



FINANCIAL INTELLIGENCE UNIT

REPUBLIC OF MALAWI

2015 / 2016 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 |
| 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 |
| FATF | Financial Action Task Force |
| FIU | Financial Intelligence Unit |
| 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 |
| NIB | National Intelligence Bureau |
| NRA | National Risk Assessment |
| RBM | Reserve Bank of Malawi |
| STRs | Suspicious Transaction Reports |
| UN | United Nations |
| UNSCR | United Nations Security Council Resolution |

THE DIRECTOR GENERAL'S OVERVIEW OF THE FINANCIAL YEAR



I present the FIU's Annual Report for the period July 2015 to June 2016 with much pleasure and satisfaction. This is the ninth annual report for the FIU since 2007, and for the first time the agency received a record 134 Suspicious Transactions Reports (STRs). The FIU is happy that all banks have firmly embraced the compliance culture which is evident by the improvement in the quality of STRs and timely responses to the FIU's enquiries for further information. This in turn results in the FIU generating quality and relevant financial intelligence for use by law enforcement agencies (LEAs).

The STRs from the banking sector represented 99% of the total received. While the figure of STRs is very encouraging, the non-reporting by other sectors is a concern. Considerable outreach has been done over the years by the FIU to the financial institutions. In the financial year under review, the FIU trained 262 officers out of which 151 belong to the financial and designated non-financial businesses and professions (DNFBP) sectors. What remains for other financial institutions and DNFBPs is to have the knowledge gained translated into action in terms of complying with reporting and other obligations.

The STRs received were analysed and out of them 37 cases on suspicion of tax evasion, corruption, illegal externalization of funds, money laundering and terrorist financing, among other crimes, were disseminated to LEAs.

Cashgate cases continued to be investigated and prosecuted during this financial year and the FIU continued to provide intelligence where necessary. Three suspects were convicted of money laundering and other financial crimes but were awaiting sentencing while four other convicts were sentenced and got jail terms ranging from 3 to 11 years with money laundering attracting 2 to 8 years imprisonment. The agency is pleased with its contribution towards cases completed, before the courts and under investigations.

Moving into the next financial year, the FIU will prioritise coordination of the Financial Crimes Bill finalization so that it gets tabled in Parliament; procurement of an upgraded i2 analysis software; subscription to World Check which will assist the FIU conduct due diligence on individuals and entities; outreach to various financial institutions to promote compliance with the law; and preparation for the 2018 anti-money laundering and combating the financing of terrorism (AML/CFT) mutual evaluation.

I express my appreciation to the Government for the support rendered through the Treasury for funding of operations and the FIU's relocation to new premises. I also thank FIU staff for their hardworking spirit which has resulted in the achievements recorded in the financial year.

Enjoy the reading.

A handwritten signature in blue ink, consisting of a stylized 'A' with a circle around it and several diagonal lines crossing through it.

Atuweni Juwayeyi-Agbermodji (Mrs)
DIRECTOR GENERAL

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

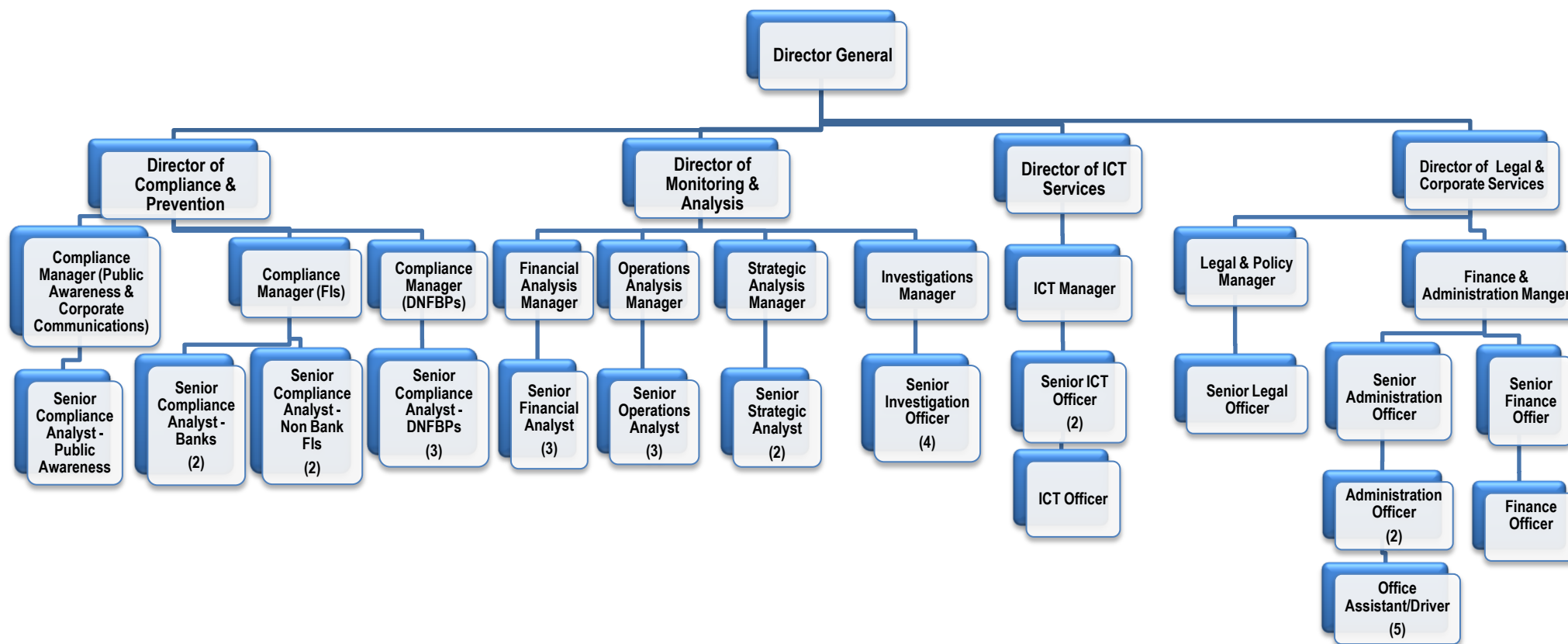
The FIU had a Strategic Plan that expired in December 2015. However, implementation of activities for the whole financial year followed the Strategic Plan which contained the following strategic objectives:

- 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 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

The FIU's organogram was revised during the period under review to reflect current implementation of operations and growth aspirations. The departments established in the organogram are as explained below:

Figure 1: Organisational Chart of the FIU



The Director General's Office

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

The Legal and Corporate Services department has two units: Legal and Policy, and Finance and Administration. The Legal and Policy Unit 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. On the other hand, the Finance and Administration Unit 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.

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.

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 laid before 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.

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 implemented its mandate through the strategic objectives laid out in a Strategic Plan which were last reviewed in 2012 and came to an end in December 2015. A new Strategic Plan was being developed for the period from July 2016 to June 2021.

Code of Conduct and Conflict of Interest

In September 2015, the FIU reviewed its Staff Conditions of Service which were approved by the Minister in line with Section 14 of the ML Act. The Staff Conditions of Service set out the behaviour that is expected of FIU staff during working hours and outside working hours. In the course of employment, FIU staff members are required to indicate any conflict of interest in order to maintain their integrity and that of the institution. Violation of the code of conduct would lead to disciplinary action.

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. Where a staff member violates the oath of confidentiality, they are liable to prosecution which would lead to a penalty of K100,000 fine and imprisonment for two years.

As a way of promoting transparency and accountability, staff members declare their assets at the beginning of their contract and any changes to their assets on yearly basis. . This helps the FIU know the wealth and the source of wealth that members of staff have, as a means of preventing corruption.

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. Further, the FIU is an active member of the following national Committees and Task Forces:

- Inter-Agency Committee on Combating Wildlife Crime in Malawi – coordinated by Department of Parks and Wildlife;
- Task Force on Cashgate – coordinated by Ministry of Justice and Constitutional Affairs;
- Democratic Governance Sector – coordinated by Ministry of Justice and Constitutional Affairs;
- E- Permit Project – coordinated by the Immigration Department;
- Exchange Control and Trade Issues – Coordinated by Reserve Bank of Malawi; and
- Corruption Early Warning System concept –Coordinated by the Anti-Corruption Bureau.

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 three types of reports, namely: Suspicious Transaction Reports (STRs), Large Currency Transaction Reports (LCTRs), and Electronic Funds Transfer Reports (EFTRs).

The STRs received were 134 and this represented a 65% increase when compared to last year's figure of 81 received STRs. A total of 133 reports came from the banks while 1 report was from an insurance company. Most STRs were received towards the end of the financial year because the FIU provided bi-annual feedback on reporting by the banks which acted as peer pressure and motivation mechanism for the sector. This strategy was complemented by AML/CFT training programs provided to the banks.

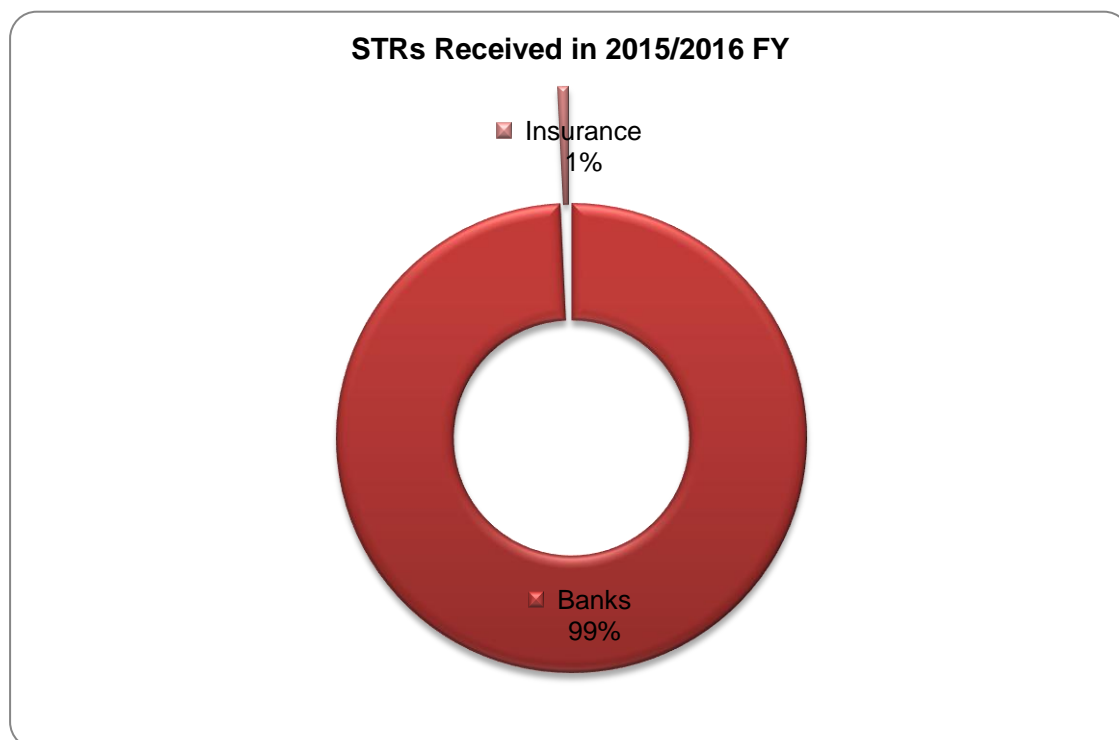


Figure 2: STRs received by sector

To help financial institutions improve on identification of suspicious transactions, the FIU continued to provide tailor-made training programs on need basis with the costs being borne by the financial institutions. In addition, the FIU submitted bi-annual letters to banks on the sector's STR filing statistics for the period and this helped some banks to enhance their transaction monitoring mechanisms resulting in more STRs filed with the FIU.

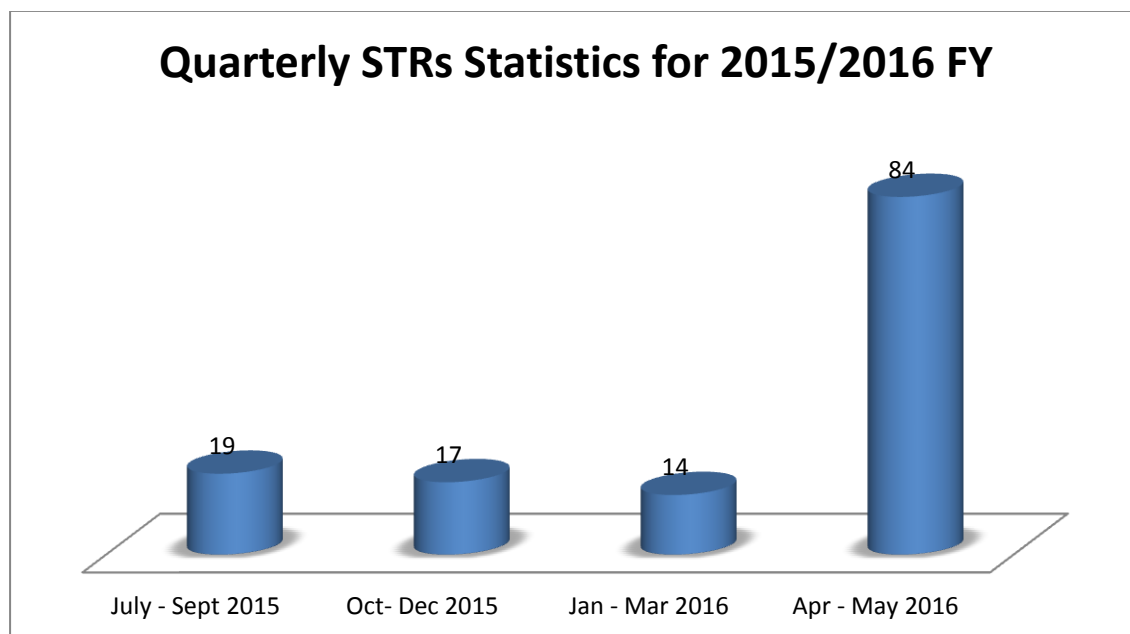


Figure 3: STRs received per Quarter of the FY

Financial institutions submit LCTRs to the FIU on weekly or monthly basis depending on the size of the sector and as guided by the FIU.

LCTRs submitted during the year came mainly from the 10 commercial banks, 2 mobile money operators, 12 out of 33 insurance companies, 5 capital market firms, 8 out of 14 foreign exchange bureaus, and 1 out of over 200 registered real estate businesses. There is still no reporting from casinos and gambling houses, savings and credit cooperatives (SACCOs), micro-finance institutions, accountants and lawyers. There was low outreach by the FIU to the micro-finance and gaming sectors and no outreach to accountants and lawyers during the financial year due to financial constraints. Further, the gaming sector felt that reporting obligations would affect their businesses negatively hence they were not willing to commence filing reports to the FIU.

In October 2015, it was noted that one bank, 5 insurance companies, 1 Real Estate Agent and 1 Foreign Exchange Bureau started reporting LCTRs.

The FIU was in constant contact with most financial institutions. To this end, some insurance companies appointed Compliance Officers which resulted into commencement of reporting of LCTRs.

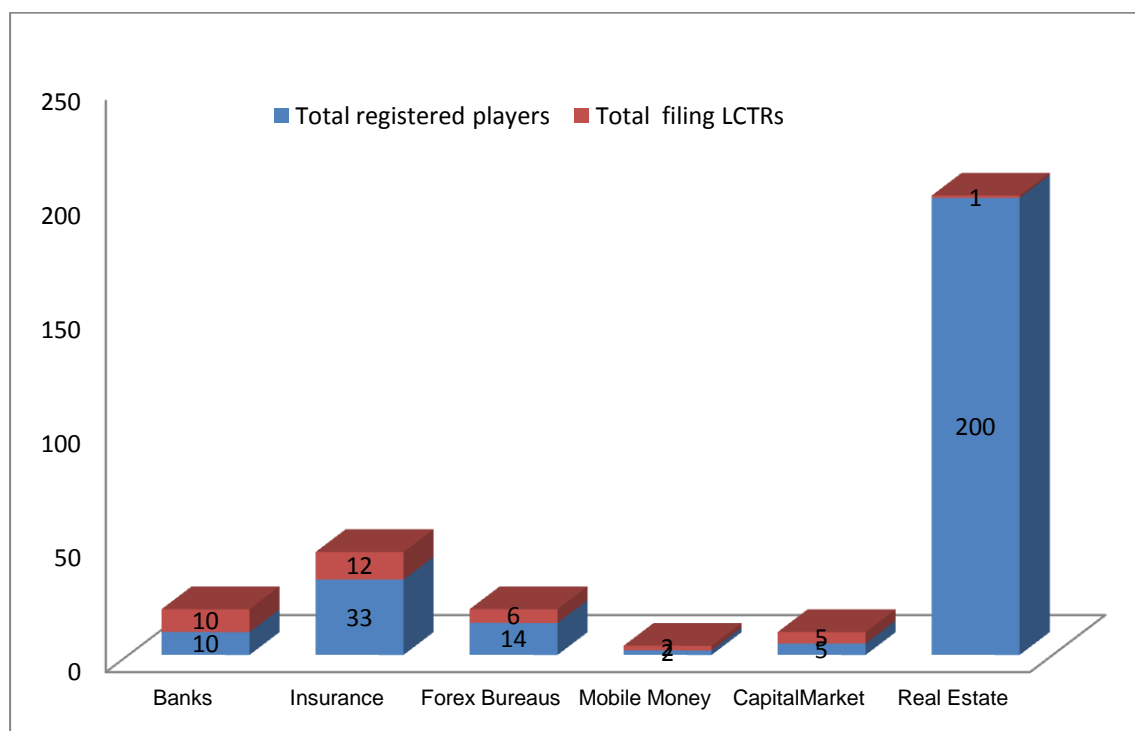


Figure 4: Profile of LCTRs filing to the FIU by sector in the 2015/16 FY

Electronic Funds Transfers Reports (EFTRs) are filed with the FIU on a weekly basis and have no threshold attached to them.

The EFTRs and LCTRs are very useful to the FIU particularly during analytical processes. LCTR and EFTRs are used to cross-reference transactions, check volume of transactions as well as reconstruct some transactions of interest before requesting for further details from the financial institutions.

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 might 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 analyses.

2.1.3 Dissemination of Financial Intelligence

The FIU disseminated 37 cases to LEAs for investigations and possible prosecution of suspected tax evasion, corruption, abuse of office, fraud, theft, illegal externalization of funds, money laundering and terrorist financing. Some cases that were disseminated to LEAs during the year under review were complex and involved many suspects. Such cases resulted from many STRs submitted by the financial institutions and ultimately falling under a particular predicate offence syndicate connected to various subjects of interest.

The disseminations for the year under review are as presented below:

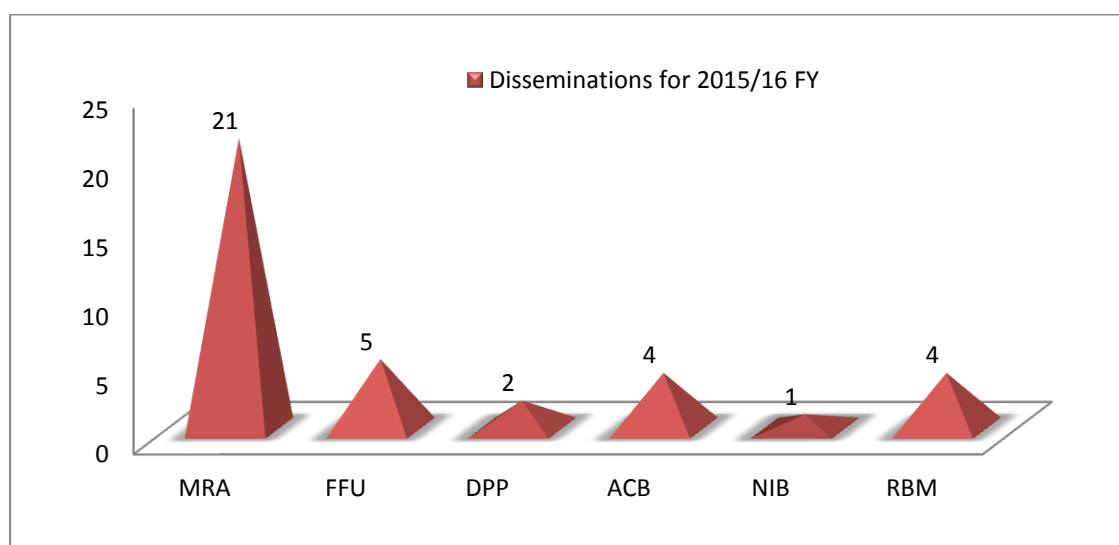


Figure 5: Disseminations made in 2015/2016 FY

2.1.4 Money Laundering trends established during the Financial Year

Among other areas of high interest during the period under review were cases of illegal funds externalization and cheque fraud.

2.1.4.1 Money Laundering Typologies: Illegal Externalization of Funds

The FIU analysed cases relating to illegal externalization of funds through the use of false importation documents. This necessitated an ad-hoc investigation in line with Section 11 (2) (i) of the ML Act in conjunction with the RBM from 11th November to 4th December 2015. The investigation confirmed a scheme amongst the Chinese business persons who were using fake MRA documents and bogus traders as beneficiaries. It was established that over US\$15 million was involved in this syndicate based on the sampled transactions analysed at 7 commercial banks.

2.1.4.2 Money Laundering Typologies: Cheque Fraud

Forged Cheques

The FIU noted during the year a growing trend of forged cheques being presented at banks in order to steal unsuspecting account holders. In their quest to derive profit from crime, the perpetrators tamper with telecommunication systems between the bank and their customer, and make it appear as if the customer has authorized the criminal to withdrawal of large sums of money from their account. Ordinarily, when cheque fraud is successful the fraudsters would withdraw all the proceeds and launder them by funding a high class lifestyle including buying luxury goods and services.

In this regard, the FIU isolated the following as actions that banks should look out for and raise suspicions:

- a) Customers requiring express clearance of cheques;
- b) Payment to third party with unknown business or relationship to the drawer;
- c) Unavailability of signatories to confirm cheque payment;
- d) Signatures not totally matching; and
- e) Unusual texture and quality of cheque paper.

During the year under review, 11 incidents were reported to the FIU. In certain instances, such attempts were discovered and identified before funds were paid out to the unscrupulous individuals. In other instances, however, the suspects were successful and banks have had to repay their customers. The sanitized cases below are just some of the schemes which the FIU received and analysed.

2.1.4.3 Case study 1

| | |
|----------------------------|--|
| Subject of Investigations: | Ms. Maria |
| Identification: | Malawian passport + Phone Number |
| Victim: | Mr. MJT, of Bank 10. |
| Transferred Amount: | Attempted transaction of K19.5 million |

Transaction Details: In October 2015, a cheque drawn on Mr. MJT's account at Bank 10 amounting to K19.5 million was deposited into a newly opened account of Ms. Maria at Bank 07. At the time of the deposit, Mr. MJT had travelled outside Malawi. The cheque was not cleared as the bank failed to verify the cheque with the drawer. Upon his return, Mr. MJT discovered that his phone number was blocked by the service provider on allegation that he had reported that his SIM card was misplaced and wanted to have it replaced. The bank reported the matter to police and filed an STR with the FIU. However, Ms. Mary is elusive and suspected to have fled to another jurisdiction.

2.1.4.4 Case study 2

| | |
|----------------------------|----------------------------------|
| Subject of Investigations: | Tutu Ltd |
| Identification: | Driver's License |
| Victim: | XXX District Assembly at Bank 03 |
| Cheque Amount: | K5,500,000.00 |

Transaction Details: In June 2016 a cheque drawn on XXX District Assembly from Bank 03 payable to Tutu Ltd of bank 05 was cleared and paid. A few weeks later a duplicate cheque payable to Tutu Ltd of Bank 14 was again presented for clearing. The bank system rejected the cheque since it was showing the status of being already cleared. However, an officer from Bank 03 went ahead to clear the cheque and it was paid out at bank 14. Upon discovery of this, the bank filed an STR with the FIU and commenced its internal investigations. The FIU analysis and the bank's internal investigations helped the bank to get a clear picture of how the funds from this scheme were moved. The bank lost money hence took an administrative action against the officer involved.

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 1 spontaneous report and 1 request 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 144 BRP and 77 PRP applications with 20 BRP and 8 PRP applications having problems such as expired passports and false bank statements. This was communicated to the Department of Immigration for its action.

Apart from the MoU with the Immigration Department, the FIU has MoUs with the RBM, MRA, ACB and FFU. The FIU received 5 requests from the ACB on fraud, theft and money laundering; 1 from the MRA on tax evasion; and 3 from the RBM on foreign exchange externalization, and these were processed and responded to accordingly.

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

The FIU continued to provide further financial intelligence to the LEAs regarding the *cashgate* cases under investigations and before the courts. Developments on *cashgate* convictions during the financial year were as follows:

- a) On 26th August 2015, Mr. Leonard Kalonga pleaded guilty to charges of conspiracy to defraud government and laundering of K3.7 billion. As at the end of this financial year, he was awaiting sentencing;
- b) On 4th September 2015, Mr. Oswald Lutepo who on 15th June 2015 pleaded guilty to charges of conspiracy to defraud government and laundering of K2.1 billion, was sentenced to 11 years by the High Court. He was sentenced to 8 years imprisonment for money laundering and 3 years for conspiracy to defraud government, and the sentences are running consecutively;
- c) On 19th October 2015 Mr. Mkhuzo James Bandula Chirwa of Zonzoma Civil Engineering Contractors was convicted on three Cashgate charges involving about K513 million on his own plea of guilty. He was Senior Quantity Surveyor with Ministry of Lands, Housing and Urban Development. He was awaiting sentencing;

- d) On 14th December 2015, business lady Ms. Esnart Nenani Ndovie was sentenced to 30 months imprisonment for money laundering and 9 months for lending a business certificate for personification. She was convicted following her own guilty plea before Lilongwe Magistrate Court. She offered a motor vehicle valued by the Road Traffic and Safety Services at K15m as her restitution from the cashgate proceeds. The sentences are running consecutively;
- e) On 4th February 2016, businessman Mr. Allan Harrison Magombo was convicted in connection with theft and money laundering of K32.5 million government funds by getting the money from Ministry of Local Government without rendering any services. He was awaiting sentencing;
- f) On 31st May 2016, business lady Ms. Angella Katengeza was sentenced to 5 years imprisonment for money laundering. She arranged with Mr. Leonard Kalonga of Ministry of Tourism to use her company, Faith Construction Company, to defraud K105.9 million government funds for services not provided; and
- g) Ms. Caroline Savala was on 28th June 2016 sentenced to three years for theft and seven years for theft and laundering. She arranged with Mr. Leonard Kalonga to use her company, Kamu Civil Engineering, to get K84.9 million from the Ministry of Tourism for no service rendered. The sentences are running concurrently.

In addition to the cases above, Mr. Steve Likhunya-Phiri, an IT Expert in the civil service was arrested in December 2015 for allegedly being behind manipulation of government's financial system, Integrated Financial Management Information System (IFMIS), to facilitate *cashgate* transactions. He is part of the K2.4 billion cashgate case, charged alongside Mr. Paul Mphwiyo, former Budget Director in the Ministry of Finance, Economic Planning and Development.

Furthermore, in November 2015 the courts started hearing a case on theft and laundering of over K201 million which took place between 2010 and 2011 involving 14 persons. The theft syndicate in this case was unearthed by the FIU in 2011 through its analysis and the intelligence was passed on to LEAs.

2.2 IMPROVING REGULATORY SERVICES ON AML/CFT ISSUES

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

Pursuant to Section 11(2) of the ML Act, the FIU conducts on-site inspections and compliance investigations of financial institutions to determine compliance with the law. In this regard, the FIU carried out a comprehensive on-site examination of New Finance Bank

(NFB) from 1st to 12th February 2016. The bank had established a compliance function which had started reporting with the FIU from October 2015, ten months after the bank had commenced its operations in the country. Major shortcomings were on KYC, particularly verification of customer identification documents, physical addresses and source of income as well as risk profiling of Public Officials commonly known as Politically Exposed Persons (PEPs). Further areas of concern were on audit of the compliance function, training scope on AML/CFT, and conducting of risk assessment. By June 2016, the bank was reporting LCTRs consistently. In addition, the bank had incorporated AML/CFT in its quarterly internal audit programs, included AML/CFT in its staff induction program, and trained all staff members in AML/CFT in April 2016.

Further, joint compliance investigations were conducted with the RBM which unearthed a scheme on externalization of funds through use of false importation documents. The investigations originated from the FIU's analysis and they confirmed a scheme amongst Chinese business persons who were using fake MRA documents and bogus traders as beneficiaries. The investigations were done on Standard Bank, Nedbank, FDH Bank, Indebank, National Bank, Ecobank and First Merchant Bank. It was established that over US\$15 million was involved in this syndicate. The FIU was represented in the joint operation by 2 officers. The FIU was analyzing the transactions for proper disseminations to LEAs.

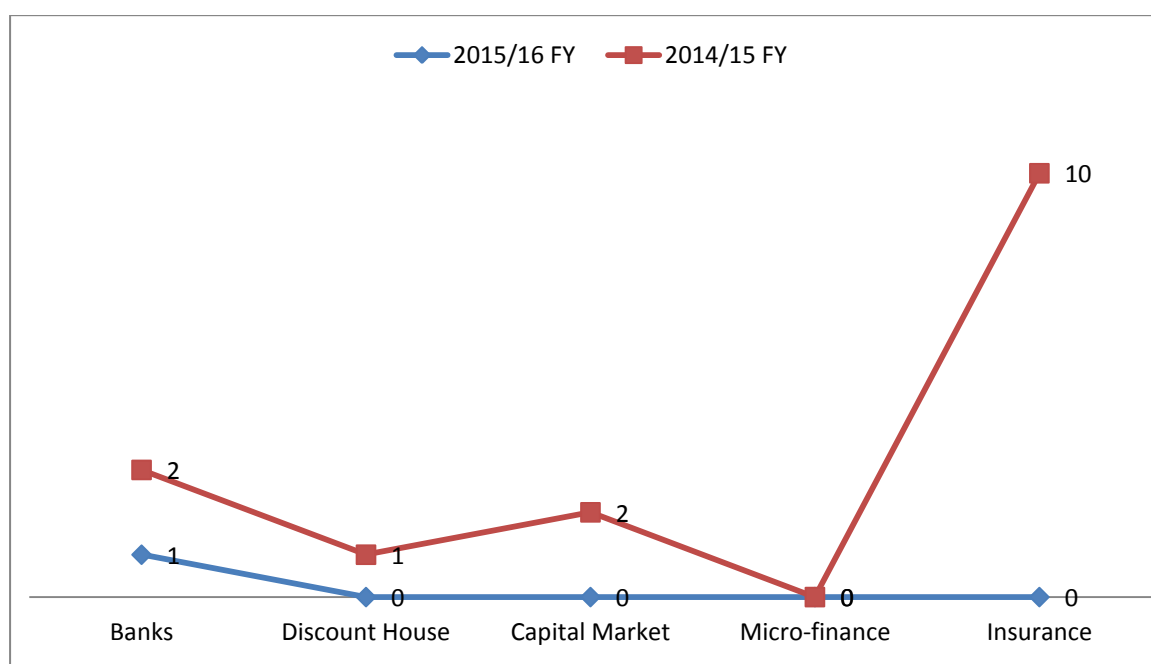


Figure 6: Full scope on-site inspections by the FIU

In addition, there was an ad-hoc onsite visit to Pirates Casino in April 2016 to appreciate how it operates and determine how Know Your Customer (KYC) measures could be implemented. It was noted that the casino observed no any KYC procedures whether during on-boarding or cashing out of winnings. In the next financial year, the FIU intends to increase AML/CFT awareness with the casino and gaming sector, and install encryption software for reporting of LCTRs and STRs.

In terms of follow-up activities to on-site examinations conducted in the previous year, the FIU met executive management of Nedbank Malawi Limited on 6 October 2015 following the FIU's request regarding STR non-compliance issues established during an AML/CFT on-site examination of the bank in June 2015. The bank informed the FIU that it was putting in place various measures to address the issue through, among others, recruitment of additional staff for the compliance function and intensification of monitoring automated transaction alerts to enhance identification of suspicious transactions. In December 2015, the bank recruited the Head of Compliance and Money Laundering Control, Compliance Officer, and Money Laundering Control Officer. Previously, functions of the three positions were being handled by one officer, the Company Secretary.

2.2.2 ML Act Review

The FIU and RBM continued to meet and contribute to the AML/CFT Bill. In September 2015, the two institutions met and finalized their input on the Bill. In December 2015, the Ministry assigned a senior draftsman to work with the FIU, RBM, MoF on the Bill. This was followed by a meeting in Mangochi from 29th May to 1st June 2016 where the Chief Legislative Draftsperson led the process of cleaning the Bill which came to be known as the Financial Crimes Bill. However, it was established that finalization of the document needed more time than anticipated hence the Bill could not be presented to Cabinet for approval and tabling in Parliament during the 2016/2017 Budget Session as Government had wished.

2.2.3 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. This has led to improved reporting compliance.

Other feedback and guidance issues were implemented during the financial year as follows:

- Feedback to financial institutions through one-on-one sessions through which compliance officers discussed with the FIU on STR Reporting procedures, statistics on STRs received, cases analysed or disseminated to LEAs, and ways of coming up with better suspicious transaction reports;
- Guidance to banks, securities firms and insurance companies on AML/CFT Policies, money laundering risk assessment frameworks, implementation of recommendations from the FIU emanating from an on-site examination, of the bank; and KYC. This was provided guidance and feedback to 6 banks, 4 insurance companies, 1 gaming house, 1 real estate agent, and 1 local money remitter; and
- Briefing session to management of Zoon and FNB on AML/CFT compliance obligations under the ML Act.

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.

The FIU trained 262 officers of financial institutions and LEAs as follows: United General Insurance (28 officers); Rhino Insurance Ltd (8 Board of Directors); Prime Insurance (7 Board of Directors); Trained 10 officers of General Alliance Insurance Company (10 officers); Malawi Posts Corporation (40 officers); Reunion Insurance Company (8 Board of Directors and 44 officers); casino and gaming site operators (31 officers); Vanguard Life Assurance Ltd (3 Board of Directors); Malawi Police Service (55 officers); Anti-Corruption Bureau (15 officers); and Inter-Agency Committee on Wildlife Crimes (41 officers drawn from the Judiciary, Police, ACB and Department of Parks & Wildlife).

The training programs were meant to promote AML/CFT understanding among various financial institutions and LEAs.

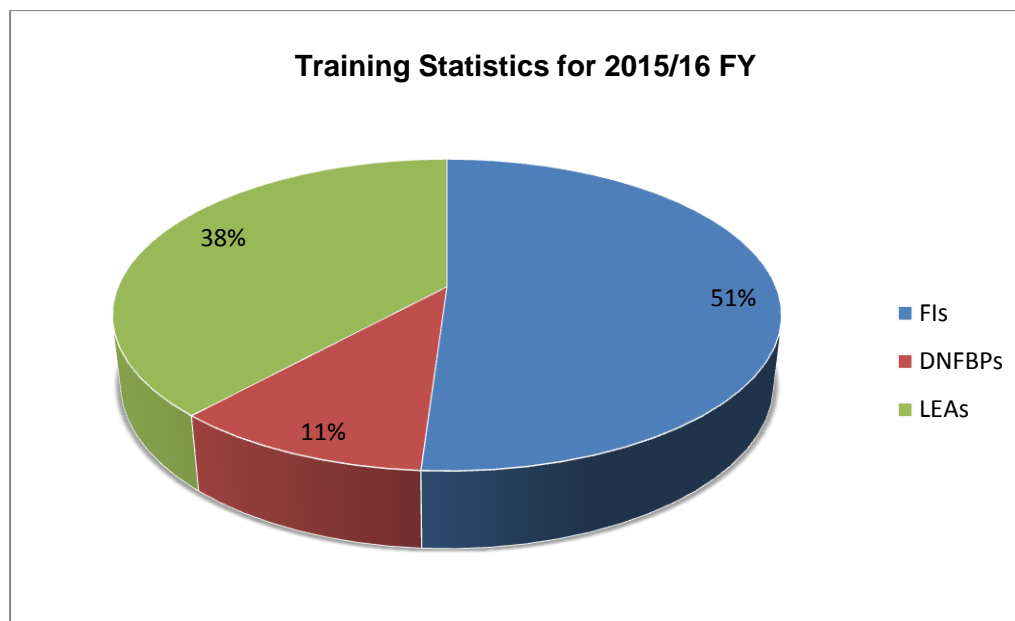


Figure 7: Training offered to reporting entities & LEAs

2.3.2. Public Awareness

To promote AML/CFT awareness among the general public, the FIU continued with distribution of leaflets, posting of articles on the website on key developments and use of billboards in Blantyre, Lilongwe and Mzuzu. A total of 3,503 brochures were distributed to financial institutions during training programs. In addition to that, articles on AML/CFT developments in the country were posted on the FIU website regularly and the developments included the AML Bill (2016) and government's commitment to table the Bill in Parliament, relocation of the FIU to new premises, development of the FIU Customer Service Charter, and training programs offered to financial institutions, among others. With regard to billboards, the FIU got support from the National Authorizing Officer (NAO) Support Unit for a three-month extension of Billboards subscription from April to June 2016. The billboards were removed at the end of June 2016. Furthermore, the FIU placed two press releases on relocation of its offices and its role in working with LEAs to deal with *cashgate*.

On 7th August 2015, the Anti-Corruption Bureau (ACB) arrested the Monitoring and Analysis Specialist of the FIU, Mr. Fumbani Mhango on allegations that he leaked confidential information to cashgate suspects and facilitated some payments related to the *cashgate*. The development attracted a lot of negative media publicity for the FIU.

However, the FIU issued a press statement reassuring the financial institutions, various stakeholders and the general public of its steadfast commitment to carrying out operations with diligence and professionalism.

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

2.4.1 Information and Communication Technology (ICT) Operations

The following ICT-related projects were implemented during the financial year:

2.4.1.1 Firewall installation

Cyberoam Unified Threat Management (UTM) was installed to enhance the organisation's network security and protect all networked resources. Cyberoam replaced the FIU's Cisco Adaptive Security Appliance (ASA) 5510 which is now obsolete and no longer supported by its manufacturers.

2.4.1.2 Server Re-installation

The FIU installed two server hard drives and re-installed the server which suffered electrical damage due to frequent blackouts and power surges in the previous year. In order to ensure business continuity and minimize network downtimes, the FIU procured and installed a modern server which can easily enable the FIU to virtualize its critical applications.

2.4.1.3 Additional ICT and Security gadgets

The FIU's relocation from Area 9 to Area 3 necessitated procurement and installation of additional ICT and security gadgets as follows:

- a) Local Area Networking. The new premises required extensive cabling and complex configurations;
- b) Additional cameras for Closed Circuit Television (CCTV) System the office premises meet international requirements; and
- c) Procurement and installation of an upgraded Private Automatic Branch Exchange (PABX) system with the capability to handle Voice over Internet.

2.4.2 Report on Money Laundering Typologies and Trends in Malawi

In June 2016, the FIU produced a report on Money Laundering Typologies and Trends in Malawi. This is a second report after the first was produced in 2011. This second report will be shared with the public during the next financial year. The report contains information on money laundering typologies in relation to public sector fraud which was characterised by fake funding payments; 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 was expected to undergo a mutual evaluation in 2017. In preparation for this, the FIU organised a high-level meeting on 7th July 2015 aimed at discussing preparations for the mutual evaluation by the AML/CFT stakeholders in the country and agreeing on the way forward on the National ML/TF Risk Assessment (NRA) reported which the Government approved in May 2015. In approving the report, the Government mandated the FIU to sensitize relevant stakeholders on the findings, implement the action plans and track progress made from time to time.

The high-level meeting was attended by 14 officers from the Ministry of Finance, Ministry of Justice, Ministry of Lands, RBM, Malawi Police Service, MRA, Directorate of Public Prosecutions (DPP), FIU and NIB. The meeting came up with a budget for preparatory activities for the mutual evaluation and was presented to the Minister of Finance for approval. It was also resolved that the FIU and RBM should sensitize all relevant stakeholders on the ML/TF risks identified through the NRA.

Implementation of the mutual evaluation preparations were halted after Malawi learnt during the August 2015 meetings of the ESAAMLG Task Force and Council of Ministers that the mutual evaluation for the country had been shifted to 2018.

2.5 STRENGTHENING COORDINATION

2.5.1 Enhancing Domestic and International Cooperation

The FIU considers coordination as a very good strategy for meeting its objectives. For this reason, it carried out a number of domestic and international coordination activities in the year.

2.5.1.1 Domestic Cooperation

The FIU held 3 meetings with the MRA, FFU and ACB in December 2015 during which progress on cases disseminated to them were discussed. Besides these meetings, there were 18 *ad-hoc* or walk-in meetings with the ACB for purposes of reviewing some *cashgate* and tax evasion cases under investigation and prosecution. In addition, the FIU attended meetings of the Task Force on *Cashgate* Cases in which the FIU was focusing on identification and recovery of tainted assets.

A meeting with Compliance Officers of banks, mobile money and capital markets was held on 4th December 2015. Such a meeting is supposed to be held every quarter; however, this was not possible due to the FIU's financial constraints.

The FIU and RBM met three times during the year under review: from 8 to 11th September 2015 on review of the initial AML Bill; from 22 to 23rd February 2016 on supervision of financial institutions and review comments by the Ministry of Justice on the AML Bill; and 21 to 22nd March 2016 on various issues including work plans, NRA Report dissemination, AML/CFT Guidelines, mutual evaluation preparations and financial institutions' compliance with reporting obligations.

At the request of the President of the Surveyors Institute of Malawi (SIM), the FIU held a meeting with some members of the executive of the association in March 2016 where it was briefed on the challenges being faced for the real estate sector to comply with AML/CFT obligations. It was agreed that the FIU would arrange a meeting with the Ministry of Lands, SIM, Lilongwe City Council and Malawi Housing Corporation to explore ways of promoting compliance and bringing sanity among businesses in the real estate sector.

On 27th April 2016, the FIU held a meeting with the Director of the Malawi Microfinance Network (MAMN) regarding reporting obligations by micro-finance institutions (MFIs). Further to that, the FIU met the Honorary Secretary of the Malawi Law Society in May 2016 to strategize on reaching out to the members of the society for purposes of their compliance with AML/CFT obligations for the sector.

The coordination done during this financial year is expected to propel the country towards further achievements.

2.5.1.2 Regional Cooperation and International Coordination

The FIU continued to attend meetings of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) which are held twice a year. Two officers attended the 15th Council of Ministers and 30th Task Force of Senior Officials meetings held in

Johannesburg, South Africa, from 23 to 28th August 2015. The Director of the FIU represented the Minister of Finance, Economic Planning and Development during the Council of Ministers meeting. Malawi was represented by 13 officials from the Financial Intelligence Unit, Ministry of Finance, Reserve Bank of Malawi, Malawi Revenue Authority, Malawi Gaming Board, and National Intelligence Bureau. One of the major issues for Malawi that came out of the ESAAMLG meetings was the concern on slow progress regarding amendment of the ML Act. Besides that, the country had not yet paid its 2015/16 subscription to the ESAAMLG. Other than that, three FIU officers attended the Task Force meeting held from 10 to 15 April 2016 in Arusha, Tanzania.

Prior to the Task Force meeting, the FIU Director General - who is also the Egmont Group Regional Representative for Eastern and Southern Africa - chaired the first ever meeting of heads of FIUs in the ESAAMLG region. The meeting took place on 21st August 2015 at the offices of the South African Financial Intelligence Centre and was aimed at discussing ways of promoting Egmont Group membership from FIUs of the region and exploring emerging issues among the FIUs.

As the fiscal year came to an end, the FIU was working on MoUs with Japan and Madagascar FIUs. Therefore the number of MoUs with other FIUs remained at 17 and these were: 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 facilitate exchange of information among the FIUs.

In addition, the FIU provided technical assistance to Zambia Financial Intelligence Centre through facilitation of a National Risk Assessment (NRA) training workshop for Zambian authorities in Lusaka from 3 to 4th September 2015, and later provided similar assistance to the FIU and other authorities of Nigeria regarding their ML/TF Risk Assessment using the World Bank Tool from 9 to 11th November 2015.

The Director General and one officer of the FIU attended a meeting of the Egmont Group of FIUs in Monaco, France, from 31st January to 5th February 2016. As a member of the Egmont, Malawi has benefitted a lot through exchange of information with other FIUs using the Egmont Secure Web (ESW). Malawi's FIU Director General is advocating for Egmont Group membership for FIUs in the region that are not yet admitted into this group. Out of 17 member countries of the ESAAMLG, only 7 have their FIUs as members of the Egmont Group and these are: Angola, Malawi, Mauritius, Namibia, Seychelles, South Africa and Tanzania. In Africa, only 21 FIUs are currently members of the Egmont Group.

Further, the Director General participated as an assessor in the mutual evaluation of Zimbabwe which took place in 2015, and another officer took part in the assessment of Botswana from early 2016. The participation of staff from the FIU in these mutual evaluations will contribute to effective preparation for Malawi's mutual evaluation scheduled for 2018.

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. One major element noted during the peer review is that Malawi needs to review and amend its ML Act and to put in place a mechanism to freeze funds of suspected terrorists. In this regard as of 30th June 2016, the FIU in conjunction with the RBM was coordinating a process of finalizing the Financial Crimes Bill which will replace the ML Act. It was envisaged that the Bill would be tabled during the November 2016 sitting of Parliament.

In 2015, Malawi was identified by the FATF as one of the countries having inadequate regulations for implementation of United Nations Security Council Resolutions (UNSCRs) 1267/1373/1988 and 1989. To this end, in June 2016 the country formed a Task Force to come up with an action plan and finalise the draft Regulations which had already been circulated to various stakeholders for their input and at the time of this report the FIU had received comments from the United Nations Counterterrorism Executive Directorate (UNCTED). The Task Force comprised the FIU, RBM, Ministry of Justice and Constitutional Affairs, and Ministry of Finance, Economic Planning and Development.

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 the financial year under review came to an end, the FIU had 16 employees comprising 1 Director General, 5 staff under Monitoring and Analysis, 2 under Information and Communication Technology (ICT), 4 under Compliance and Prevention, and 6 under Finance and Administration - one of whom was a driver seconded from the Office of the President and Cabinet.

Due to financial constraints, the FIA mostly relied on sponsored training programs. Key training programs and workshops attended were as follows:

- *Intelligence Analysis:*
 - Train the Trainer Strategic Analysis Workshop held in Rabat, Morocco, from 26 to 28 October 2015 with the aim of providing deeper understanding on principles of intelligence analysis and equip the participants with skills to train others.
- *Information Security:*
 - Egmont Group sponsored training programs on FIU IT System Maturity Model (FISMM) and on Securing an FIU (FIU-SEC) from 2 to 9 September 2015. The training programs took place in Manila, Philippines. A similar training attended took place from 30 November to 5 December 2015 in Peru.
- *Anti-Corruption:*
 - Workshop on Anti-Corruption Approaches in the Justice Sector from 12 to 13 August 2015 held in Lilongwe organised by Citizen for Justice with funding from GIZ. The training was aimed at providing a platform for various law enforcement agencies to implement a collaborative working culture as a means of addressing resource constraints when combating corruption and other financial crimes.

These training programs were very important to the FIU as they helped in the areas of strategic analysis and protection of information from hackers.

2.7.2. Processes and Systems

To further instill the spirit of transparency and trustworthiness among staff members and better deal with disciplinary matters, the FIU formed an Integrity Committee in May 2016 and developed a Code of Conduct and Ethics in June 2016.

PART 3 – CHALLENGES FACED & NEXT PLANS

3.1 CHALLENGES ENCOUNTERED

In implementing its operations, FIA faced the following challenges:

3.1.1 Low Funding

The funding appropriated for this fiscal year could only allow the FIU to marginally implement its operations thereby affecting some important activities such as public awareness and targeted on-site examination of financial institutions. The FIU planned to conduct full on-site examination of 4 banks and 5 insurance companies but only managed to conduct the exercise on 1 bank and a compliance investigation on 7 banks targeting wire transfers.

3.1.2 Delayed payment of rentals for the FIU offices

FIU operates from rented premises and the rentals are paid by the Ministry of Lands, Housing and Urban Development. As was the case in the previous year, the FIU faced a challenge regarding timely payment of rentals in line with a contract entered into with the landlord. As a result, the landlord could only allow the FIU to occupy the premises up to March 2016. With arrangements from the Ministry of Land, end March 2016 the FIU relocated to new office premises in Area 3.

The relocation from Area 9 to new premises in Area 3 resulted in interruption of the FIU's operations for some days as most information is placed on the server. This inconvenienced some financial institutions that had reports to submit or queries to be sorted out.

3.1.3 Old office motor vehicles

The FIU continued to carry out its operations using 3 motor vehicles, 2 of which were bought in 2007 and 2008 required frequent maintenance. This had an effect on the cost of maintenance and repairs.

3.2 PRIORITIES FOR THE NEXT FINANCIAL YEAR

The FIU will, among others, prioritise the following activities:

- Procurement of upgraded i2 Analyst's Notebook software to allow for multiple users and accelerate the analysis process.

- Procurement of World-Check licence to screen high risk individuals and entities, and uncover any adverse connections of subjects of interest.
- Continued outreach to financial institutions where compliance with AML/CFT obligations is minimal or non-existent. Such sectors include real estate agents, lawyers, forex bureaus, insurance companies, accountants, casinos and gambling houses, and other banks whose reporting was not good enough during this reporting year.
- Finalization of the Financial Crimes Bill and engaging the Government through the Ministry of Justice and Ministry of Finance to expedite the process of enactment of this Bill. Enactment of this Bill would help the country address most of the shortfalls identified during the 2008 AML/CFT mutual evaluation.
- Promoting awareness for financial institutions with regard to the key provisions in the Financial Crimes Bill after it is passed into law.
- Coordination of mutual evaluation preparatory activities. This would enable the country to address the shortfalls and have a common understanding on various AML/CFT issues that will be assessed.
- Retention of current staff and recruitment of additional staff members. This will address work overload among the staff and bring diversified skills into the FIU thereby contributing to further operational delivery.

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 254,127,682 from the national budget of Malawi out of which K140,000,000 was for Other Recurrent Transactions (ORT) and 114,127,682 for Personal Emoluments. However, the actual funding received was K310,387,328 as extra K60,000,000 was given for relocation from area 9 offices to area 3 and the introduction of the new salary structure necessitated increase in salary funding. 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.

4.1.2 Financial Statements for the year ended 30 June 2016

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.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

| Income Statement Account | Notes | MWK 2016 | MWK 2015 |
|--|--------------|-----------------------|-----------------------|
| Revenue | | | |
| Funding | | 316,734,394.00 | 296,809,661.00 |
| Total Revenue | | 316,734,394.00 | 296,809,661.00 |
| Gross Profit | | 316,734,394.00 | 296,809,661.00 |
| Administration Expenses | 4 | 293,784,131.00 | 302,640,214.00 |
| Other Expenses | | 7,062,660.00 | 1,049,515.00 |
| Surplus/ (Deficit) | | 15,887,604.00 | (6,880,068.00) |
| Other Comprehensive Income | 5 | 10,400,723.00 | 4,852,993.00 |
| Current Movement on Retained Earnings | | 26,288,326.00 | (2,027,075.00) |

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

| | Notes | MWK 2016 | MWK 2015 |
|---------------------------------------|----------------------------------|-----------------------------|-----------------------------|
| Assets | | | |
| Non Current Assets | | | |
| Property, Plant and Equipment | 9 | 11,749,850.00 | 15,907,754.00 |
| Total Non Current Assets | | 11,749,850.00 | 15,907,754.00 |
| Current Assets | | | |
| Trade Receivables | 10 | 47,816,561.00 | 41,781,637.00 |
| Cash and Cash Equivalents | 6 | 26,232,900.00 | 1,809,672.00 |
| Total Current Assets | | 74,049,461.00 | 43,591,309.00 |
| Total Assets | | <u>85,799,311.00</u> | <u>59,499,064.00</u> |
| Equity & Liabilities | | | |
| Equity | | | |
| | Accumulated Profit(Loss) | (6,999,767.00) | (6,999,767.00) |
| Retained Earnings (Accumulated) | Retained Earnings (Accumulated) | (4,624,145.00) | |
| Retained Earnings (Current Year) | Retained Earnings (Current Year) | 26,288,326.00 | (4,624,145.00) |
| Total Equity | | 14,664,414.00 | (11,623,912.00) |
| Current Liabilities | | | |
| Trade Payables | 8 | 69,436,252.00 | 70,474,331.00 |
| Other Current Liabilities | 7 | 1,698,645.00 | 648,645.00 |
| Total Current Liabilities | | 71,134,897.00 | 71,122,976.00 |
| Total Equity & Liabilities | | <u>85,799,311.00</u> | <u>59,499,064.00</u> |

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

| | 2016 | 2015 |
|--|----------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Cash receipts | 327,104,635.00 | 301,662,654.00 |
| Cash paid to suppliers and employees | (299,531,420.00) | (298,411,165.00) |
| Cash utilized in operations | 27,573,215.00 | 3,251,489.00 |
| Interest received | 30,482.00 | 17,463.00 |
| Net cash flow from operating activities | 27,603,697.00 | 3,268,952.00 |
| Cash Utilized in Investing Activities | | |
| Purchase of property, plant and equipment | (3,180,450.00) | (7,447,080.00) |
| increase/(decrease) in cash and cash equivalents | 24,423,247.00 | (4,178,128.00) |

| | | |
|--|----------------------|---------------------|
| cash and cash equivalents at the beginning of the year | 1,809,653.00 | 5,987,781.00 |
| Cash and cash equivalents at the end of the year(note 6) | 26,232,900.00 | 1,809,653.00 |

NOTES TO THE FINANCIAL STATEMENTS

Accounting Policies to the Annual Financial Statements for the year ended 30 June 2016

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 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. A review of fixed assets might affect the financial statements significantly.

2.6 FIU Pension Fund

The FIU expenses the Pension contributions made for staff monthly. The Pension Fund is with Old Mutual

2.7 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 Administration Expenses

| | 2016 | 2015 |
|-------------------------------------|-----------------------|-----------------------|
| Depreciation Expenses | 7,338,354.00 | 9,081,042.00 |
| Foreign Travel | 24,935,424.00 | 42,391,214.00 |
| Insurance Expenses | 18,855,824.00 | 25,057,614.00 |
| Internal Travel | 26,296,648.00 | 39,355,463.00 |
| Medical Expense and Supplies | 7,888,415.00 | 5,103,123.00 |
| Membership Fees | 1,319,937.00 | 2,844,325.00 |
| Office Supplies and Expenses | 52,773,465.00 | 30,647,656.00 |
| Other Goods and Services | 2,001,278.00 | 2,155,882.00 |
| Periodicals | 285,586.00 | 292,206.00 |
| Public Utilities | 13,650,076.00 | 11,169,367.00 |
| Rent Expenses | 3,570,000.00 | 0.00 |
| Salaries and Wages | 131,731,574.00 | 120,526,727.00 |
| Training Expense | 235,000.00 | 9,640,594.00 |
| Welfare Expenses | 2,902,550.00 | 4,375,000.00 |
| Total Administration Expense | 293,784,131.00 | 302,640,214.00 |

5 Other Comprehensive Income

| | 2016 | 2015 |
|---|----------------------|---------------------|
| Interest on Staff Loans | 2,780,065.00 | 2,863,765.00 |
| Interest Received | 30,482.00 | 17,463.00 |
| Sundry Income | 7,590,175.00 | 1,971,765.00 |
| Total Other Comprehensive Income | 10,400,723.00 | 4,852,723.00 |

Sundry Income includes fees paid by financial institutions for trainings in anti-money laundering

6 Cash and Cash Equivalents

| | 2016 | 2015 |
|--|----------------------|---------------------|
| Ned bank Main Account | 6,109,254.00 | 1,088,684.00 |
| Loan Revolving Account | 4,540,656.00 | 482,487.00 |
| Petty Cash Account | 53,616.00 | 3,677.00 |
| FIU Salaries Account | 15,529,375.00 | 234,824.00 |
| Total Cash and Cash Equivalents | 26,232,900.00 | 1,809,672.00 |

7 Other Current Liabilities

| | | 2016 | 2015 |
|--|------------------|---------------------|-------------------|
| | Welfare fund | 1,050,000.00 | |
| | Accrued Expenses | 648,645.00 | 648,645.00 |
| Total Other Current Liabilities | | 1,698,645.00 | 648,645.00 |

Welfare fund liability are deductions from employees and paid to the welfare account

8 Trade Payables

| | 2016 | 2015 |
|-----------------------|---------------|---------------|
| Trade Payables | 69,436,252.00 | 70,474,331.00 |

The figure for Tax includes PAYE for June 2016 amounting to K 3,008,805.38 which was paid in July 2016. 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

9 Property, Plant and Equipment

| | Computer Equipment MWK | Office Equipment MWK | Motor Vehicles MWK | Office Furniture MWK | Total MWK |
|---------------------------------|---------------------------|-------------------------|-----------------------|-------------------------|-------------------|
| Cost | | | | | |
| At 1 July 2015 | 21,508,306 | 7,294,800 | 28,524,934 | 13,451,896 | 70,779,936 |
| Additions | | 1,246,550 | | 1,933,900 | 3,180,450 |
| At 30 June 2016 | 21,508,306 | 8,541,350 | 28,524,934 | 15,385,796 | 73,960,386 |
| Depreciation | | | | | |
| At 1 July 2015 | 13,237,877 | 6,928,893 | 27,408,617 | 7,296,794 | 54,872,181 |
| Disposals | - | - | - | - | - |
| Charge for the yr | 2,758,928 | 221,179 | 1,116,317 | 3,241,931 | 7,338,354 |
| Accumulated Dpn At 30 June 2016 | 15,996,805 | 7,150,072 | 28,524,934 | 10,538,725 | 62,210,535 |
| Net Book Value | 5,511,501 | 1,391,278 | | 4,847,071 | 11,749,850 |
| At 30 June 2016 | | | | | |

Motor vehicles have been fully depreciated and 2 new air conditioners were purchased at a total cost of K1, 246,550.00

10 Trade Receivables

| | | 2016 | 2015 |
|--------------------------------|--------------------------|----------------------|----------------------|
| | Sundry Customers Debtors | 530,090.00 | 530,090.00 |
| | Staff Debtors | 47,286,471.00 | 41,251,547.00 |
| Total Trade Receivables | | 47,816,561.00 | 41,781,637.00 |

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