

FINANCIAL INTELLIGENCE UNIT

REPUBLIC OF MALAWI

2011 / 2012 Annual Report

Fighting Money Laundering & Terrorist Financing

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

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VISION

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

MISSION

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

31st December 2012

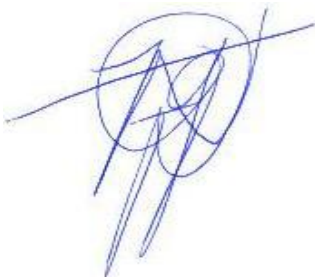
Honourable Dr. Ken Lipenga, M.P.
Ministry of Finance
P. O. Box 30049
LILONGWE 3

Dear Minister,

5TH ANNUAL REPORT FOR THE FINANCIAL INTELLIGENCE UNIT

In accordance with section 21 (b) of the Money Laundering, Proceeds of Serious Crime and Terrorist Financing Act Cap 8:07 of the Laws of Malawi (ML Act), I am pleased to submit the fifth Annual Report on the operations of the Financial Intelligence Unit (FIU) for the year ended 30th June 2012.

Yours faithfully,



Atuwani-tupochile Phiri

ACTING DIRECTOR

LIST OF ACRONYMS

ACB	Anti-Corruption Bureau
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AML Regulations	Money Laundering, Proceeds of Serious Crime and Terrorist Financing Regulations of 2011
AUSTRAC	Australian Transaction Reports and Analysis Centre
BCP	Business Continuity Plan
CAP	Compliance and Prevention
CDD	Customer Due Diligence
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
FIU	Financial Intelligence Unit
FSTAP	Financial Sector Technical Assistance Project
ICT	Information and Communications Technology
LAP	Legal and Policy
LEAs	Law Enforcement Agencies
LCTRs	Large Currency Transaction Reports
M&A	Monitoring and Analysis
ML Act	Money Laundering, Proceeds of Serious Crime and Terrorist Financing Act
MoU	Memorandum of Understanding
MRA	Malawi Revenue Authority
NIS	National Intelligence Service
PEIP	Post Evaluation Implementation Plan
RBM	Reserve Bank of Malawi
SOPs	Standard Operating Procedures
STRs	Suspicious Transaction Reports
XTRs	Cross-border Transaction Reports

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THE DIRECTOR'S OVERVIEW OF THE FINANCIAL YEAR



The FIU exists to prevent and detect money laundering, terrorist financing and related financial crimes by providing quality intelligence to law enforcers and other FIUs. Quality intelligence can only be possible if the FIU gets quality reports from financial institutions. On this basis, the FIU in the past year focused on empowering financial institutions, LEAs, supervisory authorities and other stakeholders on their AML/CFT obligations.

Legislation developments

On 2nd September 2011 the Government gazetted the Money Laundering, Proceeds of Serious Crime and Terrorist Financing Regulations (AML Regulations). The FIU and other stakeholders had worked hard to have the regulations developed and submitted to Ministry of Justice for drafting. The Regulations provide more information on some legislative obligations in the ML Act and have an emphasis on Know Your Customer which is an important element in identifying suspicious transactions.

Empowerment of local stakeholders

The FIU believes that an empowered stakeholder can bring about a difference in a system. The FIU realizes that an AML/CFT system in which stakeholders are well trained, committed and coordinated is very significant in contributing to the success of an FIU.

Within that spirit, the FIU facilitated training of financial institutions based on their unique needs. The institutions met the cost of the training and this approach was cost-effective to the FIU and convenient to the financial institutions as they could control the timing of the trainings and allow more staff members to attend.

Trainings were also organised for staff of the FIU and LEAs in a number of areas such as investigating and prosecuting money laundering.

Increased reporting volumes

The FIU had 81 Suspicious Transaction Reports (STRs) of which 73 were disseminated to LEAs for investigations and possible prosecutions. This is a remarkable achievement as the FIU in the 2010/2011 financial year the FIU received and disseminated fewer STRs.

Production of Money Laundering Typologies

In line with the strategic objective of finding and implementing creative solutions through gathered AML/CFT information, the FIU carried out its first study on Money Laundering Typologies in the country and the report came out in September 2012. This report was a big milestone for the FIU and the country, as money laundering trends were documented to promote awareness and enable various institutions devise ways of combating the vice.

Domestic, Regional and International Cooperation

As Secretariat of the National AML/CFT Committee, the FIU organised meetings for the group and this resulted in timely compilation of the country's second Post Evaluation Implementation Plan (PIEP) progress report submitted to the ESAAMLG Secretariat. Malawi was commended for having made significant progress in implementing its PEIP.

Furthermore, the FIU signed an MOU with the FIU of Mauritius. The FIU also initiated negotiation of MoUs with the FIU of the United Republic of Tanzania and the Office of the Inspector General of the Global Fund on HIV, Tuberculosis and Malaria.



Tom Malikebu of Malawi FIU and Satyadev Deonarain Bikoo of Mauritius FIU sign an MoU on behalf of their organisations

Public Awareness

In order to promote the general public's understanding of the money laundering and the role played by the FIU, the institution continued to implement various public awareness initiatives. Among others, the FIU produced and distributed copies of the *FIU Magazine*, produced and aired radio programs and jingles, produced an electronic newsletter and distributed brochures to financial institutions.

Revised Strategic Plan

The FIU reviewed its strategic plan to incorporate emerging commitments which are very critical but were not part of the initial strategic plan. The current strategic plan runs from January 2012 to December 2015.

Numerical Growth

Administratively, the FIU recruited additional staff who were expected to start working in July 2012. This was done to increase outreach to financial institutions and other stakeholders and provide timely intelligence to LEAs.

Focus on 2012/2013 fiscal year

Looking ahead to the July 2012 to June 2013 financial year, the FIU's major activities will include coordinating the National Money Laundering and Terrorist Financing Risk Assessment exercise from September 2012, which will be implemented with technical assistance from the World Bank. The FIU together with the Reserve Bank of Malawi (RBM) and will coordinate the work on amending the ML Act, as well as considering the introduction of an administrative penalties regime for non-compliant financial institutions.

The FIU also intends to work on dissemination of more analysed cases and follow-up with the LEAs on the existing cases. In addition to this, there will be onsite examinations, public awareness initiatives, capacity enhancement of financial institutions and other stakeholders, among other activities.

Appreciation

The achievements in this reporting year would not be possible without the support from the Government of Malawi and other local stakeholders. To them the FIU conveys its appreciation.

The FIU also appreciates support from the World Bank and the Australian Transaction Reports and Analysis Centre (AUSTRAC) for the technical support they provided.

Atuweni-tupochile Phiri
ACTING DIRECTOR

1. OVERVIEW OF THE FIU'S OPERATIONS

1.1. The FIU's Mandate

The FIU was established in August 2007 under Section 11 of the ML Act, to detect and deter money laundering and terrorist financing by providing critical information related to financial transactions to support the investigation and prosecution of money laundering and terrorist financing offences.

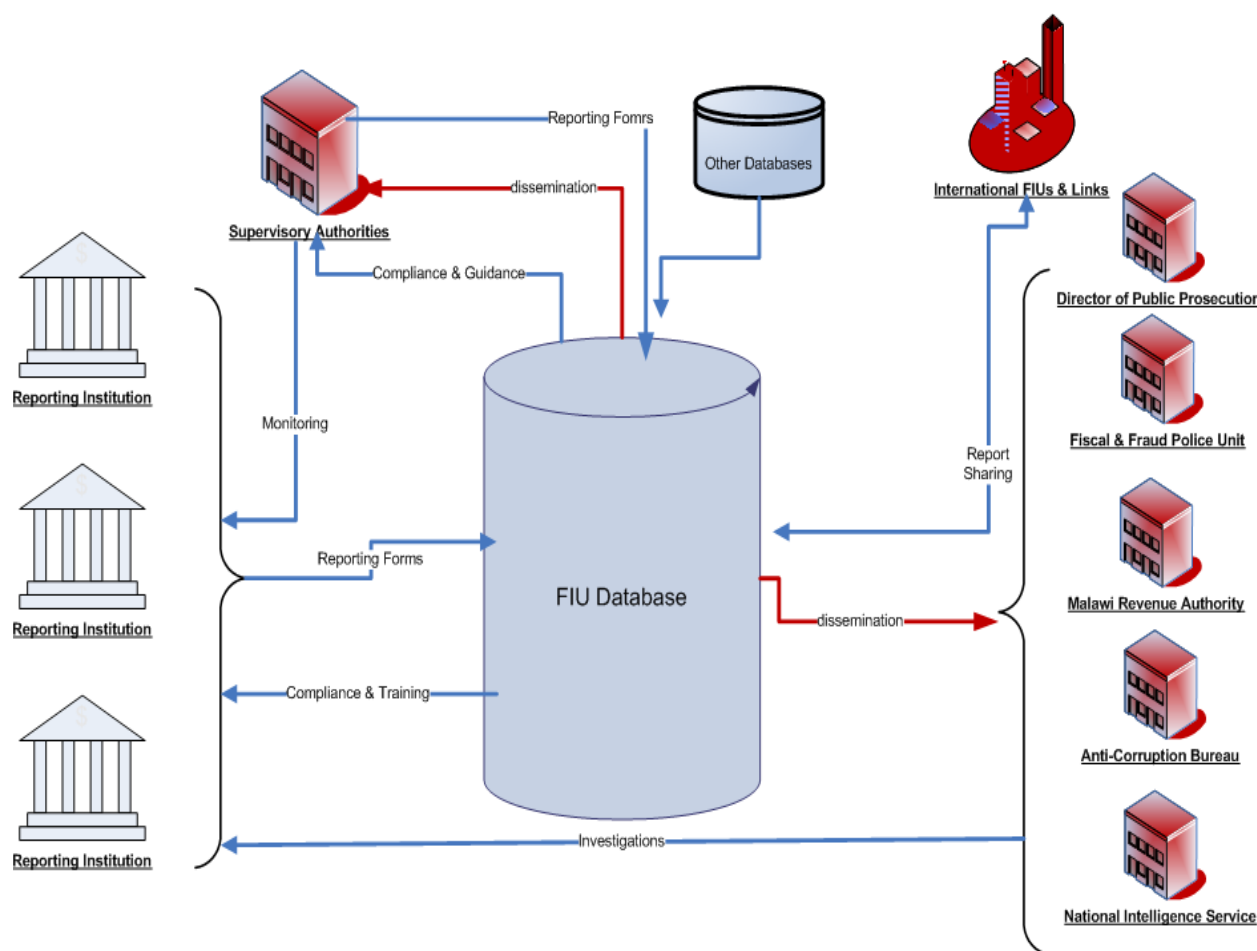
More specifically, the FIU's mandate is to:

- receive and request disclosure of financial information on transactions and other information relevant to suspected money laundering and terrorist financing activities;
- receive reports on the cross-border movement of large amounts of currency or monetary instruments;
- analyze and assess the information it receives to substantiate possible existence of money laundering or terrorist financing activities;
- provide appropriate law enforcement authorities with financial intelligence that it suspects would be relevant to the investigation or prosecution of money laundering and terrorist financing offences;
- monitor compliance by financial institutions and other reporting entities with their obligations under the ML Act and regulations;
- educate the public and create awareness on matters related to money laundering and terrorist financing;
- prepare and deliver training programs to financial institutions with a view to facilitate their compliance with the ML Act;
- conduct research into trends and developments in the area of money laundering and terrorist financing and improved ways of detecting, preventing and deterring money laundering and terrorist financing; and

- Extend assistance to foreign jurisdictions with respect to property tracking, monitoring and confiscation orders.

1.2. The FIU's Business Process

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



Note: (1) Reporting institutions include the deposit taking institutions, discount houses, stockbrokers, underwriters, asset management companies, money lenders, foreign exchange bureaus, money transmission service providers, lawyers and accountants (when performing activities specified in the ML Act), real estate

agents, casinos, safe custody service providers and dealers in precious metals and stones.

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

Money laundering involves criminally turning “dirty” money or other proceeds of crime derived from either fraud, corruption, tax evasion, drug trafficking, robbery, and other crimes into what appears to be clean or legitimate money. The money laundering process is usually carried out by using false identities or using the names of innocent people referred to as nominees, such as one’s children, spouse or close and trusted relations who appear to be carrying out legitimate transactions.

Terrorist financing on the other hand encompasses the act of directly or indirectly providing or accumulating funds or other goods or attempts to do so, with the intent that the funds be used in whole or in part to commit acts that contravene the International Convention for the Suppression of Financing of Terrorism, or financing the commission of an activity that will result in the death or serious bodily harm of a civilian population.

1.3. Who We Are

The FIU is an autonomous national agency, operating in collaboration with governmental departments and agencies to which it can provide financial intelligence. It is funded by the Malawi Government through the national budget and may receive financial assistance from other donors. The FIU reports to Parliament through the Minister of Finance.

The FIU is headed by a Director appointed by the President, subject to the approval of the Public Appointments Committee of Parliament. The Director is the Chief Executive Officer of the FIU responsible for managing its affairs

including employing staff and administering the FIU's budget. The Director is required to report to the Minister of Finance from time to time on the exercise of these powers and the performance of duties authorized under the ML Act. The Director may also advise the Minister on matters that may affect public policy.

1.4. The FIU's Values

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

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

1.5. The FIU's Strategic Objectives

The FIU has a Strategic Plan that runs from 2010 to 2014 which contains the following strategic objectives:

a) Improved service delivery

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

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

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

c) Developed and strengthened 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) Strengthened 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) Improved 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) Finding and implementing creative solutions through gathered AML/CFT information.

- The FIU expects to have an ability to allocate resources based on ML/TF risk assessment.

1.6. The FIU's Strategic Objectives

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

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

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

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

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

i) 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.

j) 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.

k) 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.

l) 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.

1.7. Structure of the Malawi FIU

As shown in the figure below, the FIU structure has two main divisions: Corporate Services and Technical Services. The Finance and Administration Department is the only department under the Corporate Services Division, reporting directly to the Director. This department handles financial and budgetary matters, ensuring 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 the operations of the FIU run smoothly.

The Technical Services Division is headed by the Deputy Director and comprises the Departments of Monitoring and Analysis (M&A), Compliance and Prevention (CAP), Information and Communication Technology (ICT), and Legal and Policy (LAP).

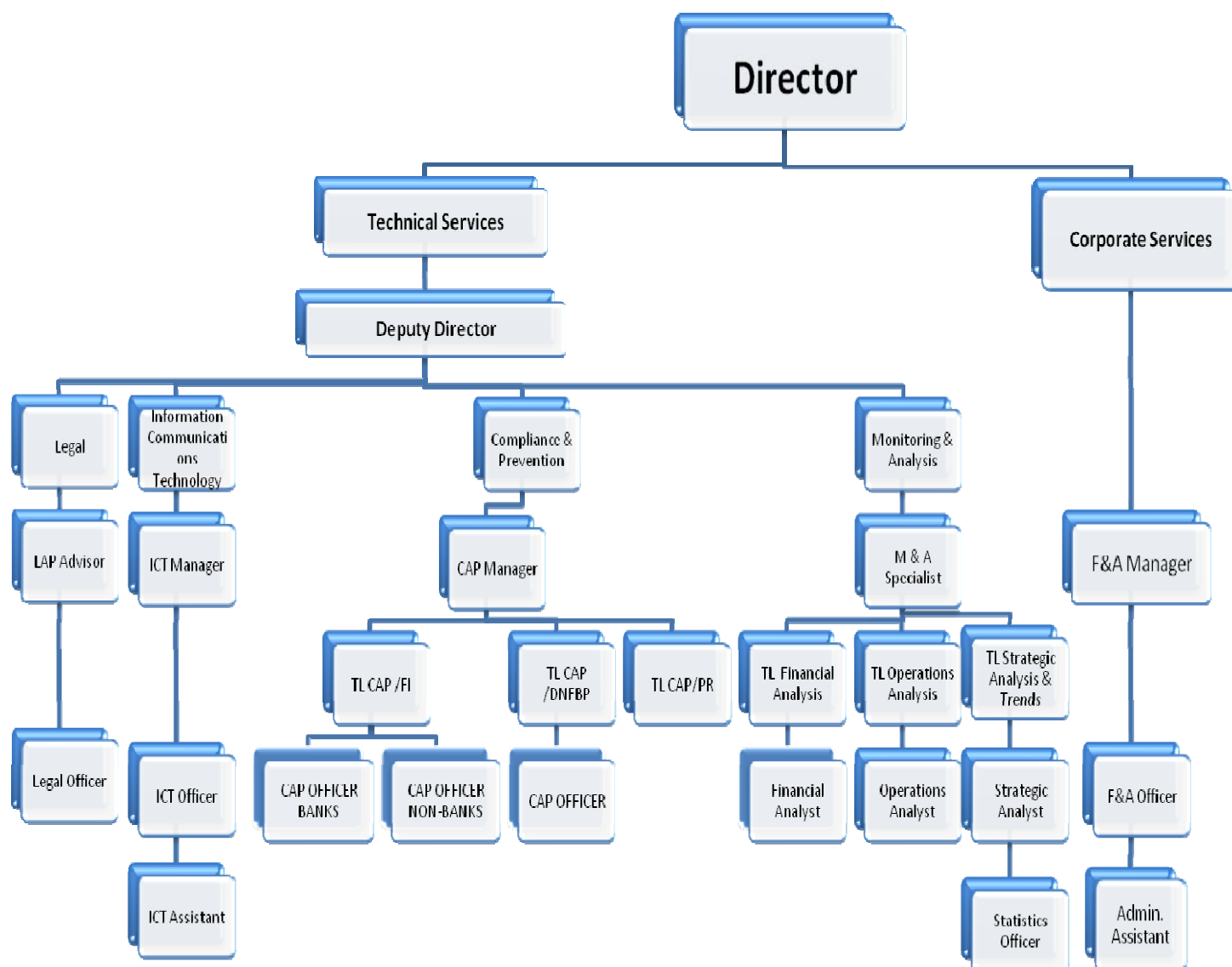


Figure 1: Organisational Chart of the FIU

2. ACHIEVEMENTS AND HIGHLIGHTS IN THE REPORTING YEAR

2.1 Disseminating Rich Financial Intelligence

In this fiscal year, the FIU received 59 suspicious transaction reports (STRs). These STRs were received from banks, supervisory bodies, LEAs and money remitters.

From the Large Currency Transaction Reports (LCTRs) the FIU received, a total of 22 STRs were extracted. This brought the number of STRs to 81. And out of these STRs, 73 were disseminated to LEAs for investigations and possible prosecutions. These figures represent an improvement as compared to those in the year 2010-2012, as indicated in the graph below.

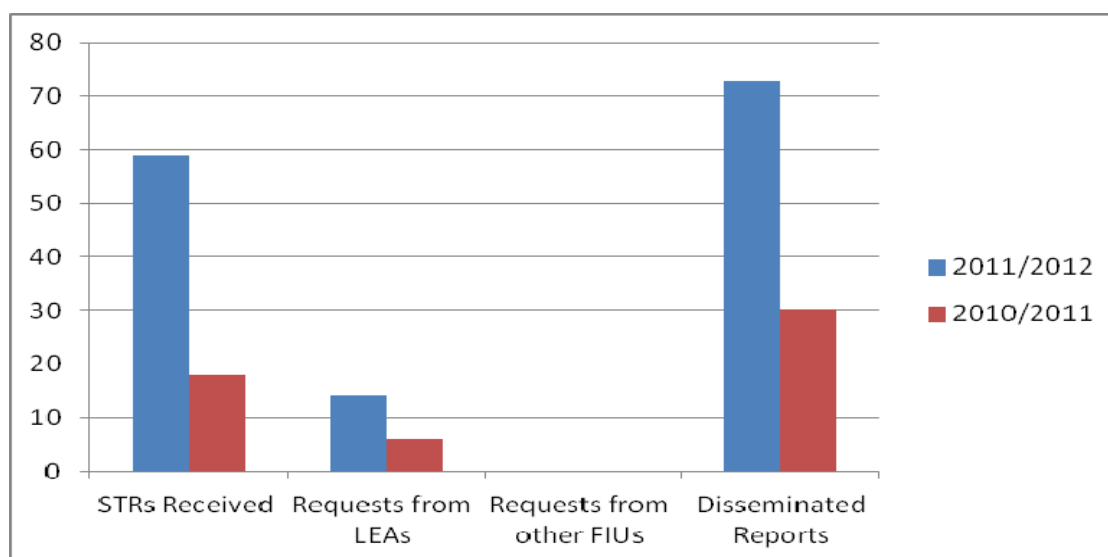


Figure 2: Reports Received and Disseminated by the FIU in 2011/2012

	LAW ENFORCEMENT AGENCY	NUMBER OF REPORTS DISSEMINATED IN 2011/2012	NUMBER OF REPORTS DISSEMINATED IN 2010/2011
1	Fiscal Police	25	6
2	Malawi Revenue Authority (MRA)	17	16
3	Reserve Bank of Malawi (RBM)	4	6
4	Anti- Corruption Bureau (ACB)	26	1
5	Immigration	0	1
6	National Intelligence Service	1	0
7	Other FIUs	0	0
	TOTAL	73	30

Figure 3: Disseminated Reports to LEAs

The increase in STRs received was a result of continued interface with the financial institutions, LEAs and supervisory authorities through training workshops and quarterly meetings which the FIU employed during the financial year.

The major highlight for the financial year was the uncovering of a syndicate involving public officers who were suspected of having defrauded over K400 million from the Malawi Police Service. The FIU thoroughly analysed financial transactions of the suspected officers using information provided by banks and other financial institutions. At the time of compiling this report, the case was being investigated by LEAs.

Other disseminated reports were on suspected cases of tax evasion, breach of Exchange Control regulations and suspected syndicate on externalization of funds through dubious beneficiaries.

The FIU carried out its first ever typologies study to identify the prevalent money laundering trends in Malawi. The study indicated that some criminals were involved in fraud, corruption, tax evasion and trade-based money laundering and thereafter laundering the proceeds through the financial system.

2.2 Ensuring Compliance by Financial Institutions

Assessment of Financial Institution's compliance with the ML Act

During this fiscal year, the FIU conducted AML/CFT onsite compliance examinations of the following financial institutions:

- Standard Bank (Capital City and Blantyre branches) in September 2011;
- Indebank (Lilongwe and Top Mandala branches) in September 2011; and
- FDH Bank (Lilongwe branch) in June 2012.
- The banks were provided with the detailed on-site reports, and they in turn indicated how they intended to address the shortfalls noted in the reports. Besides that, the FIU and RBM conducted a joint onsite examination of Ecobank and National Bank of Malawi in November 2011.
- In order to further understand and assist financial institutions in complying with the ML Act, the FIU administered annual questionnaires as per AML Regulation 24 to banks and capital market operators. The information from the questionnaires helped the FIU to identify the needs of individual financial institutions.

Skills enhancement and awareness training for financial institutions

Empowering financial institutions is an area that the FIU had put emphasis on during the financial year 2011/2012. From the previous year, the FIU started

providing training based on the needs of the financial institution and this has proved to be cost-effective on the part of the FIU. Details of the trainings were as follows:

- The FIU trained staff of the Malawi Posts Corporation (MPC) in July 2011. The training was attended by 35 staff members of the Corporation.
- On request from the First Merchant Bank (FMB), the FIU trained 25 staff members of the banks in August 2011. This was a Training of Trainers workshop which prepared the participants to train other employees of the bank on AML/CFT issues.
- The FIU trained officers of real estate businesses in September 2011 in Lilongwe and February 2012 in Blantyre. A total of 96 people attended the training; 51 in Lilongwe and 45 in Blantyre.
- In October 2011, the FIU trained 19 SACCO members of MUSCCO. This was a joint event co-sponsored by MUSCCO and the FIU.
- In May 2012, the FIU trained 33 members of the Institute of Internal Auditors Malawi Chapter. This body holds awareness activities every month of May and this year they included AML/CFT awareness.
- In conjunction with the Malawi Gaming Board, the FIU trained 13 officers from the casino and gambling sector in June 2012.

The FIU expects to continue training more staff members of the financial institutions during the following fiscal year.



*Members of Institute of Internal Auditors Malawi Chapter taking the ML/TF fight to another level
(AML/CFT training workshop – Hotel Victoria, Blantyre, May 2012)*

2.3 Investing in Information and Communication Technology (ICT)

It is the responsibility of every FIU to ensure that there is adequate security for the information it handles. For this reason, the FIU implemented a number of ICT initiatives during this financial year.

The encryption software used to protect information received and sent from the FIU was upgraded from Truecrypt 6.0 to Truecrypt 7.0. To further enhance security of information, the FIU procured and installed new antivirus software for its systems.

Apart from that, an initiative on a linkage between the FIU's database and those of some public institutions was explored further. With this initiative, an intrusion detection system will be deployed in order to identify and act upon unauthorized access attempts. Negotiations with various institutions on this initiative were underway.

In addition to that, the FIU started working on developing an internet-based report submission system to enable financial institutions 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.

Additionally, a payroll system for the Finance and Administration Department was deployed and relevant staff members were trained on how to use the payroll system.

2.4 Public Awareness

The FIU is aware that most people do not know or properly understand what money laundering is, let alone the existence of the FIU.

During the year under review, the FIU continued to implement public awareness activities as follows:

- 4, 5000 brochures were distributed to banks, real estate agents and internal auditors during the various training initiatives.
- 500 copies of the FIU Magazine were produced in December 2011. This is an annual publication and 240 copies were distributed to banks and other stakeholders by June 2012.
- There was also production of an electronic newsletter, *The FIU Update*, for October 2011. The publication was posted on the FIU's website.
- 4 Pamajiga radio plays were produced at MBC Radio studios in February 2012 and airing took place in May 2012.

- The FIU aired 114 slots of jingles carrying anti-money laundering messages on Capital FM and Joy Radio in June 2012.
- Joy Radio produced a special programme for the FIU in July 2011 which discussed the concept of money laundering in general and also in the context of Malawi. The programme was done in English and Chichewa and was aired in August 2011 during the radio station's *Issues and not Tissues* programme.
- In October 2011, MBC TV carried an article on Malawi's perspective on the extent and impact of ill-gotten money and the FIU's impact on the fight against money laundering in the country. This helped publicize the FIU's plans and achievements.

2.5 Developing Domestic and International Cooperation

The FIU continued to coordinate with domestic and international partners as a way of promoting information sharing and skills.

Domestic Cooperation

During the period under review, the FIU coordinated two meetings of the National AML/CFT Committee in June 2011 and April 2012. The meetings mainly focused on preparations for attendance of the August 2011 and April 2012 ESAAMLG Task Force of Senior Officials meetings held in Mauritius and Tanzania. The meetings helped Malawi to complete its second Post-Evaluation Implementation Plan (PEIP) progress report timely.

The FIU held meetings with the Reserve Bank of Malawi in January and May 2012 where, among others, it was agreed that the two institutions would work together to draw up administrative penalties to address non-compliance of AML requirements by banks. The two institutions agreed to coordinate on the review of the AML Act

which would be done with technical assistance from World Bank's Financial Sector Technical Assistance Project (FSTAP).

In addition, the FIU held three meetings with LEAs and one meeting with AML Compliance Officers of financial institutions. The meetings were a platform where the FIU communicated its expectations from the stakeholders while getting feedback from them.

As a way of empowering the LEAs, the FIU coordinated a training program on Money Laundering Investigations facilitated by AUSTRAC at Sunbird Nkopola Lodge in May 2012 attended by 16 LEA officers. The training attracted officers from the Malawi Police, MRA, ACB, RBM, Ministry of Justice, Ministry of Finance and the FIU.

And at the request of the Malawi Police Service, the FIU conducted a one-day awareness session for new staff of the Fiscal and Fraud Unit (FFU).



AUSTRAC Officer Gavin Durbin (right) and Australian Federal Police Officer Robert Lawson (left) facilitated a training workshop for the Malawi LEAs and the FIU on ML Investigations

Regional Cooperation

Malawi is an active member of the ESAAMLG. During this financial year, the country attended the Task Force of Senior Officials and the Council of Ministers meetings September 2011 in Mauritius and the Task Force of Senior Officials meeting in April 2012 in Tanzania. During the September 2011 meeting Malawi handed over the presidency of ESAAMLG to Mauritius.

Representatives that attended ESAAMLG meetings came from the FIU, Ministry of Finance, Ministry of Justice, MRA, RBM, NIS, Malawi Police Service, Department of Immigration, ACB and Malawi Gaming Board.

ESAAMLG meetings are very important as members share experiences and combine forces to deal with emerging developments in the areas of money laundering, terrorist financing and other financial crimes.



Malawi (right) handed over ESAAMLG leadership to Mauritius (central) in September 2011

International Cooperation

Malawi attended two EGMONT Group of FIUs plenary meetings in July 2011 in Armenia and February 2012 in Philippines. Among others, the FIUs looked at how they can improve their information exchange with other FIUs and how they can enhance their coordination with law enforcement entities.

Besides that, some FIU staff members were trained on conducting mutual evaluations of FIUs based on the 2004 FATF Methodology.

In December 2011, the FIU attended the launch of the World Bank's study on Ill-gotten Money and the Economy, Experiences from Malawi and Namibia which took place in Washington DC, USA. The report was of importance to the FIU as it had been a central player in compiling the report. The information in the report will help Malawi to enhance her AML/CFT regime.

As part of its commitment to international cooperation, officers from the FIU, ACB, MRA and Ministry of Foreign Affairs participated in a review of Papua New Guinea's implementation of the United Nations Convention against Corruption (UNCAC). It should be noted that some of the obligations of the FIU, as enshrined in the AML Act, emanate from the UNCAC. Therefore, participation in the review exercise was beneficial to the Malawi FIU.

2.6 Building Capacity of the FIU

The FIU accorded its staff members various capacity enhancement opportunities. These involved training workshops within the country and abroad as well as attachment at a counterpart FIU. Such opportunities were necessary for improved

FIU service delivery. Details of the capacity building activities during this financial year are as follows:

- AUSTRAC trained officers of the FIU on *Supervising Designated Non-Financial Businesses and Professions (DNFBPs) and Developing an Education Strategy for DNFBPs* in November 2011 and February 2012 respectively.
- One officer attended a training workshop on *Preventing Financial Crimes* in Johannesburg, South Africa, organised by Intelligent Africa in July 2011.
- Two officers attended training on *Leadership Development and Change Management* organised by ESAMI in Mbabane, Swaziland, in December 2011.
- One officer attended a *Security Certified Training Program* organised by New Horizon in Cape Town, Republic of South Africa, in March 2012.
- Another officer attended a training program on *Financial Investigations* organised by the US Treasury in Gaborone, Botswana, in March 2012.
- One officer attended training on *Public Relations and Corporate Communications* organised by Mavingroupware in Manzini, Swaziland, in April 2012.
- Two officers attended a training program on *Tactical Analysis* organised by the World Bank in Madrid, Spain, in May 2012.
- Two Officers attended a training program on *Crime and Illicit Proceeds: AML Master Class* organised by AUSTRAC in Cape Town, RSA, in May 2012.
- Two officers attended a week-long attachment at the FIU of the Philippines, which is called the AML Council (AMLC), in June 2012.

2.7 Other activities

The FIU also carried out the following activities:

- **Review of the Strategic Plan**

The Strategic Plan was reviewed to align it with prevailing needs of the organisation. Accomplished one-off activities were taken out of the Strategic Plan while new targets were set on some activities that were ongoing. The review also led to refining of the strategic objectives. The current Strategic Plan runs from January 2012 to December 2015.

- **Risk Assessment Matrix Development**

A Risk Assessment Matrix for financial institutions in the country was developed. This exercise followed a training workshop conducted by AUSTRAC in March 2011 on AML Risk Assessment. Financial institutions will be trained within the next two years on Risk Assessment using this matrix.

- **Contributing to TNM Mobile Money**

One of the telecommunication companies in the country, TNM, is in the process of registering a mobile payment product called *Mpamba*. The mobile company made presentations to the RBM and the FIU for input. The two institutions made proper input to the product's delivery process.

3 MAIN CHALLENGES ENCOUNTERED IN THE PAST YEAR

The major challenges faced during the year were as follows:

- Some financial institutions continued to face difficulties in identifying suspicious transactions and this led to receipt of few STRs in the first quarter. However, STR figures for other quarters improved after the FIU resumed sending sanitised reports to financial institutions and emphasized to them on the need to file any identified suspicious transaction.
- Due to unforeseen resignation of 3 members of staff, the FIU failed to implement some of its planned activities. The FIU planned to fill the 2 positions during the quarter April – June 2012.

4 PRIORITIES FOR THE COMING FINANCIAL YEAR

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

- **National Risk Assessment Exercise**

The country is scheduled to embark on a Money Laundering and Terrorist Financing National Risk Assessment exercise from September 2012. The exercise, to be coordinated by the FIU, is aimed at assessing where the risk lies in Malawi with regard to money laundering, terrorist financing and other crimes. It is hoped that this assessment will provide guidance regarding the areas on which various AML/CFT stakeholders should concentrate. The exercise will be carried out with technical assistance from the World Bank and is expected to be implemented within a period of one year.

- **Administrative Penalties**

Building on the consultative meeting with banks on Administrative Penalties which took place during the year under review, the FIU and the RBM will finalise the comments and hold another consultative meeting with the banks. Thereafter, the draft penalties shall be forwarded to Government Authorities for approval and gazetting.

- **Skills Enhancement for Financial Institutions and Law Enforcement Agencies**

Enhancement of capacity of financial institutions and LEAs will be done based on the needs of the institutions. The FIU intends to train the insurance company as they are to be incorporated as a reporting institution in the near future through the review of the ML Act or Gazetting Notice.

The FIU will also prioritise initiatives aimed at consolidating coordinating with LEAs in order to properly link with them on cases being pursued. The initiatives shall include quarterly meetings, trainings and typologies development.

- **Domestic and International Cooperation Meetings**

Malawi was able to record an admirable achievement at 2012 ESAAMLG meetings on how it is enhancing its AML/CFT regime through maintaining good coordination with local stakeholders. The country was also able to gain new skills through interaction with international stakeholders. The FIU will therefore continue to promote domestic coordination by arranging National AML/CFT Committee meetings and holding quarterly meetings with LEAs and financial institutions. The FIU will also continue attending regional and international cooperation meetings on AML/CFT.

- **FIU Staff Skills Enhancement**

Additional staff members are expected to join the FIU in July 2012. The FIU will arrange trainings for both new and old staff members to enhance their skills.

- **Maintenance of the FIU Website**

The FIU will carry out maintenance of its website with the aim of effectively coordinating with its stakeholders. The website will be reviewed and modified where necessary to make it convenient and appealing to stakeholders.

The website is a vital tool in communicating information to diverse stakeholders. For this reason, the FIU will from time to time take measures to improve its website.

- **System Security Enhancement**

Security of information in the custody of the FIU is paramount to its work. In this regard, the FIU will procure security software and related products and install them on its systems in order to maintain the integrity of the FIU.

It is envisaged that implementation of these activities will contribute significantly to the increased service delivery of the FIU.

5 FINANCE AND ADMINISTRATION

The Finance and Administration department provides services of financial, human resource and administration. During the year under review, the FIU received an allocation of K150, 412, 794 from the national budget of Malawi. Most of the activities were done within the allocated budget.

During the year under review, three staff members resigned (ICT Manager, Compliance and Prevention Officer, and Administrative Assistant) from the FIU and this necessitated recruitment of replacements and additional staff. The FIU therefore recruited the ICT Manager, 2 Financial Analysts, 2 Compliance and Prevention Officers, and 1 Administrative Assistant. These officers were expected to commence working at the FIU in July 2012.

The FIU wishes to commend Government, in particular the Treasury, for timely remittance of monthly funding.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 2012

Income and Expenditure for the Period Ending 30 June 2012

	Notes	MWK 2012	MWK 2011 Restated
Income			
Revenue	4	151,374,999	156,973,363
Total Income		151,374,999	156,973,363
Expenditure			
Expenses	5	157,120,683	181,896,626
Total Expenditure		157,120,683	181,896,626
Surplus/ (Deficit)		(5,745,684)	(24,923,263)

BALANCE SHEET**Balance Sheet as at 30 June 2012**

		30 June 12	30 June 11
	Notes	MWK	MWK
			Restated
Noncurrent Assets			
Intangible Assets	7	0	2,099,200
Property, Plant & Equipment	8	9,568,262	14,419,814
Total Non Current Assets		9,568,262	16,519,014
Current Assets			
Debtors	9	12,634,645	9,823,311
Prepayments		0	32,681
Loan Revolving Account		2,306,444	1,054,868
Cash at Bank and in Hand		4,729,044	3,995,057
		19,670,133	14,905,917
Total Assets		29,238,395	31,424,931
Reserves and Liabilities			
Reserves		14,690,014	20,435,699
Current Liabilities			
Trade and other payables	10	13,899,736	10,555,001
Accruals		648,645	434,230
Total Current Liabilities		14,548,381	10,989,232
Total Reserves and Liabilities		29,238,395	31,424,931

CASH FLOW STATEMENTS

	30 June 12	30 June 11
	MWK	MWK
Cash flows from operating activities		
Cash receipts	150,725,744	156,418,647
Cash Paid to suppliers and employees	<u>(148,311,822)</u>	<u>(159,867,978)</u>
Cash Utilized in operations	2,413,922	(3,449,331)
Interest received	16,749	31,005
<i>Net cash flow from operating activities</i>	2,430,671	(3,418,326)
 Cash Utilized in Investing Activities		
Purchase of Property, plant & Equipment	(445,107)	(11,250,000)
<i>Net Cash flow from investing activities</i>	<u>(445,107)</u>	<u>(11,250,000)</u>
Increase/ (Decrease) in cash and cash equivalent	1,985,564	(14,668,326)
 <i>Cash and cash equivalents at beginning of yr</i>	5,049,925	19,718,251
<i>Cash and Cash equivalents at end of yr (note 6)</i>	<u>7,035,489</u>	<u>5,049,925</u>

NOTES TO THE FINANCIAL STATEMENTS

Accounting Policies to the Annual Financial Statements for the year ended 30 June 2011

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 20 June 2012. 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 4 years
- Office Equipment 4 years
- Motor Vehicles 4 years
- Office Furniture 3 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 2012.

2.7 FIU Gratuity Fund

Notice that effective 1st July 2012 members of staff at FIU will be on Pension. Any outstanding Gratuities to staff were paid out.

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.

	30 June 12	30 June 11
	MWK	MWK
4. Revenue		
Funding	150,412,794	
156,418,647		
Other Income *	329,699	178,292
Interest on Staff Loans	632,506	376,424
Total Revenue	<u>151,374,999</u>	<u>156,973,363</u>

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

5. Expenses

6. Depreciation	5,296,659	11,935,362
7. Amortization	2,099,200	2,099,200
8. Staff costs	81,835,447	47,942,072
9. Travel expenses	37,786,298	21,063,460
10. National AML/CFT Expenses	63,060	63,367,282
11. Other Expenses	30,040,019	35,489,250
Total Expenses	<u>157,120,683</u>	<u>181,896,626</u>

	30 June 12	30 June 11
12. Cash and Cash Equivalents	MWK	MWK
Cash comprises cash at bank and in hand.		
Deposits and Bank balances	4,728,004	3,965,486
Cash on Hand	1,041	29,571
Loan account	2,306,444	1,054,868
Total cash and cash equivalents	7,035,489	5,049,925

13. Intangible Assets

	Analyst Notebook MWK	Database- FIMTRAC MWK	Micro SQL Server 05 MWK	M Visual Studio MWK	Total MWK
Cost					
At 1 July 2011	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Additions					
At 30 June 2012	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Amortization Charges					
At 1 July 2011	3,108,000	2,137,500	796,950	255,150	6,297,600
Amortization Charge for the yr	1,036,000	712,500	265,650	85,050	2,099,200
Acc Amortization	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Value of Assets at 30 June 2011	0	0	0	0	0

14. Property, Plant and Equipment

	Computer Equipment MWK	Office Equipment MWK	Motor Vehicles MWK	Office Furniture MWK	Total MWK
Cost					
At 1 July 2011	7,818,958	6,679,914	17,274,934	2,288,543	34,062,349
Additions	-	205,350	11,250,000	239,757	11,250,000
At 30 June 2012	7,818,958	6,885,264	28,524,934	2,528,300	45,757,456
Depreciation					
At 1 July 2011	6,966,808	5,602,975	17,391,011	931,741	30,892,535
Disposals	-	-	-	-	-
Charge for the yr	852,150	1,076,929	2,915,240	452,340	5,296,659
Accumulated Dpn At 30 June 2012	7,818,958	6,679,904	20,306,251	1,384,081	36,189,194
Net Book Value					
At 30 June 2011	0	205,360	8,218,683	1,144,219	9,568,262

	30 June 12	30 June 11
	MWK	MWK
15. Debtors		
Staff Debtors	12,104,555	9,293,221
Other Debtors	530,090	530,090
	<u>12,634,645</u>	<u>9,823,311</u>

	30 June 12	30 June 11
	MWK	MWK
16. Trade and other Payables		
Trade Creditors	-	-
Other Creditors (Tax)	13,899,736	10,555,001
	<u>13,899,736</u>	<u>10,555,001</u>