



FINANCIAL INTELLIGENCE UNIT

REPUBLIC OF MALAWI

2014 / 2015 Annual Report

Fighting Money Laundering & Terrorist Financing

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LIST OF ACRONYMS

ACB	Anti-Corruption Bureau
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ARINSA	Asset Recovery Inter-Agency Network of Southern Africa
BCP	Business Continuity Plan
CFT	Combating the Financing of Terrorism
DNFBPs	Designated Non-Financial Businesses and Professions
DPP	Director of Public Prosecution
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
ICAR	International Centre for Asset Recovery
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
MPS	Malawi Police Service
MoU	Memorandum of Understanding
MRA	Malawi Revenue Authority
NAO	National Authorising Officer Support Unit
NGO	Non-Governmental Organisation
NIB	National Intelligence Bureau
NRA	National Risk Assessment
RBM	Reserve Bank of Malawi
STRs	Suspicious Transaction Reports
UN	United Nations
UNODC	United Nations Office on Drugs and Crime
UNSCR	United Nations Security Council Resolution

THE YEAR'S QUICK OVERVIEW IN NUMBERS

- ✓ *6 ML Convictions*
- ✓ *5 ML Sentences*
- ✓ *38 Cases disseminated*
- ✓ *81 Suspicious Transactions received*
- ✓ *15 AML/CFT on-site Examinations conducted*
- ✓ *223 Financial Institutions' officials trained in AML/CFT*
- ✓ *3 Billboards erected & 118 real estate officers trained with European Union financial Support*

THE DIRECTOR'S OVERVIEW OF THE FINANCIAL YEAR



It is with great pleasure that I present to you the FIU's Annual Report for the period July 2014 to June 2015. This is the eighth annual report for the FIU since 2007, and as will be evident, there have been significant strides in the implementation of the Money Laundering, Proceeds of Serious Crime and Terrorist Financing Act (ML Act).

Of particular significance and mention this year is the prosecutions and convictions for the offence of money laundering. Six natural persons were convicted of money laundering and other charges such as theft, conspiracy to defraud government, and illegal possession of foreign currency. Sentencing was done for five people convicted with the money laundering charge, attracting jail terms ranging from 3 to 7 years. This is a remarkable achievement for the country as the application of the law in court has proved the efficacy of the money laundering law. Furthermore, other provisions of the ML Act have been tested for their legality, and this is developing Malawi's anti-money laundering law jurisprudence.

The FIU is delighted to have contributed to these prosecutions and convictions by providing law enforcement agencies (LEAs) with the necessary intelligence to help them investigate and prosecute these cases effectively. The FIU applauds the LEAs and the courts for the well done,, and hope that justice will continue to prevail.

In spite of reduced funding and inadequate staff, the FIU in this reporting period prioritized national coordination, and thus managed to hold almost all of its scheduled meetings with law

enforcement agencies and financial institutions. These meetings are worthwhile for the FIU as they help build relationships which are key in the prevention and detection of money laundering and terrorist financing. Further to this, the FIU prioritized on-site inspections of financial institutions and also introduced quarterly feedback to the reporting partners in the various sectors. Both mechanisms have positively influenced the levels of compliance as evidenced by the consistency in the number of reports submitted from 82 in the previous reporting period to 81 this period as well as the decrease in suspicious transactions extracted by the FIU from 5 the previous year to 2 this reporting period.

Let me acknowledge the support the FIU has received from financial institutions who have taken on the responsibility of funding the training workshops for their members of staff. In the past year a total of 223 officers from different financial institutions were trained. This has helped to improve compliance, and it indicates maturity in the financial institutions and willingness to be involved in the implementation of the ML Act. Apart from financial institutions, I acknowledge the funding received from the European Union through the National Authorizing Office (NAO) Support Unit for the training of 118 real estate professionals. This training has led to the sector starting to comply with the provisions of the ML Act.

I also take note and appreciate the financial support we got from the Government through the Treasury. This helped us implement most of the planned activities for the year.

Lastly, I extend my appreciation to all staff members of the FIU for their tireless contribution to the organisation and our beloved country, Malawi.

Enjoy the report.



Atuweni-tupochile Phiri
DIRECTOR

PART 1 – INTRODUCTORY INFORMATION

1.1 LEGISLATIVE ESTABLISHMENT OF THE FIU

The FIU started its operations in July 2007, following its establishment in terms of Section 11 of the Money Laundering, Proceeds of Serious Crime and Terrorist Financing Act (ML Act) Chapter 8:07 of the Laws of Malawi of 2006.

It was established as an autonomous central national agency responsible for receiving, requesting, analyzing and disseminating to competent authorities disclosures of financial information in order to counter money laundering and financing of terrorism.

The ML Act established the FIU to implement the following as its primary activities:

- a) Receive, analyse and assess suspicious transaction reports;
- b) Disseminate intelligence to law enforcement agencies;
- c) Request information from any reporting institution, law enforcement agency and supervisory authority;
- d) Conduct compliance inspections of financial institutions;
- e) Providing feedback to financial institutions and law enforcement agencies;
- f) Provide guidance for a planned compliance investigation;
- g) Issue guidelines to reporting institutions;
- h) Make recommendations to the Minister of Finance on issue relating to combating money laundering and terrorist financing;
- i) Conduct studies on money laundering and terrorist financing trends and developments
- j) Compile statistics and records relating to money laundering and terrorist financing;
- k) Create training requirements and offer training programs;
- l) Educate and create awareness on matters relating to money laundering or terrorist financing;
- m) Correlate with international FIUs for purposes of information exchange; and
- n) Enter into a Memorandum of Understanding with domestic agencies.

The FIU analyses reports filed to it together with information sourced from databases of other institutions to develop financial intelligence which will assist in detecting and investigating money laundering, terrorist financing and other financial crimes.

The Malawi FIU was set up as an administrative agency; it does not investigate or prosecute money laundering, terrorist financing or other financial crimes.

The FIU disseminates financial intelligence obtained to law enforcement agencies (LEAs) for investigation and prosecution.

1.2 THE FIU'S STRATEGIC OVERVIEW

1.2.1 The FIU's Purpose and Value

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.

Values

- Carrying out its mandate with a sense of **integrity** by among other things demonstrating honesty, respect and discipline.
- Striving for **excellence and professionalism** in conducting its operations and working relationships with stakeholders.
- Adhering to a high level of **security and confidentiality** to inspire and maintain the trust of its stakeholders.
- Optimising **interdependence** with local and international agencies in adherence to international standards.
- Being **accountable and transparent** in the use of its resources and information in adherence to good governance norms.

- Being encouraged to be **creative & innovative, adaptable & flexible** with an emphasis on effectiveness of the work and not necessarily adherence to tradition.

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 requests, disseminated reports as well as increased feedback to financial institutions on suspicious transaction 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 anti-money laundering and combating the financing of terrorism (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 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 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.

1.2.2 The FIU's Organogram and Departmental Operations

As shown in the figure below, the FIU structure has two main divisions: Corporate Services and Technical Services. Departments of the FIU are as explained below:

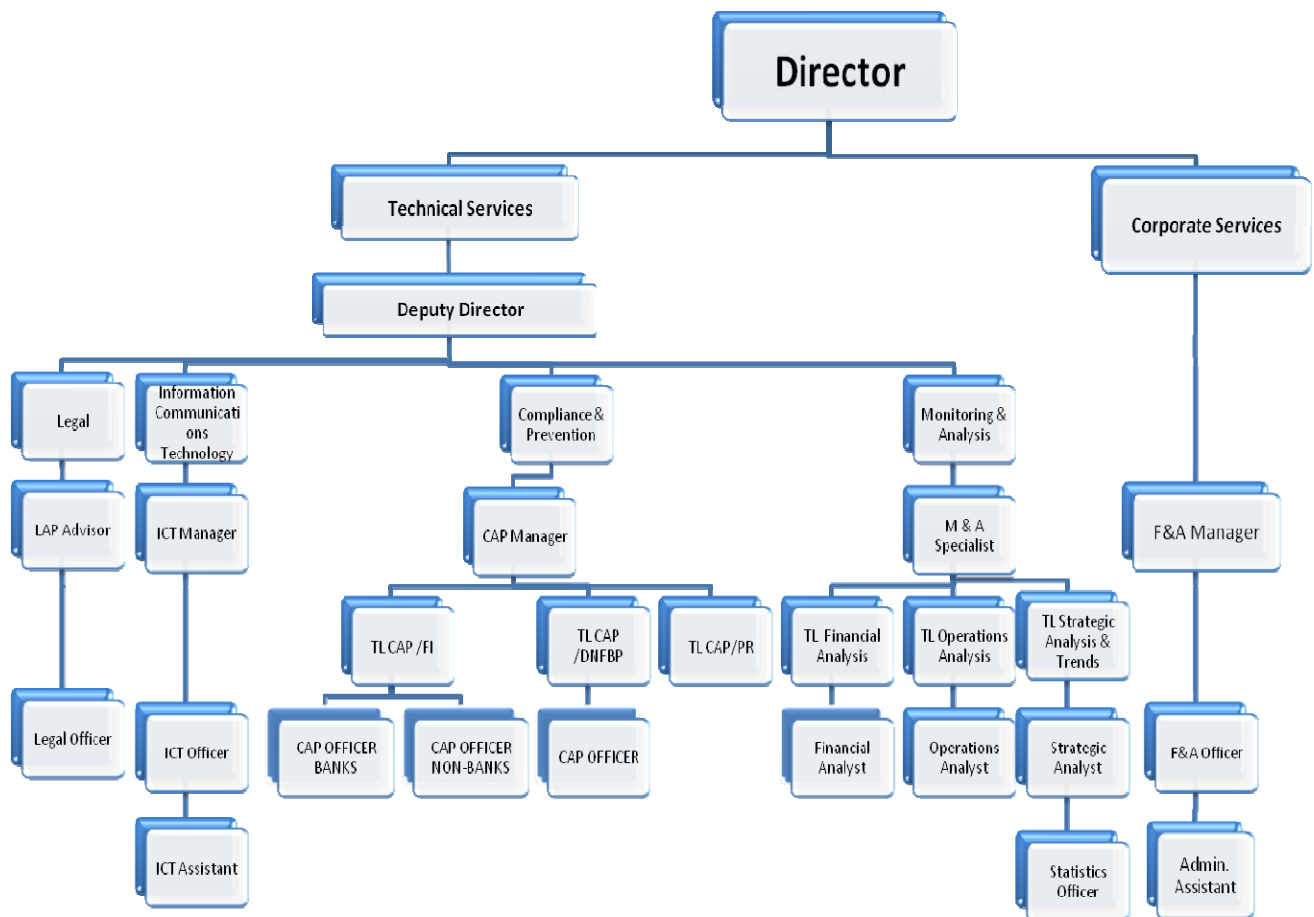


Figure 1: Organisational Chart of the FIU

The Director's Office

The Director is the Chief Executive Officer and controlling authority of the FIU. The Director, among others, provides strategic guidance and develops and oversees strategic relationships for the FIU.

He/she submits annual reports to the Minister of Finance, Economic Planning and Development who in turn lays the reports before the Parliament.

The FIU's case disseminations to LEAs go out through the Director. Apart from that, he/she represents the FIU in any negotiations through domestic and international forums such as during meetings with strategic local authorities, Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), and Egmont Group of FIUs.

Monitoring and Analysis

The Monitoring and Analysis department is responsible for the core functions of the FIU which are receiving and analyzing reports that are submitted by financial institutions as well as disseminating intelligence to the LEAs. The department analyses the information from financial institutions to determine if there is any commission of money laundering, terrorist financing offences or other financial crimes.

The work of this department has a bearing on investigations and prosecutions in the country, as well as Malawi - FIU contributing and benefitting from the exchange of information platform provided through the Egmont Group of FIUs.

Compliance and Prevention

The Compliance and Prevention department is responsible for ensuring that all financial institutions are aware of their obligations and comply with the provisions of the ML Act and its relevant regulations.

In carrying out its functions, the department conducts several activities which include: monitoring of compliance by financial institutions through onsite inspections and offsite surveillance; providing guidance to reporting entities on AML/CFT compliance matters; developing and offering training to financial institutions; implementing public awareness activities to enable Malawians acquire knowledge on AML/CFT issues; and carrying out public relations functions of the FIU.

Legal and Policy

The Legal and Policy department provides strategic policy advice to the FIU and ensures that the FIU is operating within its mandate, as stated in the ML Act. The Department also performs the functions of General Counsel for the FIU by drafting and reviewing any documentation that the

FIU needs to use to achieve its mandate. The department plays a central role in development of working relationships with domestic and international stakeholders through development of MoUs.

Information & Communications Technology (ICT) Department

The Information and Communications Technology (ICT) department is central in ensuring that the FIU has the required infrastructure and systems to perform its functions. The department ensures that the FIU has adequate ICT infrastructure, analysis software and other business applications, a functioning database, and established ICT processes, among others. This department also ensures that the FIU's information is well secured to maintain its integrity. The nature of the work of the FIU makes it highly reliant on ICT to support its business processes, as such the ICT department is integral to the operations of the FIU.

Finance and Administration

The Finance and Administration Department is the only department under the Corporate Services Division. It ensures that the FIU has adequate funding and operates within its allocated budget. Further to this, the department carries out all the administrative and human resource functions to ensure that the FIU runs its operations smoothly.

1.2.3 Governance Highlights

Introduction

The FIU is a public national entity which operates with funding from the Government as appropriated by the Parliament in accordance with Section 18 of the ML Act. The institution can also get grants from the government and any donation with prior approval of the Director.

As a public agency, the FIU follows the ML Act and other legislative requirements as well as local and international best practices when implementing its operations.

Accounting Authority and Oversight

The Director of the FIU is the controlling officer of the operations of the institution. He/she is the accounting authority and reports to the Minister of Finance, Economic Planning and Development in accordance with Sections 21. The Annual Reports of the FIU are then taken to Parliament by the Minister.

Every government agency falls under a Parliamentary Committee to which it is accountable, and the FIU is under the Legal Affairs Committee of Parliament.

The FIU has no Board and this was a deliberate legal arrangement aimed at ensuring that the FIU operates without any political or other interference.

Audit of Accounts

With regard to audit, the FIU's accounts are subject to an examination and audit by the Auditor-General as per Section 20 of the ML Act.

Strategic Planning

The FIU implements its mandate through the strategic objectives which were last reviewed in 2012. The current Strategic Plan runs up to December 2015. It is hoped that from January 2016 to June 2016 the FIU will develop a new Strategic Plan to run from July 2016 to June 2021.

One of the issues to be incorporated in the next Strategic Plan will be Business Continuity Plan (BCP). In 2010 and 2011, the FIU drafted a BCP which was aimed at documenting the processes and procedures for the development, testing and maintenance of a series of plans that will enable the FIU to continue operating during and after a disaster. The initiative has not been pursued diligently due to competing priorities.

Code of Conduct and Conflict of Interest

The FIU has Staff Conditions of Service which have been reviewed almost yearly. The conditions, among others, outline the expected conducts of a staff member of the FIU. A disciplinary hearing and a dismissal may take place when one grossly flouts the conditions.

Related to that, in the course of undertaking activities of the FIU every staff member is required to indicate any conflict of interest in order to maintain his/her integrity and that of the institution.

Confidentiality and Transparency

All staff members of the FIU subscribe to an oath of confidentiality before a commissioner of oath when taking up their posts. This is done in line with Section 16 of the ML Act.

As a way of promoting transparency and accountability, staff members declare their assets at the start of every year. This helps the FIU know the wealth and the source of wealth that members of staff have, as a means of preventing corruption. The declarations are managed by the Director.

Participation in domestic Governance and anti-Financial Crime Forums

The FIU is a member of an ad-hoc National AML/CFT Committee which is chaired by the Ministry of Finance, Economic Planning and Development. The FIU acts as the Secretariat for this Committee.

In addition to that, the FIU is a member of the Inter-Agency Committee on Combating Wildlife Crime in Malawi and the committee's meetings are held on quarterly basis. The FIU is also an active member of the Democratic Governance Sector in Malawi and meetings for this Task Force are held according to program activity framework.

PART 2 – ACHIEVEMENTS FOR THE YEAR

2.1 IMPROVING MECHANISM FOR RECEIPT, ANALYSIS AND DISSEMINATION OF STRS AND REQUESTS

2.1.1 Receipt of LCTRs, EFTRs and STRs

During the year under review, the FIU received Large Currency Transaction Reports (LCTRs), Electronic Funds Transfer Reports (EFTRs) and Suspicious Transaction Reports (STRs).

Large currency transactions should be reported to the FIU by financial institutions on weekly or monthly basis depending on the size of the sector and as guided by the FIU. The FIU gets over 2 million LCTRs every year.

In this year, LCTRs were mainly submitted by all 12 commercial banks, 2 mobile money operators, 4 out of 33 insurance companies, 4 out of 5 capital market firms, 6 out of 14 foreign exchange bureaus, and 2 out of over 200 active real estate businesses.

Sector	Bank	insurance	Forex bureaus	Mobile money	Capital Market	Real estate	lawyers	accountants	Casinos, gambling houses, WAP sites, sports betting	Precious metals & stones
Total institutions filing LCTRs	12	4	6	2	4	2	0	0	0	0
Total registered players/firms per sector	12	33	14	2	5	over 200	300	52	6	1

Table 1: LCTRs filing to the FIU by sector in 2015

Following a pilot on-site examination to establish levels of compliance, the FIU instructed insurance companies, foreign exchange bureaus, stockbrokers and real estate businesses to comply with AML/CFT requirements such as appointing a compliance officer and filing

LCTRs and STRs. Following this, some financial institutions commenced reporting namely, 5 foreign exchange bureaus, 1 stockbroker, 3 insurance companies, 1 mobile money operator, and 1 real estate business. Though real estate businesses have been trained in November 2014 and February 2015, their compliance is not encouraging, and it has been difficult for the FIU to enforce AML/CFT obligation due to the large number of players in this sector who operate with little to no regulation. It is hoped that the proposal for administrative sanction in the revised ML Act will take care of instance of non-compliance.

Electronic Funds Transfers Reports (EFTRs) are filed with the FIU on a weekly basis and have no threshold attached to them. Currently the FIU receives over 200,000 EFTRs annually.

In the year under review, the FIU received 81 STRs from financial institutions, representing a 1.3% decrease when compared to last year's figure of 82 STRs. A total of 71 reports came from the banks, 1 from capital market firms, 6 from insurance companies, 1 from an LEA, and 2 from other FIUs. However, the FIU extracted 2 STRs from the LCTRs and this brought the total number of STRs for the year to 83.

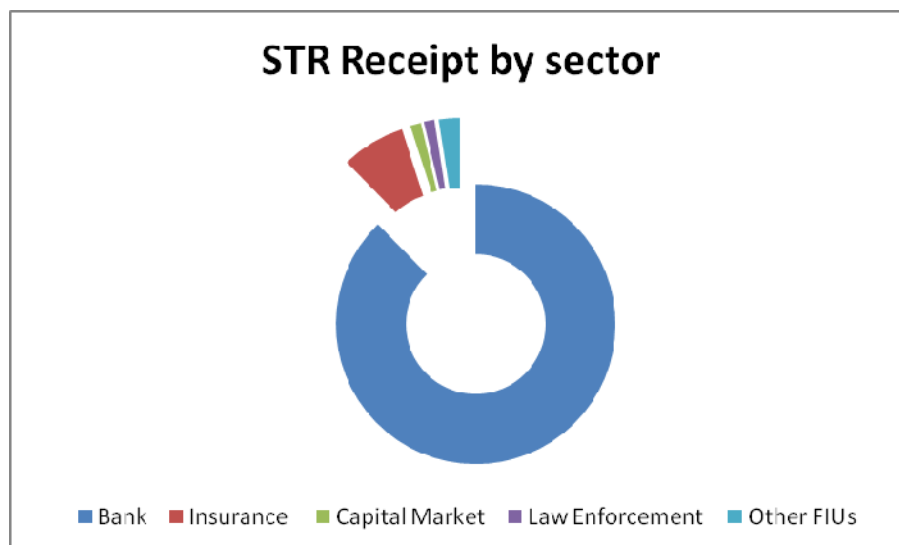


Figure 2: STRs received in 2015 by sector

As is evident from figure 3 below, over the past two years there has been an improvement on identification and filing of STRs by financial institutions and this has led to a reduction in the number of STRs the FIU has to extract from LCTRs. This has come about mainly due to the revelation of the public sector fraud, which was christened 'cashgate' by the local media. This scandal has forced financial institutions to realize that they are vulnerable, and

thus to become more aggressive in properly scrutinizing transactions and filing STRs with the FIU. Other contributing factors to these positive developments include feedback provided to individual financial institutions on their enquiries from time to time, the FIU's tailor-made training programs for financial institutions that require addressing of particular needs and regular meetings with Compliance Officers of banks aimed at addressing challenges being faced in implementing AML/CFT programs.

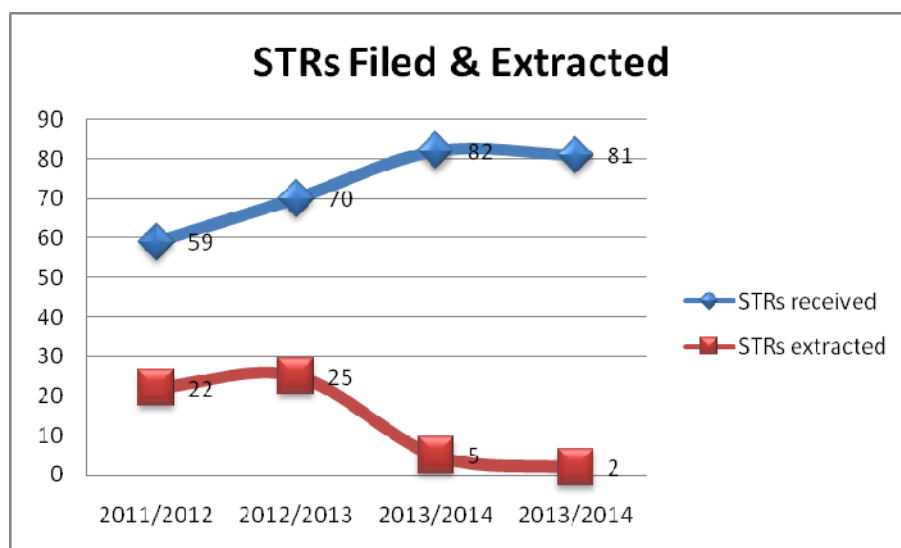


Figure 3: STRs filed to the FIU and extracted from LCTRs

2.1.2 Analysis of STRs

The FIU analyses the received STRs using i2 Analyst's Notebook. With this software, the FIU generates flow or link charts of financial transactions which show relationships between various accounts, transactions and customers. Where necessary, further information is requested from other financial institutions that did not file the STR but may hold valuable information to enrich the analysis process. Apart from this, LCTRs and EFTRs which have previously been inputted into the FIU database are also used to enrich the STR analysis process.

2.1.3 Dissemination of Financial Intelligence

The FIU disseminated 38 cases to LEAs for investigations and possible prosecutions. We escalated 12 cases to ACB, 7 to FFU, 13 to MRA, 3 to Director of Public Prosecutions, 6 to RBM, 1 to Immigration Department and 1 to another FIU. The disseminated cases

indicated possible tax evasion, corruption, theft, public sector fraud, private sector fraud, cheque forgery and foreign exchange externalisation.

2.1.4 Money Laundering trends established during the Financial Year

Though there were a number of predicate offences established in the analysis of STRs and LCTRs, the FIU established that a number of individuals and companies were involved in foreign exchange externalisation, arising from over-invoicing and under-invoicing of imports and exports. This was achieved through forgery of import documents and use of individual personal accounts for business transactions to evade tax.

2.1.4.1 Trade-based Money Laundering Typology in Malawi

During the period under review, the FIU came across a number of trade-based money laundering cases which included over-invoicing or under-invoicing of goods and services. Basically, the importer colludes with a supplier in another jurisdiction to over-charge on an invoice so that an additional value remains in that jurisdiction or gets transferred elsewhere for the importer. Some of the *cashgate* cases had characteristics of this nature. Under-invoicing technique is employed by exporters who set very modest prices for their goods in order to transfer the difference to the benefit in another jurisdiction. Both over-invoicing and under-invoicing are detrimental to the foreign exchange regime as well as tax collections by the Malawi Revenue Authority.

Apart from under-invoicing and over-invoicing, multiple invoicing of goods and services is another method that criminals have been employing. This involves issuing of more than one invoice for the same transaction, thereby justifying multiple payments. This fraud is perpetrated with the use of forged or fake documents from the Malawi Revenue Authority and freight forwarding agents.

Over-valuation of imports is another technique which is employed by criminals, and this is used for purposes of capital flight. Through this technique, big businesses with suppliers and sister companies overseas are over-invoiced by the suppliers. Once an invoice is paid by the company through their bank, the supplier deducts his actual due amount and transfers the difference into an account dictated by the company paying the invoice. In the case of businesses with sister companies overseas, the local company deliberately under-invoices the sister company. This enables the local company to keep illegal reserves offshore while at the same time reporting under-performance to reduce tax liability.

2.1.4.2 Case study on Over-Valuation of Imports for Capital Flight

Four companies, namely; S, T, B and M opened bank accounts with Bank C within a space of four weeks. One of the companies, M, was originally from Jurisdiction X and was purportedly the supplier of goods to the other three companies. Companies S, T and B were recently registered as sole proprietorships and had no trading history prior to the opening of the accounts at Bank C. The bank did not verify the veracity of the businesses and verifications were not made as regards to the declaration on of the extent of their trading. During the period August 2012 to June 2013, companies S, T and B made over 200 large cash deposits in their respective accounts. All the four companies had declared that they were trading in Salt. Once a considerable deposit was made in an account, the owner of the company would then produce an invoice from company M in jurisdiction X and request the bank to pay for the product to another company Y in jurisdiction K. During the period under review, the companies externalized over K4billion (US\$8.9million) out of Malawi. Enquiries in jurisdiction K showed that Company Y was registered as dealing in electrical appliances and nearly all the sums that were received from Malawi were sent to various jurisdictions.

Cases of this nature are reported to the Reserve Bank of Malawi and the Malawi Revenue Authority. Characteristics of this malpractice usually involve over- or under-shipments of goods and services. The key element of this technique is misrepresentation of the quantity of goods being shipped. Another is falsely describing goods being imported. This involves misrepresentation of the type of goods or their quality.

2.1.4 Information Sharing with LEAs and other FIUs

2.1.4.1 Information Sharing with Foreign FIUs

Under Section 11(2)(j) & (p) of the ML Act, the FIU is mandated to share information with foreign FIUs for purposes of fighting money laundering, terrorist financing, proliferation of weapons of mass destruction and other financial crimes.

The FIU made 5 requests to other FIUs. This was important because some cashgate suspects were allegedly involved in transactions with foreign entities or individuals. Apart from that, the FIU received 2 requests from other FIUs.

2.1.4.2 Information Sharing with Domestic Agencies

The FIU has a memorandum of understanding (MoU) with the Immigration Department which gives the former powers to vet all Business Residence Permits (BRPs) and

Permanent Resident Permits (PRPs). The FIU in this regard looks at the authenticity of the applicant's bank statement as well as the veracity of their financial standing.

Using this mandate, the FIU vetted 160 BRP and 211 PRP applications of which 16 BRP applications had false bank statements while 10 applications for PRP had false bank statements. This was communicated to the Department of Immigration for its action.

The processing by the FIU is aimed at helping the Immigration Department to curb illegal immigrants and those who pretend to have interest to investing in Malawi when they do not have such capacity.

Apart from the MoU with the Immigration Department, the FIU has MoUs with the RBM, MRA, ACB and FFU. The FIU received 52 requests from the ACB, 17 from the FFU and 5 from the RBM, and these were processed accordingly.

2.1.5 Liaising with LEAs during prosecution of cases in connection with Money Laundering and other Financial Crimes

In terms of LEA investigations and prosecutions, the *cashgate* scandal continued to take center stage. The FIU continued to provide further financial intelligence to the LEAs regarding the cases under investigations and before the courts. The results of this collaboration are evident in the number of cases which have ended up in convictions of the suspects.

Those convicted of money laundering during this reporting year were as follows:

- Mrs. Tressa Namathanga Senzani, former Principal Secretary of the Ministry of Tourism, was the first *cash gate* convict. She pleaded guilty to charges of theft and money laundering of K63.54 million from the government, which she later restituted by surrendering a house she owns. Her conviction led to a sentence of 3 years for money laundering and 9 months for theft. The sentences were set to run concurrently.
- Mr. Victor Sithole, received a 7 year jail sentence for money laundering, 1 year for being found in possession of stolen property and 1 year for illegal possession of foreign currency. The sentences are running consecutively. Victor Sithole, a former accounts assistant in the Ministry of Energy, Mining and Natural Resources, was found with cash in various currencies amounting to an equivalent of K112 million (US \$31,850 and R122, 200) at his house in Lilongwe.

- Mr. Wyson Zinyemba Soko, Malawi Congress Party's Deputy Director of the Youth, was sentenced to 4 years for money laundering and 3.5 years for theft. He was found guilty of theft and money laundering of K40.9million. The sentences are running consecutively.
- Mr. Maxwel Namata received a 5-year jail sentence for money laundering and 3 years for theft while, Mr. Luke Kasamba who got 4.5 years imprisonment for money laundering. The two were charged and tried together. Mr. Namata's sentences are running consecutively. The two were found guilty of stealing K24million from the government. Mr. Namata restituted the misappropriated K14million in cash while Mr. Kasamba restituted K4 million cash and a truck valued by the state at K9million.
- Mr. Oswald Lutepo, People's Party (PP) national governing council member, who was charged with conspiracy to defraud government and money laundering of K4.2billion. He initially pleaded not guilty, and later changed his plea to guilty in June 2015. He was awaiting sentencing as this reporting year came to an end.

The FIU continues to work in close collaboration with the LEAs and we hope that more convictions will follow during the next financial year.

2.2 IMPROVING REGULATORY SERVICES ON AML/CFT ISSUES

2.2.1 Assessment of Financial Institution's compliance with the ML Act

The FIU conducts on-site examinations on financial institutions to establish AML/CFT compliance of financial institutions. During this reporting period, the FIU conducted full AML/CFT on-site examinations as follows:

- Malawi Savings Bank Ltd from 24 November to 17 December 2014 and the branches visited were Blantyre, Limbe, Zomba, Lilongwe and Capital City.
- Standard Bank Malawi Ltd from 24 November to 18 December 2014 and the branches visited were Blantyre, Limbe, Zomba, Lilongwe and Capital City.
- Indebank Ltd from 25 May to 12 June 2015 and the branches visited were Top Mandala, Limbe, Lilongwe and Mchinji.
- First Merchant Bank Ltd from 25 May to 16 June 2015 and the branches visited were Blantyre, Limbe, Lilongwe and Capital City.

- Nedbank Malawi Ltd was joint exercise with the Reserve Bank of Malawi which took place from 8 to 22 June 2015. The branches visited were Blantyre, Lilongwe, Capital City and Mzuzu.
- Other on-site examinations were also done on 10 insurance companies from 23 to 27 March 2015 and 8 April 2015. The institutions visited were Charter Insurance Company Ltd, General Alliance Insurance Company Ltd, Malawi Reinsurance Company Ltd, Prime Insurance Company Ltd, Real Insurance Malawi Ltd, Reunion Insurance Company Ltd, Rhino Insurance Brokers Ltd, Smile Life Insurance Company Ltd, United General Insurance Ltd, and Vanguard Life Assurance Company Ltd.

Since most insurance companies are establishing AML/CFT systems, their assessments mainly focused on compliance with appointment of Compliance Officers, development of AML/CFT policies and levels of awareness among senior managers and staff members. Through the assessments, the FIU established that most compliance officers, staff members and board members were not trained, some companies had no AML/CFT policies and procedures, most companies were not filing any reports to the FIU, the companies had not done money laundering and terrorist financing risk assessments, and their KYC procedures were inadequate.

In response to the finding of the on-site examinations, some insurance companies organized training programs during this reporting period targeting staff members, senior management and the board and these include Nico Life Insurance Company Ltd, General Alliance Insurance Company and Rhino Insurance Brokers Ltd.

In the case of banks, some of the key AML/CFT deficiencies were insufficient capturing of know your customer (KYC) information, lack of enhanced due diligence on politically exposed persons (PEPs), lack of proper transaction monitoring system, inadequate training of staff members and board of directors, incomplete customer information updating exercise, inadequate coverage of AMLC/FT components during internal audits, and incomplete money laundering risk assessment. During this period, only one bank had installed an automated transaction monitoring system bringing the number of banks with automated transaction monitoring systems to two.

2.2.2 ML Act Review

The Malawi AML/CFT Law has been undergoing a review since 2013. The World Bank has been providing financial support through the Financial Sector Technical Assistance

Project (FSTAP). This process has been coordinated by the RBM and FIU. A draft bill was therefore submitted to the Ministry of Justice and Constitutional Affairs in early 2014. The expectation was that the bill would be passed into law by December 2014 but this did not happen. The Ministry gave some feedback on the draft bill and as this reporting year was coming to a close the FIU and RBM were planning to hold a final meeting to relook into the areas raised by the Ministry of Justice and Constitutional Affairs and other stakeholders. This meeting was scheduled to take place during the first quarter of the 2015/2016 financial year.

2.2.3 Development of Guidelines

In a bid to promote AML/CFT compliance and understanding among financial institutions, the FIU embarked on development of Guidelines during the last quarter of the previous year. The Guidelines were finalised during this financial year and these were on:

- a) Development of AML/CFT Policies,
- b) Suspicious Transactions reporting,
- c) Know Your Customer (KYC), and
- d) Money laundering and terrorist financing Risk Assessment.

The Guidelines will be circulated to the financial institutions during the next financial year. The guidelines simplify the provisions of the ML Act, and thus make it easier for employees of financial institutions to understand and implement the requirements.

2.2.4 Provision of feedback to Financial Institutions and LEAs

In compliance with Section 11 (2) (g) the FIU provides guidance and feedback to various financial institutions on various issues. In this reporting period, the FIU introduced a feedback mechanism which allows financial institutions to know how they compare with other financial institutions in relation to compliance with their reporting obligation. In this regard, a report is sent to all players in a given sector indicating how many reports each institution has submitted to the FIU. The feedback mechanism has been applied first to banks and will be introduced to the other sectors in the next reporting period. It has led to improved reporting compliance.

Apart from this, the FIU has from time to time provided ad-hoc guidance on specific issues such as how to properly file STRs and LCTRs, development of AML/CFT policies and development of compliance programs, among others. Through this interaction between the FIU and the financial institutions, some of them managed to develop and finalise AML/CFT policies and risk assessment tools.

2.3 INCREASING AWARENESS

2.3.1. Skills and awareness enhancement for financial institutions

As one way of encouraging financial institutions to take ownership of implementing AML/CFT compliance, the FIU arranged training programs for various reporting entities. The FIU currently trains financial institutions on request with the cost being shouldered by the respective institutions. This has contributed to increased number of staff of financial institutions being trained as the financial institution makes sure that the training is carried out in several of its branches or that there is good representation from its branches and business units.

Financial institutions have taken advantage of this arrangement and in this reporting period, the banking, insurance and capital markets sectors arranged for the FIU to train their staff and board members on their obligations under the ML Act. The training covered AML/CFT obligations, identification of suspicious transactions, reporting suspicious transactions, conducting audits of the AML/CFT compliance function and conducting a ML/TF risk assessment of their institutions. A total of 81 staff members, senior managers and board members were trained as a result of this initiative.

Further to this, the FIU also works to provide training through collaboration with other international institutions. In the past year, in collaboration with Tonbeller AG and Bateleur Software (Pty) Limited, the FIU organised a Risk and Compliance Seminar attended by 24 officers of various financial institutions. The seminar was aimed at assisting financial institutions to understand Know Your Customer (KYC) principles and how these feed into the risk assessment and customer transactions monitoring. The seminar was facilitated by 2 officers from Tonbeller AG and 1 from Bateleur Software (Pty) Limited.

The FIU has also been privileged to access funding from the European Union through the National Authorizing Officer (NAO) Support Unit, and with this funding 118 participants from the real estate sector were trained in Blantyre and Lilongwe. The objective of the training was to equip them with knowledge on their obligations under the ML Act.

2.3.2. Public Awareness

In order to promote understanding of AML/CFT issues by the general public, the FIU employs various means. In this fiscal year, the FIU continued to update its website with latest developments and also issued 3 press releases in the media on appointment of the Director of the FIU and other anti-money laundering developments in the country. To promote public awareness, the FIU distributed 6,000 brochures and 650 Annual Reports

for 2010/2011 and 2011/2012 and these were distributed to the NICE Trust, Malawi Library Services, government ministries and agencies, and many diplomatic missions and agencies.

Apart from that, the FIU produced billboards with funding from the European Union and mounted them in March 2015 in Blantyre at Ginnery Corner flyover, in Lilongwe at Amina House roundabout and in Mzuzu at Katoto roundabout near Shoprite. The billboards carried various messages on AML/CFT such as how engaging in money laundering can lead to imprisonment and tarnishing of one's image.



FIU billboard at Amina House roundabout along Paul Kagame Highway in Lilongwe

2.4 FINDING AND IMPLEMENTING CREATIVE SOLUTIONS THROUGH GATHERED AML/CFT INFORMATION

2.4.1 Information and Communication Technology (ICT) Operations

The FIU's work is dependent on a robust information system. During this year, the FIU continued to utilize its ICT department to make the operations of the FIU run smoothly. Apart from the routine ICT activities such as installation of trucrypt software in financial

institutions to enable them to encrypt report sent to the FIU and updating the FIU server, there were specific ICT projects implemented in the year.

2.4.1.1 Case Management System

The FIU finalized the development of the case management system. The system effectively automates case analysis processes. It has the ability to assign cases to Analysts and to automatically set probable deadlines. The Analysts work on their assigned cases against those deadlines and through this system tracking of progress on cases has been eased.

2.4.1.2 Online Reporting Project

Further, the FIU continued working on the online reporting project. Currently STRs are submitted to the FIU through courier or through an encrypted email. The FIU intends to change this and provide for an online reporting system which will reduce the cost incurred by financial institutions and will also reduce time spent by the FIU in decrypting reports, and inputting the contents thereof in the FIU database. With this reporting system, there will be an auto-reply and reports will automatically move into the FIU database. It is expected that development of the online reporting platform including a pilot test of the system will be finalized in the next financial year.

2.4.2 Study on Money Laundering Typologies and Trends in Malawi

As the year came to an end, the FIU had produced a draft report on Money Laundering Typologies and Trends in Malawi. This will be the second report, the first having been produced in 2011. This second report will be finalized and issued for public use during the next financial year.

In the second report, our stakeholders should look forward to information on money laundering typologies in relation to public sector fraud which has involved fake funding and generated payments; use of fake cheques; over-invoicing and under-invoicing of services and goods; inflation of exports to facilitate capital flight; use of personal accounts to evade tax; use of informal alternative remittance systems such as *hawala*; and use of bank transfers and third parties.

2.4.3 National Risk and Assessment and preparation for the AML/CFT Mutual Evaluation

Malawi conducted a National ML/TF Risk Assessment (NRA) exercise in 2013. The Government approved a report of the NRA in May 2015 and mandated the FIU to sensitise relevant stakeholders on the findings, implement the action plans and track progress made from time to time. The NRA is one crucial activity which Malawi has completed in compliance with the Financial Action Task Force (FATF) Standards as well as in preparation for an AML/CFT mutual evaluation. Malawi is expected to undergo the mutual evaluation exercise in 2017.

2.5 STRENGTHENING COORDINATION

2.5.1 Enhancing Domestic and International Cooperation

Money laundering, terrorist financing and other financial crimes are a concern to various stakeholders on the local and international scene and for this reason the FIU places importance on cooperating with its local and international partners. In the past year, the FIU undertook a number of steps to achieve its networking objectives.

2.5.1.1 Domestic Cooperation

The FIU held 4 quarterly meetings with LEAs, and this was complimented by over 20 walk-in meetings for review of *cashgate* and tax evasion cases under investigation and prosecution. Further, the FIU organised a meeting for members of the National AML/CFT Committee in August 2014 in preparation for attendance of the August 2014 ESAAMLG meeting in Luanda, Angola. The meeting was attended by 12 participants from various government ministries and statutory bodies with a stake in the AML/CFT regime.

The FIU held 3 meetings with compliance officers of banks. It also conducted one-on-one coaching sessions for compliance officers of various financial institutions on reporting of financial disclosures to the FIU. In addition to that, the FIU Director held meetings with Chief Executive Officers of some banks.

In May 2015, the FIU took part in a high-level meeting held in Lilongwe on coordination among the LEAs, the FIU and the RBM in combating financial crimes as well as the progress and challenges faced with investigation and prosecution of *cashgate* cases. Further, in this reporting period, the FIU and RBM refined their MoU and the signing ceremony took place on 25 May 2015.

2.5.1.2 Regional Cooperation

The FIU continued to attend meetings of the ESAAMLG which are held twice a year. Two officers attended the Task Force of Senior Officials and Council of Ministers meetings held

in Luanda, Angola, from 31 August to 6 September 2015. The Director of the FIU represented the Minister of Finance, Economic Planning and Development during the Council of Ministers meeting. Further, three officers attended the Task Force meeting held from 23 to 27 March 2015 in Arusha, Tanzania.

With the second round of AML/CFT Mutual Evaluations underway for ESAAMLG member countries, two officers attended a refresher workshop for Assessors and Reviewers on 28 March 2015 in Arusha, Tanzania. The purpose of the refresher training was to remind assessors and reviewers who would be involved in the assessment of Uganda and Zimbabwe on what is required when conducting a mutual evaluation. Officers from the FIU and other institutions are participating in the assessment and review of both countries. The officers participating in the assessment and reviews will use the knowledge gained in this process when Malawi will be undergoing its own mutual evaluation.

During this period, the FIU signed 5 MoUs with FIUs of Angola, Uganda, Kenya, Zambia and Zimbabwe. To-date, the FIU has MoUs with FIUs of Angola, Denmark, France, Kenya, Macedonia, Mauritius, Namibia, Nigeria, Philippines, South Africa, Tanzania, Taiwan, United Arab Emirates, Uganda, United States of America, Zambia and Zimbabwe. The MoUs provide guidelines to facilitate exchange of information among FIUs.



Directors of Malawi and Zambia FIUs exchanging MoU documents in September 2014

2.5.1.3 International Cooperation

As members of the Egmont Group of FIUs, the Malawi FIU attends meetings of the grouping held twice every year. The FIU managed to attend all meetings of the Egmont Group held in Berlin, Germany, from 25 to 28 January 2015 and Bridgetown, Barbados, from 7 to 12 June 2015. During the January 2015 Egmont meeting, the Malawi FIU Director was elected as Egmont Regional Representative for Eastern and Southern Africa for the period of two years. Currently, this region has seven FIUs that are members of the Egmont and these are: Angola, Malawi, Mauritius, Namibia, Seychelles, South Africa and Tanzania.

2.6 COMPLIANCE WITH THE FATF STANDARDS

The FIU coordinates AML/CFT activities in the country. Malawi, like any other country in the world, is obliged to comply with the FATF Standards which were revised in 2012.

Malawi's AML/CFT regime underwent a mutual evaluation in 2008 and through that process a number of deficiencies were identified, and since then the country produces Post-Evaluation Implementation Plan (PEIP) reports annually on progress made to address the deficiencies. This report is peer-reviewed by ESAAMLG member countries, and recommendations to note progress is made to the ESAAMLG Council of Ministers.

Remarkable progress has been registered from 2009 to-date. However, there has been little or no progress on Special Recommendation III (SR III), on targeted financial sanctions related to terrorism and terrorist financing. The assessors recommended that, among others, Malawi needed to develop a legal framework and arrangements on international cooperation and targeted areas such as developing a legal framework to facilitate freezing of funds used for terrorist financing, developing provisions to enable implementation of United Nations Security Council Resolutions 1267 and 1373, mutual legal assistance regarding entering into agreements to enable coordination of asset sharing and mechanisms for sharing of confiscated assets, and strengthening the penalty for entering into an arrangement to facilitate terrorist financing.

To address most of these issues, Malawi embarked on the review of the ML Act in 2013 and there is a draft bill which is expected to be tabled in Parliament within the next financial year.

2.7 DEVELOPING AND STRENGTHENING ORGANIZATIONAL STRUCTURE, SYSTEMS AND PROCESSES FOR AN EFFECTIVE FIU PERFORMANCE

2.7.1. The FIU's Human Resource Highlights

As at 30th June 2015, the FIU had 16 employees comprising 1 Director, 6 staff under Monitoring and Analysis, 2 under Information and Communication Technology (ICT), 3 under Compliance and Prevention, and 3 under Finance and Administration.

During this period, government appointed Ms. Atuweni-tupochile Phiri as Director of the FIU from December 2014 and the Parliamentary Public Appointments Committee (PAC) confirmed her in March 2015. She is the first substantive Director to be appointed since the FIU's establishment in 2007. She had been working as Acting Director of the institution from August 2012.

The FIU continued to enhance skills of its staff and during this reporting period the key training programs and workshops attended were on:

- Intelligence Analysis:
 - Intelligence Analysis Course facilitated by Investigative Software Solutions (ISS) in Pretoria, in August 2014 and February 2015, held in South Africa; and
 - IBM i2 Analyst Notebook training offered by Investigative Software Solutions (ISS), January 2015, in Pretoria, South Africa.
- Investigations:
 - Investigators and Prosecutors on Proceeds of Crime and Money Laundering training program, July 2014, organised by ICAR, ARINSA, UNODC and Basel Institute on Governance in Lilongwe, Malawi; and
 - Cyber Crimes Investigations Course organized by the US Department of State at International Law Enforcement Academy (ILEA), September 2014, held in Gaborone, Botswana;
- Risk Assessment:
 - Regional Workshop on NRA and Risk-Based Approach organized by the World Bank and ESAAMLG Secretariat, July 2014, held in South Africa; and

- Risk Based Approach to AML/CFT Supervision workshop organized by IMF African Regional Technical Assistance Centre (East AFRITAC), April 2015, held in Arusha, Tanzania.
- Financial Inclusion:
 - Regional Workshop on Financial Inclusion Peer Learning organized by the ESAAMLG Secretariat, July 2014, held in South Africa.
- Combating Terrorist Financing:
 - Implementation of UNSCR 1540 organised by the United Nations Security Council, August 2014, held in Lilongwe, Malawi.

These training programs have played a significant role in enhancing the FIU staff's skills in various areas such as analysis of transactions related to the *cashgate*, tax evasion cases and other cases; acquiring investigations skills; and sharing AML/CFT skills and experiences with other stakeholders from the Eastern and Southern Africa region.

2.7.2. Processes and Systems

During the year, the FIU reviewed its Staff Conditions of Service. This was done as part of administrative reforms for the FIU.

Besides the Conditions of Service, the FIU also has Standard Operating Procedures (SOPs) which regulate various operational issues. During this reporting period, the FIU reviewed its SOPs and developed others on Case Prioritization, STR Receipt, Registration & Allocation, Issuance of Freezing Orders/ Revocation of orders, Request for Information from/to Foreign Jurisdictions, Case Management and Data Quality Assurance.

PART 3 – CHALLENGES FACED & NEXT PLANS

3.1 CHALLENGES ENCOUNTERED

The major challenges faced during the year were as follows:

3.1.1 Reduced ORT funding

The FIU got reduced funding from December 2014 to June 2015. This affected implementation of some activities and payment to suppliers of ICT equipment, internet services, stationery, and other services.

3.1.2 Delayed payment of rentals for the FIU offices

The FIU operates from rented offices, a residential house based in Area 9. Payment of rentals for the year was the responsibility of Ministry of Lands and Physical Planning. For the first half of the fiscal year, payment was done on time but there was delayed payment of the rentals for the period January to June 2015. These rentals were not paid by April 2015 and the landlord threatened to issue an eviction notice. In the event that an eviction was effected, the FIU would have to relocate and this would be costly to government, and would also prevent the FIU from doing its work for some time.

3.1.3 Delayed Review process of the ML Act

The Money Laundering, Proceeds of Serious Crimes and Terrorist Financing Act has been under review since 2013. The World Bank is funding the process and their expectation for completion of this activity was end of 2014 but that has not been the case. Completion of the ML Act review process has faced delays unnecessarily. The fear is that this would negatively impact on the forthcoming mutual evaluation of the country, as many of the changes proposed in the 2008 mutual evaluation will remain unchanged if the ML Act review does not reach a conclusion.

3.1.4 Old office motor vehicles

The FIU has only 3 motor vehicles, 2 of which were bought in 2007 and 2008 respectively. Due to the nature of the work of the FIU, these vehicles have overworked and require replacement. The vehicles require frequent maintenance as such the cost of using them keeps rising every year. One of the vehicles was involved in an accident in 2009 and it still has operational defects. With the few vehicles and their frequent breakdowns, it becomes a challenge when there are assignments requiring travelling to different parts of the country at the same time.

3.1.5 Increased workload

The FIU is heavily understaffed and this has resulted into increased and stressful workload among the staff members.

With vacant positions of the Deputy Director, Legal and Policy Advisor and additional staff required, there is heavy workload for the Director which in turn has overflowed to other staff members. This affected implementation of some planned activities in this period.

When the FIU indicated to the Government that it had plans to recruit some employees during the 2015/16 financial year, the request was turned down citing financial constraints. This means the FIU will continue to work in these stressful conditions during the next reporting year.

3.1.6 Slow progress towards Online Reporting System

Development of this system continued during this reporting year. An online interface was added to the FIU's website to allow users to login and access the online reporting form. The FIU also designed an automatic database for the system which was expected to be fully functional by May 2015. The system piloting phase was done from the FIU end but stalled on the financial institution's end. It was planned that usage of the system would start with banks. However, some challenges arose when banks were told that usage of this system would require a dedicated computer for this function only. The FIU will in the next financial year consult with Chief Executive Officers of the banks on the assigning a special computer for this system.

The system is aimed at enabling financial institutions to securely submit reports to the FIU online. The reports will be processed straight into the FIU database and this will eliminate the need for manual data capturing by the FIU. Financial institutions currently submit reports to the FIU via encrypted email and courier.

3.2 PRIORITIES FOR THE NEXT FINANCIAL YEAR

In the next financial year, the FIU will continue to carry out its routine activities which include analyzing financial transactions based on prioritization, quarterly meetings with LEAs and financial intuitions, providing guidance and feedback, and attending ESAAMLG and Egmont Group meetings among others. However, the FIU plans to implement specific major activities which enhance the operations of the FIU.

- The FIU plans to update its i2 analysis software by procuring the latest version of the software. This new version includes an inbuilt database which will make it easier for the analysts within the FIU to retrieve data. Further, the new software allows for multiple users. This will mean every analyst in the FIU will have access to the software when carrying out their work.
- The FIU plans to continue with its outreach to financial institutions that are unaware or have not started complying with their obligations under the ML Act such as real estate agents, lawyers, forex bureaus, insurance companies, accountants, casinos and gambling houses, and other financial institutions whose reporting was not good enough or nil during this reporting year.
- There has been very slow progress on review of the ML Act. The FIU will continue to coordinate this exercise with the RBM. It is hoped that the ML Act will be passed in the next financial year.
- The FIU will coordinate preparations for the AML/CFT mutual evaluation exercise for Malawi which will take place in 2017. Among others, this will involve sharing of the NRA report, meetings with stakeholders on data needed for the mutual evaluation, filling of a technical compliance questionnaire and planning the necessary meetings for government officials.

PART 4 – FINANCIAL INFORMATION

4.1 FUNDING AND FINANCIAL STATEMENTS

4.1.1 Funding

During the year under review, the FIU got an allocation of 319,812,598 from the national budget of Malawi out of which K210,196,640 was for Other Recurrent Transactions (ORT). However, the actual funding received was K302,156,726.07 and out of this K192,540,768.07 was for ORT (representing 92% utilization). The funding which was received enabled the FIU to implement most of its planned activities.

The FIU wishes to commend Government, in particular the Treasury, for the funding remitted monthly for its operations. However, the ORT funding was for many months not remitted timely and as a result this affected implementation of some planned activities and payments for goods and services provided.

4.1.2 Financial Statements for the year ended 30 June 2015

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 2015

Income and Expenditure for the Period Ending 30 June 2015

	Notes	MWK 2015	MWK 2014
Income			
Revenue	4	301,662,654	247,469,802
Total Income		301,662,654	247,469,802
Expenditure			
Expenses	5	306,286,799	259,675,633
Total Expenditure		306,286,799	259,675,634
Surplus/ (Deficit)		(4,624,145)	(12,205,832)

BALANCE SHEET**Balance Sheet as at 30 June 2015**

	Notes	30 June 15 MWK	30 June 14 MWK Restated
Noncurrent Assets			
Intangible Assets	7	0	0
Property, Plant & Equipment	8	15,907,755	17,541,717
Total Non Current Assets		15,907,755	17,541,717
Current Assets			
Debtors	9	41,781,637	37,530,097
Loan Revolving Account		482,487	1,466,452
Cash at Bank and in Hand		1,327,185	4,521,329
Suspense Account	10	0	220,201
		43,591,309	43,738,079
Total Assets		59,499,064	61,279,796
Reserves and Liabilities			
Reserves		(11,623,912)	(6,999,767)
Current Liabilities			
Trade and other payables	11	70,474,331	66,427,467
Overdraft		0	1,203,451
Accruals		648,645	648,645
Total Current Liabilities		71,122,976	68,279,563
Total Reserves and Liabilities		59,499,064	61,279,796

CASH FLOW STATEMENTS

	30 June 15	30 June 14
	MWK	MWK
Cash flows from operating activities		
Cash receipts	301,662,654	247,345,188
Cash Paid to suppliers and employees	<u>(298,411,165)</u>	<u>(228,901,999)</u>
Cash Utilized in operations	3,251,489	18,443,189
Interest received	17,463	124,614
Net cash flow from operating activities	3,268,952	18,567,803
Cash Utilized in Investing Activities		
Purchase of Property, plant & Equipment	(7,447,080)	(14,745,418)
Net Cash flow from investing activities	<u>(7,447,080)</u>	<u>(14,745,418)</u>
Increase/ (Decrease) in cash and cash equivalent	(4,178,128)	3,822,385
Cash and cash equivalents at beginning of yr	5,987,781	2,165,396
Cash and Cash equivalents at end of yr (note 6)	<u>1,809,653</u>	<u>5,987,781</u>

NOTES TO THE FINANCIAL STATEMENTS

Accounting Policies to the Annual Financial Statements for the year ended 30 June 2015

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 are nil at the year end 30 June 2015. FIU Malawi is currently working on revaluing the assets.

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 7 years
- Office Equipment 4 years
- Motor Vehicles 7 years
- Office Furniture 7 years

However the assets have not been revalued. There is an ongoing review of fixed assets which might affect the account statements significantly. These will be put in restated accounts for the year ending 30 June 2016.

2.7 FIU Pension Fund

The FIU expenses the Pension contributions made for staff monthly. The Pension Fund is with 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 15	30 June 14
	MWK	MWK
Funding	296,809,661	228,296,404
Other Income *	1,989,228	16,350,886
Interest on Staff Loans	2,863,765	2,822,512
Total Revenue	<u>301,662,654</u>	<u>247,469,802</u>

*Other income includes interest received from various financial institutions for training of their officers, money paid by banks for Risk Assessment Training (K1, 971,765) and money from bidders of Accounting Software (K 50,000.00)

5. Expenses

	30 June 15	30 June 14
Depreciation	9,081,042	3,405,947
Amortization	0	0
Staff costs	120,529,726	100,065,144
Travel expenses	81,746,677	67,933,954
Other Expenses	94,929,354	88,270,588
Total Expenses	<u>306,286,799</u>	<u>259,675,633</u>

6. Cash and Cash Equivalents

Cash comprises cash at bank and in hand.

	30 June 15	30 June 14
	MWK	MWK
Deposits and Bank balances	1,323,509	4,518,070
Cash on Hand	3,677	3,259
Loan account	482,467	1,466,452
Total cash and cash equivalents	<u>1,809,653</u>	<u>5,987,781</u>

7. Intangible Assets

	Analyst Notebook MWK	Database- FIMTRAC MWK	Micro Server MWK	SQL 05 MWK	M Visual Studio MWK	Total MWK
Cost						
At 1 July 2014	4,144,000	2,850,000	1,062,600		340,200	8,396,800
Additions	0	0	0		0	0
At 30 June 2015	4,144,000	2,850,000	1,062,600		340,200	8,396,800
Amortization Charges						
At 1 July 2014	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 2015	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 2014	14,789,351	7,294,800	28,524,934	12,723,771	63,332,856
Additions	6,718,955			728,125	7,447,080
At 30 June 2015	21,508,306	7,294,800	28,524,934	13,451,896	70,779,936
Depreciation					
At 1 July 2014	10,478,949	6,775,164	24,362,949	4,174,076	45,791,138
Disposals	-	-	-	-	-
Charge for the yr	2,758,928	153,729	3,045,668	3,122,718	9,081,043
Accumulated Dpn At 30 June 2015	13,237,877	6,928,893	27,408,617	7,296,794	54,872,181
Net Book Value	8,270,429	365,907	1,116,317	6,155,102	15,907,755
At 30 June 2015					

9. Debtors

	30 June 15	30 June 14
	MWK	MWK
Staff Debtors	41,251,547	37,000,007
Other Debtors	530,090	530,090
	<u>41,781,637</u>	<u>37,530,097</u>

10. Suspense Account

The amount in Suspense Account in relation to missing Petty Cash expenditures documentation has been written off as general expenses. 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 15	30 June 14
	MWK	MWK
Trade Creditors	-	-
Other Creditors (Tax)	70,474,331	66,427,466
	<u>70,474,331</u>	<u>66,427,466</u>

The figure for Tax includes PAYE for June 2015 amounting to K4, 046,863.82 which was paid in July 2015. K66, 427,466 opening figure for Tax is a result of FIU being told by MRA that Government remits its Tax. Note however that we have now started paying Tax directly to MRA

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