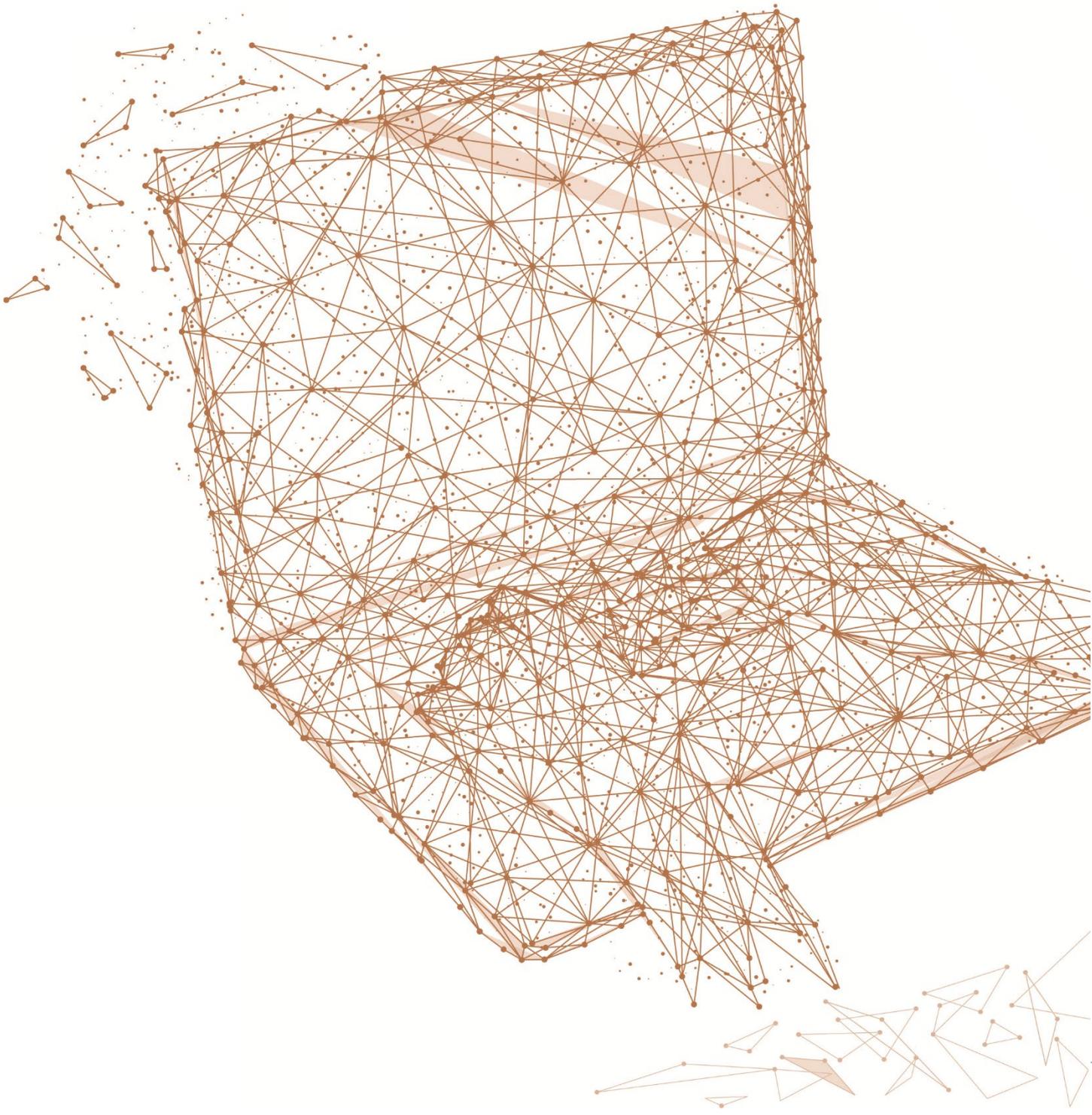
The Monitoring and Analysis division receives and analyses data to identify the proceeds of crime, money laundering and the financing of terrorism. The division works closely with law enforcement authorities, intelligence agencies, SARS, other competent authorities and the private sector, to combat crime and provides support for investigations on request. The division’s work also contributes to enhanced international co-operation.

Corporate Services

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, ICT and enterprise architecture, and project management.

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

In 2020/21, the world began experiencing the biggest global health crisis in more than 100 years. Much time and resources were focused protecting people, sanitising places and giving due consideration to citizens' lives and livelihoods as the socio-economic impact of the COVID-19 pandemic was felt across the globe.

According to Statistics South Africa, economic activity decreased by seven percent in 2020 compared to 2019. This was the biggest annual downturn in economic activity in South Africa since 1946. The country's unemployment rate reached its highest recorded level in 12 years, falling to 32.5 percent in the fourth quarter of 2020. For many of the employed, working remotely became the norm.

Organisational environment

The FIC adjusted to the challenges of the COVID-19 pandemic. The organisation implemented innovative systems and processes, which helped it to meet and also exceed some of its performance targets. Like many other organisations, the FIC exploited available digital tools to continue conducting meetings, webinars, training and inspections.

The FIC's main organisational challenges continue to be funding, recruitment of specialist skills and the retention of employees in critical positions. Resources and capacity remain serious concerns as they impact on the entire value chain, especially in light of the FIC's expanding oversight to cover entities not previously covered or regarded as accountable institutions.

Financial overview

The 2020/21 financial year was a difficult one. The audit of the 2019/20 financial year was the first audit that had to be conducted under national lockdown conditions. This included the extension of the year-end deadlines by two months to 30 September 2020. The effect of the lockdown, the constant threat of possible infections and the extended deadlines that extended the year-end for a further two months, placed emotional and physical demands on employees. Furthermore, the extended deadlines reduced the time available to complete various projects during the remaining year, exerting further pressure on employees.

Government had to focus spending on emergency social and economic relief efforts for citizens, which reduced available funds for all government institutions. The FIC faces budget cuts over the Medium-Term Expenditure Framework (MTEF) of R25.3 million in 2021/22, R33.6 million in 2022/23 and R26.8 million in 2023/24.

There was also an unprecedented in-year budget cut in 2020/21 of R8.9 million. Notwithstanding all the budget cuts, the FIC still managed to execute its responsibilities and achieved the requirements of its mandate.

The baseline cuts had a very restrictive effect on the FIC's operations, especially as most of its peers, who rely on outputs from the FIC, received funds for additional resources over the same periods. The increase in their resources, enabled them to increase their work output and operational requirements, resulting in an increase in their demands on the FIC. This was further complicated by the increased workload emanating from the work of the Commission of Inquiry into State Capture undertaken by the Investigative Directorate.

However, as the FIC's baseline has consistently been shrinking over the last few years, and with the trend likely to continue over the next few years, the FIC is unable to increase its operations and therefore its output, to meet the increased demands of its peers. This constraint carries through to the FIC's ability to increase the production of its intelligence reports as well as its capacity to analyse big data. The overall effect is that the FIC's ability to respond to all requests is impaired, which may result in a deterioration in the quality of the FIC's output in future years.

As shown elsewhere in this report, the FIC received more than 5.2 million regulatory reports from accountable and reporting entities during 2020/21. The FIC's ability to effectively analyse large volumes of reports such as these annually, and meet stakeholder expectations, is likely to decrease with consistent reductions in budget allocations. The organisation's ability to achieve expected quality and results is effectively decreasing as requests received from law enforcement authorities are increasing but its outputs remain stagnant.

Notably, the FIC's footprint is only in Gauteng and the Western Cape, while that of its partners extends throughout the country. The planned budget cuts do not allow the FIC to consider expanding its reach and footprint, which would enable improved services to stakeholders and focused interactions with more tangible outcomes.

The FIC's baseline increased over the MTEF by 0.9 percent, while the expected inflation rate over the same period is on average 4.5 percent. The net effect is that the decrease in available funds for the FIC's operations is much more than the monetary cut by National Treasury.

The lockdown forced acceleration of the automation of processes that resulted in an increased demand for resources such as laptops, data, sanitisation equipment, and deep cleaning when suspected cases of COVID-19 were reported at the office premises.

The cumulative effect of the cuts in the FIC's baseline budget and the effect of inflation, resulted in the FIC forecasting a shortfall in the foreseeable future. The FIC requires at minimum 43 additional permanent employees, at an estimated initial cost of R48.3 million, that will carry through over the MTEF period. Twenty of these positions are currently filled by critical fixed-term contracted employees who cannot currently be permanently appointed, due to financial constraints.

Key policy developments and legislative changes

The majority of the FIC Act amendments came into operation in 2017/18. During the year under review, the FIC continued working towards bringing section 31 of the FIC Act into operation.

Reporting on international funds transfers

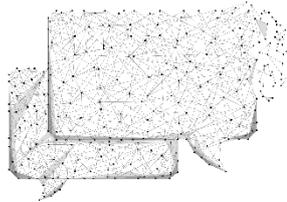
Section 31 of the FIC Act requires that accountable institutions report to the FIC when funds are moved electronically across the borders of South Africa on behalf, or on the instruction of another person. This reporting stream will be called international funds transfer reports (IFTRs).

The FIC began consultations on section 31 with National Treasury, regulators, and supervisory bodies in September 2016, as well as testing of the submission of IFTRs with a number of accountable institutions.

On 28 February 2019 National Treasury published draft regulations for comment. Comments received were assessed, regulations re-drafted and the final package of IFTR and cash threshold report (CTR) documents is with National Treasury. The FIC is awaiting finality on the way to proceed on the matter from National Treasury.

At this stage there is no compliance obligation upon accountable institutions to report to the FIC on international funds transfers.

information ||| SECTION 31 OF THE FIC ACT



Applies to

The movement of funds into and out of South Africa via electronic transfers.

Aims to

Ensure that information relating to cross-border electronic funds transfers is reported to FIC as soon as possible, through an IFTR.

Why?

This will strengthen the FIC's ability to detect possible suspicious activity and to alert investigating and prosecuting authorities.

The obligation to submit an IFTR

Will be triggered when an amount of funds exceeding a prescribed threshold is transferred electronically into or out of South Africa

Contents

IFTRs will contain certain prescribed information, as proposed by the FIC.

Threshold

Due to the potential terrorist financing threat posed by cross-border electronic funds transfers in small amounts, the FIC has recommended that the prescribed threshold amount that should trigger an IFTR should be set at a low level.

An IFTR is to be sent to the FIC

As soon as possible, but not later than three days (excluding Saturdays, Sundays and public holidays) after the accountable institution has become aware of the fact that the transaction has occurred.

Who will be affected?

Authorised dealers and authorised dealers with limited authority as well as a category of financial services providers who have a direct reporting dispensation under the Exchange Control Regulations of the SARB.

Increasing the threshold for cash transaction reports

In its consultation paper "Amendments to the Money Laundering and Terrorist Financing Control Regulations" published on 28 February 2019, the FIC proposed that the prescribed threshold amount that should trigger a CTR be increased from R24 999.99 to R49 999.99.

This means that the obligation to report information concerning cash transactions in terms of section 28 of the FIC Act will arise when a transaction is concluded with a client when the transaction exceeds R49 999.99. Currently CTRs on transactions exceeding R24 999.99 must be submitted when cash:

- Is paid by the accountable or reporting institution to the client, or to a person acting on behalf of the client, or to a person on whose behalf the client is acting, or
- Is received by the accountable or reporting institution from the client, or from a person acting on behalf of the client, or from a person on whose behalf the client is acting.

It is proposed that the threshold simply be a threshold pertaining to a specific transaction i.e. that reporting on aggregated CTRs no longer apply.

PROGRESS TOWARDS ACHIEVEMENT OF INSTITUTIONAL IMPACTS AND OUTCOMES

The FIC continues to enhance compliance with the FIC Act through maintaining registration of accountable and reporting institutions. At the end of 2020/21, 44 499 institutions were confirmed as active registrations within the ambit of the FIC Act.

To deliver on the mandate of combating crime and protecting the integrity of South Africa's financial system, the FIC Act works in conjunction with other legislation through providing law enforcement agencies with proactive, high priority intelligence reports leading to investigations. During the year under review, 52 proactive, high priority intelligence reports were issued.

To continue improving the effectiveness of legal and institutional AML/CFT frameworks, the FIC contributed to the implementation of eight policy-making meetings at regional and inter-governmental level - two ESAAMLG and six FATF - respectively.

Strategic outcomes

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

| |
|---|
| Enhanced compliance with the FIC Act |
| Improved production and utilisation of financial intelligence reports and services to assist in the identification and combating of crime |
| Continuous improvement in the effectiveness of legal and institutional AML/CFT frameworks |
| Good corporate governance and an efficient and effective operating environment that supports the FIC in delivering on its mandate. |

The FIC's work directly contributes to two of the seven national priorities of South Africa as identified in the Medium-Term Strategic Framework of government:

- Priority 6: Social cohesion and safe communities
- Priority 7: A better Africa and 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 service to internal users 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.

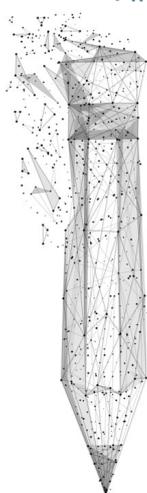
Budget programme 2: Delivery of intelligence on financial crime and FIC Act-related regulatory services

This programme is directly linked to the FIC's predetermined objectives under strategic outcomes 1, 2 and 3.

Budget programme 3: Enablement of financial intelligence capabilities

This programme is directly linked to predetermined objectives under strategic outcome 4.

case study III



TERRORIST FINANCING: CRYPTO ASSETS IN SUPPORT OF TERRORIST GROUP

On 12 February 2018, the Federal Bureau of Investigation (FBI) informed the SAPS DPCI Crimes Against the State (CATS) unit of the kidnapping of a couple from the United Kingdom in KwaZulu-Natal.

A joint operation centre, including Scotland Yard, the FBI and SAPS Crime Intelligence was set up, and FIC monitored the victims' accounts.

The FIC provided the DPCI CATS team with accurate and operational financial intelligence proving that camping and survival gear had been purchased, and cash withdrawn.

On 15 February, two suspects were arrested, and it was established that they had transmitted the credit card details of one of the deceased to a Dutch national in the Netherlands.

The Dutch national attempted to purchase crypto assets in support of militant terrorist group ISIS.

Two co-conspirators in Somaliland and Netherlands were identified and arrested. Two more people were arrested, and the bodies of the victims recovered.

The Dutch co-conspirator was convicted.

The trial of the South African accused has not concluded yet.

Performance information by programme

Budget Programme 1: Administration

Purpose

This budget programme provides strategic leadership and services to internal users to ensure that the organisation is managed efficiently, effectively and in an economical manner.

Strategic outputs

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 consists of three sub-programmes that are directly linked to strategic outcomes 1, 2 and 3.

Sub-programme 2.1: Delivery of intelligence on financial crime and FIC Act-related regulatory services - focusing on enhancing compliance with the FIC Act

Purpose

The sub-programme provides guidance to accountable and reporting institutions and monitors the supervision by supervisory bodies of their responsibilities under relevant legislation. It focuses on enhancing compliance with the FIC Act through a number of key activities:

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

Strategic outputs

Sub-programme 2.1 strategic outputs are:

- Increased awareness of the FIC Act
- Supervision of the FIC Act
- Enforcement of the FIC Act.

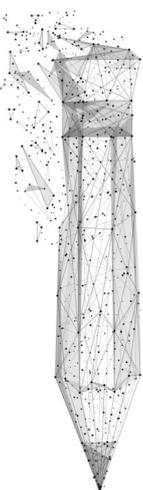
Performance

During 2020/21, the FIC exceeded three targets under this sub-programme. One was not achieved due to COVID-19 restrictions.

Highlights for the year include:

- Overcoming the limitations caused by the COVID-19 pandemic to such an extent that the FIC simultaneously extended its reach and reduced costs related to inspections. In 2020/21, 381 inspection reports were issued following inspections, whereas in 2019/20, 287 inspections were conducted. The FIC held 21 awareness sessions in 2020/21, while in the previous financial year, 19 were held. In addition, the FIC also participated in eight awareness sessions at the request of other stakeholders.
- Collaborating with the Department of Social Development in delivering two awareness sessions on risk to the non-profit organisations sector (which has been identified as being at a higher risk of falling victim to money laundering and terrorist financing).
- Responding to 4 691 written and 11 794 telephonic queries from the public during 2020/21. From July 2020, the compliance contact centre operated remotely at full strength.
- Issuing three guidance products and publishing an additional two draft guidance products for consultation.
- Successfully using technology to monitor compliance.

case study III



CYBERCRIME: KIDNAPPING FOR RANSOM

Law enforcement requested assistance from the FIC following the kidnapping of a child.

The kidnapers had demanded ransom to be paid in the form of bitcoin and provided a bitcoin address into which the ransom was to be paid. Through the FIC's blockchain analysis transactions were identified linking the address provided with a local crypto asset service provider.

The crypto asset service provider was able to assist in providing the details of the crypto asset subscriber who had transacted with the bitcoin address.

Additional information was made available to law enforcement authorities to help identify from where the kidnapers were transacting. Local authorities identified suspects and linked them to similar kidnappings.

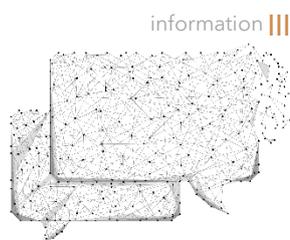
The kidnapers appeared in court and bail was successfully opposed.

<https://www.timeslive.co.za/news/south-africa/2019-01-17-mpumalanga-police-arrest-two-bitcoin-kidnapping-suspects/>

<https://www.sowetanlive.co.za/news/south-africa/2020-02-19-man-jailed-for-attempting-to-kidnap-teenager-for-bitcoin-ransom/>

Table 1: Outcomes, outputs, output indicators, targets and actual achievements of sub-programme 2.1

| Delivery of intelligence on financial crime and FIC Act-related regulatory services | | | | | | | |
|---|---|------------------------------------|------------------------------------|-------------------------------|----------------------------|---|--|
| Outcome: Enhanced compliance with the FIC Act | | | | | | | |
| Outputs | Output indicators | Audited actual performance 2018/19 | Audited actual performance 2019/20 | Planned annual target 2020/21 | Actual achievement 2020/21 | Deviation from planned target to actual achievement 2020/21 | Reasons for deviations |
| Increased awareness of the FIC Act | 1.1.1 Number of compliance awareness initiatives held | 7 | 19 | 20 | 21 | 1 | Target exceeded. Only virtual events were held, incurring no costs associated with conference venues and meals. |
| | 1.1.2 Number of on-site review reports issued | New indicator | 60 | 70 | 0 | (70) | Target not achieved. No physical, on-site reviews conducted due to COVID-19 precautionary measures. However, 70 (off-site/virtual reviews were conducted) off-site review reports were issued. |
| Supervision of the FIC Act | 1.2.1 Number of FIC inspection reports issued | 138 | 287 | 375 | 381 | 6 | Target exceeded. Additional 6 on-site inspections conducted in March 2020 on attorneys, with reports issued in May 2020. |
| Enforcement of the FIC Act | 1.3.1 Percentage success rate of matters referred for administrative sanctions | New indicator | 100% | 80% | 100% | 20% | Target exceeded. Annual percentage success rate of 100% achieved due to robust case selection, factual analysis, and case presentation. |



information III

ADJUDICATION PANEL

The FIC adjudication panel was established to assess the enforcement merits of matters referred to the FIC’s enforcement unit for sanctioning and to determine intended sanctions or appropriate final sanctions in accordance with the FIC’s sanctioning principles.

The adjudication panel approves the issuing of the relevant Notice of Intention to Sanction once it is satisfied that preliminary enforcement action is justified in the circumstances of the case.

The adjudication panel recommends the relevant Notice of Sanction to the FIC’s Director once satisfied that final enforcement action is justified in the circumstances of the case. Members of the adjudication panel include executive management of the FIC.

Sector risk assessments

The FIC is required to assess the money laundering and terrorist financing risks faced by the various sectors that are regulated under the FIC Act.

As such risks change over time, risk assessments need to be conducted periodically. For that reason, the FIC and the supervisory bodies of the financial services sector started conducting sector risk assessments during the 2019/20 financial year.

Questionnaires were distributed to the relevant sectors across the country to collate information on the risk environment and measures these sectors have taken to mitigate these risks. The

FIC concentrated on sectors not currently overseen by the financial sector regulators.

Based on the responses in the questionnaires, information at its disposal on the institutions and its intelligence reports, the FIC drafted reports on the inherent money laundering and terrorist financing risks in these sectors. These draft reports addressed the money laundering risks in respect of products and services, clients, transactions, distribution channels and geographic areas and also touched, to a lesser extent, on the terrorist financing risks inherent to these sectors.

In this financial year, draft reports were sent to the relevant supervisory bodies, where applicable, as well as industry bodies

in the sectors that were subject to the risk assessments and comments were received.

In the new financial year comments received from supervisory bodies will be considered and where applicable, included in the reports. After this the reports will be shared and discussed with the accountable and reporting institutions before being finalised.

Accountable and reporting institutions registered

All accountable and reporting institutions are obliged to register with the FIC in terms of the FIC Act. In the year under review, the number of institutions registered with the FIC increased to 44 499 (2019/20: 44 420).

Table 2: Institutions registered with the FIC at 31 March 2021

| Schedule 1: item number | Total registered institutions at 31 March 2020 | Total registered institutions at 31 March 2021 | Variance ** |
|--|--|--|-------------|
| 1. Attorneys* | 15 534 | 16 059 | 525 |
| 2. Trust companies | 209 | 221 | 12 |
| 3. Estate agents* | 10 794 | 10 498 | -296 |
| 4. Authorised users of an exchange | 147 | 152 | 5 |
| 5. Unit trusts (collective investment scheme managers) | 62 | 61 | -1 |
| 6. Banks | 38 | 35 | -3 |
| 7. Mutual banks | 3 | 4 | 1 |
| 8. Long-term insurers | 93 | 117 | 24 |
| 9. Gambling | 3 705 | 3 727 | 22 |
| 10. Foreign exchange | 274 | 204 | -70 |
| 11. Money lenders against securities | 75 | 72 | -3 |
| 12. Investment advisors or intermediaries | 8 541 | 8 613 | 72 |
| 13. Issuers of travellers' cheques and money orders | 159 | 111 | -48 |
| 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 | 251 | 192 | -59 |
| Schedule 3: item number | | | |
| 1. Motor vehicle dealers | 4 028 | 3 788 | -240 |
| 2. Kruger rand dealers | 236 | 260 | 24 |
| Other registrations | | | |
| 1. Business entities with reporting obligations in terms of section 29 of the FIC Act | 262 | 355 | 93 |
| 2. Voluntary disclosure reporters | 7 | 28 | 21 |
| Grand total | 44 420 | 44 499 | 79 |

* 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 individual practitioners subject to the FIC Act.

** Institutions that are no longer in operation are required to deregister with the FIC. The largest decreases in the number of registered entities occurred among estate agents and motor vehicle dealers. Institutions in these sectors often include smaller and family businesses. The decrease in registrations in some of these sectors can possibly be attributed to the decline in economic activities during the reporting period as a result of, inter alia, the COVID-19 pandemic.

Compliance inspections

Supervisory bodies are responsible for overseeing accountable institutions in the business sectors under their supervision, to ensure they comply with the FIC Act.

Inspections are conducted in terms of section 45B of the FIC Act, by the FIC and supervisory bodies to assess the level of institutions' compliance with the FIC Act. The first FIC Act compliance inspections were conducted in August 2011 and to date, the FIC has issued 1 834 inspection reports. In 2020/21, supervisory bodies issued 368 inspection reports, while the FIC issued 381 inspection reports (2019/20: 287). Reports on six inspections, which had been conducted in the previous year, were issued early in 2020/21. Of the total number of inspections, 371 were conducted as remote or off-site inspections, while 10 were on-site inspections.

The national lockdown and its accompanying restrictions due to the pandemic forced the FIC to rethink the way in which it carried out inspections. During the first quarter, the FIC created a model for conducting off-site inspections and started implementing the new model in the second quarter.

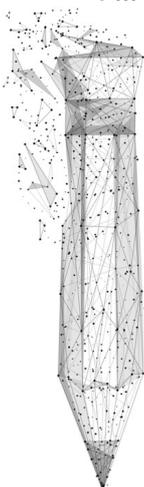
This new model resulted in better inspection coverage as well as financial savings and effective use of time. Furthermore, the FIC's inspectors were more effective as they were able to conduct inspections remotely. Where necessary, courier services were used to collect and deliver files and, in certain circumstances, inspectors physically visited institutions.

The off-site inspections proved to be as stringent and thorough as on-site inspections and will be continued in the foreseeable future.

Table 3: Key differences between on-site and off-site inspections

| On-site inspections | Off-site inspections |
|--|--|
| Obtain information from institution during inspections | Obtain information from institution prior to inspections through completion of off-site questionnaires |
| Standard inspection questionnaire completed during inspection at premises of institution | Adapted inspection questionnaire to obtain more information on the institutions |
| Full scope inspections | Thematic inspections. For example, only looking at customer due diligence or risk management and compliance programmes |
| At least two inspectors at an inspection | One inspector per inspection |
| Travel required | No travel required |
| Obtain physical inspection documents | Obtain electronic copies of inspection documents via e-mail or physical documents via courier services |
| Turnaround time / completion of inspections | Quicker turnaround time - completion of inspection |
| Complete client files sampling | Limited client files sampling |
| Complete bank statements reviews | Complete bank statements reviews |
| Communicate (interview employees) with institutions in person. | Communicate (interview employees) with institutions remotely via Teams, Zoom or telephonically. |

case study III



FRAUD: SUSPICION OF PERSONAL PROTECTIVE EQUIPMENT FRAUD

The Special Investigating Unit (SIU) asked the FIC to analyse the bank statements of a company awarded a tender for personal protective equipment (PPE) procurement by a provincial health department.

The analysis showed that over R16 million had been paid into the company's dormant account by the department. More than R8 million then went to an entity belonging to an individual who was working for the department.

The money had been spent on buying vehicles, property, and investments in gold. Payments were also made to attorneys and law firms.

No PPE-related purchases were made. A provincial employee was also paid R250 000.

Following this, a further R350 000 had been deposited, which was immediately used for personal expenditure. The FIC noted it was doubtful that a dormant entity in the "restaurants, bars and canteens" business would receive a tender of over R16 million to purchase PPE.

The SIU was continuing its investigation.

Table 4: FIC Act inspections by supervisory bodies and the FIC in 2020/21

| Total number of FIC Act inspection reports issued per business sector | |
|---|---------------------------|
| FIC own inspection reports issued per business sector | Inspection reports issued |
| Legal practitioners | 212 |
| Trust companies and administrators | 55 |
| Motor vehicle dealers | 94 |
| Kruger rand dealers | 11 |
| Entities that lend money against the security of securities | 1 |
| Estate agents (supported inspection) | 1 |
| Gambling institutions | 7 |
| Subtotal: Number of inspection reports issued by the FIC | 381 |
| Number of inspection reports issued by supervisory bodies per supervisory body | |
| Financial Sector Conduct Authority: Financial Service Providers division | 16 |
| Financial Sector Conduct Authority: Collective Investment Schemes Managers division | 0 |
| Financial Sector Conduct Authority: Authorised users of an exchange | 40 |
| South African Reserve Bank: Prudential Authority | 6 |
| South African Reserve Bank: Financial Surveillance department | 8 |
| Estate Agency Affairs Board | 166 |
| Independent Regulatory Board of Auditors | 0 |
| Provincial Licensing Authority: Gauteng Gambling Board | 0 |
| Provincial Licensing Authority: Mpumalanga Economic Regulator | 19 |
| Provincial Licensing Authority: Limpopo Gambling Board | 0 |
| Provincial Licensing Authority: Free State Gambling and Liquor Authority | 6 |
| Provincial Licensing Authority: KwaZulu-Natal Gambling and Betting Board | 0 |
| Provincial Licensing Authority: Eastern Cape Gambling and Betting Board | 47 |
| Provincial Licensing Authority: Western Cape Gambling and Racing Board | 5 |
| Provincial Licensing Authority: North West Gambling Board | 52 |
| Provincial Licensing Authority: Northern Cape Gambling and Racing Board | 3 |
| Subtotal: Number of inspection reports issued by supervisory bodies | 368 |
| Grand total - Number of inspection reports issued* | 749 |

* Denotes total of FIC own and supervisory body own inspection reports issued up to 31 March 2021.

case study III

PYRAMID SCHEME: THOUSANDS CONNED



The FIC was able to identify a pyramid scheme after it received a report that between 4 May and 2 July 2020, a gold business bank account, opened in February of 2020 had had a total turnover of more than R42 million.

Nearly R40 million had been deposited through 221 976 individual payments of R180 each.

The sole director also made several payments to another business entity account linked to the sole director.

This account was used at various motor vehicle dealerships for the purchase of luxury vehicles. Payment of more than R12 million was made to a major retailer.

Based on its analysis, the FIC supplied the AFU with a confirmatory affidavit setting out its findings that it was operating a pyramid scheme in contravention of section 43(2)(b) of the Consumer Protection Act, 2008 (Act 68 of 2008). It also found that a bank account of the director was used to receive and launder the fraud proceeds.

The AFU obtained preservation orders against the entity, the director and affected bank accounts. A criminal case was opened.

Risk management and compliance programme

The FIC Act requires all accountable institutions to have in place a risk management and compliance programme (RMCP). The requirement to implement an RMCP came into effect on 2 October 2017.



WHO MUST HAVE AN RMCP?

All accountable institutions as listed in Schedule 1 of FIC Act.



WHAT IS AN RMCP?

It is a documented plan that must set out how an accountable institution will deal with risks associated with money laundering and terrorist financing in their institution. RMCPs replace the previous requirement to have a set of internal rules. An institution's RMCP must contain policy documents, and detail all the processes, systems and controls used for aspects such as customer due diligence (identification and verification of clients), record keeping, reporting and how the risk-based approach will be applied.



WHY IS AN RMCP NECESSARY?

It is a legislative requirement that accountable institutions understand their exposure to money laundering and terrorist financing risks. An RMCP assists accountable institutions in identifying and assessing these risks in order to protect and maintain the integrity of their business and the integrity of the financial system of South Africa. Accountable institutions must provide copies of their RMCP, if requested to do so, to supervisory bodies such as the FIC and FSCA. Non-compliance could result in an administrative sanction, which may include a financial penalty.



HOW DOES AN RMCP WORK?

An RMCP must contain procedures on how an accountable institution will identify, assess, monitor, mitigate, and manage the risks mentioned above. A risk-based approach must be used by accountable institutions when interacting with clients. This approach gives flexibility to accountable institutions to decide what they consider to be high or low risk and how to manage these. The RMCP must also set out how the accountable institution will conduct customer due diligence, maintain records, deal with reporting obligations, and how it will ensure ongoing training for all its employees.

Sanctions for non-compliance

The FIC and other supervisory bodies may impose a penalty, referred to as an administrative sanction, if they find 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.

Funds derived from financial penalties are paid into the National Revenue Fund, as per section 45C(7)(a) of the FIC Act.

During the 2020/21 financial year, the FIC and other supervisory bodies issued 45 sanctions with a total financial penalty valued at R75 540 007.

The FIC issued 24 sanctions in 2020/21 against non-compliant motor vehicle dealers during the reporting period. The financial sanctions amounted to more than R33 million.

The sanctions issued were proportionate to the nature, seriousness, and extent of the non-compliance, and took into account mitigating factors. Two of the 24 sanctioned entities have lodged appeals against the sanctions imposed. The table below sets out the remaining 22 sanctions which amount to R28 357 509.

Table 5: Sanctions issued by the FIC in 2020/21

| Institution | Non-compliance | Sanction |
|--|--|---|
| Hooper Motors (Pty) Ltd t/a Hoopers VW | <ul style="list-style-type: none"> Section 43B(1) - Failure to timeously register with the FIC Section 28 - Failure to report/ timeously report CTRs | <ul style="list-style-type: none"> Reprimand for late registration Financial penalty of R1 315 918 for failing to report/timeously report CTRs, of which R200 000 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| Millstock Cars (Pty) Ltd | <ul style="list-style-type: none"> Section 43B(1) - Failure to timeously register with the FIC Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> Reprimand for late registration Financial penalty of R487 995 for failing to report CTRs, of which R160 000 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| Moto Martin CC t/a Just Carz | <ul style="list-style-type: none"> Section 43B(1) - Failure to timeously register with the FIC Section 28 - Failure to report/ timeously report CTRs | <ul style="list-style-type: none"> Reprimand for late registration Financial penalty of R526 778, for failing to report/timeously report CTRs, of which R79 000 is payable, with the balance conditionally suspended for three years |
| Rodeosec CC t/a Truck Traders | <ul style="list-style-type: none"> Section 43B(1) - Failure to register with the FIC Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> Reprimand for failing to register with the FIC Financial penalty of R518 975 for failing to report CTRs, of which R129 743 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| Locross George (Pty) Ltd t/a Halfway Toyota George | <ul style="list-style-type: none"> Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> Financial penalty of R996 196 for failing to report CTRs, of which R150 000 is payable, with the balance conditionally suspended for three years |
| Edan Traders (Pty) Ltd | <ul style="list-style-type: none"> Section 43B(1) - Failure to register with the FIC Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> Reprimand for failure to register with the FIC Financial penalty of R760 155 for failing to report CTRs, of which R114 023 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| Marble Gold 182 (Pty) Ltd | <ul style="list-style-type: none"> Section 28 - Failure to report/ timeously report CTRs | <ul style="list-style-type: none"> A financial penalty of R1 889 970 for failing to report/timeously report CTRs, of which R472 000 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| VLW Motors (Pty) Ltd t/a Lenasia Volkswagen | <ul style="list-style-type: none"> Section 43B(1) - Failure to timeously register with the FIC Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> Reprimand for failing to timeously register with the FIC A financial penalty of R1 164 760 for failing to report CTRs, of which R178 000 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| LSM Distributors (Pty) Ltd t/a Porsche Centre Johannesburg | <ul style="list-style-type: none"> Section 28 - Failure to report/ timeously report CTRs | <ul style="list-style-type: none"> A financial penalty of R6 015 171 for failing to report/timeously report CTRs, of which R900 000 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| Bus Centre (Pty) Ltd | <ul style="list-style-type: none"> Section 43B(1) - Failure to register with the FIC Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> Reprimand for failing to register with the FIC Financial penalty of R471 786 for failing to report CTRs, of which R188 000 is payable, due to financial considerations, with the balance conditionally suspended for three years |
| Fink Investments 5 CC t/a SA Motor Corporation | <ul style="list-style-type: none"> Section 43B(1) - Failure to timeously register with the FIC Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> A reprimand for failing to timeously register with the FIC Financial penalty of R1 041 124 for failing to report CTRs, of which R416 000 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| Ronnies Motors Trust t/a Execucar | <ul style="list-style-type: none"> Section 28 - Failure to report/ timeously report CTRs | <ul style="list-style-type: none"> Financial penalty of R485 930 for failing to report/timeously report CTRs, of which R70 000 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| Scania South Africa (Pty) Ltd | <ul style="list-style-type: none"> Section 43B(1) - Failure to timeously register with the FIC Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> Reprimand for failing to timeously register with the FIC Financial penalty of R3 854 863 for failing to report CTRs, of which R1 156 000 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| Capital Auto World CC | <ul style="list-style-type: none"> Section 43B(1) - Failure to register with the FIC Section 28 - Failure to report/ timeously report CTRs | <ul style="list-style-type: none"> Reprimand for failing to register with the FIC Financial penalty of R1 218 911 for failing to report/timeously report CTRs, of which R304 000 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |

| Institution | Non-compliance | Sanction |
|--|--|--|
| LSM Distributors (Pty) Ltd t/a Porsche Centre Pretoria | <ul style="list-style-type: none"> Directive 2/2014 - Sharing of login credentials Section 28 - Failure to report/ timeously report CTRs | <ul style="list-style-type: none"> Reprimand for sharing of login credentials Financial penalty of R1 693 000 for failing to report/timeously report CTRs, of which R253 950 is payable, with the balance conditionally suspended for three years |
| Nationwide Trucks (Pty) Ltd | <ul style="list-style-type: none"> Section 43B(1) - Failure to register with the FIC Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> Reprimand for failing to register with the FIC Financial penalty of R583 588 for failing to report CTRs, of which R233 435 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| Apex Truck and Trailer (Pty) Ltd | <ul style="list-style-type: none"> Directive 4/2016 - Failure to update registration related information) Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> Reprimand for failing to comply with Directive 4/2016 Financial penalty of R1 389 366 for failing to report CTRs, of which R555 746 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| BLC Plant Company (Pty) Ltd | <ul style="list-style-type: none"> Section 43B(1) - Failure to register with the FIC Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> Reprimand for failing to register with the FIC Financial penalty of R773 530 for failing to report CTRs, of which only R232 000 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| MJ Human Bakkie Centre (Pty) Ltd t/a Kimberley Bakkie Centre | <ul style="list-style-type: none"> Section 43B(1) - Failure to timeously register with the FIC Section 28 - Failure to report/ timeously report CTRs | <ul style="list-style-type: none"> Reprimand for failing to register with the FIC Financial penalty of R528 540 for failing to report CTRs, of which R211 400 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| Mopani Motors (Pty) Ltd t/a Waterberg Toyota | <ul style="list-style-type: none"> Section 28 - Failure to report/ timeously report CTRs | <ul style="list-style-type: none"> Financial penalty of R834 421 for failing to report/timeously report CTRs, of which R100 000 is payable, with the balance conditionally suspended for three years |
| Southern Ambition 1302 CC t/a Noor Auto | <ul style="list-style-type: none"> Section 43B(1) - Failure to timeously register with the FIC Section 28 - Failure to report/ timeously report CTRs | <ul style="list-style-type: none"> Reprimand for failing to timeously register with the FIC Financial penalty of R677 920 for failing to report CTRs, of which R101 688 is payable, with the balance conditionally suspended for three years Directive to remediate and report outstanding CTRs |
| Witthoft Estates (Pty) Ltd t/a East Toyota | <ul style="list-style-type: none"> Section 28 - Failure to report/ timeously report CTRs | <ul style="list-style-type: none"> Financial penalty of R1 128 612 for failing to report/timeously report CTRs, of which R135 433 is payable, with the balance conditionally suspended for three years |

During 2020/21, the SARB's PA imposed six administrative sanctions, of which one went on appeal. The table below sets out the remaining five sanctions, imposed by the SARB's PA, which amounted to R40 200 000. SARB's FinSurv department imposed one administrative sanction to the value of R100 000.

FSCA imposed 14 administrative sanctions to the total amount of R1 116 980 against non-compliant institutions.

The table below details the nature and extent of the administrative sanctions imposed by the two supervisory bodies. Sanctions on appeal appear in a separate table below.

case study III CYBERCRIME: RANSOMWARE



It was reported in media that South Africa was one of 17 countries hit by cyber attackers from North Korea, to raise money for their weapons of mass destruction programme.

According to articles by Associated Press and Reuters, members of the media had seen an unpublished report prepared for the UNSC.

The report had stated that investigations were under way into at least 35 instances where North Koreans launched cyber-attacks in 17 countries with the aim of raising funds.

The FIC's proactive analysis identified several ransomware attacks in South Africa. Blockchain analysis revealed the beneficiary crypto addresses benefiting from these schemes.

Local crypto asset service providers identified the role players.

Reports were submitted by the FIC to local law enforcement to assist in their investigations.

Table 6: Sanctions issued by supervisory bodies in 2020/21

| Supervisory body | Institution | Non-compliance | Sanction |
|------------------|--|--|--|
| SARB - PA | Clientèle Life Assurance Company Limited | <ul style="list-style-type: none"> Section 28 - Failing to report and/or timeously report CTRs | <ul style="list-style-type: none"> Caution not to repeat the non-compliance Financial penalty of R200 000 for failing to report/timeously report CTRs |
| SARB - PA | Hollard Life Assurance Company Limited | <ul style="list-style-type: none"> Section 43 - Failing to provide training to employees relating to anti-money laundering and counter terrorist financing compliance | <ul style="list-style-type: none"> Caution not to repeat the non-compliance |
| SARB - PA | OUTsurance Life Limited | <ul style="list-style-type: none"> Section 43 - Failing to provide training to employees relating to anti-money laundering and counter terrorist financing compliance | <ul style="list-style-type: none"> Caution not to repeat the non-compliance |
| SARB - PA | Deutsche Bank AG-Johannesburg Branch | <ul style="list-style-type: none"> Section 21B - Failure to comply with provisions of section 21B and in its RMCP Sections 21 to 21H - Failure to comply with customer due diligence and enhanced due diligence requirements Sections 22 to 24 - Failure to comply with record keeping requirements Section 42A(2) - Failure to comply with governance requirements | <ul style="list-style-type: none"> Reprimand for non-compliance with the identified provisions of the FIC Act Financial penalty of R38 000 000 for non-compliance with the identified provisions of the FIC Act, of which R28 000 000 is payable, with the balance conditionally suspended for three years Caution not to repeat the non-compliance |
| SARB - PA | Discovery Life Limited | <ul style="list-style-type: none"> Section 28 - Failing to report and/or timeously report CTRs Section 42 - Failing to comply with the requirements for an RMCP in terms of section 42 Section 43 - Failing to comply with the anti-money laundering and counter terrorist financing training requirements Section 42A(2) - Failure to comply with governance requirements | <ul style="list-style-type: none"> Financial penalty of R2 000 000 non-compliance with the identified provisions of the FIC Act, of which R500 000 is conditionally suspended for three years Caution not to repeat the non-compliance |
| SARB - FinSurv | Master Currency (Pty) Ltd | <ul style="list-style-type: none"> Section 43 - Failure to comply with the anti-money laundering and counter terrorist financing training requirements | <ul style="list-style-type: none"> Financial penalty of R100 000 non-compliance with section 43 of the FIC Act Directive to take remedial action |
| FSCA | Estret Financial Services CC | <ul style="list-style-type: none"> Section 42 - Failing to develop, document, maintain and implement an RMCP in accordance with section 42(2) | <ul style="list-style-type: none"> Directive to take remedial action Financial penalty of R10 000 non-compliance with section 42 of the FIC Act, conditionally suspended for three years |
| FSCA | Employee Benefit International (Pty) Ltd | <ul style="list-style-type: none"> Section 42 - Failing to develop, document, maintain and implement an RMCP in accordance with section 42(2) Section 43 - Failing to provide ongoing training to employees on the FIC Act and the institution's RMCP Section 42(3) - Failing to make available its RMCP to relevant employees | <ul style="list-style-type: none"> Directive to take remedial action Financial penalty of R15 000 non-compliance with the identified provisions of the FIC Act, of which R5 000 is payable, with the balance conditionally suspended for three years |
| FSCA | Econo Group Schemes CC | <ul style="list-style-type: none"> Section 24(3) - Failing to inform the FIC and supervisory body of the appointment of third party to maintain records Section 42 - Failing to develop, document, maintain and implement an RMCP in accordance with section 42(2) Section 43 - Failing to provide ongoing training to employees on the FIC Act and the institution's RMCP Section 28 - Failing to report CTRs | <ul style="list-style-type: none"> Reprimand for non-compliance with the identified provisions of the FIC Act Financial penalty of R420 000, for being non-compliant with the identified provisions of the FIC Act Directive to take remedial action |
| FSCA | Brian Michael Papas | <ul style="list-style-type: none"> Directive 2/2014 - Sharing of login credentials Section 21 - Failing to identify and verify their clients in terms of the institution's RMCP | <ul style="list-style-type: none"> Directive to take remedial action Financial penalty of R4 000 for non-compliance with the identified |

| Supervisory body | Institution | Non-compliance | Sanction |
|------------------|--|--|--|
| | | | provisions of the FIC Act and/or Directive 2/2014 conditionally suspended for three years |
| FSCA | Sasfin Securities (Pty) Ltd | <ul style="list-style-type: none"> Sections 21 and/or 22 - Failing to establish and verify clients in accordance with its RMCP and/or keep records of verification, information of customer due diligence records and/or source of funds which the client is expected to use in concluding transactions in the course of the business relationship Section 43 - Failing to provide ongoing training to employees on the FIC Act and the institution's RMCP Section 42(3) - Failing to make available its RMCP to relevant employees | <ul style="list-style-type: none"> Directive to take remedial action Financial penalty of R400 000 non-compliance with the identified provisions of the FIC Act |
| FSCA | Debbie Barnard Investments CC t/a Debbie Barnard Finansiële Dienste | <ul style="list-style-type: none"> Section 42(2)(a) - Failing to develop and implement an RMCP which would enable the institution to identify, assess, monitor, mitigate and manage the risk that the provision by the accountable institution of products or services may involve or facilitate money laundering activities or the financing of terrorist and related activities Sections 20A to 21H - Failure to conduct customer due diligence in accordance with its RMCP | <ul style="list-style-type: none"> Financial penalty of R65 000 for non-compliance with the identified provisions of the FIC Act, of which R10 000 is payable, with the balance conditionally suspended for three years |
| FSCA | Goodsure Brokers (Pty) Ltd | <ul style="list-style-type: none"> Section 42 - Failing to develop, document, maintain and implement an RMCP in accordance with section 42(2) Section 43 - Failing to provide ongoing training to employees on the FIC Act and the institution's RMCP Section 24(3) - Failing to inform the FIC and supervisory body of the appointment of a third party to keep and maintain records Sections 21 and 21A - Failing to identify and verify clients | <ul style="list-style-type: none"> Directive to take remedial action Financial penalty of R35 000 for non-compliance with the identified provisions of the FIC Act, of which R20 000 is payable, with the balance conditionally suspended for three years |
| FSCA | Central Motors Lichtenburg t/a Mia Motors | <ul style="list-style-type: none"> Section 28 - Failure to report and/or timeously report CTRs | <ul style="list-style-type: none"> Directive to take remedial action Financial penalty of R17 980 for failing to report/timeously report CTRs, of which R5 000 is payable, with the balance conditionally suspended for three years |
| FSCA | Fortunate Brokers CC | <ul style="list-style-type: none"> Section 42 - Failing to develop, document, maintain and implement an RMCP in accordance with section 42(2) Section 43 - Failing to provide ongoing training to employees on the FIC Act and the institution's RMCP Directive 2/2014 - Sharing of login credentials | <ul style="list-style-type: none"> Reprimand for non-compliance with the identified provisions of the FIC Act Directive to take remedial action Financial penalty of R10 000 for non-compliance with the identified provisions of the FIC Act conditionally suspended for three years |
| FSCA | Standerton Versekeringsmakelaars BK trading as Jes Venter Finansiële Dienste | <ul style="list-style-type: none"> Section 42 - Failing to develop, document, maintain and implement an RMCP in accordance with section 42(2) Sections 20A to 21H - Failure to conduct customer due diligence in accordance with its RMCP Section 43 - Failing to provide ongoing training to employees on the FIC Act and the institution's RMCP | <ul style="list-style-type: none"> Financial penalty of R60 000 for non-compliance with the identified provisions of the FIC Act, of which R50 000 is payable, with the balance conditionally suspended for three years |

| Supervisory body | Institution | Non-compliance | Sanction |
|------------------|--|---|---|
| FSCA | JAB Financial Services CC | <ul style="list-style-type: none"> Section 21(1) - Failure to identify and verify clients in terms of their RMCP when entering into a single transaction or establish a business relationship Section 42 - Failing to develop, document, maintain and implement an RMCP in accordance with section 42(2) Section 43 - Failing to provide ongoing training to employees on the FIC Act and the institution's RMCP | <ul style="list-style-type: none"> Financial penalty of R20 000 for non-compliance with the identified provisions of the FIC Act |
| FSCA | BOT - and Investment CC | <ul style="list-style-type: none"> Section 42 - Failing to develop, document, maintain and implement an RMCP in accordance with section 42(2) Section 43 - Failing to provide ongoing training to employees on the FIC Act and the institution's RMCP Section 42A(2) - Failure to establish a compliance function | <ul style="list-style-type: none"> Financial penalty of R20 000 for non-compliance with the identified provisions of the FIC Act, conditionally suspended for three years |
| FSCA | AFS Capital CC | <ul style="list-style-type: none"> Section 43(B)(4) - Failing to update registration details Directive 2/2014 - Sharing of login credentials Section 42 - Failing to develop, document, maintain and implement an RMCP in accordance with section 42(2) Section 42A(1) - Failure of the senior management to ensure compliance by the institution and its employees with the provisions of the FIC Act and its RMCP Section 43 - Failing to provide ongoing training to its employees and senior management to enable them to comply with the provisions of the FIC Act and its RMCP Sections 20A to 21H - Failing to perform customer due diligence in respect of its clients in terms of its RMCP Section 42(3) - Failing to make its RMCP available to relevant employees | <ul style="list-style-type: none"> Caution not to repeat the non-compliance Financial penalty of R20 000 for non-compliance with the identified provisions of the FIC Act |
| FSCA | Maxi Forces Financial Services (Pty) Ltd | <ul style="list-style-type: none"> Section 42 - Failing to develop, document, maintain and implement an RMCP in accordance with section 42(2) Section 42A - Failure of the board of directors to ensure compliance by the institution and its employees with the provisions of the FIC Act and its RMCP | <ul style="list-style-type: none"> Financial penalty of R20 000 for non-compliance with the identified provisions of the FIC Act |

case study III MONEY LAUNDERING: SUSPICIOUS SOURCES OF INCOME



The FIC referred a proactive financial intelligence report to the SAPS after discovering that a man with a gross income of R3 500 received more than 1 635 cash deposits from several individuals, sometimes in multiple deposits in a day, totalling more than R1.9 million.

The man was suspected of being involved in drug activities and using his bank account as a conduit for money laundering.

The matter was referred to SAPS for further investigation.

Shown below are the sanctions which were appealed in 2020/21. The names of the institutions may not be disclosed as their appeal hearings are scheduled after the financial year end.

Table 7: Sanctions on appeal, that were issued by the FIC and the SARB's PA in 2020/21

| Supervisory body | Non-compliance | Sanction |
|------------------|--|--|
| FIC | Section 43B(1) - Failure to register with the FIC Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> • Reprimand for failing to register with the FIC • Financial penalty of R2 350 706 for failing to report CTRs, of which R940 000 is payable, with the balance conditionally suspended for three years • Directive to remediate and report outstanding CTRs |
| FIC | Section 43B(1) - Failure to timeously register with the FIC Section 28 - Failure to report CTRs | <ul style="list-style-type: none"> • Reprimand for failing to timeously register with the FIC • Financial penalty of R2 664 812 for failing to report CTRs, of which R1 065 924 is payable, with the balance conditionally suspended for three years • Directive to remediate and report outstanding CTRs |
| SARB - PA | Section 43 - Failing to provide ongoing training to employees on the FIC Act and the institution's RMCP Section 42A(2) - Failing to comply with the governance of AML/CFT compliance requirements | <ul style="list-style-type: none"> • Directive to take remedial action to address identified non-compliance • Financial penalty of R750 000 for being non-compliant with the identified provisions of the FIC Act • Caution not to repeat the non-compliance |

Section 45E of the FIC Act establishes an appeal board to adjudicate on appeals emanating from sanctions issued by the FIC and supervisory bodies for non-compliance with the FIC Act.

During this financial year, five appeals were heard by the Appeal Board against sanctions issued by the FIC.

Three appeals were dismissed and two were settled between the parties. The results in all five appeals were in favour of the FIC, confirming the soundness and rationality of the FIC's enforcement processes.

case study III

FRAUD AND CORRUPTION: CHIEF EXECUTIVE OF LISTED COMPANY SUSPECTED



A former chief executive of a company which was registered on the Johannesburg Stock Exchange, with branches abroad, was alleged to have transferred large amounts of money to his mistress and her father.

The FIC traced the transfers and identified properties in the name of the mistress.

There were asset forfeiture and revenue investigations by the DPCI, SARS and the AFU.

Table 8: Appeal Board decisions handed down in 2020/21

| Institution | Decision |
|--|--|
| Siqala Auto (Pty) Ltd t/a Fury Ford Woodmead | The Appeal Board dismissed the appeal and confirmed the: <ul style="list-style-type: none"> • Financial penalty of R1 072 342 for failing to report/timeously report CTRs, of which R536 171 is payable, with the balance conditionally suspended for three years • Directive to remediate and report outstanding CTRs |
| Harlyn International (Pty) Ltd | The Appeal Board dismissed the appeal and confirmed the: <ul style="list-style-type: none"> • Reprimand for failing to timeously register with the FIC • Financial penalty of R1 283 948 for failing to report/timeously report CTRs, of which R644 474 is payable, with the balance conditionally suspended for three years • Directive to remediate • Appellant instituted a further appeal to the High Court against the decision of the Appeal Board |
| Sunward Motors (Pty) Ltd | The Appeal Board dismissed the appeal and confirmed the: <ul style="list-style-type: none"> • Financial penalty of R2 029 220 for failing to report/timeously report CTRs, of which R507 000 is payable, with the balance conditionally suspended for three years • Directive to remediate and report outstanding CTRs • Appellant instituted a further appeal to the High Court against the decision of the Appeal Board |
| Aucor (Sandton) (Pty) Ltd | The Appeal Board confirmed the settlement agreement: <ul style="list-style-type: none"> • Reprimand for failing to timeously register with the FIC • Financial penalty of R4 019 872.95 for failing to report/timeously report CTRs, of which R600 000 is payable, with the balance conditionally suspended for three years |
| Aucor Bloemfontein (Pty) Ltd | The Appeal Board confirmed the settlement agreement: <ul style="list-style-type: none"> • Reprimand for failing to timeously register with the FIC • Financial penalty of R1 627 832 for failing to report/timeously report CTRs, of which R300 000 is payable, with the balance conditionally suspended for three years |

Regulatory reporting

A total of 3 289 reporting entities submitted more than 5.24 million regulatory reports during 2020/21.

The FIC received 4.85 million CTRs during the year under review. This represents a decrease of 18.2 percent from the number of CTRs received in the previous financial year (2019/20: 5.93 million CTRs received).

A total of 394 709 STRs were submitted to the FIC in 2020/21 (2019/20: 299 256), representing an increase of 31.9 percent. The FIC received three TPRs in the reporting period.



FRAUD: FORMER MAYOR CAUGHT RAIDING THE COOKIE JAR

A former mayor of a local municipality was alleged to be involved in theft, fraud, corruption, and contraventions of the Municipal Finance Management Act, 2003 (Act 56 of 2003), and the PFMA estimated at R1 million a month.

The DPCI requested information about the alleged criminal activities.

The information revealed that revenue was collected from various vending machines, and then a collaborator in the computer department would delete the accounting records.

The FIC tracked money by analysing the suspect's bank accounts and found that numerous transactions were credited to his account. Some of the money was then transferred to his child's account.

The transactions were debited with references like: "Birthday Cake ANC", "ANC Golf Shirts".

The FIC shared the information with the DPCI.

Table 9: Regulatory reporting 2020/21

| Schedule 1: Item no. | | Cash threshold and cash threshold aggregation reports* | Section 29 reports** | Terrorist property reports | Voluntary disclosure Reports | Total |
|--------------------------|---|--|----------------------|----------------------------|------------------------------|-----------|
| 1 | Attorneys | 2 288 | 269 | 1 | | 2 558 |
| 2 | Trust companies | 264 | 10 | | | 274 |
| 3 | Estate agents | 6 128 | 162 | | | 6 290 |
| 4 | Authorised users of an exchange | 5 291 | 55 | | | 5 346 |
| 5 | Unit trusts (collective investment scheme managers) | 155 | 149 | | | 304 |
| 6 | Banks | 4 334 764 | 260 783 | 2 | | 4 595 549 |
| 7 | Mutual banks | 32 | 17 | | | 49 |
| 8 | Long-term insurers | 304 | 269 | | | 573 |
| 9 | Gambling | 271 820 | 3 050 | | | 274 870 |
| 10 | Foreign exchange agent or company | 101 644 | 28 455 | | | 130 099 |
| 11 | Money lenders against securities | 682 | 18 | | | 700 |
| 12 | Investment advisors or intermediaries | 16 741 | 4 615 | | | 21 356 |
| 13 | Issuers of travellers' cheques and money orders | 399 | 9 | | | 408 |
| 14 | Postbank | 917 | 33 | | | 950 |
| 15 | Stock exchange (incorporated under Item 4) | | | | | |
| 16 | Ithala Development Finance Corporation | 252 | 0 | | | 252 |
| 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 | 86 976 | 81 964 | | | 168 940 |
| Schedule 3: Item no. | | | | | | |
| 1 | Motor vehicle dealers | 21 854 | 14 496 | | | 36 350 |
| 2 | Kruger rand dealers | 1 272 | 109 | | | 1 381 |
| Other reporting entities | | | | | | |
| | Business entity with a reporting obligation in terms of section 29 of the FIC Act | 846 | 245 | | | 1087 |
| | Individual reporting entity | | 1 | | | 1 |
| | Voluntary disclosure reporters | | | | 2 | 2 |
| | Stakeholders | | | | 19 | 19 |
| Grand total | | 4 852 629 | 394 709 | 3 | 21 | 5 247 362 |

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

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

Collaboration with the Independent Regulatory Board for Auditors

The FIC collaborates and shares information with different stakeholders and industry bodies that do not necessarily have a legal obligation to submit reports to the FIC.

Through mutual agreements, these stakeholders and industry bodies have agreed to share information with the FIC. One of these is the Independent Regulatory Board for Auditors, that currently submits voluntary disclosure reports to the FIC whenever its auditors come across matters that would be of interest to the FIC.

Remediation and awareness to improve compliance

The FIC monitors the regulatory reports it receives to ensure they are complete, accurate and submitted in the prescribed reporting periods as defined in the FIC Act. During inspections, the FIC also identifies areas of concern such as non-reporting and incomplete or inaccurate reporting. Where regulatory reports are insufficient, incomplete or inaccurate, the FIC engages with the relevant reporting entities. This is so that the entities can correct or submit outstanding information.

Correction requests often stem from a lack of understanding of the FIC's regulatory reporting requirements. Therefore, the FIC continually engages with businesses across South Africa to ensure they understand the requirements of the FIC Act and their reporting obligations.

Initiatives to raise awareness

As a result of the national lockdown to contain the COVID-19 pandemic, the FIC was not able to engage in face-to-face awareness events. This allowed for the FIC to modernise its approach and make more use of in-house systems functionalities and digital technology such as virtual webinars and roadshows.

During the course of the 2020/21 financial year, a total of 21 awareness engagements were hosted by the FIC. The FIC also attended eight awareness sessions hosted by external stakeholders.

Engagement sessions were industry focused and various topics relevant to compliance obligations were discussed, ranging from explanations on guidance issued, such as the South African sanctions regime and impact of money laundering and terrorist financing on non-profit organisations, to targeted awareness on reporting obligations. The webinar on reporting to the FIC was one of its best attended, with more than 1 600 participants. A webinar on the South African sanctions regime, which incorporated resolutions of the UNSC and the FIC Act, was also well attended with just over 1 300 participants. Both webinar sessions were hosted by the FIC.

Given that all engagements were virtual, the FIC was able to extend its reach while saving costs related to venue hire, transport and hospitality. The FIC was able to reach significantly more audiences in its digital events than its physical ones. All in all, the FIC presented 21 compliance awareness webinars, which had more than 7 500 attendees.

Furthermore, the FIC published 18 media articles on beneficial ownership, non-profit organisations, section 29 reporting and compliance with the FIC Act.

Advice and guidance

The FIC provides specialist advice and guidance via its public query process. While the service is aimed at improving business compliance it also improves the FIC's understanding of public needs, challenges and concerns regarding compliance.

The queries and information requested provide insight to the FIC on what guidance, publications and topics are suitable for discussion at awareness events. The FIC responded to 4 691 written and 11 794 telephonic queries during 2020/21.

Non-profit organisations

Non-profit organisations have been identified by FATF as entities that are susceptible to being abused by criminals for terrorist financing and/or money laundering purposes.

The FIC collaborated with the Department of Social Development in delivering two awareness sessions on money laundering and terrorist financing risks, and how to prevent falling prey to these and other financial crimes. In partnership with the department, the sessions involved training of Department of Social Development employees and non-profit organisations.

On-site compliance reviews

The FIC conducts on-site reviews to strengthen its relationships with accountable and reporting institutions. These reviews allow for constructive engagement with the accountable institutions and an opportunity to increase awareness on their FIC Act compliance obligations. The intent is to improve the quality and quantity of regulatory reports they submit, and to assist with compliance related matters.

These reviews differ from inspections in the following way:

- On-site reviews are not conducted under section 45B of the FIC, which governs the inspection regime for the FIC.
- The FIC officials conducting the on-site visits are not formally appointed as inspectors.
- The purpose of on-site reviews is not to test compliance but rather to increase awareness and improve compliance through a process of engaging with the accountable or reporting institution.

The decision to conduct an on-site review is motivated by factors such as reporting inefficiencies, a lack of understanding of FIC Act compliance obligations in certain sectors or institutions, or queries received through the public query process. The potential impact of such a visit on improved compliance and reporting is taken into consideration in the selection of an institution or a sector to be visited.

An on-site visit review entails going through a checklist to ascertain whether the institution's processes and procedures are in place to enable it to comply with the FIC Act obligations.

During an on-site visit, the FIC officials may, if necessary, discuss with the institution compliance obligations such as customer identification, the requirements of an RMCP registration and reporting.

After the visit, the FIC completes an on-site review report which is sent to the institution, with a request for comments or inputs on the recommendations in the draft report. Where necessary, recommendations for improving compliance measures are included. The FIC conducted 70 on-site reviews during the reporting period.

It was evident from the compliance reviews that accountable and reporting institutions, in particular smaller institutions, were still experiencing challenges with some of the requirements that were introduced in the FIC Act in 2017.

The requirements to risk rate clients for purposes of money laundering and terrorist financing as well as the drafting of an RMCP that complies with the requirements of section 42 of the FIC Act, are some of the most common areas of non-compliance that institutions need to address.

70 on-site reviews conducted during 2020/21



Guidance products

The FIC develops guidance products that include practical information on complying with the FIC Act.

Draft versions of the guidance are published so that accountable institutions, supervisory bodies and other affected entities can provide feedback. The comments received are carefully considered and the guidance products updated where necessary before being finalised.

The consultation process was enhanced during the 2020/21 financial year as a result of learnings and feedback from industry.

Guidance issued during the year, included a consultation note explaining the purpose of the guidance, the achieved outcomes, and the need for addressing the identified topic. During 2020/21, the FIC issued three guidance products, and published an additional two draft guidance products for consultation.

Furthermore, there was a move to online submission and collation of comments which allowed for an easier review of comments. The consultation close-out process was enhanced by including a report on comments and questions received, the feedback provided by the FIC, which was included with the final guidance product.

Table 10: Guidance products issued in 2020/21

| Public Compliance Communications and Guidance notes | Subject |
|---|---|
| PCC 12A | Guidance and clarity on what compliance activities can be outsourced by an accountable institution to third parties. |
| PCC 49 | Guidance to accountable institutions on how to determine geographical risk ratings from a money laundering and terrorist financing perspective, taking into consideration various risk rating publications. |
| PCC 50 | Guidance on the consequences of non-reporting, and the requirement to remediate failed reports. |
| Draft PCC 112 | Guidance to financial institutions on who their clients are for purposes of understanding risks associated to underlying clients. |
| Draft PCC 113 | Guidance to accountable institutions on domestic prominent influential persons and foreign prominent public officials. |

Co-operation with the Legal Practice Council

On 5 November 2019, the Legal Practice Council and the FIC signed an MoU. The purpose of the MoU was to strengthen the relationship, formalise matters of common interest and facilitate sharing of information between the two entities. In terms of this MoU the Legal Practice Council also delegated to the FIC its responsibilities to supervise the compliance of legal practitioners with the FIC Act.

The FIC accepted such delegation and assumed the Legal Practice Council's supervisory responsibilities. This delegation was accepted until finalisation and publication in the Government Gazette of the amended schedules to the FIC Act, which is expected to officially assign the role of the FIC Act supervisory body for legal practitioners to the FIC.

Sub-programme 2.2:

Delivery of intelligence on financial crime and FIC Act-related regulatory services - focusing on the improved production and utilisation of financial intelligence products

Purpose

The sub-programme is primarily mandated 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.

This sub-programme provides unique intelligence-based services that entail the analysis, interpretation, and representation of financial information in a manner that can be converted into evidence by law enforcement authorities and prosecutorial services. These services are performed to support law enforcement authorities' efforts to prove crime and involve in-depth planning and coordination. The sub-programme gathers and receives information internationally through a network of foreign information sources including financial intelligence units.

Strategic outputs

Sub-programme 2.2 strategic outputs are:

- Ensure the production of proactive financial intelligence reports

- Ensure the production of reactive financial intelligence reports
- Improve the utilisation of financial intelligence products and services.

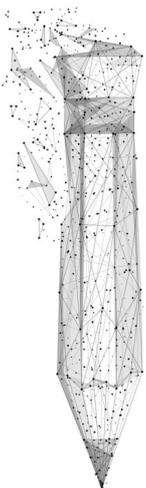
Performance

During 2020/21, the FIC excelled in this sub-programme, meeting one and exceeding four of its targets.

Highlights for the year include:

- Changing the division's approach and *modus operandi* resulting in surpassing of targets despite lockdowns and other impacts of the COVID-19 pandemic.
- Producing 2 080 reactive reports and 1 126 proactive reports, an increase of 16 percent from the previous year (2019/20: 2 762 proactive and reactive reports produced).
- Contributing to the recovery of over R3 billion in criminal proceeds.
- Blocking R613.2 million as suspected proceeds of crime.
- Improving the use and availability of financial intelligence by analysing CTRs, which were previously only used as secondary data.
- Contributing to the Fusion Centre's many successes, such as identifying 276 fraud and corruption cases related to COVID-19 relief efforts, which led to the recovery of proceeds of crime to the value of approximately R659 million.
- Making productive use of the analysis associated with cryptocurrencies and Ponzi schemes.
- Networking with stakeholders, various entities and financial information sharing partnerships such as SAMLIT.

case study ||| ILLEGAL WEAPONS: FIREARMS DEALER



The FIC was asked to analyse the bank accounts of a man accused of transporting and supplying firearms to criminal gangs in the Western Cape.

The investigation established that the man operated as a firearms dealer from his cell phone shop. It was established that the man purchased firearms in bulk directly from suppliers.

However, he had not registered the firearms in the business' name because it was listed as a cell phone shop.

The firearms were then sold to the highest bidder in the Western Cape.

Bank statements were analysed to determine the origins and destinations of the purchases and sale of weapons.

The accused went on trial.

Table 11: Outcomes, outputs, output indicators, targets and actual achievements of sub-programme 2.2

| Delivery of intelligence on financial crime and FIC Act-related regulatory services | | | | | | | |
|--|---|------------------------------------|------------------------------------|---|----------------------------|---|---|
| Outcome: Improved production and utilisation of financial intelligence reports and services to assist in the identification and combating of crime | | | | | | | |
| Outputs | Output indicators | Audited actual performance 2018/19 | Audited actual performance 2019/20 | Planned annual target 2020/21 | Actual achievement 2020/21 | Deviation from planned target to actual achievement 2020/21 | Reasons for deviations |
| Financial intelligence reports | 2.1.1 Number of proactive high priority financial intelligence reports issued to stakeholders | New indicator | 32 | 25 | 52 | 27 | Target exceeded. More than anticipated matters identified for relevant stakeholders. |
| | 2.1.2 Number of proactive medium to lower priority financial intelligence reports issued to stakeholders | New indicator | 713 | 400 | 1 074 | 674 | Target exceeded. More than anticipated matters identified for relevant stakeholders. |
| | 2.1.3 Percentage of reactive financial intelligence reports issued to stakeholders | 104% | 134% | 100% responded to subject to an annual maximum of 1 550 | 134% | 34% | Target exceeded. Employees worked overtime to address the influx of requests to meet client expectations. |
| Stakeholder engagements to improve the understanding and utilisation of FIC products and/or services | 2.2.1 Number of conducted stakeholder engagements to improve the understanding and utilisation of FIC products and/or services | 44 | 54 | 30 | 46 | 16 | Target exceeded. Additional training opportunities materialised. |
| Blocked funds involving crime and terrorism | 2.3.1 Percentage response to requests to block funds | 100% | 100% | 100% | 100% | N/A | Target achieved. |

case study III ILLICIT WILDLIFE TRADE: EXOTIC PIGEONS SOLD



Analysis by the FIC revealed that individuals and entities were involved in illegally importing, trading and conducting international racing events with exotic pigeons.

Participants paid funds into an international bank account linked to a Swiss national.

The FIC's analysis indicated that the business was using a South African entity as a proxy for the illegal activities.

The FIC approached its counterparts in Switzerland for more information on the Swiss national.

However, the Swiss financial intelligence unit was unable to provide any positive information, citing no links with their database.

Public-private partnership and public-public collaboration

An integrated approach to the gathering and sharing of intelligence is key to South Africa's efforts to safeguard the country's financial system.

Therefore, two national initiatives were launched in 2019/20 to forge beneficial relationships between multi-disciplinary role players and further the use of financial intelligence.

The initiatives, SAMLIT and the Fusion Centre, are based on the timeous sharing of financial and other information to expedite the prevention, detection, investigation and resolution of criminal matters. Central to both initiatives is the effective use of financial intelligence provided by the FIC.

South African Anti-Money Laundering Integrated Task Force

Established in 2019 by the FIC, SAMLIT started to bear fruit during 2020/21. The public-private, financial information sharing partnership includes 22 domestic and international banks, banking industry associations and regulatory authorities.

The industry is represented by SABRIC (South African Banking Risk Information Centre) and BASA (The Banking Association South Africa). The regulatory authorities include the FIC, and SARB's PA and FinSurv departments.

SAMLIT's formation has been in step with the approach taken by financial intelligence units across the globe. This entails creating financial information sharing partnerships with the private sector, thereby building trust, and enhancing the fight against financial crime. These partnerships are geared towards improving the

quality of reported information exchanged between the public-private partners.

SAMLIT's steering committee, which is chaired by the Director of the FIC, oversees the implementation of partnership's strategic objectives and operational priorities.

In its operations, SAMLIT's partners are drawn together on a case-by-case basis, which enables them to quickly identify and share details which can be analysed and passed on to law enforcement and prosecutorial authorities for their investigations and applications for asset forfeiture.

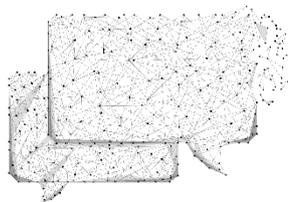
Various working groups, namely expert working groups (EWGs) and tactical operations groups (TOGs) were created during 2020/21 to improve efficiency. The primary role of the EWGs is to timeously identify financial crime trends and threats, and to find possible solutions to address them. The TOGs identify specific financial crime threats.

Since its inception in December 2019, SAMLIT has assisted in providing direct, efficient and effective financial information in a number of high priority financial crime investigations to law enforcement authorities via the TOGs.

With the assistance of SAMLIT members, the FIC was able to disseminate more than 3 000 financial intelligence reports to law enforcement and other competent authorities, which assisted in criminal investigations and led to recovery of proceeds of crime to the value of approximately R3.3 billion between 1 April 2020 and 31 March 2021.

information III

INTERNATIONAL RECOGNITION OF SAMLIT



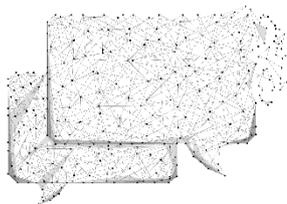
The South African experience in the establishment of a financial intelligence sharing partnership has been captured in a report by the Future of Financial Intelligence Sharing (FFIS) programme.

The research project was supported by the Royal United Services Institute (RUSI) – the world's oldest defence and security think tank and research-led institute, producing independent, practical and innovative analysis on financial crime – and the Centre for Financial Crime and Security Studies.

The FFIS surveyed more than 20 countries and public-private financial information sharing partnerships between April and June 2020.

The research resulted in a report titled Five years of growth in public-private financial information sharing partnerships to tackle crime. The report provides descriptive summaries of 23 national and transnational financial information-sharing partnerships.

South Africa and SAMLIT's inclusion in the report serves as an important contribution to the global understanding of how these partnerships can succeed in disrupting crime.



FINANCIAL INFORMATION SHARING PARTNERSHIPS

Financial Information Sharing Partnerships (FISPs) are voluntary public and private forums that:

Provide regularly convened dynamic public-private dialogue on financial crime threats, based on shared and agreed objectives and priorities.

Act within the law by making use of available information-sharing legislation, based on a shared public-private understanding of the legal gateways and boundaries of sharing information.

Enable, to some degree, private-private sharing of information and knowledge between certain regulated entities.

Address one or more of the following issues:

- Sharing of operational intelligence, including the identities of entities of concern, to enhance ongoing investigations.
- Collaborative working to build understanding of threats and risks, for example through the co-development of typologies and the development and testing of indicators, to improve reporting from the private sector.

(RUSI Occasional Paper, the Role of FISPs)

The Fusion Centre

The Fusion Centre, which was launched in 2019, is a public-public collaboration. The multi-disciplinary centre provides a national hub for central coordination in dealing with matters related to corruption and money laundering. Collaborators include the NPA, the AFU, SARS, the DPCI, and SARB's FinSurv department, which is responsible for cross-border exchange control matters. Each entity operates within its own mandate and brings to the hub its expertise and experience.

As the provider of financial intelligence, the FIC plays a pivotal role in the Fusion Centre. The partners use the FIC's financial intelligence for their investigations and applications for forfeiture of assets.

During the course of 2020/21, the Fusion Centre brought greater efficiency to investigations on corruption, fraud, abuse of power, and maladministration. The Fusion Centre was ideally placed to probe fraud and corruption matters amounting to close to R9 billion, that arose in regard to government's COVID-19 pandemic relief efforts.

The Fusion Centre recorded the following successes:

- Assisted in 276 cases related to COVID-19 relief efforts, involving about 740 individuals and 705 companies.
- Bringing to book 33 accused charged in 18 financial crime cases.
- The FIC blocked R146 million in 81 bank accounts.
- The AFU preserved R123 million.
- Through the SIU, cases to the value of R289 million have been enrolled before the SIU Special Tribunal, with R124 million recovered to date.
- Through SARS, R247 million in unpaid taxes have been recovered.

Approximately 40 referrals were sent to various government departments for disciplinary action against government employees involved in tender irregularities. Close to R660 million has been recovered so far through the work of the Fusion Centre and returned to the fiscus.

Producing crucial financial intelligence

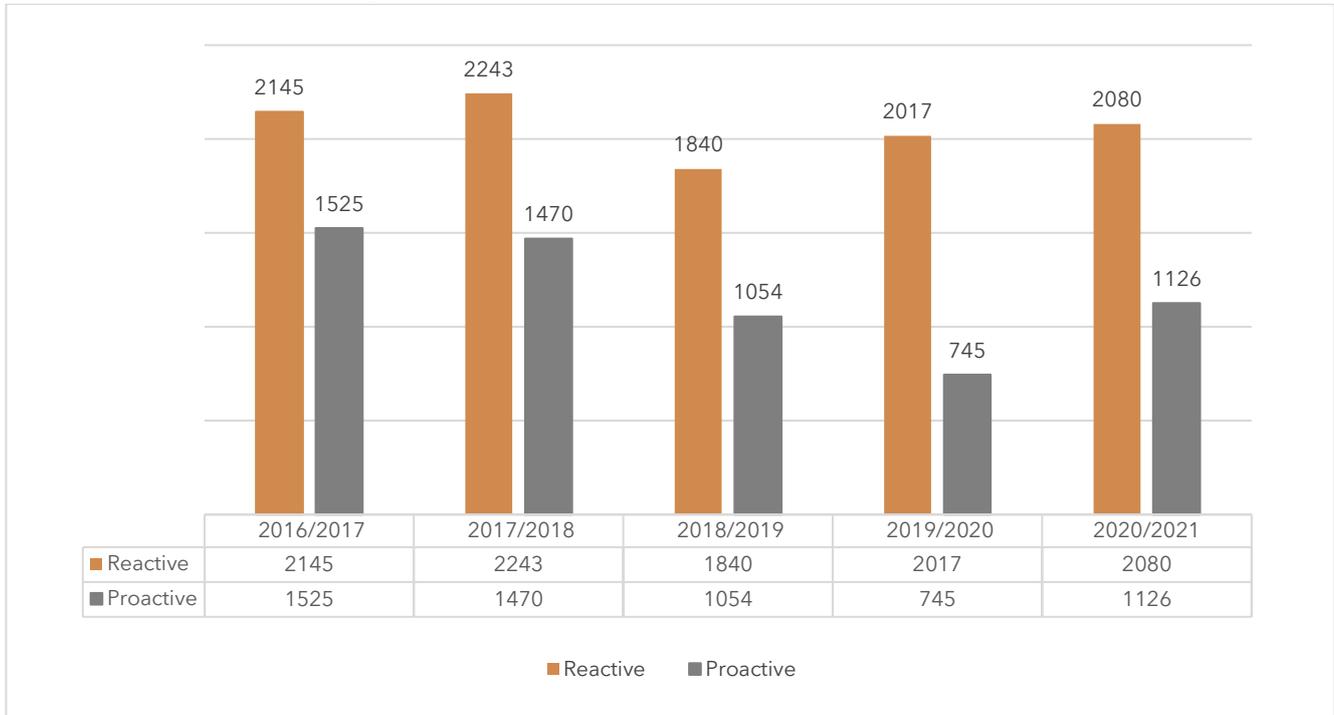
In 2020/21, the FIC responded to 2 080 requests for financial intelligence from law enforcement, security agencies and other competent authority partners. This was an increase in the number of requests received in the previous year for intelligence reports (2019/20: 2 017). Requested reports are called reactive reports.

At the same time, the FIC proactively detected potential illicit activities and produced financial intelligence reports before being requested to do so. These are called 'proactive' reports and they are crucial in identifying high priority strategic issues in the country. The FIC compiled and referred 1 126 financial intelligence reports to law enforcement and other authorities in the criminal justice system (2019/20: 745) for investigation during the reporting period. The FIC produced 16 percent more financial intelligence reports in 2020/21 (3 206 reports), than was produced in the prior year (2019/20: 2 762).

In the production of financial intelligence reports, the FIC prioritises work according to factors such as the type of crime, monetary value involved, the profile of the alleged perpetrator and profile victim, actions required by the FIC and public interest. Categorisation is split into (i) high priority and (ii) medium to low priority matters.

This prioritisation has made a positive impact on successes relating to high priority cases. The previous method of categorisation saw all requests for information as essentially being the same in value and resource allocation, which was problematic seeing that some complex intelligence matters require substantially more input and more time.

To compile statistics and to gauge the effectiveness of the financial intelligence it produced throughout the year, the FIC obtained feedback from authorities on what the outcome and impact was of them using the reports supplied by the FIC.



Strategic analysis of cash threshold reports

In the pursuit of continuous improvement and meaningful engagement between the FIC and its law enforcement stakeholders, in 2020/21 the FIC commenced data analytics on CTRs.

The data analytics exercise interrogated CTRs to decipher underlying crime patterns and trends, possible cash-intensive syndicates and/or cash-related financial crime concerns and indicators that could be proactively probed.

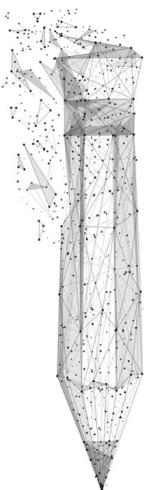
CTRs were previously only used as secondary data. Bearing in mind that South Africa's informal economy is predominantly cash-based, it is important for authorities to know what money is circulating within the country. Many criminals prefer to use cash as it leaves little to no audit trail.

Closer analysis of CTRs makes it possible to expand the scope of the FIC's ability to develop financial intelligence reports.

The FIC has shared the initial high level findings of this CTR analysis with law enforcement and other competent authorities. In so doing, it has increased awareness and shared knowledge regarding illicit cash transactions. Also, risk modelling was created that can be used in the future by data technologists to pick up outliers in CTRs and match them with STRs.

Going forward, analysis of CTRs may enable law enforcement authorities to draw conclusions and set operational priorities regarding money laundering and terrorist financing.

case study III



FRAUD: SENIOR GOVERNMENT OFFICIAL IN CONTRACT FRAUD

The FIC received a request for assistance from the SIU concerning a Transnet executive alleged to have received a kickback from a service provider.

The information revealed that the executive registered a trust soon after the contract was awarded, and the trust purchased properties for cash within a few months.

The trust account analysis revealed a large cash deposit.

The FIC analysed the executive's bank statements and uncovered information that the executive received more than R18 million deposited in various bank accounts in cash at ATMs or deposits at branches of various banks.

The contractor also made other payments on behalf of the executive when he purchased a portion of three properties, two of which were registered in his daughter's name.

All were cash purchases.

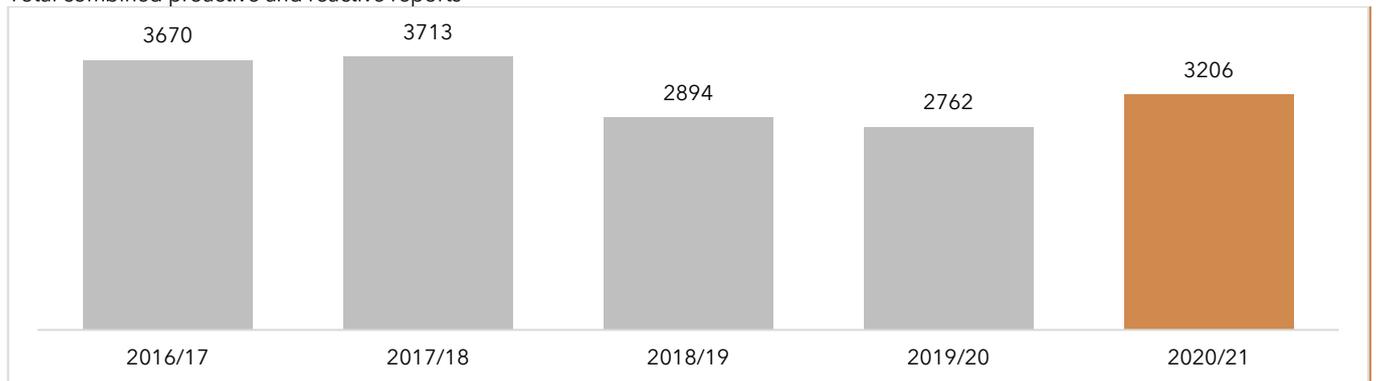
The SIU requested the FIC to issue a section 39 certificate*, and the executive's properties were attached.

*The purpose of a section 39 certificate is for the FIC to confirm in a judicial process that the FIC has regulatory reports in its possession about an individual or entity.

Proactive and reactive financial intelligence reports produced by crime type - 2018/19 to 2020/21

| CRIME TYPES | PROACTIVE REPORTS | | | | | REACTIVE REPORTS | | | | |
|---------------------------------|-------------------|---------|---------|---------|------------|------------------|---------|---------|---------|------------|
| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| Arms and ammunition | 0 | 50 | 7 | 1 | 9 | 15 | 13 | 18 | 17 | 4 |
| Bulk cash smuggling | 0 | 0 | 6 | 6 | 0 | 0 | 0 | 0 | 0 | 0 |
| Contravention of Banks Act | 1 | 21 | 0 | 1 | 1 | 0 | 15 | 5 | 47 | 0 |
| Corruption | 120 | 23 | 122 | 84 | 105 | 172 | 216 | 363 | 285 | 253 |
| Crimes against the state | 81 | 4 | 3 | 1 | 13 | 178 | 11 | 2 | 1 | 6 |
| Cyber crimes | 0 | 2 | 16 | 5 | 0 | 3 | 8 | 10 | 3 | 1 |
| Environmental crimes | 37 | 24 | 13 | 1 | 8 | 149 | 88 | 52 | 49 | 63 |
| Exchange control contraventions | 145 | 22 | 52 | 32 | 19 | 6 | 12 | 11 | 3 | 0 |
| Fraud | 200 | 403 | 183 | 247 | 271 | 646 | 670 | 372 | 477 | 685 |
| Hijacking | 0 | 0 | 0 | 0 | 0 | 0 | 15 | 9 | 16 | 1 |
| Human trafficking | 1 | 7 | 10 | 0 | 5 | 33 | 41 | 6 | 11 | 16 |
| Illicit financial flow | 0 | 0 | 38 | 3 | 29 | 0 | 0 | 5 | 1 | 7 |
| Illegal gambling | 205 | 14 | 4 | 2 | 0 | 5 | 3 | 34 | 3 | 0 |
| Illicit cigarettes | 7 | 0 | 7 | 0 | 1 | 27 | 14 | 8 | 6 | 1 |
| Kidnapping | 0 | 6 | 4 | 0 | 2 | 0 | 6 | 6 | 3 | 3 |
| Money laundering | 114 | 149 | 122 | 105 | 191 | 188 | 164 | 63 | 92 | 88 |
| Murder | 0 | 0 | 2 | 0 | 5 | 13 | 18 | 39 | 23 | 20 |
| Narcotics | 62 | 39 | 22 | 6 | 11 | 200 | 302 | 245 | 270 | 210 |
| Non-ferrous metals | 0 | 0 | 0 | 0 | 0 | 3 | 27 | 26 | 26 | 0 |
| Other | 88 | 9 | 17 | 59 | 54 | 141 | 68 | 162 | 186 | 248 |
| Precious metals and stones | 0 | 0 | 6 | 2 | 0 | 2 | 43 | 14 | 39 | 39 |
| Racketeering | 0 | 0 | 0 | 0 | 0 | 0 | 8 | 11 | 8 | 0 |
| Robbery | 2 | 1 | 15 | 1 | 0 | 108 | 65 | 70 | 70 | 74 |
| Tax crimes | 459 | 621 | 330 | 139 | 317 | 253 | 295 | 203 | 176 | 95 |
| Terrorism | 3 | 75 | 75 | 49 | 82 | 0 | 75 | 42 | 130 | 144 |
| Theft | 0 | 0 | 0 | 1 | 3 | 3 | 66 | 64 | 75 | 122 |

Total combined proactive and reactive reports



Most reports related to fraud, tax and corruption

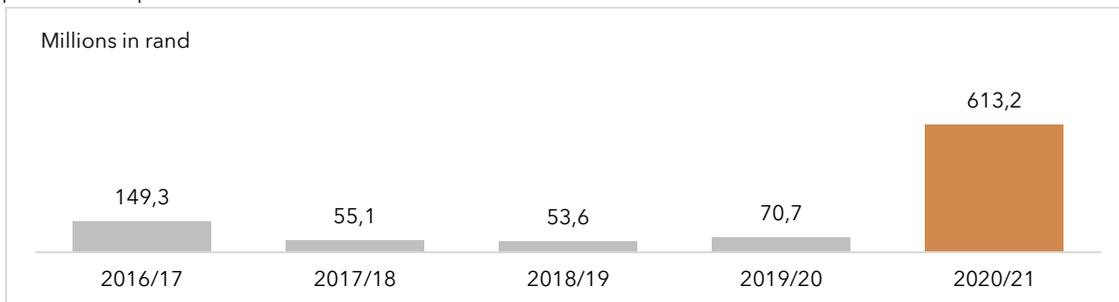
The FIC's financial intelligence reports assist law enforcement, prosecutorial authorities and other competent authorities in their investigations and applications for forfeiture of assets. The FIC does not itself conduct investigations.

Most of the intelligence reports produced in 2020/21 related to fraud, tax crimes, and corruption. The FIC's analysis and reports

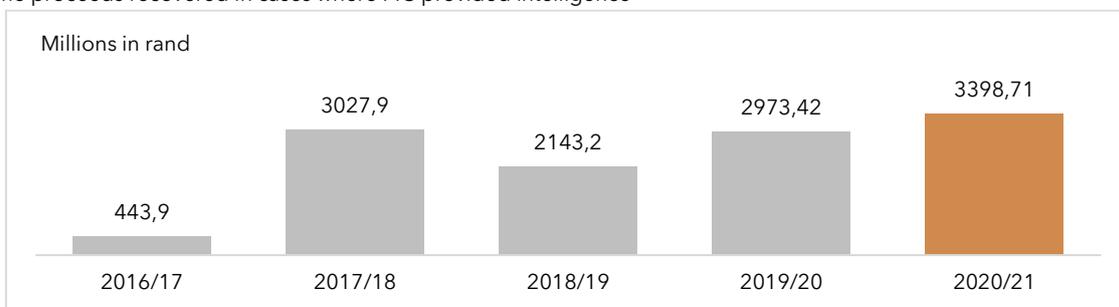
revealed that the complexities involved in such crimes are constantly evolving as criminals find new ways to conduct their unlawful activities.

The following tables and figures demonstrate how the FIC's intelligence reports led to the recovery of monies and assets, and to bringing criminals to justice.

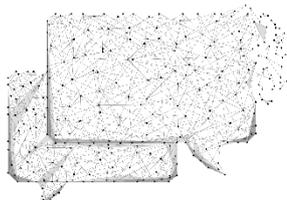
Value of suspected crime proceeds frozen in terms of section 34 of FIC Act



Value of crime proceeds recovered in cases where FIC provided intelligence



information III



BLOCKING/FREEZING FUNDS

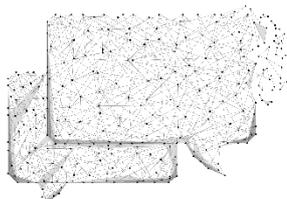
The FIC has the power to block or freeze funds that are suspected to be the proceeds of crime. It can use a section 34 directive to instruct an institution not to proceed with a transaction for a period of 10 days.

This allows the FIC to make the necessary enquiries 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 AFU, which can seize and take control of the funds if necessary.

During 2020/21, the FIC blocked R613.2 million as suspected proceeds of crime. During the financial year, the FIC issued 184 section 34 directives.

information III



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 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 AFU may use this evidence to apply for the preservation of the schemes' proceeds.

The SAPS can use the evidence to investigate, arrest and charge perpetrators.

The FIC successfully applied for 24 section 27A warrants during this period.

High priority financial intelligence support

The FATF mutual evaluation process conducted in 2019/20 served as a catalyst for enhancing the FIC's strategic intelligence reports.

FATF assessors suggested that the strategic intelligence reports include crime trends and typologies, and that these must be proactively disclosed to law enforcement authorities.

In response, in 2020/21 the FIC started to employ data mining techniques to explore the vast and rich data reserves of STRs and CTRs in order to better support the fight against high priority crimes.

This means that the FIC analyses regulatory reports and then produces financial intelligence reports about the patterns and trends uncovered in the analysed reports. Financial intelligence is shared with law enforcement authorities as well as other domestic and international stakeholders.

The FIC further provides analytical products for stakeholders functioning on the strategic and policy level such as the National Intelligence Co-ordinating Committee and Department of International Relations and Cooperation.

Special priority on illegal wildlife trade

The identification and tracking of upstream and downstream financial flows related to wildlife trade, which includes poaching, smuggling, money laundering and tax evasion, is central to detecting, disrupting and stemming these crimes.

To be able to do this it is essential to understand sources of funds, financial flows and payment methods relating to wildlife crimes.

SAMLIT's EWG on illicit wildlife trade conducted extensive desktop and active research during the financial year among key role players spanning the wildlife crime supply chain. The FIC had an important contribution to make in this regard and was actively involved with the EWG.

SAMLIT, and in particular its EWG on illegal wildlife trade, benefited from the FIC's strategic intelligence input during the 2020/21 financial year.

Various strategic data components were synthesised into practical and usable wildlife criminal profiles and financial crime concerns for the use of accountable and reporting institutions, as sources of information to improve their transaction monitoring methodologies.

The FIC's analysis of relevant STRs provided valuable information on payment methods and financial intelligence linkages. The EWG has prepared an interim report on its analysis that will be shared with role players during the course of the upcoming financial year.

Special analysis project for North West Province

The North West Province DPCI requested information from the FIC regarding the most prevalent crime categories in that province i.e. types of crime that appeared most frequently in STRs produced during 2019/20.

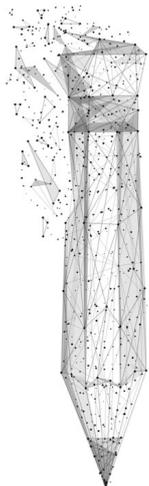
In response, the FIC embarked on in-depth analysis of STRs submitted by accountable and reporting institutions operating in that province. The FIC also analysed reports of institutions operating elsewhere but having transactions in the North West Province.

The analysis focused on crime categories and indicators such as unusual customer behaviour and bank accounts displaying patterns of large transactions received from unknown third parties.

Numerous suspicions of crime were attributed to the financial data, including corruption, drug trafficking, illegal mining, livestock theft and wildlife trafficking.

case study III

ILLICIT WILDLIFE TRADE: ENDANGERED CYCADS SOLD ILLEGALLY



The Department of Forestry, Fisheries and the Environment requested the FIC to investigate the accounts of a married couple who were illegally dealing in cycads.

The FIC's analysis showed that the illegal sale of cycads was a trend in the Krugersdorp area, in Gauteng.

It also revealed that the husband was involved in international trade via financial transactions into his account from abroad (SWIFT*).

The man is standing trial for selling and exporting succulent plants.

Cycads are the oldest living seed plants on the planet, with their lineage going back some 340 million years and, according to the International Union for the Conservation of Nature, they are among the world's most threatened living organisms.

* *Society for Worldwide Interbank Financial Telecommunication*

Memoranda of understanding

The use and value of the FIC's intelligence products depend on the development and maintenance of strong partnerships with stakeholders who understand how these products can be used to detect crime and support investigations. To bring greater effect to the uptake and exchange of information, the FIC collaborates with various domestic government departments and entities, institutions, regulators, law enforcement authorities and other competent authorities via memoranda of understanding.

Since its establishment, the FIC has entered into 33 MoUs with domestic institutions, three of which were signed during the 2020/21 financial year.

These MoUs commit both parties to working together to ensure that the financial system is safe, stable and sustainable for all citizens.

Table 12: Memoranda of understanding entered into with South African entities during the financial year.

| Domestic entities | Type | Date signed |
|--|-------------------|------------------|
| 1. Master of the High Court | Government entity | 18 June 2020 |
| 2. Auditor-General of South Africa | Government entity | 8 October 2020 |
| 3. Road Traffic Management Corporation | Government entity | 12 February 2021 |

On the use of financial intelligence, the FIC held 46 domestic stakeholder engagements (against a target of 30) during 2020/21. Through these engagements, aimed mostly at law enforcement authorities, the FIC contextualised its mandate, as well as the proper sharing and use of financial intelligence.

case study ||| CRYPTOCURRENCY: INTERNATIONAL COOPERATION



The FIC, acting on intelligence received from a foreign financial intelligence unit, traced funds that had been stolen, electronically transferred into South Africa, and used to purchase cryptocurrency.

The FIC assisted to locate this cryptocurrency and issued a freezing order on the account.

Some of the cryptocurrency purchased was withdrawn and sent to a computer address located in the United States of America.

- Number of foreign destinations: Three (South Africa, Namibia, USA).
 - All cryptocurrencies withdrawn within 24 hours to bitcoin addresses: Ripple, Bitcoins.
- Both addresses traced to BITTREX: Exchange based in USA, Las Vegas

The FIC secured a section 34 freezing order on the account which in turn assisted the AFU to obtain a preservation order. A total of R450 000 (on market value) was preserved.

The account was suspended after the local crypto asset service provider was notified of suspicious transactional activity. The crypto balance was still as purchased.

National risk assessment

In 2018/19, South Africa carried out a national risk assessment to identify and quantify possible money laundering risks facing the country. This inaugural national risk assessment was a multi-agency undertaking by the Cabinet-approved National Risk Assessment Inter-Departmental Working Group (NRA IWG).

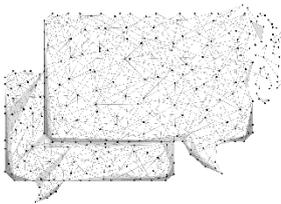
Chaired by the FIC, the working group comprises government departments, law enforcement authorities and supervisory bodies such as the NPA, the State Security Agency (SSA), National Treasury, Department of Justice and Constitutional Development, and SIU among others.

The methodology followed in executing the assessment, was based on international best practice, and involved extensive consultation.

The preliminary findings of the national assessment were released to the relevant authorities as well the private sector during 2019. The final report has not yet been published.

The national risk assessment, overseen by the FIC, is an important body of work which will help government and the private sector address the risks regarding money laundering and terrorist financing.

information III



NATIONAL RISK ASSESSMENT

High level recommendations for the way forward

The effectiveness of the South African framework for combating money laundering can be enhanced through the prioritisation of enforcement and prosecution of high-risk money laundering related matters.

Law enforcement and prosecuting authorities should prioritise high-risk threats as identified in the national risk assessment and consequently investigate and prosecute related money laundering cases.

Investigations, prosecutions and confiscations related to standalone and third-party money laundering offences should be significantly increased.

In addition, enhanced public-private consultation and cooperation will assist in promoting awareness and emphasise the importance of ensuring compliance with relevant AML legislation.

This will assist institutions in effectively addressing and mitigating their identified risks.

Consultation and cooperation also gave effect to South Africa's broader national interest and in particular its economic stability.

Financial institutions and designated non-financial businesses and professions are critical role players and vitally important to South Africa meeting its international obligations in respect of AML/CFT.

The national risk assessment process affords South Africa a continuous opportunity to enhance its efforts in curtailing identified risks through an effective and collaborative risk-based approach.

Supervisory authorities and industry participants should build capacity and intensify AML training for their staff, to enable a better understanding and appreciation of money laundering risks associated with their businesses, industries and sectors, which may enable earlier and more effective detection of money laundering risks and threats.

Ongoing engagement with the private sector through the establishment and institutionalisation of dedicated, formalised, coordinating mechanisms will assist in addressing the many challenges in dealing with money laundering in South Africa.

case study III



MONEY LAUNDERING: FIC ASSISTS FOREIGN FINANCIAL INTELLIGENCE UNIT

When the United Kingdom (UK) bank accounts of South African business people received substantial funds of unknown origin, the UK financial intelligence unit requested the FIC to assist in confirming their identities.

The FIC linked the accounts to a prominent South African businessman who was associated with illegal cigarette trading.

Through the UK financial intelligence unit, the FIC arranged a meeting and for the exchange of information between SARS and Her Majesty's Revenue and Customs.

Both revenue collection services are investigating, and future confiscations are anticipated.

Combating illicit financial flows

Inter-Agency Working Group on Illicit Financial Flows

Illicit financial flows are essentially transfers of financial capital out of a country in contravention of national or international laws. Such flows can pose significant risk to the economic growth of a country.

Thus, the Inter-Agency Working Group on Illicit Financial Flows (IAWG: IFFs) was established in 2017/18 to counteract the illegal movement of money out of South Africa. There are nine different

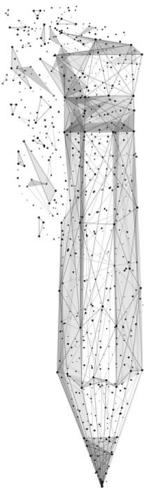
government bodies involved in this working group: FIC, SARS, SARB's PA and FinSurv department, DPCI, SAPS, FSCA, AFU, NPA and SIU as well as any agency upon invitation. The FIC provides secretariat support and chairs the working group.

Through the work of the IAWG: IFFs, South Africa can identify, counter and eradicate illicit financial flows adequately, making it more difficult for criminals to exploit systemic weaknesses.

The working group has, throughout the years, assisted law enforcement authorities in disrupting criminal activities, freezing assets and recovering monies.

case study III

TERRORIST FINANCING: TERRORIST ORGANISATION DEALT A BLOW



The FIC was asked to conduct financial analysis on the leadership structure of a right-wing organisation.

The organisation's leaders were already in custody, having been arrested for a planned terror attack at the end of November 2019 on two military bases, one specialised police unit and one informal residential settlement.

The leader held accounts with South African banks and used a local money remitter to receive and send funds between individuals.

Three other accused received funds into their personal accounts on behalf of the organisation. Some of these transactions were referenced as a donation or with the names of other known right-wing organisations.

One of the co-accused received funds from foreign jurisdictions.

The FIC established that the leader bought firearms, that funds and military ranks were assigned to members and two of the accused purchased components to build an improvised explosive device.

According to media reports, two members of the group were sentenced to prison terms for terrorism.

<https://www.news24.com/news24/southafrica/news/crusaders-terrorist-plot-two-members-of-right-wing-group-sentenced-to-8-years-in-prison-20201208>

**Sub-programme 2.3:
Delivery of intelligence on financial crime and FIC Act-
related regulatory services - focusing on the AML/CFT
framework**

Purpose

The sub-programme administers the FIC Act and provides advice on matters of strategy and policy relating to money laundering and terrorist financing. It also engages on behalf of South Africa with international and regional inter-governmental bodies, which formulate and promote policies on combating money laundering and terrorist financing and, which set standards on these matters for countries.

Strategic outputs

Sub-programme 2.3 strategic outputs are:

- Support to countries within the ESAAMLG region to improve compliance with international standards
- Policy and legislation that is aligned with international standards.

Performance

During 2020/21, the FIC achieved one target under this sub-programme and narrowly missed the second target due to FATF cancelling a meeting.

Highlights for the year include:

- The appointment of the Director of the FIC, Adv Xolisile Khanyile, as one of two deputy vice-chairs to the Egmont Group.
- Concluding four new international MoUs to improve international co-operation and information sharing.
- Coordinating South Africa's interaction with FATF's mutual evaluation team.
- Responding 100 percent to requests for technical assistance from countries within the ESAAMLG region.

Table 13: Outcomes, outputs, output indicators, targets and actual achievements of sub-programme 2.3

| Delivery of intelligence on financial crime and FIC Act-related regulatory services | | | | | | | |
|--|--|---|---|---|--|---|--|
| Outcome: Continuous improvement in the effectiveness of legal and institutional AML/CFT frameworks | | | | | | | |
| Outputs | Output Indicators | Audited Actual Performance 2018/19 | Audited Actual Performance 2019/20 | Planned Annual Target 2020/21 | Actual Achievement 2020/21 | Deviation from planned target to Actual Achievement 2020/21 | Reasons for deviations |
| Support to countries within the ESAAMLG region to improve compliance with international standards | 3.1.1 Percentage response to requests for technical assistance from countries within the ESAAMLG region | 100% | 100% | Responded to 100% requests for technical assistance | 100% | N/A | Target achieved. |
| Policy and legislation that is aligned with international standards | 3.2.1 Number of policy making activities attended within regional and inter-governmental organisations | Attended and participated in FATF meetings 6 and 2 ESAAMLG meetings | Attended and participated in FATF meetings 6 and 2 ESAAMLG meetings | Attended and participated in FATF meetings 6 and 2 ESAAMLG meetings | Attended 5 FATF and 2 ESAAMLG virtual meetings | 1 FATF virtual meeting | Target not achieved for participation in FATF. The FATF cancelled 1 scheduled meeting. |

Deepening international collaboration

South Africa is part of a global network of close to 200 countries working to prevent money laundering and terrorist financing. The network consists of the members of FATF, ESAAMLG and eight other regional bodies across the globe.

The FIC leads South Africa's delegations to FATF and ESAAMLG. The FIC is a member of the Egmont Group, which extends its 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 cooperation and information sharing, and thus strengthen South Africa's capability for assisting and also requesting assistance from international partners in combating financial crime.

During 2020/21, the FIC concluded four new international MoUs:

- Island of Anguilla (British Overseas Territory)
- Republic of Guatemala
- Republic of Latvia
- Republic of Slovenia.

This has brought to 95 the total number of international MoUs in place as at 31 March 2021.

Leadership position in Egmont

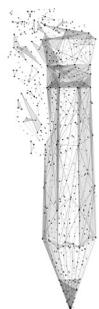
The Egmont Group is an international body, which as at 31 March 2021, consisted of 166 financial intelligence units. A key objective of Egmont is to provide a secure platform for financial intelligence units to exchange information to assist in combating money laundering and terrorist financing.

In August 2020, the FIC's Director, Adv Xolisile Khanyile, was appointed as one of two deputy vice-chairs to the Egmont Group. As deputy vice-chair, Adv Khanyile will, during her two-year tenure, assume oversight over the Egmont Group's governance and external communications reference groups.

In the governance reference group, Adv Khanyile will oversee the preparation and development of the Egmont Group's strategic plan for 2022 to 2025.

In the communications reference group, she has been responsible for finalisation and approval of the Egmont Group's communication guidelines and approval of its 2019/20 annual report. Adv Khanyile will also join the reference group for the Egmont Centre of Financial Intelligence Unit Excellence and Leadership.

case study ||| HIDDEN FUNDS: SUSPICIOUS SOURCES OF INCOME



The FIC referred a proactive financial intelligence report to SARS because of suspicious and unusual transactions linked to a trust bank account held by an attorney in the name of an identified individual.

The attorney bought a property using funds from his trust account for more than R16 million. The source of wealth in the purchase was indicated as "income from employment", and there was no bond raised for the purchase, this raised suspicions.

It was suspected that the attorney could be engaged in activities to acquire properties for high net worth clients to disguise their beneficial owner details.

The matter was referred to law enforcement for follow up.

FIC's global footprint of 95 MoUs

| | | | |
|--------------------------|---|--------------------|----------------------|
| | Albania | | Armenia |
| | Belgium | | Bahrain |
| | Cyprus | | Bangladesh |
| | Czech Republic | | Hong Kong |
| | Denmark | Moldova | India |
| | Finland | Monaco | Indonesia |
| | French Republic | Montenegro | Iran |
| Bahamas | Germany | Netherlands | Israel |
| Bermuda | Gibraltar | Poland | Jordan |
| Canada | Guernsey | Portugal | Lebanon |
| Cayman Islands | Island of Anguilla (British Overseas Territory) | Romania | Malaysia |
| Cuba | Isle of Man | San Marino | Qatar |
| Republic of Guatemala | Jersey | Serbia | Republic of China |
| Panama | Lichtenstein | Spain | Republic of Korea |
| Sint Maarten | Lithuania | Sweden | Republic of Latvia |
| Turks and Caicos Island | Malta | Turkey | Republic of Slovenia |
| United States of America | | Ukraine | Russia |
| | | United Kingdom | Singapore |
| | | Vatican City State | Sri Lanka |
| | | | United Arab Emirates |



| | | | |
|---------------------|---------------------|------------|-------------|
| Argentine Republic | Angola | Malawi | Australia |
| Brazil | Botswana | Mali | Fiji |
| Colombia | Burkina Faso | Mauritius | New Zealand |
| Curaçao | Cape Verde | Mozambique | |
| Peru | Egypt | Namibia | |
| Trinidad and Tobago | Ethiopia | Nigeria | |
| | Ghana | Rwanda | |
| | Kenya | Senegal | |
| | Kingdom of Eswatini | Seychelles | |
| | Lesotho | Tanzania | |
| | Madagascar | Togo | |
| | | Uganda | |
| | | Zambia | |
| | | Zimbabwe | |

Improving effectiveness of frameworks

The FIC is a member of the Intergovernmental Fintech Working Group (IFWG), which aims to progress towards a common understanding of developments in financial technology (fintech) among regulators and policymakers. The group includes members from National Treasury, SARB and FSCA. During 2020, IFWG was also joined by the National Credit Regulator, SARS and the Competition Commission in February, April and October 2020 respectively.

A major achievement for the IFWG was that the working group established its innovation hub at the beginning of March 2020. This accelerated interest in making use of the innovation hub and particularly, the hub's regulatory sandbox.

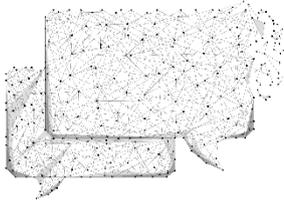
The regulatory sandbox allows regulators to engage with developers of new technological (fintech) products which may or may not require regulation. When these fintech developers apply to be allowed to operate in the sandbox, the regulators allow them to do live business with real customers and make real money from it, without requiring a licence. The regulators are then able to observe the fintech developers in the sandbox and gain valuable insights. Regulators can, for instance, gauge whether certain fintech developments or products pose risks for consumers or pose risks from a money laundering perspective. In such instances, the regulators will be able to make informed decisions on the appropriate means to manage those risks, such as to include a new development in the scope of the FIC Act.

From the FIC's point of view, the regulatory sandbox is exciting because the FIC can observe and learn how technology can assist compliance with the FIC Act. This, as sandbox participants are not exempt from compliance with the FIC Act. Even those unlikely to ever be required to comply with the FIC Act, have to do so while they are in the sandbox. They are not subject to any sanction or penalty.

Some of the participants in the IFWG regulatory sandbox are crypto assets service providers i.e. businesses that make it possible for people to buy and sell crypto assets, or to convert currency into crypto assets, or to provide safe storage for an investment.

information |||

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' or 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.

Throughout 2020, the IFWG, of which the FIC is a member, worked on a position paper that defined cryptocurrency and proposes regulatory measures for crypto asset service providers. The paper considered international best practice as well as 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 position paper is scheduled to be published towards the end of 2021.

Are crypto asset service providers regulated and why?

Not yet. Crypto asset service providers do not fall within the category of financial and other institutions (referred to as accountable institutions) that are required to comply with other obligations of the FIC Act.

What is the FIC's view?

Those who provide services akin to financial services should be brought within the ambit of the FIC Act's regulatory space, this includes those who provide crypto asset trading platforms and custodial services. This view is in line with current international developments, including the recently adopted Recommendation 15 of the FATF, that member countries include 'virtual asset service providers' as part of their anti-money laundering and combating of financing of terrorism controls.

What are the reporting obligations of crypto asset service providers at present?

Crypto asset service providers (including crypto exchanges) are required to report transactions that they determine to be suspicious and unusual to the FIC. This is a general obligation that applies to all businesses in terms of section 29 of the FIC Act. In addition, the FIC Act's section 26B, places an obligation on all persons not to deal with persons and entities sanctioned in terms of resolutions of the UNSC.

What is the FIC's level of engagement with crypto asset service providers?

The FIC and its partners have been engaging with crypto asset businesses regarding their joining the regulatory framework. Several domestic crypto asset service providers have voluntarily registered with the FIC as accountable institutions. The major crypto asset service providers that operate in South Africa apply policies to identify their customers and maintain customer and transaction records.

Crypto service providers in South Africa have cooperated with the FIC when approached for information. This has greatly assisted the FIC in providing financial intelligence to law enforcement and the forfeiture of criminal proceeds.

Regional technical support

Since inception, the FIC has aligned its efforts in combating money laundering and the financing of terrorism with countries in the eastern and southern African region. The primary focus of the interaction relates to international cooperation on cross-border criminal activities and provision of technical support to countries to improve the quality of information exchanged with them and their financial intelligence units.

The systems and policies for combating money laundering and terrorist financing in countries in the region are still at a developmental stage. Several countries are yet to put in place adequate AML/CFT statutes and institutional capacity to implement the measures in a manner consistent with international standards.

The situation became even more challenging in the region following the changes to the FATF international standards in 2012, which placed heavy reliance on assessment of money laundering and terrorist financing to address and implement measures against identified risks.

The requests that countries in the region have made of the FIC over the past decade have fallen in two categories. Namely requests for delegations from the requesting country to visit the FIC for benchmarking purposes, and requests for FIC employees to travel to the requesting country to assist them with operational guidance and advice on implementation of their AML/CFT measures.

Most technical support requests relate to advice on:

- The development of operational capacity and capability of financial intelligence units
- Financial intelligence unit governance issues
- Building capacity for AML/CFT compliance supervision (including risk-based supervision)
- Stakeholder engagements such as facilitation of in-country workshops
- ICT related issues, especially with operationalisation or optimisation of reporting systems.

The majority of requests for assistance have come from counterpart financial intelligence units in the region, but from time to time the FIC also receives requests from other public institutions with AML/CFT mandates (often on recommendation of the local financial intelligence unit). This means that the FIC must be flexible in engaging with a wide variety of authorities from requesting countries.

For example, the FIC has assisted the Non-Bank Financial Institutions Regulatory Authority of Botswana on issues related to risk-based supervision.

In some instances, the FIC also goes further and brings authorities from requesting countries in contact with South African colleagues including supervisory bodies, investigating and prosecuting authorities, for a broader exchange of information and experiences that will benefit those authorities.

During 2019/20, the FIC provided technical assistance to the financial intelligence units of the Kingdom of Eswatini, Kenya, Seychelles, Tanzania and Uganda.

Due to the pandemic, the FIC did not receive many requests for technical assistance nor for engagements throughout the year under review. However, the FIC's ICT team assisted Angolan authorities with the configuration of their anti-money laundering systems during 2020 and the Central Bank of the Kingdom of Eswatini in the preparation for its mutual evaluation.

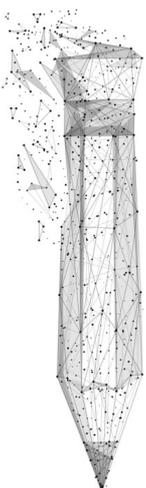
Upon request, the FIC also undertakes Egmont Readiness Assessments of financial intelligence units of candidate countries for Egmont membership and provides mentorship to these countries. The FIC does this in respect of financial intelligence units that it co-sponsors in the Egmont membership process so that it can best assist those candidate financial intelligence units in their Egmont membership processes.

In March 2020, the FIC, together with the Financial Intelligence Authority Malawi undertook an on-site visit to the Financial Intelligence Agency Botswana for Egmont Group membership. Financial Intelligence Agency Botswana's Egmont membership was subsequently referred to the Egmont Group Heads of Financial Intelligence Units for endorsement.

As countries focused on dealing with the COVID-19 pandemic and its ramifications, the financial intelligence units of Kenya, the Kingdom of Lesotho and Zimbabwe were unable to finalise their process of becoming Egmont Group members during 2020/21. This means that the FIC has to prolong its sponsorship of such financial intelligence units.

Another negative consequence is that it is difficult to obtain financial intelligence from financial intelligence units that are not members of the Egmont Group.

case study III FRAUD: DIAMONDS ARE FOREVER



Two individuals lured investors via social media to purchase and sell diamonds at a huge profit.

Financial intelligence gathered found that they were directors of an entity that marketed investment opportunities with inflated returns within a short period.

The first suspect appeared to be a frequent gambler. This individual was also linked in the media to possible investment schemes and involvement in an organised crime syndicate.

The second suspect conducted a high volume of transactions through several bank accounts in his own and the entity's name and made large purchases at a casino.

The financial intelligence reports were referred to the AFU, SARS and SARB.

The FIC, with law enforcement authorities, managed to block the accounts and secured more than R76 million.

Training to boost capabilities

Wildlife trafficking

Declared by FATF as the fourth largest criminal enterprise, wildlife trafficking generates billions of dollars in revenue each year. The illegal trade has links to modern slavery, drugs and arms trade, while causing catastrophic damage to endangered species.

During July 2020, the FIC hosted a webinar on Enhancing the detection, investigation and disruption of financial flows from wildlife crime in South Africa.

Participants included South African law enforcement officials, prosecutors, the FIC, customs officers, wildlife experts, financial supervisors and representatives from the South African financial sector.

Anti-money laundering professionals play a key role in combating wildlife trafficking. Criminals exploit formal and informal banking channels at various stages of the illegal trade through payments for bribery, facilitating transport, purchasing and selling poached or trafficked goods, as well as laundering illicit proceeds.

The webinar underscored the importance of anti-money laundering professionals establishing red flags and typologies indicative of wildlife trafficking throughout the source, transit and destination stages of this illegal cycle.

With a focus on South Africa as a source, transit and destination country, the webinar was an opportunity to:

- Share expertise, raise awareness and train stakeholders on the identification of risks and vulnerabilities of money laundering in wildlife crime.
- Encourage intelligence cooperation between civil society, financial institutions, and government agencies with anti-money laundering responsibilities.

- Identify red flag indicators which could assist financial institutions and others to capture relevant data and to identify and report suspicious activity associated with wildlife crime.
- Develop a good practices guideline to enhance the financial aspect of wildlife crime investigations in South Africa.
- Develop practical action steps to strengthen domestic responses to effectively counter wildlife crime.

Syndicated crime

From 6 to 8 October 2020, the FIC collaborated with ESAAMLG and the US-based Attorney-General Alliance Africa to present a three-day webinar on the topic of Tackling Crime through Financial Investigation.

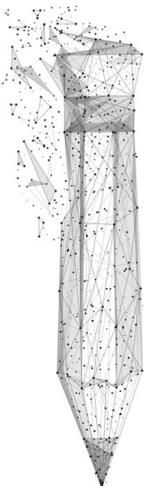
The focus of the webinar was on syndicated crime where the 'bosses' are far removed from criminal activity but, where they are nonetheless pivotal to generating revenue for the syndicate.

The webinar covered themes including:

- The use of proactive investigations, uncovering evidence about financial links between 'bosses' and other parts of the syndicate in building a case to support conspiracy and/or racketeering and money laundering charges.
- Involving multi-disciplinary teams in financial investigations to ensure that the investigation, prosecution and eventual proceeds confiscation are carried out effectively.
- Employing a combination of financial intelligence and threat analyses in identifying key persons in the world of organised crime and homing in on targets for investigation and prosecution by pinpointing the financial activity of syndicate members.

Experienced organised crime prosecutors from the Arizona Attorney-General's Office in the USA and from the NPA in South Africa, combined forces with analysts from the financial intelligence unit of Kenya and the FIC to share their insights with webinar participants. The webinar was attended by investigators, prosecutors and employees from the FIC in South Africa and other countries in southern and eastern Africa.

case study ||| THEFT AND FRAUD: CHURCH FUNDS MISAPPROPRIATED



The FIC received information that an individual from an international church may have misappropriated funds from the church for personal gain.

Analysis showed the funds were mainly received via multiple cash deposits at various branches and electronically through multiple sources.

The source and purpose of the cash deposits received could not be determined.

The electronically deposited funds were mainly via debit orders, point of sale purchases and electronic payments made to various beneficiaries.

The individual was involved in gambling at several casinos inside and outside of South Africa, and spending lavish amounts running into millions of rands.

The FIC also established that there was a battle for control of the international church.

A financial intelligence report was sent to SARS for possible tax contraventions.



The FIC was requested to analyse bank accounts belonging to a syndicate suspected of hijacking or stealing vehicles, and then cloning them.

There were 17 case dockets, and the investigation formed part of a multi-agency investigation, including the DPCI, CI and the AFU. The FIC analysed details on 12 bank accounts. Analysis revealed that cash deposits were made into some of the suspects' accounts.

The FIC sent its financial intelligence report to SAPS and the AFU.

FATF mutual evaluation

As an international inter-governmental body, FATF is responsible for setting standards on AML/CFT and assessing members' compliance with these standards. South Africa is the only FATF member country in Africa.

As part of assessing members' compliance with FATF standards from time to time, peer reviews are conducted. South Africa's first such mutual evaluation was in 2003, when it became a FATF member. In 2009, South Africa underwent its second mutual evaluation. In 2019, 10 years after the previous review, the country underwent its third evaluation.

Between April and November 2019, South Africa was jointly assessed by a team of experts from the International Monetary Fund, FATF and ESAAMLG. The mutual evaluation assessment included off-site and on-site engagement between the assessment team and the relevant South African authorities, private sector, and civil society.

The FIC played a leading role in ensuring that the views and positions of the South African delegation was fully and accurately conveyed to the assessment team.

The assessment team has completed the draft mutual evaluation report and submitted it to the FATF Secretariat in preparation for discussion of the draft report by the FATF Plenary in June 2021.

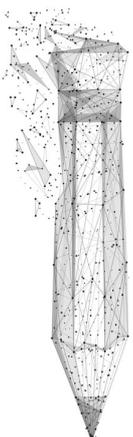
Owing to the COVID-19 pandemic, the FATF has opted to discuss member countries' mutual evaluation reports virtually, with New Zealand being the first member country to have had its report discussed. South Africa and Japan will follow in June 2021.

South Africa will have the opportunity to present technical submissions to the FATF Plenary meeting, including arguing for positive changes to the proposed ratings. This will be a rigorous technical submission exercise based on the FATF methodology.

After the adoption and publication of the draft mutual evaluation report, South Africa will be required to address any shortcomings identified in the report and will be subject to post-assessment monitoring by FATF.

The first country report back to the FATF Plenary will most likely be within 18 months of the June 2021 FATF Plenary adoption of the South African mutual evaluation report.

In the meantime, the FIC has already started discussing follow-up action plans with government departments and law enforcement authorities, focusing on areas that can be improved upon while awaiting the official evaluation report from FATF.



The DPCI requested the FIC's help with an investigation of a man who allegedly officiated illegal marriages between foreigners without following due processes.

The man worked closely with a foreign national, a friend and her husband.

During the course of its analysis, the FIC identified that the man had been linked to a suspicious activity report submitted by a South African bank.

The bank noticed that no salary had been paid into the man's account, but numerous suspicious cash deposits and credit transfers had been made in the names of various individuals.

Assets linked to the suspects were also identified and reported to the DPCI.

Budget Programme 3: Enablement of financial intelligence capabilities

Purpose

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 coordinated through the Corporate Services division but are distinct from Administration in that the former provides delivery-related support, whereas the latter provides overall organisational support that do not necessarily form part of service delivery processes.

The primary focus of this budget programme is to enhance the ability to deliver services to internal clients and other identified stakeholders, thus greatly contributing towards the FIC becoming a sustainable and capable organisation.

Strategic outputs

The programme's strategic outputs are:

- Good corporate governance
- Effective and efficient operating environment.

Performance

Under this programme, the FIC exceeded one, met four, and did not achieve two targets.

Highlights for the year include:

- Receiving a clean audit
- Updating various systems, platforms and infrastructure to ensure the ICT environment is secure and up to date.
- Providing a digital and cyber-safe remote-work environment, and ICT infrastructure in a time of lockdowns and disruption caused by the COVID-19 pandemic.
- Exceeding performance targets related to employment equity in terms of designated groups and gender equity.

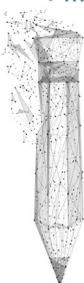
Table 9: Outcomes, outputs, output indicators, targets and actual achievements of budget programme 3

| Enablement of financial intelligence capabilities | | | | | | | |
|--|---|--|--|--|---|---|--|
| Outcome: Good corporate governance and an efficient and effective operating environment that supports the FIC in delivering on its mandate | | | | | | | |
| Outputs | Output indicators | Audited actual performance 2018/19 | Audited actual performance 2019/20 | Planned annual target 2020/21 | Actual achievement 2020/21 | Deviation from planned target to actual achievement 2020/21 | Reasons for deviations |
| Good corporate governance | 4.1.1 Unqualified audit opinion without findings (clean audit report) | Received an unqualified audit opinion for 2017/18 financial year | Received an unqualified audit opinion for 2018/19 financial year | Received unqualified audit opinion 2019/20 | Received unqualified audit opinion without findings for 2019/20 (clean audit) | N/A | Target achieved. |
| | 4.1.2 Percentage of female employees compliant in line with Employment Equity (EE) Act | 55% | 55.50% (111/200) | >51% | Q1 56.5% (113/200) Q2 55.61% (114/205) Q3 55.34% (114/206) Q4 55.61% (114/205) | N/A | Target achieved. |
| | 4.1.3 Percentage of designated racial groups in line with EE Act | 79% | 81.5% (163/200) | 80% | Q1 81.5% (163/200) Q2 81.46% (167/205) Q3 81.55% (168/206) Q4 81.95% (168/205) | Q1 1.5% Q2 1.46% Q3 1.55% Q4 1.95% | Target exceeded. There was a concerted effort by management to meet the transformation targets after an analysis was done. |

Outcome: Good corporate governance and an efficient and effective operating environment that supports the FIC in delivering on its mandate

| Outputs | Output indicators | Audited actual performance 2018/19 | Audited actual performance 2019/20 | Planned annual target 2020/21 | Actual achievement 2020/21 | Deviation from planned target to actual achievement 2020/21 | Reasons for deviations |
|---|---|---|---|-------------------------------|--|---|---|
| | 4.1.4 Percentage of disabled employees in line with the EE Act | 2% | 2% (4/200) | 2% | Q1 2% (4/200) Q2 1.95% (4/205) Q3 1.46% (3/206) Q4 1.95% (4/205) | Q1 0 Q2 0.05% Q3 0.54% Q4 0.05% | Target not achieved. The under achievement was influenced by the increase in headcount. Ongoing effort is being made to attract people living with disabilities. |
| Effective and efficient operating environment | 4.2.1 Percentage of valid and compliant invoices paid within 30 days | Apr 99% (219/222) May 93% (137/148) Jun 95% (396/417) Jul 98% (172/175) Aug 97% (184/189) Sept 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) | Apr 94% (272/288) May 82% (179/219) Jun 94% (245/262) Jul 92% (199/216) Aug 95% (203/214) Sept 94% (297/316) Oct 98% (266/271) Nov 94% (250/265) Dec 97% (265/272) Jan 99% (192/194) Feb 98% (193/197) Mar 99.7% (291/292) | 100% | Apr 100% (50/50) May 99.1% (105/106) Jun 74.3% (101/136) Jul 85.5% (106/124) Aug 84.8% (112/132) Sept 94.8% (92/97) Oct 98.6% (140/142) Nov 96.5% (109/113) Dec 97.2% (137/141) Jan 92.5% (37/40) Feb 98.7% (74/75) Mar 98.1% (154/157) | Apr 0% May 0.89% Jun 25.7% Jul 14.5% Aug 15.2% Sept 5.2% Oct 1.4% Nov 3.5% Dec 2.8% Jan 7.5% Feb 1.3% Mar 1.9% | Target not achieved. This is due to internal delays in the processing of payments. Ongoing efforts by finance unit to ensure that payment processes are adhered to. |
| | 4.2.2 Percentage of funded establishment positions filled | New indicator | New indicator | ≥90% | Q1 93.90% (200/213) Q2 96.24% (205/213) Q3 96.71% (206/213) Q4 96.24% (205/213) | N/A | Target achieved. |
| | 4.2.3 Percentage uptime for external facing ICT system | New indicator | New indicator | ≥98% | Q1 100% Q2 99.12% Q3 98.86% Q4 99.66% | N/A | Target achieved. |

case study III MONEY LAUNDERING: FINDING THE CASINO CONNECTION



The FIC's analysis revealed an individual making suspicious, high value cash buy-ins at casinos from 2017 to 2020.

The analysis showed that the individual was using a personal bank account to receive high value multiple electronic transfers from different individuals. It was suspected that the individual was involved in illegal operations marked by money laundering.

The FIC sent its proactive financial intelligence reports to the DPCI, CI and SARS.

Improve and maintain a compliance environment

Due to the COVID-19 pandemic, the financial year-end process was extended. The government grant was reduced during the course of the year, which exerted immense pressure on the organisation as targets remained unchanged despite the change in the grant.

This affected the way in which the FIC executed its work to achieve set targets that had been in place before the nationwide lockdown measures had been imposed.

However, the pandemic also provided the FIC's Corporate Services division the opportunity to accelerate the automation of many of its internal processes.

case study |||

FRAUD: COVID-19 IMPOSSIBLE RELIEF



The FIC received a request from the DPCI to help with the investigation of a Limpopo-based company called Impossible Services (Pty) Ltd.

The company wanted to use the temporary financial relief scheme set up by government to assist employers who could not pay their employees during the COVID-19 pandemic.

It was alleged that the company declared 8 107 employees to the Unemployment Insurance Fund in May 2020. This was followed by a second declaration of 6 649 employees in October 2020. However, in the same month, Impossible Services terminated the employment of 6 647 employees.

The company's bank account was analysed, and it was established that Impossible Services had only one employee - its director. A preservation order was obtained against the account, amounting to more than R111 million. The director was arrested and prosecuted for fraud, theft, bribery, and money laundering.

A transformed and equitable workforce

The FIC remains committed to maintaining a transformed and equitable workforce. Against an employment equity target of 50 percent, the FIC has a female workforce of 55.61 percent.

Furthermore, 81.95 percent of the FIC's workforce is from designated race groups. This against a target of 80 percent. The FIC's work is highly specialised and of a technical nature, often requiring employees with scarce skills, qualifications, and expertise. 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 retained and 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.

Information and communications technology

ICT is the backbone of the digital economy and of the FIC as it enables the FIC to fulfil its mandate by receiving, processing and storing vast amounts of sensitive data every day.

During the year under review, the critical role of ICT was emphasised many times over, while the FIC's technology needs expanded exponentially. Many aspects of the work, even those areas traditionally 'non-digital', such as meetings, seminars, training and inspections, needed to be adapted to the virtual environment.

There were adaptations to new ways of interacting, and of giving and receiving ICT support during the remote work arrangements.

Innovation

The FIC's ICT team responded innovatively to new business requirements during review period. The team custom-built a case management solution for the Fusion Centre. The solution, which is now being used by multiple agencies, leveraged infrastructure tools for data analytics and reporting. The use of the solution contributed to the increased consumption of the FIC's intelligence products.

The ICT team digitised a number of in-house processes. The financial disclosure form for employees was digitised, which

enabled online completion of financial disclosures. In person training, was replaced with e-learning so that employees were able to complete training modules online, at convenient times.

To make it possible for employees to collaborate and have meetings, the roll out of a business communication platform was scaled up. The platform offered secure workspace chat and video conferencing, file storage, and application integration.

Collaboration

There were three main collaboration efforts during the year. The FIC's ICT team assisted the NPA to improve its ICT environment, processes, and security. The team also gave technical assistance to Angolan authorities, helping them to configure their anti-money laundering platform.

Furthermore, the FIC's ICT team developed an information exchange platform for SAMLIT. The conceptual design has been completed and accepted, and the project can move to the next phase of implementation by the various members of the task force.

Enhanced ICT infrastructure

During the financial year under review, the FIC's contract with its wide area network (WAN) service provider came to an end. The migration project to switch to a new WAN service provider had no impact on data links with accountable entities.

Furthermore, the FIC's disaster recovery site has been moved to a vendor-neutral data centre, which will allow for changing of WAN service providers seamlessly in the future.

With the new WAN service provider on board, the FIC has doubled its data and internet links capacity. Further resiliency has been added with all data links now having redundancy i.e. fail over, which was not available before. An increase in capacity data links also means that the FIC is now able to take shorter replication snapshots of data every two hours, whereas before, it was only two snapshots in a day.

The FIC's programme to modernise its infrastructure continued in 2020/21. The multi-year programme involves the implementation of software and hardware to keep South Africa's AML/CFT technology platform up to date.

Part of the consideration set for the FIC's infrastructure modernisation includes new and emerging technologies such as the internet of things, big data (advanced data analytics, data lakes), artificial intelligence (machine learning and deep learning), application programming interfaces and other aspects.

Enabling international funds transfer reporting

Throughout 2020/21, work continued on preparing for the new reporting stream IFTR, which will come into effect in terms of section 31 of the FIC Act. The registration and reporting platform is now ready to go live. The FIC will have at its disposal cross-border transactional data to monitor possible money laundering and terrorist financing and produce corresponding intelligence reports when it goes live.

Cyber security

The COVID-19 pandemic necessitated the provision of a digital, cyber-safe remote working environment for users and the ICT infrastructure. At least once a month, cyber security awareness highlighting cyber threats trends such as phishing, social engineering and fraudulent websites was communicated to users.

The use of virtual private network and multifactor authentication was enforced for all users to connect to the FIC network. A security assessment was performed of the FIC domain using an external service provider to increase the FIC's security score benchmark. In addition, internal and external network penetration tests were conducted to harden the ICT infrastructure.

Strategy to overcome areas of under performance

1. KPI 1.2.1 On-site review reports issued

Action plan: Output indicator and technical indicator descriptor amended in 2021/22 Annual Performance Plan to count on-site and off-site reviews under compliance reviews.

2. KPI 3.2.1 Policy-making activities attended within regional and inter-governmental organisations.

Action plan: The FIC and South Africa will continue to contribute to improvement of AML/CFT international standards through FATF and ESAAMLG activities.

3. KPI 4.1.5 All compliant invoices due are paid within 30 days

Action plan: Workshops will be held with employees on how to improve payment processes.

Changes to planned targets

No in-year changes made to 2020/21 indicators and targets.

Institutional response to the COVID-19 pandemic

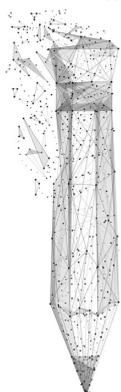
No government relief packages were applied for or granted.

Revenue collection

The FIC is a statutory body established to give effect to the Financial Intelligence Centre Act, 2001 (Act 38 of 2001). It is listed in the PFMA as a Schedule 3A public entity.

As such, the FIC uses public funds to fulfil its legislated mandate and does not collect revenue from other sources. It follows that no measures were instituted during the course of the year to raise revenue or to ensure revenue collection.

case study III



TAX FRAUD: MINOR'S ACCOUNT RAISES SUSPICION

The FIC alerted SARS to suspicious and unusual transactions in a minor's bank account of more than R6 million.

The analysis showed that the account received large electronic fund transfers and cash deposits, and the funds were then dissipated via electronic fund transfers in amounts of high value.

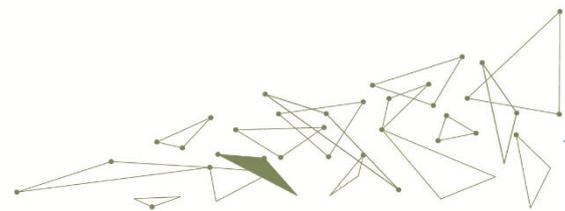
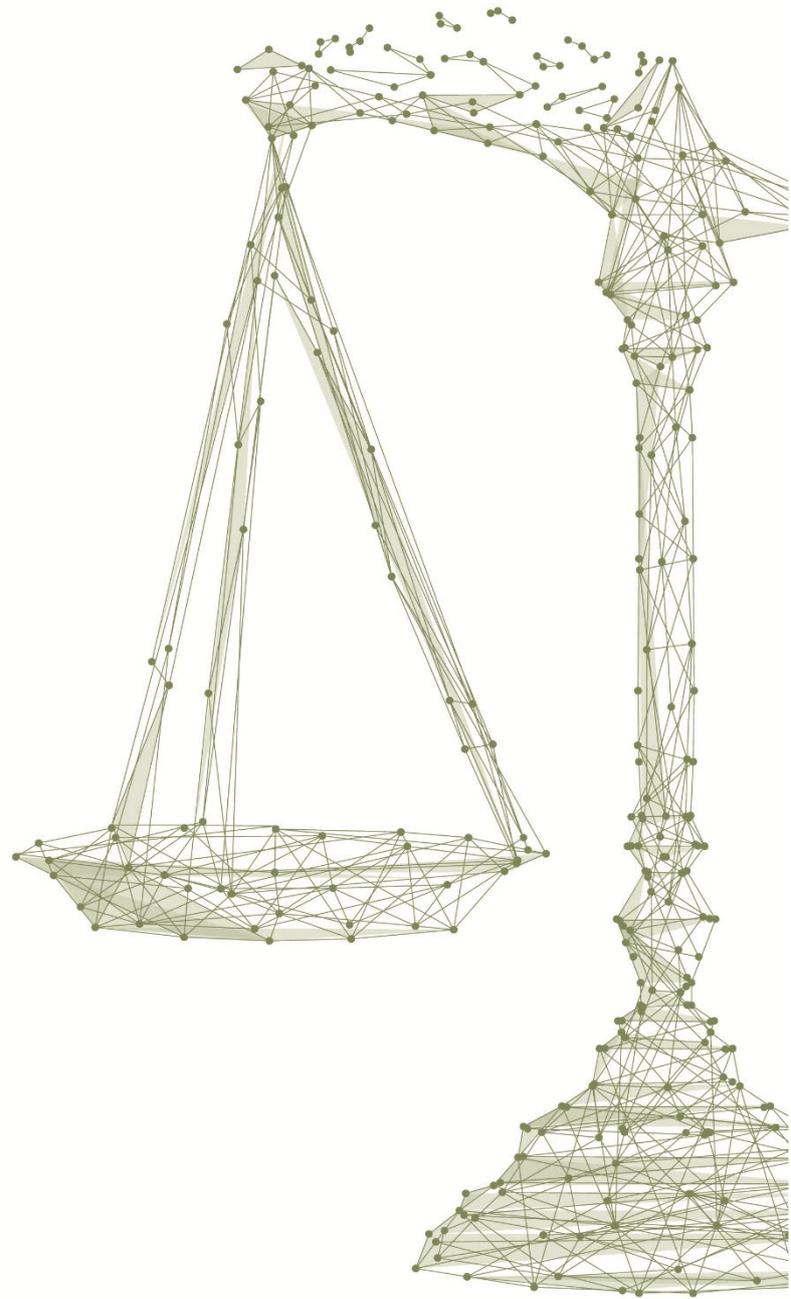
During the investigation, the FIC noted that the transactional descriptions appeared to relate to business-related transactions.

The money also moved out of the account very quickly to linked accounts, including a family business.

The FIC suspected that these account activities were related to tax avoidance and alerted SARS.

PART C

Governance



Introduction

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

Corporate governance is applied through the guidelines of the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA) and run in tandem with the principles contained in the King IV Code of Corporate Governance (King IV). In line with King IV, the governance model is outcomes based to ensure long-term sustainability.

The FIC follows best practice in corporate governance through its oversight structures. These structures and/or committees are tasked with ensuring that the FIC meets its strategic objectives and operates in line with its mandate:

- Accounting authority
- Executive management committee
- Management forum
- Audit and risk committee
- Human resources and remuneration committee
- Information and communications technology steering committee.

An automated risk and compliance management tool at the FIC has helped ensure that the organisation remained fully compliant during the year under review.

Portfolio committees

Parliament exercises its role through evaluating the performance of the FIC by interrogating the FIC's annual financial statements and other relevant documents which are required to be tabled, as well as any other documents tabled from time to time.

The Standing Committee on Finance reviews the FIC's strategic plan, the annual performance plan, annual financial statements and the audit reports of the external auditor.

The Standing Committee on Finance and the Joint Standing Committee exercise oversight over the service delivery performance of the FIC and as such, review the non-financial information contained in the annual reports and are concerned with service delivery and enhancing economic growth.

One meeting was held with the Joint Standing Committee on Intelligence during the year under review, on 25 November 2020.

The matters under discussion included a report from the FIC on its human capital, illicit financial flows and money laundering matters.

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 management committee, findings of the Auditor-General of South Africa and internal audit are resolved by the FIC's management.

The FIC committees met and were composed as summarised below.

FIC committees during 2020/21

| No of meetings held | No of members | Members |
|---|---------------|--|
| Committee: Executive management committee | | |
| 18 | 5 | <ul style="list-style-type: none"> • Xolisile Khanyile - Chairperson and Director of the FIC • Christopher Malan - Executive Manager: Compliance and Prevention • Macs Maboka - Executive Manager: Corporate Services • Dr Michael Masiapato - Executive Manager: Monitoring and Analysis • Pieter Smit - Executive Manager: Legal and Policy |
| Committee: Management forum | | |
| 7 | 17 | <ul style="list-style-type: none"> • Xolisile Khanyile - Chairperson and Director of the FIC • Aaron Shongwe - Head: Information and Communications Technology • Christopher Malan - Executive Manager: Compliance and Prevention • Ettiene Cronje - Head: Programme Management Office • Fikile Zitha - Senior Operations Manager: Legal and Policy • Grace Madilonga - Head: Human Resources • Macs Maboka - Executive Manager: Corporate Services • Marine Burdette - Senior Operations Manager: Monitoring and Analysis • Dr Michael Masiapato - Executive Manager: Monitoring and Analysis • Motlatsi Ramoshu - Senior Operations Manager: Monitoring and Analysis • Oniel Rajnund - Senior Operations Manager: Compliance and Prevention • Panna Kassin - Head: Communications • Philemon Mashapa - Head: Performance Monitoring and Evaluation • Pieter Alberts - Senior Operations Manager: Monitoring and Analysis • Pieter Smit - Executive Manager: Legal and Policy • Veronica MarshSmit - Chief Financial Officer • Xolile Majija - Head: Corporate Legal Services, Governance and Compliance |

| No of meetings held | No of members | Members |
|---|---------------|---|
| Committee: Audit and risk committee | | |
| 4 scheduled 2 special | 5 | <ul style="list-style-type: none"> • Bongani Mbewu • Dr Denisha Jairam-Owthar • Precious Sibiyi • Protas Phili • Thomas Kgokolo |
| Committee: Human resources and remuneration committee | | |
| 4 scheduled 2 special | 3 | <ul style="list-style-type: none"> • Bryan Chaplog • Michael Olivier • Thandiwe January-McClean |
| Committee: Information and communications technology steering committee | | |
| 4 | 12 | <ul style="list-style-type: none"> • Macs Maboka – Chairperson and Executive Manager: Corporate Services • Aaron Shongwe – Head: Information and Communications Technology • Derick Mostert – Manager: Monitoring and Analysis • Ettiene Cronje – Head: Programme Management Office • Fikile Zitha – Senior Operations Manager: Legal and Policy • Khanyisa Ngozwana – Data Systems and Reporting • Marine Burdette – Senior Operations Manager: Monitoring and Analysis • Matodzi Tshidzumba – Risk Manager: Office of the Director • Oniel Rajnund – Senior Operations Manager: Compliance and Prevention • Philemon Mashapa – Head: Performance Monitoring and Evaluation • Veronica MarshSmit – Chief Financial Officer • Xolile Majija – Head: Corporate Legal Services, Governance and Compliance |

Risk management

The FIC subscribes to the public sector’s risk management framework and other international best practices to identify, analyse, assess, treat, monitor and communicate risks internally. This approach ensures that risks are identified and assessed yearly and are 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 within the risk appetite and risk tolerance parameters, which coincide with the FIC’s strategy and objectives.
- Improve the FIC’s ability to prevent, detect, correct, escalate and respond to critical risk issues by executing risk management action plans and recommendations, and monitoring them effectively.
- Comply with appropriate risk management practices in terms of the Committee of Sponsoring Organisations of the Treadway Commission framework and ISO 31000 standards, corporate governance guidelines and King IV.
- Create a risk awareness 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 risk management framework. This risk framework codifies how risk is identified, measured, managed, reported and monitored across the organisation.

The FIC recognises that, in the complex financial sector environment in which it operates, risk management processes and strategies are evolutionary. The framework is therefore reviewed and modified on an ongoing basis, taking into account the risk appetite and risk tolerance of the organisation.

The FIC also performs risk assessments annually to identify new and emerging risks.

In fulfilling its enterprise-wide risk management responsibilities, the FIC uses both top-down and bottom-up approaches to risk identification, assessment, mitigation, monitoring and reporting.

The top-down approach entails risk processes to be reviewed by its management forum (as the operational risk committee), executive management, the Audit and Risk Committee and its Accounting Authority.

Achievements in mitigating strategic risks during 2020/21 included:

- The provision of awareness sessions, guidance, monitoring and supervision of information required by the affected stakeholders and ongoing maintenance and enhancement of the systems linking information sources with the FIC.
- Requesting the supervisory bodies to include registration with the FIC as part of their licensing requirements.
- The FIC performed a strategic assessment on proceeds of crimes in geographical areas and shared with relevant law enforcement authorities.
- The FIC held regular meetings with Fusion Centre members from law enforcement to discuss matters identified for appropriate action by relevant agencies and in some of these matters the FIC assisted with section 34 directives resulting in preservation orders.
- The FIC participated in key national forums of anti-money laundering and terrorist financing in the country.
- Invested in additional laptops, data SIM cards and virtual private network capabilities to enable employees to work remotely and access the primary data centre, or the disaster recovery centre should the need arise.
- Health and Safety Committee and preventive measures were put in place (FIC COVID-19 strategy and plan) to reduce infections.
- Business continuity management plans were strengthened to ensure that business operations could continue even during a pandemic.

Major risk categories

The enterprise risk management framework is continuously enhanced and updated to respond to risks and to ensure that the management of risks are embedded in the FIC's overall corporate governance structures, strategy and strategic planning, annual performance plan, reporting processes, policies, values and culture.

The FIC has identified the following principal risk categories that are significant to the FIC: strategic, regulatory and legal, operational, and reputational.

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 in the various business units. The corporate risk profile gives a panoramic view of the performance and rating of the FIC's strategic risks and risk landscape. Below is a list of strategic risks the FIC mitigated in 2020/21.

Strategic risks

- Inadequate collection of information may result in non-compliance with the FIC Amendment Act
- Inadequate production and utilisation of the FIC products and services by the stakeholders
- Inadequate promotion of national interests in maintaining the integrity of the South African financial system
- Inadequate operating environment
- Inadequate resources and governance
- Inadequate resources and response to comply with COVID-19 regulations and directives resulting in the FIC not being able to sustain its operations.

Risk governance and combined assurance

The FIC has a combined assurance model and risk maturity framework to determine the effectiveness of risk management within the entity, and in line with King IV, to ensure a more integrated approach to managing risks.

This methodology is carried out through a collaboration of functions between management, risk management, compliance and internal and external audit.

These assurance providers participate in the annual review of the enterprise risk management framework and the development and assessment of the single risk universe of the FIC.

Internal control/audit

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 FIC appointed an internal audit service provider for a five-year period to deliver on the internal audit function. The five-year contract started on 1 August 2017 and runs until 31 July 2022.

The internal audit service provider submits a three-year rolling plan to the FIC through the Audit and Risk Committee for each financial year. All findings developed are tracked by management and reported to the Audit and Risk Committee quarterly.

Compliance with laws and regulations

The FIC's governance and compliance follows a three-pronged approach that is informed by its operations. These are: (i) the regulatory universe, which deals with compliance with legislation, (ii) the external reporting obligations, which deals with all the FIC's reporting obligations to external stakeholders, and (iii) policy compliance, which ensures all organisational policies are in place in terms of the FIC's policy and procedure development framework.

During the year under review, the FIC conducted quarterly reviews in all three areas and the outcomes were reported in all relevant governance committees internally and the Audit and Risk Committee for external and independent assurance. The FIC was found to be compliant in all areas against which it was assessed.

The FIC has a fully established crisis management team as per its business continuity management strategy.

During the year under review, the FIC conducted workshops to keep employees abreast of business continuity management and plans for business impact analysis.

The FIC performed 11 ICT disaster recovery test exercises to assess readiness to respond to disasters. One crisis simulation and six ICT disaster recovery exercises were held to assess readiness to respond to disasters.

Fraud and corruption

The FIC implemented a corruption prevention, detection and investigation framework in the 2018/19 financial year, which is still in place, together with a fraud and corruption risk register.

Awareness sessions on the prevention of fraud and corruption have been conducted with employees.

The FIC has a policy in place to enable whistle-blowers to report any misconduct or unethical behaviour anonymously. The FIC uses the National Anti-Corruption Hotline operated by the Public Service Commission for reporting misconduct or unethical behaviour.

The Public Service Commission communicates reported matters to the FIC within a week, following which, each matter is reviewed and investigated (if necessary) within 40 days. On each matter received, the FIC in turn reports back to the Public Service Commission within 40 days as mandated by the MoU between the FIC and the Public Service Commission.

Reports to the hotline are dealt with anonymously and reference numbers are issued if the reporter wants to follow-up. No FIC-related corruption cases were reported to the hotline during the period under review.

Minimising conflict of interest

The supply chain management unit has introduced a code of conduct that employees sign. The unit has also implemented a terms of reference that includes a declaration of conflict of interest for the request for quotations and tenders. The declaration of the conflict of interest has been embedded in supply chain processes including at the bid adjudication and evaluation committees' level.

All employees are required to adhere to the FIC's policy and procedure on gifts, donations and sponsorships which is geared to prevent internal fraud and corruption.

The FIC has 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.

The FIC has and continues to update and align its policies and procedures to comply with the Public Administration Management Act, 2014 (Act 11 of 2014).

Code of ethics and conduct

The FIC's code of ethics and conduct requires all employees to observe the highest standards of integrity in carrying out the FIC's legal mandate. It also provides a framework for the conduct by which all practices involving the FIC are to be carried out, managed and regulated. The code sets down common ethical standards that the FIC employees should adhere to on a consistent basis to ensure that their actions are in accordance with the FIC's primary values and standards.

Although the code was developed to be as comprehensive as possible, it is not an exhaustive set of rules regulating standards of conduct.

The Accounting Authority has a duty to ensure that the conduct of employees conforms to the basic values and principles governing public administration and the norms and standards prescribed by the relevant government legislation and policies.

The Accounting Authority should also ensure that employees are acquainted with these measures, and that they accept and abide by them. Breaches of the code are dealt with swiftly and decisively.

Health, safety and environmental issues

The FIC is committed and endeavours to comply with the provisions of the Occupational Health and Safety Act, 1993 (Act

85 of 1993) (OHS Act) general safety regulations and the Compensation for Occupational Injuries and Diseases Act, 1997 (Act 61 of 1997) (COID Act) to enable a high level of protection for the health and safety of the FIC's employees, contractors, customers, the public and the environment.

Furthermore, the FIC is required to comply with the provisions of the Disaster Management Act, 2002 (Act 57 of 2002) (DMA) in the wake of the COVID-19 pandemic.

Regarding the DMA, there are compliance requirements as and when they are published in managing or containing the spread of COVID-19 in the workplace.

Appointed by the Accounting Authority, members of the health and safety committee are entrusted with taking decisions or advising the Accounting Authority on health and safety matters.

The FIC's Health and Safety Committee's responsibilities include:

- Making recommendations to the FIC or, where the recommendations fail to resolve the matter, to an inspector regarding any matter affecting the health or safety of persons at the workplace or any section thereof.
- Discussing any incident at the workplace or section thereof in which or in consequence of which any person was injured, became ill or died, and may in writing report on the incident to an inspector from the Department of Labour.
- Performing other health and safety functions as may be prescribed.
- Keeping records of each recommendation made to the FIC in terms of subsection (1) (a) and of any report made to an inspector in terms of subsection (1) (b) of the Act.

The FIC's Health and Safety Committee has a charter, policy and procedures and appointed evacuation officers, fire fighters, incidents investigators, health and safety representatives, and first aid officer.

No incidents were reported during the 2020/21 financial year that resulted in any person being injured, having to undergo external medical treatment or taking time off from work.

Audit and Risk Committee

We are pleased to present our report for the financial year ended 31 March 2021

Background

The Audit and Risk Committee (hereinafter referred to as ARC) is an independent statutory committee appointed by the Accounting Authority.

It derives its duties from section 77 of the PFMA read together with National Treasury Regulations 27.1. Further duties are delegated to the ARC by the Accounting Authority.

This report includes both these sets of duties and responsibilities.

ARC terms of reference

The ARC has adopted formal terms of reference that has been approved by the Accounting Authority. The ARC has conducted its affairs in compliance with its terms of reference and has discharged its responsibilities contained therein.

ARC members, meeting attendance and assessment

The ARC consists of five independent, non-executive members. It meets at least four times a year as per its terms of reference.

Appointed from 1 August 2018, the ARC 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 Aug 2018 | 31 Jul 2021 |
| Dr Denisha Jairam-Owthar | PhD (ICT); MBA in Technology Management; BCOMPT (Accounting Sciences). | 1 Aug 2018 | 31 Jul 2021 |
| Precious Sibiya | BAcc; Postgraduate Diploma in Accountancy (UKZN), CA(SA) | 1 Aug 2018 | 31 Jul 2021 |
| Protas Phili | BCom (Acc); BCom (Hons); CA(SA); Certificate of Advanced Auditing (RAU/UCT); MCom | 1 Aug 2018 | 31 Jul 2021 |
| Thomas Kgokolo | CA(SA), MBA | 1 Aug 2018 | 31 Jul 2021 |

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

| Attendees | 20 May 2020 | 28 Jul 2020 | 7 Aug 2020 | 28 Oct 2020 | 28 Sept 2020 | 2 Feb 2021 |
|----------------------------|-------------|-------------|------------|------------------------|--------------|------------|
| Bongani Mbewu, Chairperson | Present | Present | Present | Present | Present | Present |
| Dr Denisha Jairam-Owthar | Present | Present | Present | Present | Present | Present |
| Precious Sibiya | Present | Present | Present | Absent with an apology | Present | Present |
| Protas Phili | Present | Present | Present | Present | Present | Present |
| Thomas Kgokolo | Present | Present | Present | Present | Present | Present |

ARC role and responsibilities

The ARC reports that it has complied with its responsibilities arising from section 51 (1)(a)(ii) of the PFMA and National Treasury Regulation 27.1. The ARC also reports that it has adopted appropriate formal terms of reference as its ARC 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 ARC is responsible for, and fulfilled the following responsibilities, among 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 processes introduced to improve the overall governance and 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 cooperation 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 external auditors had and have direct access to the Chairman of the ARC and its members. The ARC'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 entity.

The internal audit function is outsourced, and the outsourced internal audit representatives attended all ARC meetings.

Based on the assessment of the work done for the year under review, the ARC 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 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 ARC is responsible for the oversight of the risk management function. Management reports to the ARC on the organisation's risk management processes. The ARC 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 ARC 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 ARC 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 National Treasury as is required by the PFMA.

Evaluation of annual financial statements

The ARC has reviewed the accounting policies and the annual financial statements of the entity and is satisfied that they are appropriate and comply with the standards of generally recognised accounting practice (GRAP).

Evaluation of the finance function

The ARC is satisfied that the chief financial officer has the appropriate qualifications and experience. Moreover, the ARC is satisfied with the overall skills and competence within the finance function.

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 ARC concurs and accepts the conclusions of the Auditor-General of South Africa 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 of South Africa. The ARC further congratulates the FIC management, internal auditors, and all other stakeholders for their effort in attaining the unqualified audit opinion with no findings for the second year. The ARC would like to further implore management, internal auditors and other stakeholders to make sure that the unqualified audit opinion with no findings (clean audit) is retained once again.

Impact of COVID-19

The nationwide lockdown that came into effect from 27 March 2020 as a result of the COVID-19 pandemic continues to define the environment within which FIC operates. This has put the FIC under more financial pressure due to reduced funding from the National Treasury. The ARC is satisfied with measures put in place by management to mitigate these risks from COVID-19.



BONGANI MBEWU
CHAIRPERSON
AUDIT AND RISK COMMITTEE

30 July 2021

B-BBEE COMPLIANCE PERFORMANCE INFORMATION

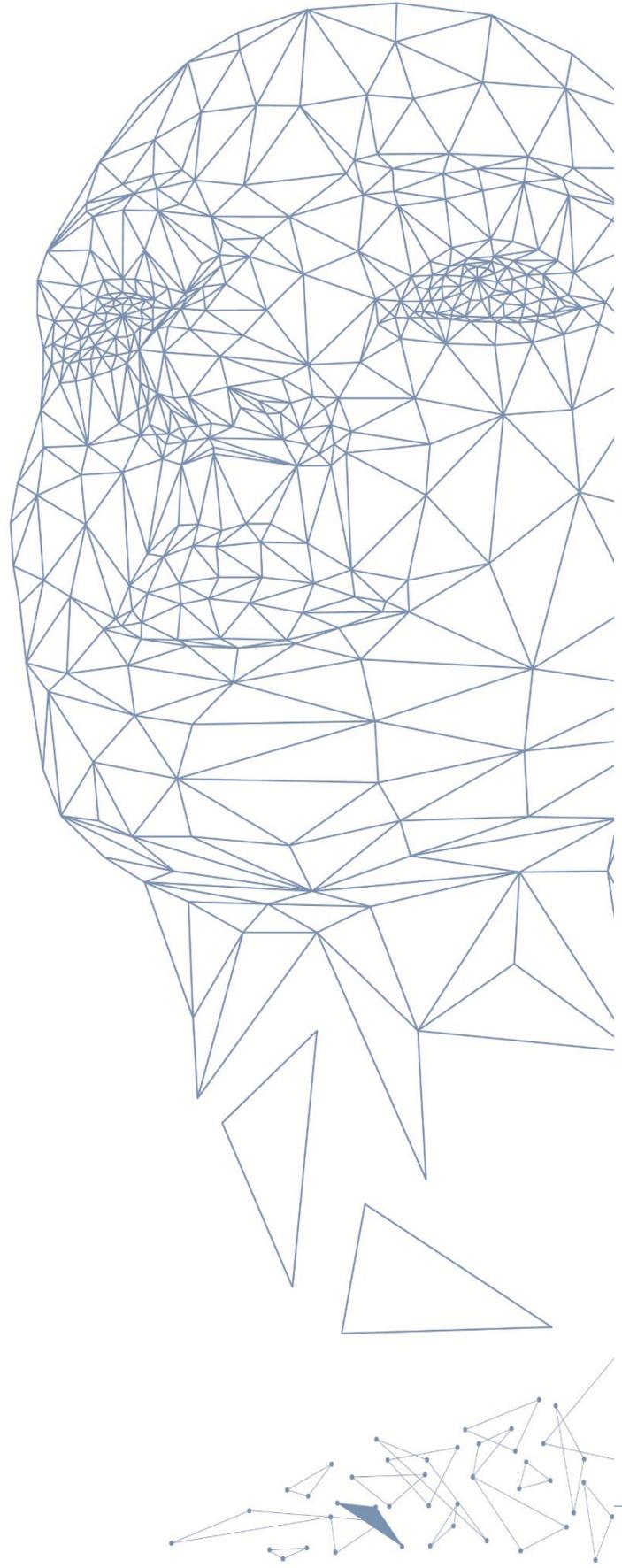
The following table was completed in accordance with the compliance to the B-BBEE requirements as required by the Broad-Based Black Economic Empowerment Act, 2003 (Act 53 of 2003) and as determined by the Department of Trade, Industry and Competition.

B-BBEE compliance performance information 2020/21

| Has the public entity applied any relevant code of Good Practice (B-BBEE Certificate Levels 1- 8) with regards to the following: | | |
|---|---------------------|---|
| Criteria | Response Yes /No | Discussion - Measures taken/not taken to comply |
| 1. Determining qualification criteria for the issuing of licences, concessions or other authorisations in respect of economic activity in terms of any law? | Not applicable | The FIC's mandate and work does not extend to issuing of licences, concessions or authorisations. |
| 2. Developing and implementing a preferential procurement policy? | Yes | The FIC has in place SANAS accredited B-BBEE verification |
| 3. Determining qualification criteria for the sale of state-owned enterprises? | Not applicable | Selling of state owned enterprises does not fall within the scope of the work of FIC. |
| 4. Developing criteria for entering into partnerships with the private sector? | Not applicable | FIC does not enter into partnerships with the private sector |
| 5. Determining criteria for the awarding of incentives, grants and investment schemes in support of Broad Based Black Economic Empowerment? | Not applicable | FIC does not award grants, incentives or investment schemes |

PART D

Human Resource Management



INTRODUCTION

The FIC values its people as central to the entity. Committed to maintaining a transformed and equitable workforce, the FIC achieved and in one case exceeded, its employment equity targets as follows:

- Female employees: 114 employees out of total 205 employee workforce are female (55.61 percent of workforce against a target of 50 percent).
- Employees with disabilities: Four employees out of total 205 employee workforce have disabilities (two percent of workforce as targeted).
- Employees from designated race groups: 168 employees out of total 205 employee workforce are African, Coloured and Indian (81.95 percent of workforce against a target of 80 percent).

During 2020/21, the FIC ensured that it remained responsive to organisational needs despite challenges posed by the COVID-19 pandemic.

- Employee retention: The FIC continues on its journey of enabling the creation of a workforce of the future by providing meaningful and credible careers to its employees through the phased implementation of its talent management strategy. The FIC has a strategy that targets the retention of employees who possess critical skills and those who occupy these roles.
- Employee performance management framework: The FIC continued to review its performance management framework with a view to optimising and ensuring alignment with organisational strategic priorities. Much work that was done in streamlining performance management inconsistencies and bottlenecks in terms of the compression of roles.
- Policy development: A number of Human Resources (HR) policies and procedures were reviewed within the broader human resources and people management strategy. This continues to be of paramount importance as a result of the rapidly changing external environment and HR will continue to focus on this in the upcoming financial year to ensure the organisation stays abreast of the evolving landscape.
- Remuneration: The FIC continues to strengthen its remuneration framework to remain relevant and competitive in the broader labour market. The FIC initiated a number of remuneration and benefits programmes during 2020/21, and it continues to strengthen its value offering through these initiatives.
- Talent reviews: A total of 152 employees were reviewed for promotion, succession and lateral intra- and inter-divisional

growth opportunities. These talent reviews provided the FIC with essential insights into the composition of the FIC's talent pool relative to the strategic and operational demands for the short- to medium-term.

- Training and development: A total of 98 employees attended various technical skills learning interventions. These were aimed at ensuring that employees remained motivated and abreast of advances in their areas of expertise. The FIC is also dedicated to developing young people for careers that focus on countering financial crimes. The FIC provided 19 bursaries to employees and provided 11 graduates with the opportunity to gain workplace experience at the FIC during the 2020/21 period.
- Employee wellness: The FIC provided four employee wellness sessions during 2020/21. The year was one of a kind in terms of organisational operations. For the first time employees were operating and being managed virtually due to the national lockdown imposed due to the COVID-19 pandemic. This transition was quick and not all employees and managers were geared for the changes. In efforts to capacitate, reassure and empower employees during this time, group sessions were arranged for all employees where experts addressed aspects including resilience, stress management, burnout, grief and loss. A session was hosted for managers to equip them to identify where the lack of employee productivity may be related to wellness matters, and to refer these incidents to the wellness service provider for support.

Going forward, the FIC will continue to assess HR risks and challenges with a view to optimising people performance and improving employee the experience. Attracting and retaining technical skills will remain a key focus as well as the following HR priorities:

- Reviewing critical competencies, especially in supply chain management
- Review of the FIC's remuneration framework
- Implementation of the talent journey
- Articulation and activation the employee value proposition
- Enhancing the FIC's learning and development service offering.

Human Resources oversight statistics

Personnel cost by programme

| Programme | 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'000) |
|-------------------|--|-------------------------------|---|---------------------|---|
| Total expenditure | 308 326 | 183 653 | 60% | 215* | 854 |

Note: Personnel expenditure includes terminations during the reporting period but excludes year-end accrual adjustment and compensation for occupational injury and disease.

* Refers to the total number of employees paid by FIC during the reporting year including those who terminated during the reporting period.

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 | 12 949 | 7% | 5 | 2 590 |
| Senior management | 22 928 | 13% | 12 | 1 911 |
| Professional qualified | 32 486 | 18% | 29 | 1 120 |
| Skilled | 101 846 | 55% | 132 | 772 |
| Semi-skilled | 13 443 | 7% | 37 | 363 |
| Unskilled | 0 | 0% | 0 | 0 |
| Total | 183 653*** | 100% | 215** | 854* |

* This is an average cost.

** Refers to the total number of employees paid by the FIC during the reporting year including those who terminated during the reporting period.

*** Figure rounded off.

Performance rewards

| Programme | Performance rewards (R'000) | Personnel expenditure (R'000) | % of performance rewards to total personnel cost |
|------------------------|-----------------------------|-------------------------------|--|
| Top management | 918 | 12 949 | 0.50% |
| Senior management | 1 778 | 22 928 | 0.97% |
| Professional qualified | 2 375 | 32 486 | 1.29% |
| Skilled | 6 538 | 101 846 | 3.56% |
| Semi-skilled | 948 | 13 443 | 0.52% |
| Unskilled | 0 | 0 | 0 |
| Total | 12 557 | 183 653* | 7%* |

* Figures rounded off.

Training costs

| Programme | 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 | | 802 | 0% | 157 | 5 |
| Bursaries | | 265 | 0% | 19 | 14 |
| Total | 183 653 | 1 067 | 1% | 176 | 6* |

* Average cost. The reduction in training and development spend during the financial year was primarily due to challenges related to the COVID-19 pandemic. The industry in its entirety experienced significant challenges with several interventions not being available online or with training providers cancelling interventions.

Employment and vacancies

| Programme | Number of approved posts | Number of employees | Vacancies | % of vacancies |
|------------------------|--------------------------|---------------------|-----------|----------------|
| Top management | 5 | 5 | 0 | 0% |
| Senior management | 12 | 12 | 0 | 0% |
| Professional qualified | 30 | 29 | 1 | 3.33% |
| Skilled | 129 | 122 | 7 | 5.43% |
| Semi-skilled | 37 | 37 | 0 | 0 |
| Unskilled | 0 | 0 | 0 | 0 |
| Total | 213 | 205 | 8 | 3.76%* |

Note: The FIC vacancy rate decreased during the period under review compared to the previous financial year. As part of the talent review process potential successors for critical positions and targeted development measures have been identified for these successors.

** Percentage acquired by dividing the number of vacancies by the number of approved posts.*

Employment changes

| Salary band | Employment at beginning of period | Appointments | Terminations | Employment at end of period |
|------------------------|-----------------------------------|--------------|--------------|-----------------------------|
| Top management | 5 | 0 | 0 | 5 |
| Senior management | 12 | 0 | 0 | 12 |
| Professional qualified | 28 | 2 | 1 | 29 |
| Skilled | 118 | 11 | 7 | 122 |
| Semi-skilled | 37 | 0 | 0 | 37 |
| Unskilled | 1* | 0 | 0 | 0 |
| Total | 200 | 13 | 8 | 205 |

** This employee was moved from unskilled to semi-skilled due to changes in work responsibilities.*

Reasons for employees leaving

| Reason | Number | % of total number of staff leaving |
|--------------------|----------|------------------------------------|
| Death | 0 | 0 |
| Resignation | 8 | 100% |
| Dismissal | 0 | 0 |
| Retirement | 0 | 0 |
| Ill health | 0 | 0 |
| Expiry of contract | 0 | 0 |
| Other | 0 | 0 |
| Total | 8 | 100% |

Note: The primary reason for employees leaving the FIC in 2020/21 was to pursue opportunities to grow their careers and/or earn higher income. The turnover is addressed by ongoing review of the HR framework.

Labour relations: Misconduct and disciplinary action

| Nature of disciplinary action | Number |
|-------------------------------|--------|
| Verbal warning | 0 |
| Written warning | 6 |
| Final written warning | 2 |
| Dismissal | 0 |

Equity target and employment equity status - male**

| Levels | Male | | | | | | | |
|------------------------|-----------|-----------|----------|-----------|----------|-----------|-----------|-----------|
| | African | | Coloured | | Indian | | White | |
| | Current | Target | Current | Target | Current | Target | Current | Target |
| Top management | 2 | 2 | 1 | 1 | 0 | 0 | 1 | 1 |
| Senior management | 4 | 2 | 0 | 1 | 1 | 1 | 2 | 1 |
| Professional qualified | 7 | 4 | 0 | 2 | 2 | 2 | 3 | 2 |
| Skilled | 43 | 25 | 4 | 16 | 5 | 13 | 13 | 8 |
| Semi-skilled | 3 | 14 | 0 | 1 | 0 | 1 | 0 | 2 |
| Unskilled | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 59 | 47 | 5 | 21 | 8 | 17 | 19 | 14 |

Equity target and employment equity status - female**

| Levels | Female | | | | | | | |
|------------------------|-----------|-----------|----------|-----------|----------|-----------|-----------|-----------|
| | African | | Coloured | | Indian | | White | |
| | Current | Target | Current | Target | Current | Target | Current | Target |
| Top management | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Senior management | 2 | 2 | 0 | 2 | 1 | 1 | 2 | 2 |
| Professional qualified | 8 | 7 | 1 | 2 | 0 | 3 | 6 | 3 |
| Skilled | 41 | 29 | 4 | 15 | 6 | 15 | 6 | 16 |
| Semi-skilled | 30 | 14 | 1 | 1 | 0 | 1 | 5 | 3 |
| Unskilled | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 82 | 53 | 6 | 20 | 7 | 20 | 19 | 24 |

Equity target and employment equity status - (people with disabilities)**

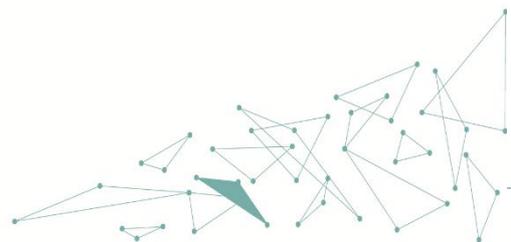
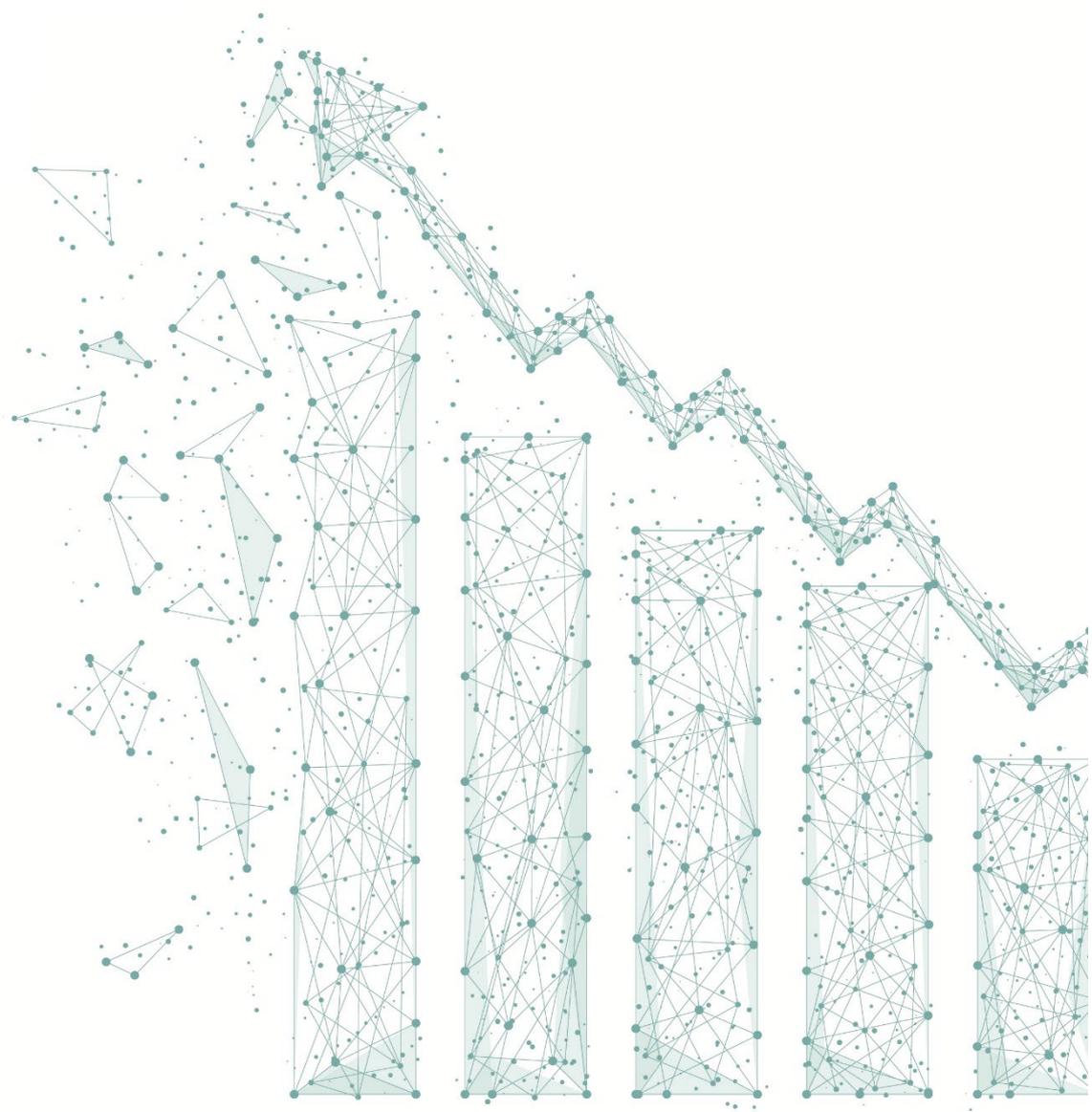
| Levels | People with disabilities | | | |
|------------------------|--------------------------|----------|----------|--------|
| | Male | | Female | |
| | Current | Target | Current | Target |
| Top management | | | | |
| Senior management | | | | |
| Professional qualified | | 1 | | |
| Skilled | 1 | 5 | | |
| Semi-skilled | | | 3 | |
| Unskilled | | | | |
| Total | 1 | 6 | 3 | |

* Ongoing effort is being made to attract people with disabilities.

** Equity target tables are for the period, 1 October 2019 to 30 September 2020, as submitted to the Department of Labour.

PART E

FINANCIAL INFORMATION



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The reports and statements set out below comprise the annual financial statements of the Financial Intelligence Centre for the year ended 31 March 2021.

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REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON 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 80 to 103, which comprise the statement of financial position as at 31 March 2021, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as 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 2021, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa 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 my report.
4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

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

Restatement of corresponding figures

7. As disclosed in note 32 to the financial statements, the corresponding figures for the previous financial year were restated as a result of prior period errors in the financial statements of the Financial Intelligence Centre at, and for the year ended, 31 March 2021.

Responsibilities of the accounting authority for the financial statements

8. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
9. In preparing the financial statements, the accounting authority is responsible for assessing the public entity'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

10. 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.
11. 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

12. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
13. My procedures address the usefulness and reliability of the reported performance information, which must be based on the public entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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.
14. 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 public entity's annual performance report for the year ended 31 March 2021:

| Programme | Pages in the annual performance report |
|---|--|
| Programme 2 - delivery of intelligence on financial crime and FIC-Act related regulatory services | Pages 24, 40 and 50 in the annual performance report |

15. 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.
16. I did not identify any material findings on the usefulness and reliability of the reported performance information for this programme:
Programme 2 - delivery of intelligence on financial crime and FIC-Act related regulatory services.

Other matter

17. I draw attention to the matter below.

Achievement of planned targets

18. Refer to the annual performance report on pages 24, 40 and 50 for information on the achievement of planned targets for the year and management's explanations provided for the under /over achievement of targets.

Report on the audit of compliance with legislation

Introduction and scope

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

Other information

21. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the director's report and 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.

22. 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 on it.
23. 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 programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
24. 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

25. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. I did not identify any significant deficiencies in internal control.

Auditor General

Pretoria
31 July 2021



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 relating to events or conditions that may cast significant doubt on the ability of the Financial Intelligence Centre 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 my 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 operating as a going concern

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine 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 provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

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 2021.

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 Constitutional 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 National Treasury, and directives issued by the Accounting Standards Board.

5. Corporate governance

General

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

Audit and Risk Committee

The Audit and Risk Committee comprised five members for the year ended 31 March 2021 and met six 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 2021 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 2021 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 X J KHANYILE
DIRECTOR: FINANCIAL INTELLIGENCE CENTRE
ACCOUNTING AUTHORITY

31 July 2021

STATEMENT OF FINANCIAL POSITION

as at 31 March 2021

| | Notes | 2021 R'000 | 2020 Restated* R'000 |
|--|-------|----------------|----------------------------|
| Assets | | | |
| Current assets | | | |
| Inventory | 3 | 52 | 57 |
| Receivables from exchange transactions | 4 | 541 | 640 |
| Prepayments | 5 | 8 549 | 8 127 |
| Cash and cash equivalents | 7 | 87 585 | 96 394 |
| | | 96 727 | 105 218 |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 42 941 | 47 014 |
| Intangible assets | 9 | 17 654 | 24 424 |
| Deposits - long-term receivables | 6 | 716 | 665 |
| | | 61 311 | 72 103 |
| | | 158 038 | 177 321 |
| Liabilities | | | |
| Current liabilities | | | |
| Finance lease obligation | 10 | 630 | - |
| Payables from exchange transactions | 11 | 14 870 | 11 820 |
| Provisions | 12 | 12 133 | 12 558 |
| Third party deposits | 13 | 60 | 60 |
| Income received in advance | 14 | 44 478 | 30 930 |
| | | 72 171 | 55 368 |
| Non-current liabilities | | | |
| Finance lease obligation | 10 | 800 | - |
| Operating lease | 15 | 20 468 | 12 822 |
| | | 21 268 | 12 822 |
| | | 93 439 | 68 190 |
| | | 64 599 | 109 131 |
| | | 64 599 | 109 131 |

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2021

| | Notes | 2021 R'000 | 2020 Restated* R'000 |
|--------------------------------|-------|------------------|----------------------------|
| Revenue | | | |
| Non-exchange revenue | 16 | 291 425 | 298 664 |
| Exchange revenue | 17 | 2 847 | 6 479 |
| | | 294 272 | 305 143 |
| Expenditure | | | |
| Personnel costs | 18 | (183 716) | (175 383) |
| Depreciation and amortisation | 19 | (18 075) | (19 565) |
| Finance costs | 20 | (110) | (23) |
| Impairment of financial assets | 21 | - | (17) |
| General expenses | 22 | (106 425) | (113 982) |
| | | (308 326) | (308 970) |
| | | (14 054) | (3 827) |
| Operating surplus | | | |
| Loss on disposal of assets | 31 | (196) | (288) |
| | | (14 250) | (4 115) |
| Deficit for the year | | | |

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2021

| | Notes | Accumulated surplus R'000 | Total net assets R'000 |
|--|-------|------------------------------|---------------------------|
| Balance at 1 April 2018 | | 140 955 | 140 955 |
| Surplus for the year ended 31 March 2019 | | 22 291 | 22 291 |
| Balance at 1 April 2019 | | 163 246 | 163 246 |
| Surplus transferred to National Treasury | | (50 000) | (50 000) |
| Deficit for the year | | (2 572) | (2 572) |
| Balance at 1 April 2020 previously reported | | 110 674 | 110 674 |
| Adjustments | | | |
| Prior year adjustments | 32 | (1 543) | (1 543) |
| Restated balance at 1 April 2020 | | 109 131 | 109 131 |
| Surplus transferred to National Treasury | | (30 282) | (30 282) |
| Deficit for the year | | (14 250) | (14 250) |
| Balance at 31 March 2021 | | 64 599 | 64 599 |

CASH FLOW STATEMENT

for the year ended 31 March 2021

| | Notes | 2021 R'000 | 2020 Restated* R'000 |
|---|-------|-----------------|----------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Cash receipts from grants | | 290 243 | 294 324 |
| Interest income | | 2 599 | 6 244 |
| Other income | | 296 | 142 |
| | | 293 138 | 300 710 |
| Payments | | | |
| Suppliers and employees | | (280 288) | (284 112) |
| Finance costs | | (110) | (23) |
| | | (280 398) | (284 135) |
| Net cash flows from operating activities | 23 | 12 740 | 16 575 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (4 589) | (12 072) |
| Proceeds from sale of property, plant and equipment | | 51 | 3 |
| Purchase of other intangible assets | | (970) | (3 397) |
| Net cash flows from investing activities | | (5 508) | (15 466) |
| Cash flows from financing activities | | | |
| Movement in income received in advance | | 14 730 | 27 250 |
| Finance lease payments | | (489) | (611) |
| Cash repaid to National Treasury | | (30 282) | (50 000) |
| Net cash flows from financing activities | | (16 041) | (23 361) |
| Net increase in cash and cash equivalents | | (8 809) | (22 252) |
| Cash and cash equivalents at the beginning of the year | | 96 394 | 118 646 |
| Cash and cash equivalents at the end of the year | 7 | 87 585 | 96 394 |

Cash repaid to National Treasury of R30 282 000 (2020: R50 000 000) was reclassified from cash and cash equivalents to financing activities.

ACCOUNTING POLICIES

1. Basic 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 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 uncollected 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 25 years |
| Security equipment | 10 to 20 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 | 3 to 20 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 National Treasury

The transfer from 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 the staff benefits has been calculated at undiscounted amounts based on the current salary rates, because of their short-term nature.

Termination benefits

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

Retirement benefits

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

1.9 Provisions

Provisions are recognised when:

- The FIC has a present obligation as a result of a past event.
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; 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 rand at the rate of exchange ruling at the date of such transaction. Balances outstanding on the foreign currency monetary items at the end of the reporting period are translated into South African rand at the rates ruling at that date.

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

1.11 Inventory

Initial recognition and measurement

Inventory is stated at cost on initial recognition and 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 judgments

Management makes estimates and assumptions concerning the future in applying its accounting policies. The resulting accounting estimates may, by definition, not equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are detailed in the notes to the financial statements, where applicable. Management continually

evaluates estimates and judgments based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

1.14 Comparative figures

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

1.15 Accounting for non-exchange transactions

Recognition of revenue from non-exchange transactions

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

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

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

- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; 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.

1.18 Contingent liabilities

A contingent liability is:

- A possible obligation, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future event(s) not wholly within the control of the FIC; or
- A present obligation that is not recognised because, the outflow of economic benefits or service potential is not probable; or
- A real present obligation, that may not be recognised, either because either the timing or measurement is not known.

Contingent liabilities are not recognised as liabilities because they are either:

- Possible obligations, as it has yet to be confirmed whether the FIC has a present obligation that could lead to an outflow of resources embodying economic benefits or service potential; or
- Present obligations that do not meet the recognition criteria of a liability.

Contingent liabilities are continuously reviewed to determine if the outflow of resources have become probable. A provision is raised in the financial statements in the period in which the outflow of resources becomes probable.

1.19 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence

over the other party, or *vice versa*, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with an entity.

An entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances, and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

2. New standards and interpretations

2.1 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 and has no impact on the Financial Statements:

GRAP 104: Financial Instruments

2.2 Standards and interpretations effective, but not relevant

The following Standards of GRAP became effective during the financial year but are not applicable to the FIC and has no impact on the Financial Statements.

| Standard/ Interpretation | Effective date |
|---|----------------|
| GRAP 34: Separate Financial Statements | 1 Apr 2020 |
| GRAP 35: Consolidated Financial Statements | 1 Apr 2020 |
| GRAP 36: Investments in Associates and Joint Ventures | 1 Apr 2020 |
| GRAP 37: Joint Arrangements | 1 Apr 2020 |
| GRAP 38: Disclosure of Interests in Other Entities | 1 Apr 2020 |
| GRAP 110: Living and Non-living Resources | 1 Apr 2020 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. Inventory

| | 2021 R'000 | 2020 Restated* R'000 |
|---|---------------|----------------------------|
| Consumables on hand | 52 | 57 |
| Consumables comprise stationery on hand | | |

4. Receivables from exchange transactions

| | 2021 R'000 | 2020 Restated* R'000 |
|--|---------------|----------------------------|
| Sundry debtors - ex-staff | 449 | 149 |
| Staff debtors | 13 | 50 |
| Accrued interest - bank | 131 | 493 |
| Impairment of debtor | (52) | (52) |
| | 541 | 640 |
| Reconciliation of impairment | | |
| Opening balance | (52) | (47) |
| Decrease in provision for bad debts | - | 12 |
| Increase in provision for bad debts. Refer to note 21. | - | (17) |
| | (52) | (52) |

5. Prepayments

| | 2021 R'000 | 2020 Restated* R'000 |
|-------------------------------------|---------------|----------------------------|
| Subscriptions | 162 | 95 |
| Membership and professional fees | 1 211 | 222 |
| Staff training | 206 | 574 |
| Motor vehicle maintenance agreement | - | 67 |
| Computer licences and support | 6 644 | 7 153 |
| Advertising | 7 | 11 |
| E-tolls | 9 | 5 |
| Insurance | 310 | - |
| | 8 549 | 8 127 |

The comparative figure for computer licences and support was restated from R5 637 050 to R7 153 942 due to the Microsoft licence renewal that was recorded as a licence instead of a subscription. This resulted in prepayments increasing from R6 609 881 to R8 126 773. Refer to note 32.

6. Deposits

| | 2021 R'000 | 2020 Restated* R'000 |
|-----------------------------|---------------|----------------------------|
| Non-current deposits | | |
| Electricity | 107 | 99 |
| Byls Bridge Office Park | 609 | 566 |
| | 716 | 665 |

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 the amortised values. Refer to note 17.

7. Cash and cash equivalents

| | 2021 R'000 | 2020 Restated* R'000 |
|---------------------------------------|---------------|----------------------------|
| Cash and cash equivalents consist of: | | |
| Cash on hand | 9 | 9 |
| Cash at bank | 87 576 | 96 385 |
| | 87 585 | 96 394 |

The cash balance includes R44 477 739 (2020 : R30 930 155) that was received from the Criminal Asset Recovery Account (CARA) and is ring-fenced for the funding of the Line of Business Solutions Modernisation Programme (previously known as Communications Technology Modernisation Programme).

8. Property, plant and equipment

| | 2021 | | | 2020 | | |
|------------------------|---------------------|--|-------------------|---------------------|--|-------------------|
| | Cost / valuation | Accumulated depreciation & accumulated impairment | Carrying value | Cost / valuation | Accumulated depreciation & accumulated impairment | Carrying value |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Furniture | 8 979 | (6 677) | 2 302 | 8 840 | (6 373) | 2 467 |
| Motor vehicles | 3 960 | (2 123) | 1 837 | 3 767 | (2 168) | 1 599 |
| Office equipment | 11 298 | (6 466) | 4 832 | 8 912 | (5 055) | 3 857 |
| Computer hardware | 66 758 | (48 039) | 18 719 | 65 352 | (43 008) | 22 344 |
| Fixtures and fittings | 5 920 | (4 517) | 1 403 | 5 432 | (4 346) | 1 086 |
| Security equipment | 332 | (266) | 66 | 332 | (233) | 99 |
| Leasehold improvements | 40 065 | (26 283) | 13 782 | 40 004 | (24 442) | 15 562 |
| | 137 312 | (94 371) | 42 941 | 132 639 | (85 625) | 47 014 |

Reconciliation of property, plant and equipment - 2021

| | Opening balance R'000 | Additions R'000 | Disposals R'000 | Depreciation R'000 | Total R'000 |
|------------------------|-----------------------------|--------------------|--------------------|-----------------------|----------------|
| Furniture | 2 467 | 140 | - | (305) | 2 302 |
| Motor vehicles | 1 599 | 321 | (40) | (43) | 1 837 |
| Office equipment | 3 857 | 2 591 | (80) | (1 536) | 4 832 |
| Computer hardware | 22 344 | 2 893 | (122) | (6 396) | 18 719 |
| Fixtures and fittings | 1 086 | 497 | (5) | (175) | 1 403 |
| Security equipment | 99 | - | - | (33) | 66 |
| Leasehold improvements | 15 562 | 67 | - | (1 847) | 13 782 |
| | 47 014 | 6 509 | (247) | (10 335) | 42 941 |

Reconciliation of property, plant and equipment - 2020

| | Opening balance R'000 | Additions R'000 | Disposals R'000 | Depreciation R'000 | Total R'000 |
|------------------------|-----------------------------|--------------------|--------------------|-----------------------|----------------|
| Furniture | 2 633 | 113 | (2) | (277) | 2 467 |
| Motor vehicles | 1 627 | - | - | (28) | 1 599 |
| Office equipment | 4 233 | 978 | (6) | (1 348) | 3 857 |
| Computer hardware | 18 570 | 10 028 | (258) | (5 996) | 22 344 |
| Fixtures and fittings | 1 126 | 50 | - | (90) | 1 086 |
| Security equipment | 132 | - | - | (33) | 99 |
| Leasehold improvements | 16 485 | 903 | (22) | (1 804) | 15 562 |
| | 44 806 | 12 072 | (288) | (9 576) | 47 014 |

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

| | 2021 R'000 | 2020 Restated* R'000 |
|--|---------------|----------------------------|
| Office equipment at net carrying value | 1 387 | - |

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

Reassessment of property, plant and equipment

The useful life of certain assets has been reassessed, resulting in an increase in the carrying value of property, plant and equipment to the value of R434 442. Included in the reassessed assets were zero value assets with an initial cost of R17 360. Refer to notes 19 and 33.

Disposals

The net disposals of R 246 678 includes assets with a net carry value of R31 060 that were stolen from staff and written off during the year. The cost of the losses incurred through these incidents were claimed from the insurance company.

Other Information

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

9. Intangible assets

| | 2021 | | | 2020 | | |
|-------------------|---------------|---|----------------|---------------|---|----------------|
| | Cost | Accumulated amortisation & accumulated impairment | Carrying value | Cost | Accumulated amortisation & accumulated impairment | Carrying value |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Computer software | 46 709 | (29 681) | 17 028 | 46 844 | (23 256) | 23 588 |
| Computer licences | 2 029 | (1 403) | 626 | 2 286 | (1 450) | 836 |
| | 48 738 | (31 084) | 17 654 | 49 130 | (24 706) | 24 424 |

Reconciliation of intangible assets - 2021

| | Opening balance | Additions | Amortisation | Total |
|-------------------|-----------------|------------|----------------|---------------|
| | R'000 | R'000 | R'000 | R'000 |
| Computer software | 23 588 | 8 | (6 568) | 17 028 |
| Computer licences | 836 | 962 | (1 172) | 626 |
| | 24 424 | 970 | (7 740) | 17 654 |

Reconciliation of intangible assets - 2020

| | Opening balance | Additions | Amortisation | Total |
|-------------------|-----------------|--------------|----------------|---------------|
| | R'000 | R'000 | R'000 | R'000 |
| Computer software | 28 468 | 1 108 | (5 988) | 23 588 |
| Computer licences | 2 544 | 2 293 | (4 001) | 836 |
| | 31 012 | 3 401 | (9 989) | 24 424 |

Reassessment of computer software

The comparative figure for intangible assets was restated from R26 548 544 to R24 424 895 due to the Microsoft licence renewal that was recorded as a licence instead of a subscription. This resulted in computer licences decreasing from R5 926 817 to R2 286 275 and accumulated amortisation increasing by R717 996. Refer to note 32.

Project in progress - intangible asset

Included in the carrying value of software is one project, compliance monitoring and assessment system (CMAS), a sub-project of the Line of Business Solutions Modernisation Programme, amounting to R898 090 that is at a very early stage of development and has taken significantly longer to commence due to a delay in ministerial approval of the project. Approval was received on 8 December 2020.

10. Finance lease obligation

| | 2021 R'000 | 2020 Restated* R'000 |
|--|---------------|----------------------------|
| Minimum lease payments due | | |
| - within one year | 719 | - |
| - in second to fifth year inclusive | 839 | - |
| | 1 558 | - |
| less: future finance charges | (128) | - |
| Present value of minimum lease payments | 1 430 | - |
| Present value of minimum lease payments due | | |
| - within one year | 630 | - |
| - in second to fifth year inclusive | 800 | - |
| | 1 430 | - |
| Non-current liabilities | 800 | - |
| Current liabilities | 630 | - |
| | 1 430 | - |

The finance leases are secured over the leased assets. Refer to note 8. The annual effective interest rate for all the finance leases was 7.75 percent.

11. Payables from exchange transactions

| | 2021 R'000 | 2020 Restated* R'000 |
|-------------------|---------------|----------------------------|
| Trade payables | 5 821 | 4 421 |
| Accrued leave pay | 9 048 | 7 392 |
| Payroll payables | 1 | 7 |
| | 14 870 | 11 820 |

The comparative figure for accrued leave was restated from R7 255 386 to R7 392 919 due to an understatement of the accrued leave pay. This resulted in payables from exchange transactions increasing from R11 682 553 to R11 820 086. Refer to note 32.

12. Provisions

Reconciliation of provisions - 2020/21

| | Opening balance R'000 | Additions R'000 | Paid during the year R'000 | Total R'000 |
|---------------------|--------------------------|--------------------|-------------------------------|----------------|
| Legal proceedings | - | 870 | - | 870 |
| Provision for bonus | 12 558 | 11 263 | (12 558) | 11 263 |
| | 12 558 | 12 133 | (12 558) | 12 133 |

Reconciliation of provisions - 2019/20

| | Opening balance R'000 | Additions R'000 | Paid during the year R'000 | Total R'000 |
|---------------------|--------------------------|--------------------|-------------------------------|----------------|
| Provision for bonus | 11 044 | 12 558 | (11 044) | 12 558 |

13. Third party deposits

Reconciliation of provisions - 2020/21

| | 2021 R'000 | 2020 Restated* R'000 |
|-------------------------------|---------------|----------------------------|
| Opening balance | 60 | 50 |
| Additions | 30 | 80 |
| Paid to National Reserve Fund | (10) | (50) |
| Refunded to applicants | (20) | (20) |
| | 60 | 60 |

14. Income received in advance

| | 2021 R'000 | 2020 Restated* R'000 |
|--|---------------|----------------------------|
| Criminal Asset Recovery Account funds | | |
| Opening balance | 30 930 | 8 020 |
| Funds utilised during the year | (1 182) | (4 340) |
| Funds received during the year | 14 730 | 27 250 |
| | 44 478 | 30 930 |

Revenue is recognised when the criteria, conditions or obligations of the agreement have been met. Refer to note 16.

15. Operating lease

| | 2021 R'000 | 2020 Restated* R'000 |
|---------------------------|---------------|----------------------------|
| Operating lease smoothing | 20 468 | 12 822 |

15.1 Centurion leased premises

The FIC entered into a 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 entered into a 36-month lease contract for its other office premises located in Cape Town. The lease commenced on 1 November 2019 and terminates on 31 October 2022.

No lease incentive has been received.

| | 2021 R'000 | 2020 Restated* R'000 |
|--------------------------------|----------------|----------------------------|
| Minimum lease payments: | | |
| Within one year | 28 326 | 26 261 |
| Within two to five years | 132 565 | 124 077 |
| Five years + | 112 621 | 149 436 |
| | 273 512 | 299 774 |

16. Non-exchange revenue

| | 2021 R'000 | 2020 Restated* R'000 |
|---------------------------------|----------------|----------------------------|
| Transfer from National Treasury | 290 243 | 294 324 |
| Income: CARA. Refer to note 14. | 1 182 | 4 340 |
| | 291 425 | 298 664 |

During the first two months of the national lockdown, the FIC generated savings of R6 500 000 that was returned to National Treasury and the FIC's transfer was cut inter-year with a further R8 918 000. Refer to note 35.

17. Exchange revenue

| | 2021 | 2020 |
|--|--------------|--------------|
| | R'000 | Restated* |
| | | R'000 |
| Interest income - bank current account | 2 237 | 6 190 |
| Interest income - amortised financial assets. Refer to note 6. | 51 | 65 |
| Other income | 559 | 224 |
| | 2 847 | 6 479 |

18. Personnel costs

| | 2021 | 2020 |
|---|----------------|----------------|
| | R'000 | Restated* |
| | | R'000 |
| Salary costs | 155 075 | 146 083 |
| Performance bonus | 11 250 | 12 558 |
| Unemployment Insurance Fund | 365 | 356 |
| Compensation for occupational injuries and diseases | 124 | 92 |
| Provident fund | 13 370 | 13 081 |
| Group life | 3 532 | 3 213 |
| | 183 716 | 175 383 |

Salary Costs

The comparative figure for salary costs was restated from R145 945 991 to R146 083 524 to include the adjustment to accrued leave pay. This resulted in personnel costs increasing from R175 246 978 to R175 382 511. Refer to note 32.

19. Depreciation and amortisation

| | 2021 | 2020 |
|----------------------------------|---------------|---------------|
| | R'000 | Restated* |
| | | R'000 |
| Depreciation charge for the year | 10 335 | 9 576 |
| Amortisation charge for the year | 7 740 | 9 989 |
| | 18 075 | 19 565 |

The comparative figure for amortisation decreased by R717 996 due to the incorrect classification of a licence subscription in the prior year as detailed in note 32. Depreciation was effected by the reassessment of certain assets. Refer to notes 8 and 33.

20. Finance costs

| | 2021 | 2020 |
|---------------------------------|-------|-----------|
| | R'000 | Restated* |
| | | R'000 |
| Finance charges - leased assets | 110 | 23 |

21. Financial instrument adjustments

| | 2021 | 2020 |
|---|-------|-----------|
| | R'000 | Restated* |
| | | R'000 |
| Impairment of debtors. Refer to note 4. | - | 17 |

22. General expenses

| | Notes | 2021 R'000 | 2020 Restated* R'000 |
|---|-------|----------------|----------------------------|
| Audit and Risk Committee member fees | 22.1 | 929 | 646 |
| Advertising | | 310 | 770 |
| Auditor's remuneration | 22.2 | 1 861 | 2 152 |
| Bank charges | | 85 | 97 |
| Cleaning | | 1 212 | 1 090 |
| Computer expenses - licences, support and subscriptions | 22.5 | 18 508 | 17 697 |
| Professional fees | | 3 161 | 6 735 |
| Office consumables | | 247 | 1 214 |
| Legal fees | | 5 107 | 2 756 |
| Personal protection equipment | | 101 | 100 |
| Rent and operating costs | | 35 170 | 35 074 |
| Corporate gifts | | 7 | 40 |
| Insurance | | 541 | 669 |
| Conferences and workshops | | 315 | 388 |
| Consulting fees | | - | 9 |
| Public relations | | - | 899 |
| Media, subscriptions and publications | | 3 971 | 5 790 |
| Motor vehicle expenses | | 227 | 371 |
| Recruitment and placement costs | | 613 | 904 |
| Postage and courier | | 8 | 24 |
| Printing and stationery | | 209 | 1 378 |
| Repairs and maintenance | 22.3 | 1 229 | 574 |
| Remuneration Committee member fees | 22.4 | 510 | 289 |
| Security | | 2 722 | 2 391 |
| Staff training | | 1 452 | 2 417 |
| Membership fees | | 3 458 | 2 916 |
| Telephone, fax and internet | | 3 755 | 2 663 |
| Subsistence and accommodation - local | | 48 | 1 065 |
| Subsistence and accommodation - international | | 19 | 1 846 |
| Travel - international | | 99 | 2 350 |
| Travel - local | | 138 | 1 386 |
| Internal audit | | 1 159 | 1 215 |
| Parking expenses - staff | | 3 219 | 3 193 |
| Lease costs - equipment | | 28 | 368 |
| Contractors and temporary workers | | 13 253 | 10 989 |
| Training academy - Interns | | 2 754 | 1 517 |
| | | 106 425 | 113 982 |

22.1 Audit and Risk Committee member fees

| | 2021 R'000 | 2020 Restated* R'000 |
|-------------|---------------|----------------------------|
| Dr D Jairam | 185 | 136 |
| B Mbewu | 203 | 153 |
| P Phili | 206 | 154 |
| PN Sibiyi | 158 | 94 |
| T Kgokolo | 177 | 109 |
| | 929 | 646 |

22.2 Auditor's remuneration

| | 2021 R'000 | 2020 Restated* R'000 |
|---------------------------------|---------------|----------------------------|
| Auditor-General of South Africa | 1 861 | 2 152 |

22.3 Repairs and maintenance

| | 2021 R'000 | 2020 Restated* R'000 |
|---|---------------|----------------------------|
| Payments made to service providers | 975 | 322 |
| Material purchased for general upkeep of assets | 254 | 252 |
| | 1 229 | 574 |

22.4 Remuneration Committee member fees

| | 2021 R'000 | 2020 Restated* R'000 |
|-----------|---------------|----------------------------|
| B Chaplog | 200 | 98 |
| J Olivier | 155 | 113 |
| TJ McLean | 155 | 78 |
| | 510 | 289 |

22.5 Computer expenses (licence, support and subscription)

The comparative figure increased by R2 123 650 due to the adjustment of a prior year error as detailed in note 32.

23. Cash generated from operations

| | 2021 R'000 | 2020 Restated* R'000 |
|---|---------------|----------------------------|
| Deficit | (14 250) | (4 115) |
| Adjustments for: | | |
| Depreciation and amortisation | 18 075 | 19 565 |
| Loss on sale of assets | 196 | 288 |
| Income amortised | (1 182) | (4 340) |
| Amortised income - deposits | (51) | (65) |
| Provision for legal fees | 870 | - |
| Performance bonus provision | 11 263 | 12 559 |
| Allowance for impairment | - | 17 |
| Operating lease - smoothing | 7 645 | 9 371 |
| Prepayment releases | 38 243 | 32 901 |
| Net interest | 362 | 54 |
| Other income - movement in debtors | (263) | (82) |
| Deposit realised | - | 10 |
| Changes in working capital: | | |
| (Increase) / decrease in inventories | 5 | (8) |
| Prepayments paid | (38 665) | (34 022) |
| Increase / (decrease) in trade and other payables | 3 050 | (4 515) |
| Provisions - bonuses paid | (12 558) | (11 043) |
| | 12 740 | 16 575 |

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 (Act 24 of 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 percent, 15 percent, 17.5 percent and 20 percent.

| | 2021 | 2020 Restated* |
|--|--------|-------------------|
| | R'000 | R'000 |
| The total economic entity contribution to such schemes | 16 902 | 16 294 |

25. Related parties

25.1 National executive

The FIC has been established by National Treasury in terms of the Financial Intelligence Centre Act, 2001 (Act 38 of 2001). The Minister of Finance is the executive authority, and the FIC is ultimately controlled by the national executive.

Related party transactions

| | | Opening balance | Funds utilised | Funds received | Closing balance |
|------------------------|--------|-----------------|------------------|----------------|-----------------|
| Non-exchange transfers | | | | | |
| National Treasury | 25.1.1 | - | (290 243) | 290 243 | - |
| CARA | 25.1.2 | 30 930 | (1 182) | 14 730 | 44 478 |
| | | 30 930 | (291 425) | 304 973 | 44 478 |

25.1.1 The FIC received a non-exchange transfer from National Treasury as detailed in note 16 for its activities to identify the proceeds of crime and combat money laundering and the financing of terrorism. There were no amounts owing to or by the FIC to National Treasury. Refer to note 16.

25.1.2 Funds received from CARA are ring-fenced for the funding of the Line of Business Solutions Modernisation Programme. Refer to notes 14 and 16.

25.2 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

| | 2021 | 2020 Restated* |
|--------------------------------------|-------|-------------------|
| | R'000 | R'000 |
| South African Police Services (SAPS) | 108 | 121 |

During the year under review, members of SAPS had been allocated office space at the FIC's head office at no cost. These members were also provided with the use of 15 Microsoft 365 licences.

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

25.3 Key management personnel

| 2021 | | Cash component | Performance bonus | Provident fund | Total |
|-----------------|--|----------------|-------------------|----------------|---------------|
| Name | Position | R'000 | R'000 | R'000 | R'000 |
| Adv XJ Khanyile | Director | 3 069 | - | - | 3 069 |
| C Malan | Executive Manager: Compliance and Prevention | 1 827 | 271 | 386 | 2 484 |
| P Smit | Executive Manager: Legal and Policy | 2 106 | 245 | 168 | 2 519 |
| M Masiapato | Executive Manager: Monitoring and Analysis | 1 920 | 226 | 178 | 2 324 |
| M Maboka | Executive Manager: Corporate Services | 1 928 | 175 | 333 | 2 436 |
| V MarshSmit | Chief Financial Officer | 1 534 | 147 | 371 | 2 052 |
| | | 12 384 | 1 064 | 1 436 | 14 884 |

| 2020 | | Cash component | Performance bonus | Provident fund | Total |
|-----------------|--|----------------|-------------------|----------------|---------------|
| Name | Position | R'000 | R'000 | R'000 | R'000 |
| Adv XJ Khanyile | Director | 3 068 | - | - | 3 068 |
| C Malan | Executive Manager: Compliance and Prevention | 1 691 | 285 | 430 | 2 406 |
| P Smit | Executive Manager: Legal and Policy | 2 015 | 250 | 165 | 2 430 |
| M Masiapato | Executive Manager: Monitoring and Analysis | 1 843 | 231 | 175 | 2 249 |
| M Maboka | Executive Manager: Corporate Services | 1 837 | 193 | 329 | 2 359 |
| V MarshSmit | Chief Financial Officer | 1 465 | 98 | 360 | 1 923 |
| | | 11 919 | 1 057 | 1 459 | 14 435 |

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.

| | 2021 R'000 | 2020 Restated* R'000 |
|---|-----------------------|----------------------------|
| Financial assets | | |
| Cash | 87 585 | 96 394 |
| Receivables | 541 | 640 |
| Deposits | 716 | 665 |
| | 88 842 | 97 699 |
| Financial liabilities | | |
| Finance lease obligations | 1 430 | - |
| Trade and other payables | 14 870 | 11 820 |
| Third party deposits | 60 | 60 |
| Provisions | 12 133 | 12 558 |
| | 28 493 | 24 438 |
| | Change in rate | Effect on surplus |
| | % | R'000 |
| 2021 floating rate financial assets | | |
| Banking balances | 1% | 876 |
| Receivables | 1% | 5 |
| Deposits | 1% | 7 |
| | | 888 |
| 2021 floating rate financial liabilities | | |
| Finance lease obligations | 1% | 14 |
| Trade and other payables | 1% | 149 |
| Provisions | 1% | 121 |
| | | 284 |
| 2020 floating rate financial assets | | |
| Banking balances | 1% | 964 |
| Receivables | 1% | 6 |
| Deposits | 1% | 7 |
| | | 977 |
| 2020 floating rate financial liabilities | | |
| Finance lease obligations | 1% | - |
| Trade and other payables | 1% | 118 |
| Provisions | 1% | 126 |
| | | 244 |

27. Fruitless and wasteful expenditure

| | 2021 R'000 | 2020 Restated* R'000 |
|---|---------------|----------------------------|
| Fruitless and wasteful expenditure - current year | 7 | 1 |
| Less amounts written off | (6) | (1) |
| | 1 | - |

Details of fruitless and wasteful expenditure

| | | 2021 R'000 | 2020 Restated* R'000 |
|---------------|------|---------------|----------------------------|
| Training cost | 27.1 | 6 | - |
| Travel cost | 27.2 | - | 1 |
| Leave pay | 27.3 | 1 | - |
| | | 7 | 1 |

Refer to note 32.

27.1 Training cost

A staff member did not attend an official external training session due to delays in communication between the various units. Mechanisms have been put in place to safeguard against similar incidents in future. The Accounting Authority approved for the cost to be written off.

27.2 Travel cost

In the prior year a vaccination injection was obtained before the travel request was approved. The invitation was subsequently cancelled due to the late response by the FIC. The relevant division was instructed to develop a process for information sharing to prevent undue delays in communication between parties. The Accounting Authority approved for the cost to be written off.

27.3 Leave pay

The Sage 300 leave system was not properly set up at the correct monthly leave accrual rate and did therefore not allocate leave at a consistent rate for the graduate employees. The system error was identified and fixed in January 2021 but only after three graduates, who had left the FIC, were overpaid on their leave days.

28. Irregular expenditure

| | | 2021 R'000 | 2020 Restated* R'000 |
|---|------|---------------|----------------------------|
| Opening balance | | 418 | 1 885 |
| Add: Irregular Expenditure - current year | | 21 | 827 |
| Less: Amounts condoned / written off | 28.1 | (418) | (2 294) |
| | | 21 | 418 |

Details of irregular expenditure - current year

| | | 2021 R'000 | 2020 Restated* R'000 |
|--|------|---------------|----------------------------|
| Irregular expenditure relating to the evaluation of an insurance broker tender | | - | 796 |
| SeaCom contract | | - | 31 |
| Current year | 28.2 | 21 | - |
| | | 21 | 827 |

28.1 Current year

Amounts condoned / approval for removal

SeaCom contract - R31 391

During the 2018/19 financial year, an amount of R31 391 was identified as irregular expenditure due to the contravention of supply chain management legislation.

SeaCom was contracted to provide a fail over internet link service for the FIC's Centurion and Cape Town offices. Contracts for both sites were signed for the same period but activated months apart. FIC applied to National Treasury to co-term the two contracts on a single source basis. While waiting for the response from National Treasury, the Centurion contract expired, and the service continued without a signed contract.

Condonement was sought from National Treasury but it was declined, and the matter was referred to the Accounting Authority for approval to write off the irregular expenditure, as no losses were suffered and value for money was achieved. The matter was also free of fraudulent, corrupt or other criminal conduct. The Accounting Authority instructed the ICT unit to improve controls to prevent a re-occurrence of a similar event and then approved the removal of this matter.

Procurement of CISCO licences - R385 972

During the 2017/18 financial year, an amount of R385 972 was identified by the Auditor-General of South Africa as irregular expenditure. An order was issued to a winning bidder before finalising a contract between the two parties.

Although the order was issued before a contract was signed, the supply chain management business unit (SCM) did comply with other SCM processes when securing the CISCO partner.

Condonement was sought from National Treasury but they declined, and the matter was referred to the Accounting Authority for approval to write off the irregular expenditure as the FIC received value for money, did not suffer any financial loss and no person or service provider unduly benefited from the award.

Progressive disciplinary action has been taken against the relevant staff member and communication with service providers has been centralised within the SCM unit. The Accounting Authority approved the removal of this matter.

28.2 Current year transactions

National workshop hosted - R12 966

The FIC hosted a national workshop in preparation for the national mutual evaluation by the International Monetary Fund, the Financial Action Task Force and the Eastern and Southern Africa Anti-Money Laundering Group, which was held from 9 to 12 November 2019.

Throughout the duration of the workshop, more officials, including senior managers, attended the sessions even though they had not indicated to the FIC that they would be attending. This resulted in an unapproved increase in the number of break-away rooms and dinners not requested as all staff received subsistence allowances.

The cost of the additional dinners will be recovered from the relevant staff members and a condonement request will be submitted to National Treasury for the condonement of the unapproved expansion of the order.

Cloud-based signature solution - R8 330

The FIC transitioned the hosting of its e-mails to the Cloud. This required a service provider that could provide a Cloud-based signature solution for all staff.

Facilitated through ICT, a three-year contract was awarded to a service provider, annually renewable after a competitive bidding process was followed. The order was issued on 11 October 2019 but, the contract had a commencement date of 13 December 2019.

Due to the FIC's migration to the Cloud, it became urgent to activate the Cloud-based signatures and ICT allowed the service provider to commence with their work on 17 October 2019, based on the fact that the order had been issued.

The fact that the service was allowed to commence before the commencement date as specified in the contract, resulted in the cost for the period from the commencement of the service until the commencement date as specified in the contract, being irregular.

The irregular expenditure so incurred amounts to R8 330 and an application for the condonement of this amount will be submitted to National Treasury.

Possible irregular expenditure

Transactions to the value of R839 226 were identified as possible irregular expenditure and are at different stages in the determination process.

| | 2021 R'000 | 2020 Restated* R'000 |
|---|---------------|----------------------------|
| Opening balance | 577 | 608 |
| Possible irregular expenditure written off during the year due to change in legislation | (174) | (112) |
| New possible irregular expenditure raised during the year | 436 | 81 |
| | 839 | 577 |

29. Contingent liability

29.1 Accumulated surplus

In terms of Section 53(3) of the PFMA, a public entity may not accumulate surplus funds without written approval from National Treasury.

The calculation of the surplus has been defined in National Treasury Instruction No. 12 of 2020/2021 and amounts to R15 955 000. This surplus has to be declared to National Treasury during the period 1 August 2021 to 30 September 2021 and a formal request to retain these funds has to be submitted to the National Treasury during the same period.

The FIC will submit a request to retain the calculated surplus during the period 1 August 2021 to 30 September 2021 as instructed in the instruction note.

On 9 December 2020, National Treasury granted approval for the retention of R11 374 000 of the surplus retention request submitted for the year ended 31 March 2020. The FIC had to surrender the remaining R30 282 000 surplus to National Revenue Fund in line with National Treasury Instruction No.12 of 2020/2021.

29.2 Litigation and claims

During the 2020/21 financial year the FIC joined proceedings in the following cases where the status of the cases are at various stages:

- 29.2.1 The FIC joined the judicial review proceedings as an applicant in the Constitutional Court. The court found in favour of the applicant and legal advice obtained indicates that it is unlikely that any liability will arise except for legal fees estimated at R30 000.
- 29.2.2 The FIC is opposing an appeal launched at the Pretoria High Court against the decision of the Appeal Board upholding a sanction issued by the FIC. The matter has been set down for hearing on 20 January 2022. The FIC's legal advisors are of the view that it is unlikely that the applicant will be successful in its claim against the FIC, but it is possible that legal fees to the value of R150 000 will be incurred.
- 29.2.3 A High Court application was launched at the Pretoria High Court for the FIC to be joined in the proceedings between the parties as a means to bring the respondent's alleged infringement of the FIC Act to the attention of the FIC. There is no remedy sought from the FIC and the FIC is abiding with the decision of the court. The FIC's legal advisors are of the opinion that there is a very negligible probability of the applicant being successful in this regard and cannot make a reasonable estimate of potential costs apart from legal fees of R20 000.
- 29.2.4 The FIC is opposing an appeal launched at the Pretoria High Court against the decision of the Appeal Board upholding a sanction issued by the FIC. The matter has been set down for hearing on 27 July 2021. The FIC's legal advisors are of the view that it is unlikely that the applicant will be successful in its claim against the FIC, but it is possible that legal fees to the value of R150 000 will be incurred.
- 29.2.5 The FIC is cited as one of the respondents in a Pretoria High Court where the applicant is unmeritorious in that it affords the FIC powers which it does not have. The FIC has filed a notice to abide with the decision of the court. Based on the precedent in respect of legal fees already incurred, the FIC's legal advisors estimate any additional fees in defence opposing appeal and or filing of notice applications at R20 000.

30. Capital commitments

| | 2021 R'000 | 2020 Restated* R'000 |
|--|---------------|----------------------------|
| Approved and committed capital expenditure | 575 | 474 |

31. Gain / (loss) on disposal of assets

| | 2021 R'000 | 2020 Restated* R'000 |
|---|---------------|----------------------------|
| Loss on disposal of property, plant and equipment | (196) | (288) |

32. Prior period adjustments

The prior year errors have been accounted for retrospectively and the comparative figures of 2020 have been restated. The correction of the errors resulted in the following adjustments:

32.1 Statement of financial position

| | 2021 R'000 | 2020 Restated* R'000 |
|---|----------------|----------------------------|
| Decrease in intangible assets | (3 641) | - |
| Decrease in accumulated amortisation | 718 | - |
| Increase in prepayments | 1 517 | - |
| Increase in payables from exchange transactions | (137) | - |
| | (1 543) | |

32.2 Statement of financial performance

| | 2021 R'000 | 2020 Restated* R'000 |
|--|---------------|----------------------------|
| Decrease in amortisation expense | (718) | - |
| Increase in general expenses (computer expense - subscription) | 2 124 | - |
| Increase in salary cost | 137 | - |
| Decrease in opening accumulated surplus | 1 543 | - |

Intangible assets

The annual Microsoft licence subscription was incorrectly classified as an intangible asset in the prior year that resulted in the overstatement of the carry value of intangible assets. The cost of intangible assets and accumulated amortisation have been restated as well as the reclassification of the licence subscription as a prepayment.

The restatement of the cost of the licence resulted in a decrease in the cost of intangible assets of R3 640 542 and a decrease in accumulated amortisation of R717 996, and an increase in prepayments of R1 516 892. Refer to note 5.

Salary costs

An adjustment for unpaid leave was omitted from the final calculation of the accrual for leave pay. The restatement resulted in an increase in the comparative figure for accrued leave pay and salary costs of R137 533 and an increase in the accumulated deficit of R137 533. Refer to note 11.

33. 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:

Property, plant and equipment

| | Initial estimate for 2021 R'000 | Revised estimate for 2021 R'000 | Increase/ (decrease) current year R'000 | Increase/ (decrease) future years R'000 |
|-------------------|---------------------------------------|---------------------------------------|--|--|
| Computer hardware | 2 936 | 2 499 | (437) | 442 |
| Office equipment | 6 | 9 | 3 | (3) |
| | 2 942 | 2 508 | (434) | 439 |

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 R434 442, and a decrease in the depreciation expense of R434 442.

The effect of the change on future years will be an increase in depreciation of R438 822 reversing the credit of R434 442 created in the current year. Refer to notes 8 and 19.

34. Subsequent events

34.1 New bank account

In terms of Treasury Regulations 31.3.3, unless exempted by National Treasury, public entities that are listed in Schedule 3A of the PFMA must invest surplus funds with the Corporation for Public Deposits.

National Treasury issued Instruction No. 12 of 2020/2021 to guide public entities in the process of opening an account with the South African Reserve Bank. The FIC received a letter during April 2021 from the South African Reserve Bank, confirming the registration of a Corporation for Public Deposits account.

34.2 South African Revenue Service

The FIC is a Schedule 3A Public Entity that has been exempted from the requirement to register for Income Tax and Value Added Tax (VAT).

Subsequent to our reporting date, the South African Revenue Service informed the FIC that it may be liable for certain VAT on imported services.

As the FIC is exempted from VAT and not just a non-registered VAT vendor, i.e. exempted from the responsibility to levy VAT or pay VAT, the matter is under investigation to determine whether the FIC may indeed have such a liability. Due to the early stage of the investigation and uncertainty regarding the matter, it is not currently possible to make an estimate of a possible liability that might exist.

No additional cost is expected to be incurred in clarifying the matter.

34.3 Litigation and claims

34.3.1 The FIC opposed an application for the unsealing of confidential documents to be made public. Legal advice estimated legal fees at R300 000.

In a subsequent event, the High Court litigation has been resolved by a decision of the North Gauteng High Court in favour of the defendants. The contingent liability has now been closed and no further cost, except as identified, will be incurred. The judgment date was 1 July 2021.

34.3.2 The FIC applied to intervene in proceedings in a High Court application to prevent the unlawful disclosure of its confidential reports. FIC filed its answering affidavit in March 2021. Legal advice estimated legal fees at R200 000.

In a subsequent event, the Constitutional Court litigation matter has been resolved by a decision of the High Court. The contingent liability has now been closed and no further cost, except as identified will be incurred. The judgment date was 20 July 2021.

35. COVID-19

The nationwide lockdown announced by the President in response to the Covid-19 pandemic had an effect on the operations of the FIC as well as its financial position.

During the first two months of the lockdown, the FIC generated savings of R6 500 000 that was returned to National Treasury. The FIC grant was cut inter-year by a further R8 918 000 and with R25 333 000 for the 2021/22 financial year.

The effect of the pandemic will extend well into the future and the FIC does not expect the situation to improve over the short- to medium-term. The cuts have been taken into account during the assessment of the FIC as a going concern.

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: QUANTITATIVE AND QUALITATIVE ASPECTS.

QUANTITATIVE ASPECTS

Materiality level

The FIC has assessed the level of a material loss as R1 617 000, 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 its 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, among 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 their nature or where knowledge thereof may affect the decision-making of the user of the financial statements.
- Transactions entered into that could result in reputational damage 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 PUBLIC FINANCE MANAGEMENT ACT

Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA)

| PFMA section | Quantitative aspects | Qualitative aspects |
|---|---|--|
| <p>Section 50 (1) The accounting authority for a public entity must -</p> <ul style="list-style-type: none"> • 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. | <p>Any facts discovered which in aggregate exceed the materiality figure, which will be calculated on an annual basis as defined in this document. The FIC assessed this value as R1 617 000.</p> | <p>Any item or event of which specific disclosure is required by Law. Any fact discovered by which its omission or misstatement, in the opinion of the FIC, could influence the decisions or actions of the executive authority or the legislature.</p> |
| <p>Section 55 Annual report and financial statements The annual report and financial statements referred to in subsection (1)(d) must -</p> <ol style="list-style-type: none"> 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: <ol style="list-style-type: none"> 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. | <ul style="list-style-type: none"> • Losses through criminal conduct - all losses that are legally confirmed and if the amount exceeds the materiality level. • All losses through irregular/fruitless /wasteful expenditure where transactions / actions have been determined as such. | <p>The following will be taken into account in measuring materiality for presentation:</p> <ul style="list-style-type: none"> • Disclosure requirements • Compliance with legislative requirements, regulations and policies • Nature of transaction. |
| <p>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.</p> | <p>All transactions not in compliance with S66 (1).</p> | |
| <p>Section 54 (2) 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:</p> <ol style="list-style-type: none"> 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 business activity f) A significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement. | <p>Unless exempted in terms of Sec 54(4) the following will apply:</p> <ol style="list-style-type: none"> (d) Asset acquisition or disposals that exceed R10 000 000 in value. (e) Any commencement or cessation of significant activity, irrespective of amount. | <p>Unless exempted in terms of Sec 54(4) the following will apply: (a - c) & (f)</p> <p>Any of the transactions or actions to be entered into in (a)-(c) will qualify to be included as these are not the normal business of the FIC.</p> |

