



FINANCIAL INTELLIGENCE UNIT

REPUBLIC OF MALAWI

2012 / 2013 Annual Report

Fighting Money Laundering & Terrorist Financing

Information in this Annual Report does not represent any professional or legal advice to the users. Those seeking professional advice on the operations of the FIU can do so by contacting the Director.

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VISION

To lead in the fight against money laundering, terrorist financing and related financial crimes and thereby contributing towards the economic development and stability of the financial sector in Malawi.

MISSION

To prevent and detect money laundering, terrorist financing and related financial crimes by providing quality intelligence to law enforcers and other FIUs.

9th July, 2014

Honourable Dr. Goodall Gondwe, M.P.

Ministry of Finance

P. O. Box 30049

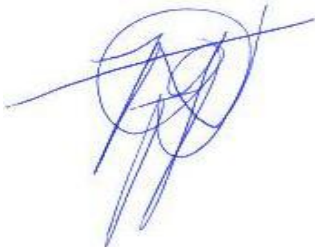
LILONGWE 3

Dear Minister,

6TH ANNUAL REPORT FOR THE FINANCIAL INTELLIGENCE UNIT

In accordance with section 21 (b) of the Money Laundering, Proceeds of Serious Crime and Terrorist Financing Act Cap 8:07 of the Laws of Malawi (ML Act), I am pleased to submit the sixth Annual Report on the operations of the Financial Intelligence Unit (FIU) for the year ended 30th June 2013.

Yours faithfully,

A handwritten signature in blue ink, consisting of several overlapping loops and lines, positioned below the text 'Yours faithfully,'.

Atuweni-tupochile Phiri

ACTING DIRECTOR

LIST OF ACRONYMS

ACB	Anti-Corruption Bureau
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AUSTRAC	Australian Transaction Reports and Analysis Centre
CDD	Customer Due Diligence
CDH	Continental Discount House
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FIU	Financial Intelligence Unit
FFU	Fiscal and Fraud Unit of the Malawi Police Service
ICT	Information and Communications Technology
KYC	Know Your Customer
LEAs	Law Enforcement Agencies
LCTRs	Large Currency Transaction Reports
ML Act	Money Laundering, Proceeds of Serious Crime and Terrorist Financing Act
MoU	Memorandum of Understanding
MRA	Malawi Revenue Authority
DNFBPs	Non-Designated Financial Businesses and Professions
RBM	Reserve Bank of Malawi
STRs	Suspicious Transaction Reports

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THE DIRECTOR'S OVERVIEW OF THE FINANCIAL YEAR



Fighting money laundering requires concerted efforts from various stakeholders. I am pleased that many stakeholders have come to realise the importance of playing their rightful roles. This has in turn enabled the FIU to progressively register some achievements year after year.

Over the past year, the figure of suspicious transaction reports (STRs) submitted by financial institutions was higher than that of the previous year. A total of 70 STRs were filed with the FIU and after analysis, 37 cases were disseminated to Law Enforcement Agencies (LEAs) for investigations and prosecutions. In the previous year, financial institutions filed 59 STRs to the FIU. This development can be attributed to the investment by most financial institutions in capacity building of their staff to improve on identification of suspicious transactions.

Analyses by the FIU led to discovery of a scheme involving about 180 missing cheques which were used to fraudulently cash Government funds. Information on this was relayed to LEAs for investigations.

On capacity enhancement, the FIU trained 529 officials from various institutions which included the Malawi Police Service (MPS), banks, insurance companies and capital markets.

As a way of gauging compliance by financial institutions with obligations under the ML Act, the FIU carried out on-site examinations of 2 banks and 4 designated non-financial businesses and professions (DNFBPs). Anti-money laundering and combating the

financing of terrorism (AML/CFT) on-site examinations provide feedback to financial institutions on areas they are doing well and where improvements are required.

The FIU continued to establish and strengthen its relationships with other partners. Domestically, the FIU signed Memorandums of Understanding (MoUs) with the Anti-Corruption Bureau (ACB) and Malawi Revenue Authority (MRA) as a way of formalizing working relationships. Internationally, the FIU signed MoUs with FIUs of Denmark and Tanzania with the aim of facilitating sharing of information. Further, the FIU hosted a team of Members of Parliament from Uganda and officials of the Ugandan Parliament who visited the country to benchmark their draft AML/CFT law against Malawi's ML Act.

Besides that, the FIU continued to attend meetings of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and the EGMONT Group of FIUs.



Former Secretary to the Treasury, Mr. R. Mwadiwa, officially opening NRA consultative workshop for policymakers at Crossroads Hotel in June 2013

These developments were followed by other important milestones such as the prescription of insurance companies as financial institutions by the Minister of Finance in October 2012. Apart from this stride, Malawi commenced the process of reviewing the ML Act with support from the World Bank. The country also conducted the money laundering and terrorist financing National Risk Assessment (NRA) between September 2012 and June 2013.

It is my hope that you will find information in this report valuable.

Atuweni-tupochile Phiri
ACTING DIRECTOR

1. OVERVIEW OF THE FIU'S OPERATIONS

1.1. The FIU's Business Process

- The FIU receives information about financial transactions from different financial institutions.
- The Reports are analysed together with information sourced from databases of other institutions to develop financial intelligence in order to detect money laundering or terrorist financing activities.

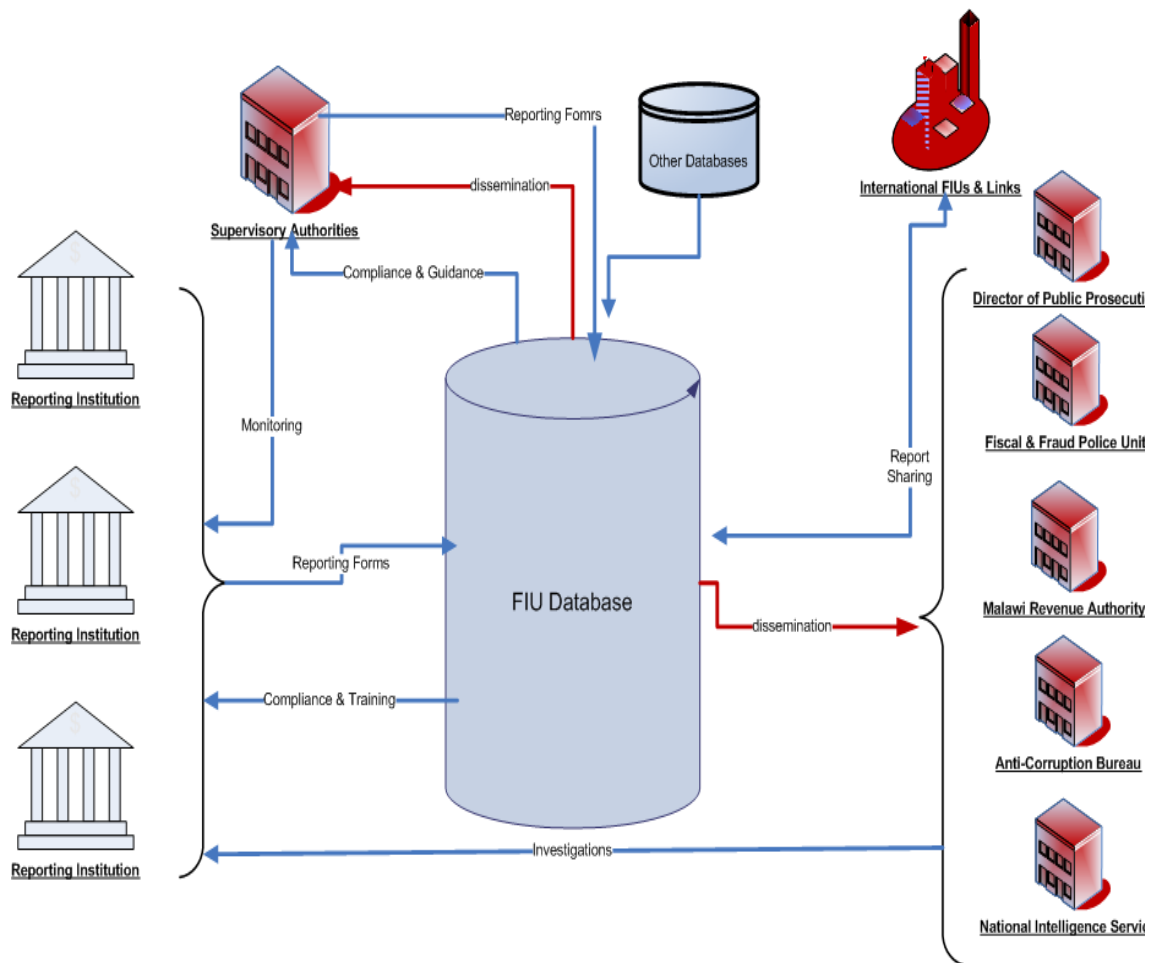


Figure 1: FIU Business Processes

- Where appropriate, financial intelligence pertaining to suspected money laundering or terrorist financing activities is disseminated to law enforcement agencies for investigations.

1.2. FIU's Values

These values represent core priorities in the FIU's culture. To this end, the FIU shall:

- Carry out its mandate with a sense of **INTEGRITY** by among other things demonstrating honesty, respect and discipline.
- Strive for **EXCELLENCE** and **PROFESSIONALISM** in conducting its operations and working relationships with stakeholders.
- In realising the value of information, adhere to a high level of **SECURITY** and **CONFIDENTIALITY** to inspire and maintain the trust of its stakeholders.
- In adherence to international standards, **OPTIMISE INTERDEPENDENCE** with local and international agencies.
- Be **ACCOUNTABLE** and **TRANSPARENT** in the use of its resources and information in adherence to good governance norms.
- Be encouraged to be **CREATIVE & INNOVATIVE, ADAPTABLE & FLEXIBLE** with an emphasis on effectiveness of the work and not necessarily adherence to tradition.

1.3. FIU's Strategic Objectives

The FIU has a Strategic Plan that runs from 2012 to 2015 which contains the following strategic objectives:

a) Improve mechanism for receipt, analysis and dissemination of STRs and requests

- Under this objective, the FIU expects to get increased number of requested and disseminated reports as well as increased feedback to disseminated suspicious activity reports.

b) Increase awareness of AML/CFT issues, roles and responsibility by the public and key service providers

- The FIU expects an increased media coverage and public awareness on AML/CFT issues. The FIU also expects all key service providers to be informed and aware of their roles and responsibilities.

c) Develop and strengthen organizational structure, systems and processes for an effective FIU performance

- The expected outcome is to have in place improved and effective organizational systems, procedures and culture, and a well accommodated and equipped FIU.

d) Strengthen coordination among key AML/CFT service providers for effective delivery of related services

- The FIU expects to have an improved coordination and reduced role conflicts or overlaps and improved access to relevant information by key AML/CFT players.

e) Improve regulatory services on AML/CFT issues

- The FIU expects improved professional practice related to AML/CFT issues, compliance to AML/CFT professional standards by individuals and institutions, amendments to the ML Act, and improved follow-up of violations on compliance with the ML Act.

f) Find and implement creative solutions through gathered AML/CFT information

- The FIU expects to have an ability to allocate resources based on AML/CFT risk assessment and contribute to risk management by financial institutions in the country.

1.4 Structure of the Malawi FIU

The organizational chart of the FIU is as shown below:

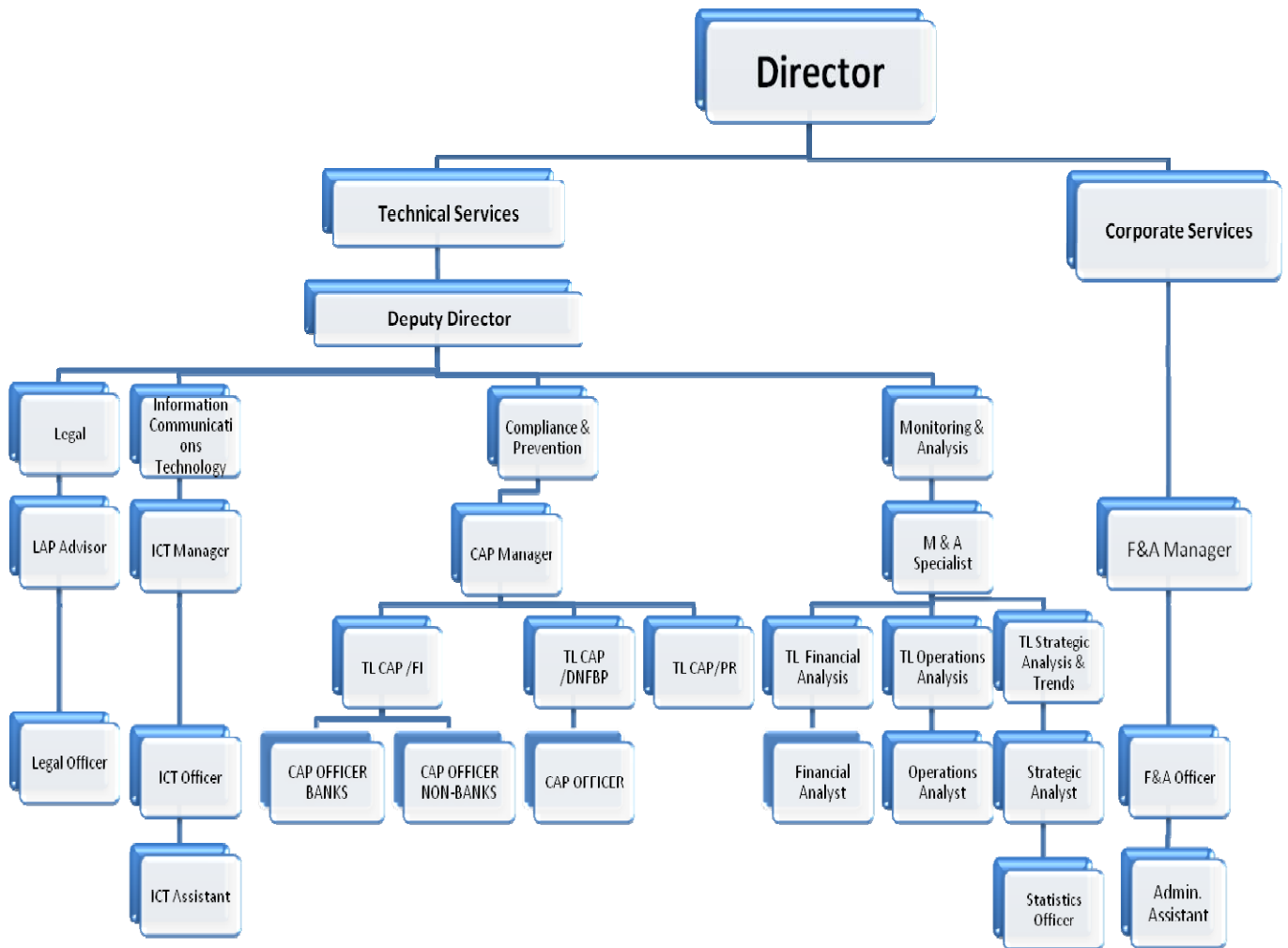


Figure 2: Organisational Chart of the FIU

2. ACHIEVEMENTS AND HIGHLIGHTS IN THE REPORTING YEAR

2.1. Dealing with Financial Intelligence

2.1.1. Receipt of LCTRs, EFTRs and STRs

The FIU continued to receive Large Currency Transaction Reports (LCTRs), Electronic Funds Transfer Reports (EFTRs) and Suspicious Transaction Reports (STRs).

Over the past four years, the FIU has been receiving more than 400,000 large currency transactions per annum. It is a requirement that any transaction above K1million should be reported to the FIU by financial institutions on weekly basis. LCTRs have mainly been submitted by commercial banks. There were 12 banks operating in the country during this year and most of them were complying with the obligation on filing LCTRs to the FIU. Three banks were facing IT-related challenges on submission of LCTRs to the FIU and this was being attended to by the FIU when this financial year was coming to an end.

Airtel Money has also been filing LCTRs to the FIU since early 2012. In the year under review, TNM was expected to start complying with the requirement of submitting LCTRs to the FIU but this did not happen due to the institution's delay in conducting AML/CFT training for its key staff. Insurance companies are expected to commence complying with the requirement on submission of LCTRs to the FIU very soon whereas financial institutions under certain sectors such as casinos require their own thresholds. The FIU started consulting the financial institutions on the issue of thresholds and it is expected that a consensus will be reached in the next financial year.

EFTRs are reported to the FIU on weekly basis and there is no threshold currently placed on these transactions. The FIU received EFTRs containing over 50,000 transactions.

In this reporting year, the FIU received 70 suspicious transaction reports (STRs) representing an increase of 18.6% over the previous year's total where 59 STRs were received. These STRs were received from banks and the RBM. The FIU

extracted 25 STRs from the LCTRs that were received. This brought the total number of STRs analysed during the year to 95. This is the highest figure of STRs to be submitted by financial institutions and extracted from STRs since the FIU became operational.

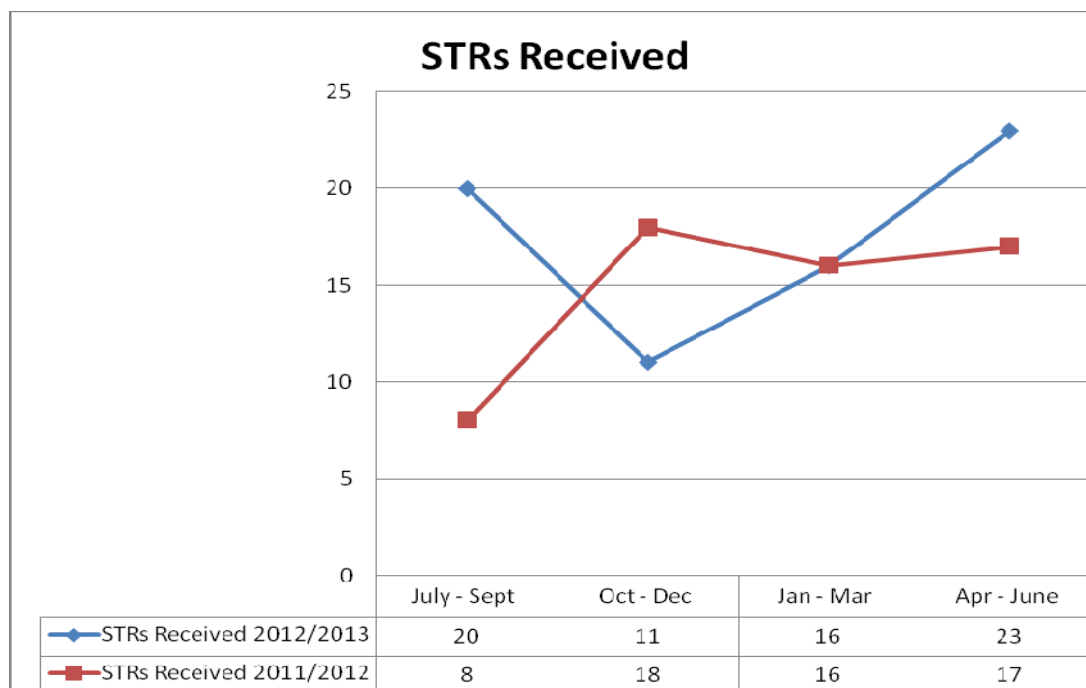


Figure 3: STRs received in 2012/2013 and 2011/2012

There has been an improvement on identification and filing of STRs by banks over the past year. This is so because the FIU has been holding quarterly meetings with Compliance Officers of the banks where AML/CFT issues are deliberated. Furthermore, most banks out of their own initiative underwent AML/CFT training facilitated by the FIU.

However, as figure 4 illustrates, the FIU continues to rely on Large Currency Transaction Reports for extraction of suspicious transactions. This is the major reason why the threshold for LCTRs has remained at K1 million and it might remain so until financial institutions are able to effectively notice suspicious transactions.

Since the FIU started its operations in 2007, it has received STRs from banks, RBM, capital and money market players, forex bureaus, auditing firms, money remittance agents, real estate agents, micro-finance institutions and LEAs.

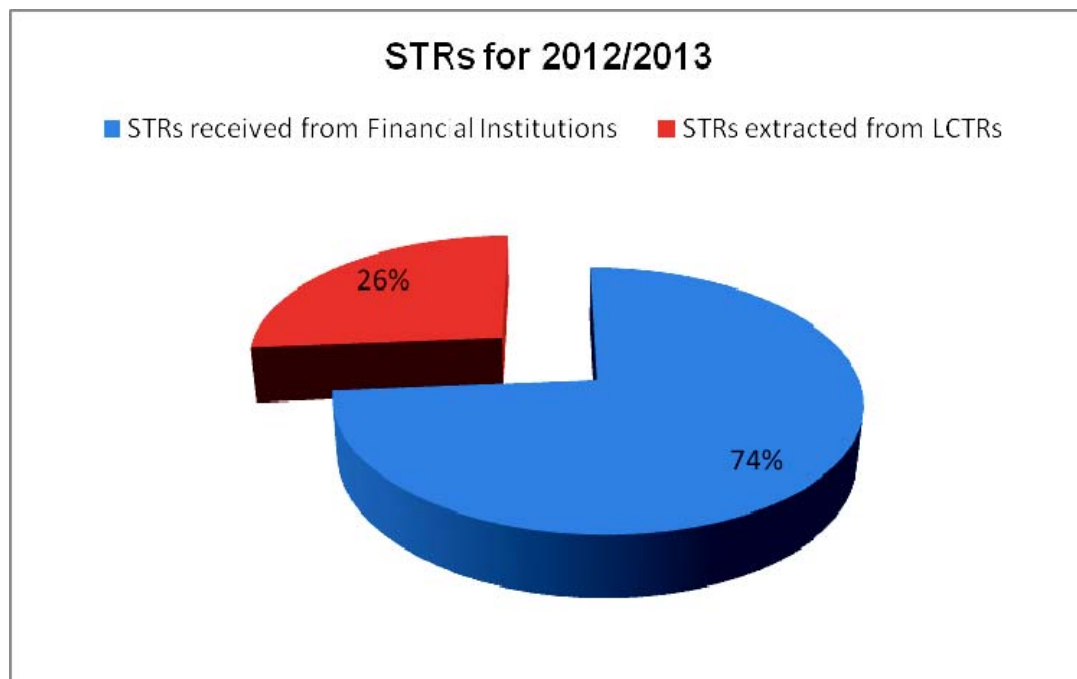


Figure 4: STRs received from financial institutions and extracted from LCTRs in 2012/2013 year

2.1.2. Analysis of STRs

The FIU analyses the received STRs using i2 Analyst's Notebook. Using this software, the FIU generates charts and links or flows of financial transactions. Where necessary, further information is requested from financial institutions that filed the STRs and this enables enrichment of the data. Apart from that, LCTRs and EFTRs are inputted into the FIU database and analysed accordingly. These two types of reports contribute significantly to enrichment and generation of STRs.

Analysis of STRs by the FIU led to discovery of a syndicate between custom clearing agents and public officials who were cashing government cheques and sharing the proceeds. The FIU also established that there were about 180 missing cheques which some people were using to cash Government funds fraudulently. A

number of orders were made to stop such payments or keep the tainted funds in suspense accounts. From the missing cheques, the FIU intercepted and stopped payment of K148,183,874.50 while K 22,439,459.67 was kept in suspense accounts.

2.1.3. Dissemination of financial intelligence

From the 95 STRs analysed by the FIU, 37 cases were disseminated to LEAs for investigations and possible prosecutions. The FIU disseminated 73 cases to LEAs during the previous year, with some cases relating to more than one individual or entity. During investigations of cases from the FIU there is regular interface between the LEAs and the FIU. That is done through having *ad-hoc* meetings arranged by the LEAs. Quarterly meetings are also arranged by the FIU to monitor progress of investigations and prosecutions.

	FINACIAL YEAR		
	2012/2013	2011/2012	2010/2011
STR Received	70	59	18
Cases Disseminated	37	73	30
Requests from LEAs	14	6	0
Requests from Other FIUs	0	0	0

Table 1: Reports and Requests Received and Disseminated by the FIU

The FIU disseminates its reports to LEAs in accordance with the roles they play. The LEAs include ACB, MRA, Fiscal and Fraud Unit (FFU) of the Malawi Police Service, and Immigration Department. The FIU shares information with the RBM, as a supervisor, on emerging issues that require the central bank's attention as noted through reports from financial institutions.

The FFU was the highest recipient of the FIU disseminations as compared to other LEAs as most of the cases analysed related to fraud and money laundering. Even

cases that were related to corruption had fraud and money laundering elements as such those were disseminated to both the ACB and FFU.

During this period, the Malawi FIU received 1 request from another FIU and made 6 requests to other FIUs. The FIU also made 3 spontaneous disclosures to other FIUs.

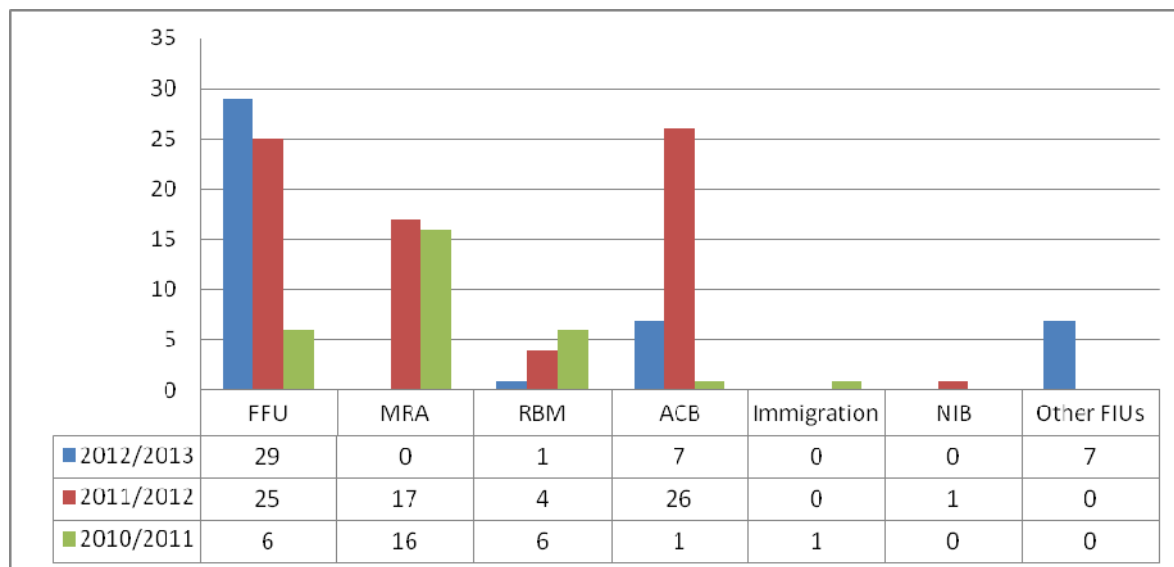


Figure 6: Disseminated Reports to LEAs and shared Reports with other FIUs

2.1.4. Vetting of BRPs and PRPs

The FIU and the Immigration Department have a Memorandum of Understanding (MoU) which gives authority to the FIU to vet all Business Residence Permits (BRPs) and Permanent Resident Permits (PRPs), among others. The FIU in this regard looks at the authenticity of the applicant's bank statement as well as the veracity of their financial standing.

In this reporting period, the FIU vetted 138 applications for BRPs and 158 applications for PRPs. Out of these applications, it was established that 21 applicants presented fake bank statements and this was brought to the attention of the Immigration Department. However, the applicants that used fake statements have not been prosecuted to-date.

2.2. Ensuring Compliance by Financial Institutions

Assessment of Financial Institution's compliance with the ML Act

On-site examinations are conducted on financial institutions with the aim of establishing compliance levels of the institutions in relation to AML/CFT obligations. During this period, the FIU conducted AML/CFT on-site examinations on the following financial institutions:

- FDH bank (Umoyo, Limbe and Lilongwe branches) in July 2012;
- National Bank of Malawi (Victoria Avenue, Lilongwe and Capital City branches) in December 2012; and
- American Palace Pvt Limited which trades as Pirates Casino, Deloitte Malawi, Knight Frank Malawi, and Fred and Ted Properties in March 2013.

The on-site examinations for the casino, accounting firm and real estate agents were done by the FIU in conjunction with 2 officials from the Australian Transaction Reports and Analysis Centre (AUSTRAC) as a capacity building program by the AUSTRAC team for the Malawi FIU. It was the first time for the FIU to carry out on-site examinations of the DNFBPs sector.



FIU and Austrac officers pose with Fred and Ted Properties staff during an onsite examination at the real estate agency's offices in Lilongwe

Skills enhancement and awareness training for financial institutions

The FIU continued to sharpen AML/CFT skills of financial institutions through in-house training at the institutions' requests and costs. Training workshops were conducted as outlined below:

- In conjunction with the RBM, the FIU trained 36 officers from the insurance industry on AML/CFT obligations in July 2012. This was done to prepare insurance companies for compliance with the provisions of the ML Act, even though at the time they were not yet prescribed as reporting entities.
- The FIU trained 45 staff of CDH Investment Bank in October 2012. The training covered all branches of the bank to enable staff members know their AML/CFT obligations, especially identification and reporting of suspicious transactions.
- In February 2013, the FIU trained 16 senior officers of TNM when the institution was piloting TNM *Mpamba*. This was one of the requirements during piloting of the product.

- 8 Board members of FDH Bank were trained in AML/CFT in March 2013. This is one of the best practices for the board of a financial institution to understand AML/CFT issues and provide necessary support towards the Compliance Function.
- In April and May 2013, the FIU trained 178 staff members of Indebank and 31 staff members of International Commercial Bank (ICB) of Malawi. The training workshops took place at every branch of these banks to empower the staff with AML/CFT skills.
- 79 managers and senior officers of National Bank of Malawi were trained in Lilongwe and Blantyre by the FIU in May 2013. The trained managers and senior officers were expected to train other staff members of the bank.
- The FIU and RBM organised training workshops for the insurance and capital market players in June 2013. The training workshops targeted the board, senior management and compliance officers of the two sectors and attracted 93 participants.
- An AML/CFT awareness training was conducted for the Malawi Police Service in May 2013 in Lilongwe. The training was attended by 34 police officers, most of whom were from the Criminal Investigations Department.



Some of the participants for training of Insurance Companies at RBM Blantyre branch in July 2012



Some of the participants for training of Insurance and Capital Market players at Protea Ryalls Hotel in May 2013

2.3. Public Awareness

Apart from training of financial institutions, the FIU continued to implement other public awareness activities. The activities were as follows:

- Airing of FIU jingles on Capital FM in July and August 2012. The FIU also aired jingles through a sponsored programme on Capital FM called *Day Break Malawi* from April 2013 to June 2013. The aired jingles had messages on what money laundering is, the role of the FIU, and know your customer (KYC) obligations by banks and other financial institutions.
- Distribution of 30 copies of the FIU Magazine, 30 copies of FIU's Annual 2010/2011 Report and 30 copies of the Malawi Money Laundering Typologies Report for 2011 at the August 2012 ESAAMLG meetings of Task Force of Senior Officials and Council of Ministers in Maputo, Mozambique.
- Distribution of 12,500 FIU brochures to banks and insurance companies during training workshops in July 2012 and between March 2013 and June 2013 as well as during quarterly meetings with Compliance Officers of financial institutions. The brochures were

also distributed to stakeholders who attended the National ML/TF Risk Assessment Workshop in Mangochi in September 2012.

- Distribution of 100 desk calendars to banks and capital market players. The calendars had messages on anti-money laundering and the role of the FIU.
- Arranging media coverage of the NRA workshops in Mangochi and Lilongwe, the signing ceremonies of MoUs with the ACB in Lilongwe and MRA in Blantyre, and training of insurance and capital market players in Blantyre.
- Participation in a live Panel Discussion in June 2013 on fighting corruption and other crimes in Malawi on Capital FM. The Panel was composed of representatives from the ACB (Mrs. Egritta Ndala), FIU (Mrs. Atuweni-tupochile Phiri), and Civil Society (Mr. Billy Banda).

Many people in the country do not adequately understand AML/CFT concepts as such a lot of public awareness is required. The FIU has failed to carry out vigorous public awareness due to limited resources. Though costly, adequate AML/CFT public awareness could bear good fruits for the FIU, financial institutions, other stakeholders and the general public.

2.4. Investing in Information and Communication Technology (ICT)

- **FIU Website**

The FIU re-designed its website to add new features, improve its functionality and make it user-friendly. The website is one of the powerful tools of communication and during this year the FIU started updating its website more frequently than before.

- **Virtual Private Network link to Account Generals office**

With assistance from the Ministry of Finance, a link to the Accountant General's office was installed at the FIU and this facilitated quick processing of monthly

funding from the Treasury. This arrangement simplified the work of the FIU's accounts personnel and reduced time wastage.

- **ICT System upgrade**

The FIU installed system backup software (Symantec), Windows 2008 server, and Windows 7 Operating System. This was done to enhance the FIU's overall system security, ensure system integrity, and minimize system downtime and facilitate business continuity in case of disaster.

- **Online Reporting project**

The FIU continued with development of systems to enable online suspicious transaction reports submission by financial institutions. Currently, suspicious transaction reports are submitted to the FIU through courier. This paper-based submission process is both time consuming and costly. As a way forward, the FIU is working on an online reporting system through the FIU website. This would provide a secure channel through which reporting institutions would submit STRs to the FIU. For this online submission system to be operational there is need to have both the user interface in form of a web-based form which financial institutions would fill and send to the FIU, and a database which would receive and store the submitted forms on the FIU server.

The FIU has a database, FIMTRAC, which conforms to the STR form. However, this database was created years ago when the FIU was still in its infancy and cannot be compatible with the online system which is being developed. The FIU is therefore developing a new database which should be compatible with the online reporting system. It is hoped that this project would be ready by December 2014.

2.5. Developing Domestic and International Cooperation

Combating money laundering and terrorist financing requires good coordination locally and internationally. Such coordination can be in form of meetings with financial institutions and LEAs, attending meetings of groups to which Malawi is a member, hosting of other FIUs or learning from other FIUs, among others.

Domestic Cooperation

Every quarter, the FIU holds meetings with various AML/CFT stakeholders to discuss issues of interest and chart the way forward. It is in this vein that the FIU held the following activities:

- Meetings with the RBM in July 2012 and March 2013. Among others, the two institutions started working on draft AML/CFT Guidelines for banks and AML/CFT Administrative Penalties Regulations for banks, and agreed to train Directors and Compliance Officers of insurance companies and capital market players by May 2013;
- Meeting with Compliance Officers in March 2013;
- Quarterly and *ad-hoc* meetings with the ACB and MRA;
- An interface meeting with the Legal Affairs Committee of the Malawi National Assembly in June 2013 for the committee to appreciate how the FIU has been operating and challenges that were being faced. Due to this meeting, the Legal Affairs Committee has been designated the responsibility of presenting FIU issues to the National Assembly;
- Meetings of the National AML/CFT Committee in August 2012. Two meetings were held as the country was preparing to attend ESAAMLG meetings in Mozambique; and
- Signing MoUs with the ACB and MRA.



ACB Director Mr. Rezine Mzikamanda and FIU Acting Director Mrs. Atuweni-tupochile Phiri during the signing ceremony of an MOU for the FIU and ACB at Sunbird Capital Hotel in April 2013

Regional Cooperation

Malawi continued to attend meetings of ESAAMLG which are held in April and August every year. Three officers from the FIU attended the August 2012 ESAAMLG Task Force of Senior Officials meeting in Mozambique, and in April 2013 the FIU was represented by two officers at the Task Force meeting in Tanzania.

As a way of stamping its mark and influence in the region, the Malawi FIU welcomes other FIUs and other authorities on AML/CFT to come and learn some operations in Malawi. The FIU hosted a delegation of Members of Parliament (MPs) from Uganda in February 2013. This was a week-long study visit to benchmark their country's draft AML/CFT law against Malawi's ML Act and learn how the Malawi FIU is carrying out its operations. The visiting officials comprised 6 MPs from the Public Accounts Committee of the Ugandan Parliament, 2 staff of Parliament of Uganda and 1 officer from Ugandan Ministry of Finance. During the visit, the delegates held meetings with the Secretary to the Treasury, Speaker of the National Assembly, Chairperson of the Legal Affairs Committee and Deputy Chairperson of the Public Accounts Committee

of Malawi National Assembly, Malawi FIU officials, RBM officials, ACB officials, Immigration officials, Malawi Police Service officials, and Compliance Officers of Opportunity Bank of Malawi and Standard Bank of Malawi.



Uganda MPs and staff of Ugandan Parliament with Malawi FIU Acting Director (2nd from left) at Malawi Parliament Building

International Cooperation

The FIU attended the July 2012 EGMONT meeting in Belgium and the January 2013 meeting in Philippines. At the January 2013 meeting the FIU communicated to the EGMONT of its intention to increase its participation at the Group's meeting by joining the IT Technical Working Group in July 2013. This will ensure that information sharing is well facilitated between FIU Malawi and other FIUs.

Furthermore, the FIU signed MoUs with FIUs of Denmark and Tanzania. The FIU also held discussions with the Global Fund against HIV/AIDS, Tuberculosis and Malaria to co-relate through an MoU. These MoUs are meant to provide guidelines on how the FIU can exchange information with the named entities.

2.6. Building Capacity of the FIU

As a way of furthering skills of its staff members, the FIU and its partners arranged training and learning programs as follows:

- One Finance Officer attended a training course on *Integrated Financial Management Information Systems (IFMIS) and Performance Auditing* in Swaziland in February 2013.
- Two newly recruited Financial Analysts attended training on *i2 Analyst's Notebook* in November 2012 in South Africa. This is the software which the FIU uses when analyzing transactions.
- Three officers attended a workshop on *Setting up and Sustaining Operations of FIUs* organised by AUSTRAC in December 2012. The workshop was aimed at providing a platform for FIUs within the region to learn from each other as well as from AUSTRAC on how to set up and sustain the operations of FIUs.
- One ICT Officer attended a training program in *Cisco Certified Networking Associate (CCNA)* in India in April 2013.
- One Compliance Officer attended a training course on *Regional Course on Combating Money Laundering and other Financial Crimes* provided by WAIFEM in May 2013 in Liberia.
- Two officers attended training workshops by AUSTRAC on *Demystifying the Risk-Based Approach*, and *The Control of Cross-Border Movement of Cash and Bearer Negotiable Instruments* by the UN-CTED) in 2013 in South Africa.
- One officer attended a workshop on *High Level Consultation on Illicit Transfer of Funds*, organised by the United Nations Office on Drugs and Crimes (UNODC) in June 2013 in Zambia.
- AUSTRAC arranged a study visit and 4 Malawi FIU Officers went to Australia in June 2013. During the study, the officers were oriented by AUSTRAC and other Australian specialists on how they conduct compliance functions as well as linkage with LEAs and supervisors of financial institutions.

2.7. Other Activities

The FIU also carried out the following activities during the year under review:

- **National ML/TF Risk Assessment**

The FIU coordinated the Money Laundering and Terrorist Financing National Risk Assessment (NRA) workshop held at Sunbird Nkopola Lodge in Mangochi from 24 to 26th September 2012. The workshop was attended by 38 participants.

The objectives of the NRA project were:

- Understanding the proceeds of crime generated in Malawi;
- Determining how attractive the economic and financial sectors are to ML and TF;
- Determining and understanding the weakness in the legal framework, thus looking at the criminal and administrative justice system, and the preventative systems; and
- Appreciating how to best allocate resources to properly deal with ML and TF.

The NRA workshop was officially opened by the former Deputy Minister of Finance, Honourable Ralph Jooma, M.P. Also in attendance were ESAAMLG Secretariat Financial Sector Specialist, Mr. Tom Malikebu, and World Bank Country Manager, Ms. Sandra Bloemenkamp.

The NRA process was conducted with technical support from the World Bank and financial support from the Malawi Government. Other than the workshop, the NRA process involved data collection and analysis, group meetings and report writing. The report covers money laundering threat analysis and vulnerability analysis of the banking sector, DNFPB sector, other financial institutions (such as insurance sector) and financial inclusion products. The vulnerability markers from these sectors were then used to identify the national vulnerability.

General NRA findings were presented to policy-makers at a consultative workshop held in June 2013. A report on the NRA will be presented to cabinet for noting and approval as well as support of the Action Plan developed from the exercise.



Stakeholders during an NRA workshop at Sunbird Nkopola in September 2012 where former Deputy Minister of Finance Hon. Ralph Jooma, World Bank Country Manager Ms. Sandra Bloemenkamp, and ESAAMLG Secretariat Financial Sector Specialist, Mr. Tom Malikebu were in attendance

- **ML Act Review preparations**

The FIU and RBM held a number of meetings in preparation for the review of the ML Act. The review will be conducted with financial support from the World Bank through Financial Sector Technical Assistance Project (FSTAP) which is working with the RBM. A consultant was engaged at the end of this financial year. He is expected to hold consultative meetings and present the draft bill to Ministry of Justice for drafting. It is expected that the bill will be deliberated in National Assembly and enacted during the next financial year.

3. MAIN CHALLENGES ENCOUNTERED IN THE PAST YEAR

The major challenges faced during the year were as follows:

- There was increased workload due to a number of factors. The NRA project required a lot of attention from the FIU. Apart from that, the FIU's hosting of the delegation of MPs from Uganda was also quite involving. That aside, the then Acting Director was seconded to ESAAMLG Secretariat and this created a gap in the Legal and Policy department as it resulted into the Legal and Policy Advisor operating as Acting Director. The FIU was further stretched by the death in January 2013 of one of the Compliance Officers. These factors led to continued postponement of some activities.
- The problems encountered by some banks in submitting reports, particularly large currency transaction reports, slowed down the analysis function of the FIU.
- The FIU experienced inadequate funding. As a result of this, the FIU conducted fewer on-site examinations of financial institutions than planned.

4. PRIORITIES FOR THE COMING FINANCIAL YEAR

In the forthcoming year, the FIU has the following priorities:

- **Relocation of offices from RBM Building**

The FIU will relocate its offices around August 2013 and this will require a lot of attention and delay in implementation of some activities.

- **National Risk Assessment Exercise Report Finalisation**

The FIU will finalise the NRA report and present it to the cabinet for its approval and pledge to support the action plan developed to address the grey areas in the country's AML/CFT regime.

- **ML Act Review finalisation**

Consultations on the review of the ML Act are expected to be conducted between August and November 2013. This will result into a bill to be drafted by the Ministry of Justice and presented to cabinet by the Ministry of Finance for parliamentary discussion and enactment probably in 2014.

- **Conducting on-site examinations of financial institutions**

In order to check on compliance by financial institutions, the FIU will continue conducting on-site examinations of financial institutions.

- **Capacity enhancement of financial institutions**

The FIU realizes that it can be difficult for financial institutions to effectively implement AML/CFT obligations if they are not properly empowered. Training workshops will therefore be organised for some sectors of the financial institutions based on the planning by the FIU or requests by the financial institutions.

- **Finalisation of Administrative Penalties for banks**

In July 2012, the RBM and FIU held a consultative meeting with banks on draft administrative penalties to be meted out to financial institutions for non-compliance. The penalties will be finalised in the next financial year.

- **Online Reporting system**

Development of an online reporting system will be completed during the next financial year. The system will automatically deposit reports from financial institutions into the FIU's database.

- **Currency and Declaration Form awareness activities and implementation**

The FIU, MRA and RBM are waiting for a Gazette Notice on Currency and Goods Declaration Form. Once that form is gazetted, the FIU will coordinate with the MRA and RBM on training of customs, police and immigration officers on the use of the form and submission of reports to the FIU. Some awareness activities will also be conducted to ensure that members of the public understand the importance of these declarations.

- **Domestic and International Cooperation Meetings**

Domestic and international cooperation is very important for the FIU as every FIU cannot work in isolation. The FIU will continue to hold meetings with LEAs, compliance officers of financial institutions, regulatory authorities and members of National AML/CFT committee. This will ensure that every stakeholder is aware of new developments and work towards enhancing the National AML/CFT regime.

The FIU will continue attending ESAAMLG and EGMONT meetings and coordinate with other FIUs on requests from time to time.

- **Staff Recruitment process finalisation**

During the first two quarters of the 2013/2014 financial year, the FIU intends to fill the positions of Data Analyst and Compliance and Prevention Officer responsible for DNFBPs.

5. FINANCE AND ADMINISTRATION

The Finance and Administration Department provides services of financial, human resource and administrative management.

During the year under review, the FIU was allocated K191, 057, 028.00 in the national budget of Malawi. However, the actual allocation remitted to the FIU was K183,101,368.00. Most of the activities were done within the allocated budget.

One staff member resigned (the Acting Director) from the FIU and joined the ESAAMLG Secretariat as Financial Sector Specialist. Following this, the Legal and Policy Advisor was appointed as Acting Director by the Ministry of Finance. On a sad note, the FIU lost one of its Compliance Officers, Mr. Sheen Msusa, who died in January 2013 after a short illness.

The FIU wishes to commend Government, in particular the Treasury, for timely remittance of monthly funding. This enabled the FIU to implement most of its activities as scheduled.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

MANAGEMENT RESPONSIBILITY

Management is responsible for preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30 JUNE
2013**

Income and Expenditure for the Period Ending 30 June 2013

	Notes	MWK	MWK
		2013	2012
			Restated
Income			
Revenue	4	196,069,381	151,374,999
Total Income		196,069,381	151,374,999
Expenditure			
Expenses	5	205,536,698	157,120,683
Total Expenditure		205,536,698	157,120,683
Surplus/ (Deficit)		(9,467,317)	(5,745,684)

BALANCE SHEET**Balance Sheet as at 30 June 2013**

	Notes	30 June 13 MWK	30 June 12 MWK Restated
Noncurrent Assets			
Intangible Assets	7	0	0
Property, Plant & Equipment	8	6,202,246	9,568,262
Total Non Current Assets		6,202,246	9,568,262
Current Assets			
Debtors	9	34,382,097	12,634,645
Loan Revolving Account		43,385	2,306,444
Cash at Bank and in Hand		2,122,011	4,729,044
Suspense Account	10	220,201	0
		36,767,694	19,670,133
Total Assets		42,969,940	29,238,395
Reserves and Liabilities			
Reserves		5,206,065	14,690,014
Current Liabilities			
Trade and other payables	11	37,115,230	13,899,736
Accruals		648,645	648,645
Total Current Liabilities		37,763,875	14,548,381
Total Reserves and Liabilities		42,969,940	29,238,395

CASH FLOW STATEMENTS

	30 June 13	30 June 12
	MWK	MWK
Cash flows from operating activities		
Cash receipts	196,015,732	150,725,744
Cash Paid to suppliers and employees	<u>(198,330,841)</u>	<u>(148,311,822)</u>
Cash Utilized in operations	(2,315,109)	2,413,922
Interest received	53,649	16,749
<i>Net cash flow from operating activities</i>	(2,261,460)	2,430,671
Cash Utilized in Investing Activities		
Purchase of Property, plant & Equipment	(2,608,633)	(445,107)
<i>Net Cash flow from investing activities</i>	<u>(2,608,633)</u>	<u>(445,107)</u>
Increase/ (Decrease) in cash and cash equivalent	(4,870,093)	1,985,564
<i>Cash and cash equivalents at beginning of yr</i>	7,035,489	5,049,925
<i>Cash and Cash equivalents at end of yr (note 6)</i>	<u>2,165,396</u>	<u>7,035,489</u>

NOTES TO THE FINANCIAL STATEMENTS

Accounting Policies to the Annual Financial Statements for the year ended 30 June 2013

1. Compliance with International reporting Standards

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). The presentation of financial statements in accordance with International Accounting Standards requires management to make estimates and assumptions that reflect the reported amount and disclosures in the financial statements.

Actual results could differ from those estimates.

2. Principal Accounting Policies

The following is the summary of the principal accounting policies used by the institution.

2.1 Accounting Convention

The financial statements are prepared in terms of the historical cost convention.

2.2 Revenue Recognition

In terms of section 18 of the Money laundering, Proceeds of Serious Crime and Terrorist Financing Act, the expenses of the FIU shall be met out of

- a) money appropriated annually by Parliament for the purpose of the Financial Intelligence Unit;
- b) any government grants made to it; and
- c) any other money legally acquired by it, provided that the Financial Intelligence Unit may accept donations only with prior approval of the Director.

2.3 Income

The FIU was appropriated money by Parliament. Income has been accounted on accrual basis.

2.4 Expenditure

All expenses have been accounted on an accrual basis.

2.5 Intangible Assets

Intangible assets are initially measured at cost. After initial recognition, the assets are carried at cost, less any amortization and impairment losses. The amortization periods for the FIU's intangible assets are:

- Database 4 years
- Analyst Notebook 4 Years
- Microsoft SQL Server 4 Years
- Microsoft Visual Studio 4 Years

Notice that the value of Intangible Assets is nil at the year end 20 June 2013 just as in year 2012. Due to limited funding FIU Malawi was unable to engage a valuer to revalue the Intangible Assets. FIU Malawi will engage a valuer in the coming financial year.

However, on Microsoft SQL Server and Microsoft Visual Studio the values will likely be zero as the versions we are using are over six years old and a lot of technological advancements have taken place over the years making our pieces of software almost obsolete. On the market there are new versions for both MS SQL Server 2014 and MS Visual Studio 2013.

2.6 Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life. The review of the estimated useful life is performed annually, both internally and externally. The estimated useful lives are as follows:

- Computer equipment 4 years
- Office Equipment 4 years
- Motor Vehicles 4 years
- Office Furniture 3 years

However the assets have not been revalued. FIU will engage an experienced valuer to revalue all fixed assets which might affect the account statements significantly. These will be put in restated accounts for the year ending 30 June 2014.

Since the assets are still being used, we had to extend the useful life by 3 years. This will however change once all assets are revalued.

2.7 Pension Fund

Effective 1st July 2012 members of staff at FIU were put on Pension Scheme run by Old Mutual. The FIU contributes 15 percent on behalf of all staff members. These contributions are expensed as they are paid to Old Mutual.

2.8 Impairment

At each balance sheet date, the FIU reviews the carrying amounts of its tangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable

amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, 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 as income immediately.

3. Critical accounting judgements made by management and key sources of estimation uncertainty

3.1 Critical accounting judgements made by management

In the process of applying the FIU's accounting policies, management has made the following judgements that affect the amounts recognised in the financial statements and related disclosure.

3.1.1 Impairment of noncurrent assets

In making its judgements, management has assessed at each balance sheet date whether there is an indication that items of property, plant and equipment and other assets may be impaired. If any such indication exists, the recoverable amount of the asset is assessed in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value, less costs to sell and value in use.

3.2 Key Sources of estimation uncertainty

3.2.1 Property, plant and equipment residual values and useful lives

These assets are written down to their estimated residual values over their anticipated lives using straight line basis. Management reviews the residual values annually considering market conditions and projected disposal values. In assessing useful lives and residual values, maintenance programmes and technological innovations are considered. The carrying value of property, plant and equipment is disclosed in note 8 to the financial statements.

4. Revenue

	30 June 13	30 June 12
	MWK	MWK
Funding	191,701,370	150,412,794
Other Income *	3,286,540	329,699
Interest on Staff Loans	1,081,471	632,506
Total Revenue	<u>196,069,381</u>	<u>151,374,999</u>

*Other income includes interest received from Banks, refund from insurance and NBM, Indebank, CDH training expenses paid by them

5. Expenses

Depreciation	6,195,998	5,296,659
Amortization	0	2,099,200
Staff costs	81,581,497	81,835,447
Travel expenses	68,207,093	37,786,298
National AML/CFT Expenses	449,619	63,060

Other Expenses	49,102,491	30,040,019
Total Expenses	<u>205,536,698</u>	<u>157,120,683</u>

	30 June 13	30 June 12
6. Cash and Cash Equivalents	MWK	MWK
Cash comprises cash at bank and in hand.		
Deposits and Bank balances	2,122,011	4,728,004
Cash on Hand	0	1,041
Loan account	43,385	2,306,444
Total cash and cash equivalents	2,165,396	7,035,489

7. Intangible Assets

	Analyst Notebook MWK	Database- FIMTRAC MWK	Micro SQL Server 05 MWK	M Visual Studio MWK	Total MWK
Cost					
At 1 July 2012	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Additions					
At 30 June 2013	0	2,850,000	1,062,600	340,200	8,396,800
Amortization Charges					
At 1 July 2012	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Amortization Charge for the yr	0	0	0	0	0
Acc Amortization	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Value of Assets at 30 June 2011	0	0	0	0	0

8. Property, Plant and Equipment

	Computer Equipment MWK	Office Equipment MWK	Motor Vehicles MWK	Office Furniture MWK	Total MWK
Cost					
At 1 July 2012	7,818,958	6,885,265	28,524,934	2,528,300	45,757,457
Additions	2,201,225	84,500		544,257	2,829,982
At 30 June 2013	10,020,183	6,969,765	28,524,934	3,072,557	48,587,439
Depreciation					
At 1 July 2012	7,818,958	6,679,904	20,306,251	1,384,081	36,189,194
Disposals	-	-	-	-	-
Charge for the yr	1,572,229	21,125	4,056,698	545,945	6,195,997
Accumulated Dpn At 30 June 2013	9,391,187	6,701,029	24,362,949	1,930,026	42,385,191
Net Book Value At 30 June 2012	628,996	268,736	4,161,985	1,142,531	6,202,248

9. Debtors

	30 June 13	30 June 12
	MWK	MWK
Staff Debtors	33,852,006	12,104,555
Other Debtors	530,090	530,090
	<u>34,382,096</u>	<u>12,634,645</u>

10. Suspense Account

The amount in Suspense Account is Petty Cash expenditures that have no documentation. The documentation was lost as we were moving from Reserve Bank premises. The amount concerned is K 220,200.56

11. Trade and other Payables

	30 June 13	30 June 12
	MWK	MWK
Trade Creditors	-	-
Other Creditors (Tax)	37,115,230	13,899,736
	<u>37,115,230</u>	<u>13,899,736</u>