
FINANCIAL INTELLIGENCE UNIT



**Annual
Report**

2009 / 2010

Fighting Money Laundering And Terrorist Financing

31st December 2010

Honourable Ken Kandodo, M.P.

Ministry of Finance

P. O. Box 30049

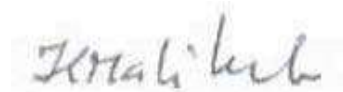
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Dear Minister,

3RD 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 third Annual Report on the operations of the Financial Intelligence Unit (FIU) for the year ended 30th June 2010.

Yours faithfully,



Tom Malikebu

DEPUTY DIRECTOR

**ESTABLISHING
FRAMEWORKS ON
THE FOUNDATION**

MESSAGE FROM THE DEPUTY DIRECTOR



This is a third report to be produced by the Financial Intelligence Unit (FIU) since it came into being in 2007. The report covers the period from July 2009 to June 2010 and outlines activities of the FIU as mandated by section 11 of the Money Laundering, Proceeds of Serious Crime and Terrorist Financing Act (2006), which include the receipt and analysis of reports, dissemination of financial disclosures to law enforcement agencies (LEAs), training of financial institutions and law enforcement agencies, public awareness initiatives and compliance examinations.

Owing to an enhanced coordination with financial institutions, the FIU received 21 suspicious transaction reports (STRs) from financial institutions. The FIU also received many large currency transaction reports (LCTRs) from the banks. The figure of the STRs increased as some STRs were extracted from the LCTRs. This was a big improvement as only 7 STRs were received by the FIU during the previous year. A total of 28 reports were disseminated to the LEAs for investigations and possible prosecutions. During the same period, the FIU received 1 request from Financial Intelligence Centre of South Africa.

The FIU implemented a number of activities. The highlights in this regard are that the FIU finalised its 2010 to 2014 Strategic Plan; conducted training on AML/CFT for financial institutions with the view of empowering them to identify and file STRs to the FIU; organised capacity building training programmes for law enforcement agencies; conducted onsite examinations of 5 banks; commenced implementation of public awareness programmes; and commenced Business Continuity Planning; and finalised its internal database.

In order to promote domestic coordination, the FIU as the Secretariat for the National AML/CFT Committee organised a consultative workshop to solicit views from key stakeholders on the National AML/CFT Strategy for 2010 to 2014. The FIU also continued with consolidation of regional and international coordination and this was manifested by the signing of a memorandum of understanding (MoU) with the Financial Intelligence Center of Namibia aimed at sharing pertinent information. The FIU also attended meetings of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) in August 2009 in Lesotho and April 2010 in Tanzania and EGMONT Group of FIUs meetings in February 2010 in Mauritius.

Since the FIU is still in its infancy, its staff members underwent a number of training workshops both within the country and abroad. This has greatly contributed to an improvement in our operations.

It is my sincere hope that information in this report will be beneficial to you.

Tom Malikebu
DEPUTY DIRECTOR

LIST OF ACRONYMS

ACB	Anti-Corruption Bureau
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AUSTRAC	Australian Transaction Reports and Analysis Centre
BCP	Business Continuity Planning
CAP	Compliance and Prevention
CFT	Combating the Financing of Terrorism
DNFBPs	Designated Non-Financial Businesses and Professions
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FIU	Financial Intelligence Unit
FSVC	Financial Services Volunteer Corps
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
RBM	Reserve Bank of Malawi
SIP	Strategic Implementation Plan
SOPs	Standard Operating Procedures
STRs	Suspicious Transaction Reports
XTRs	Cross-border Transaction Reports

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1. INTRODUCTION AND AML/CFT OVERVIEW

1.1. The FIU's Mandate

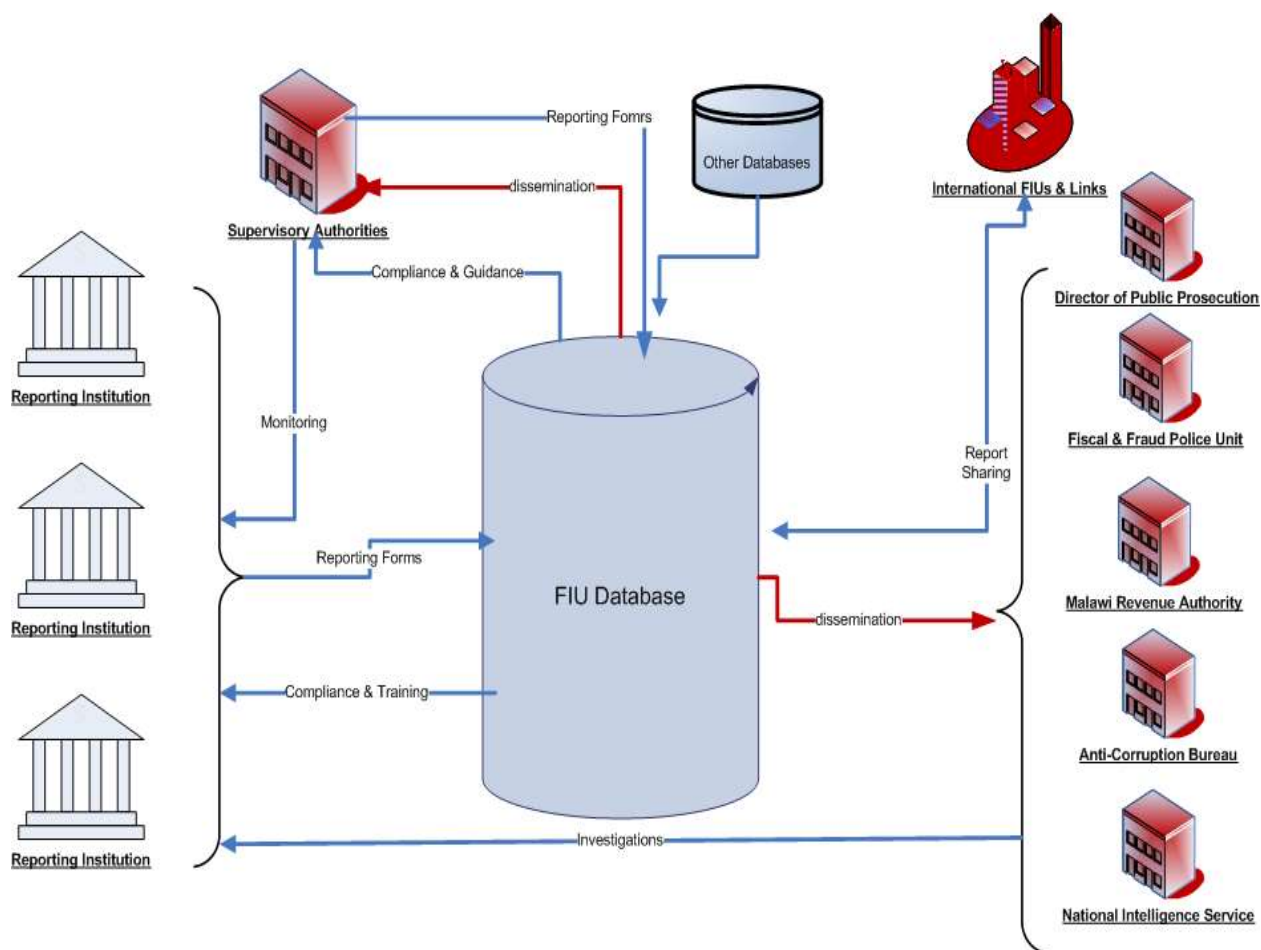
The FIU was established in August 2007 under Section 11 of the ML Act, to detect and deter money laundering and terrorist financing by providing critical information related to financial transactions to support the investigation and prosecution of money laundering and terrorist financing offences.

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 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.

1.5. The FIU's Mission

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

The FIU's commitment extends to the provision of training, development and employment of an effective compliance framework to reduce ML and TF risks and implementation of public awareness on the effects of ML & TF on the economic and financial stability of Malawi. In this regard, the FIU shall engage suitably qualified professionals who will conduct themselves with integrity and professionalism.

1.6. The FIU's Values

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

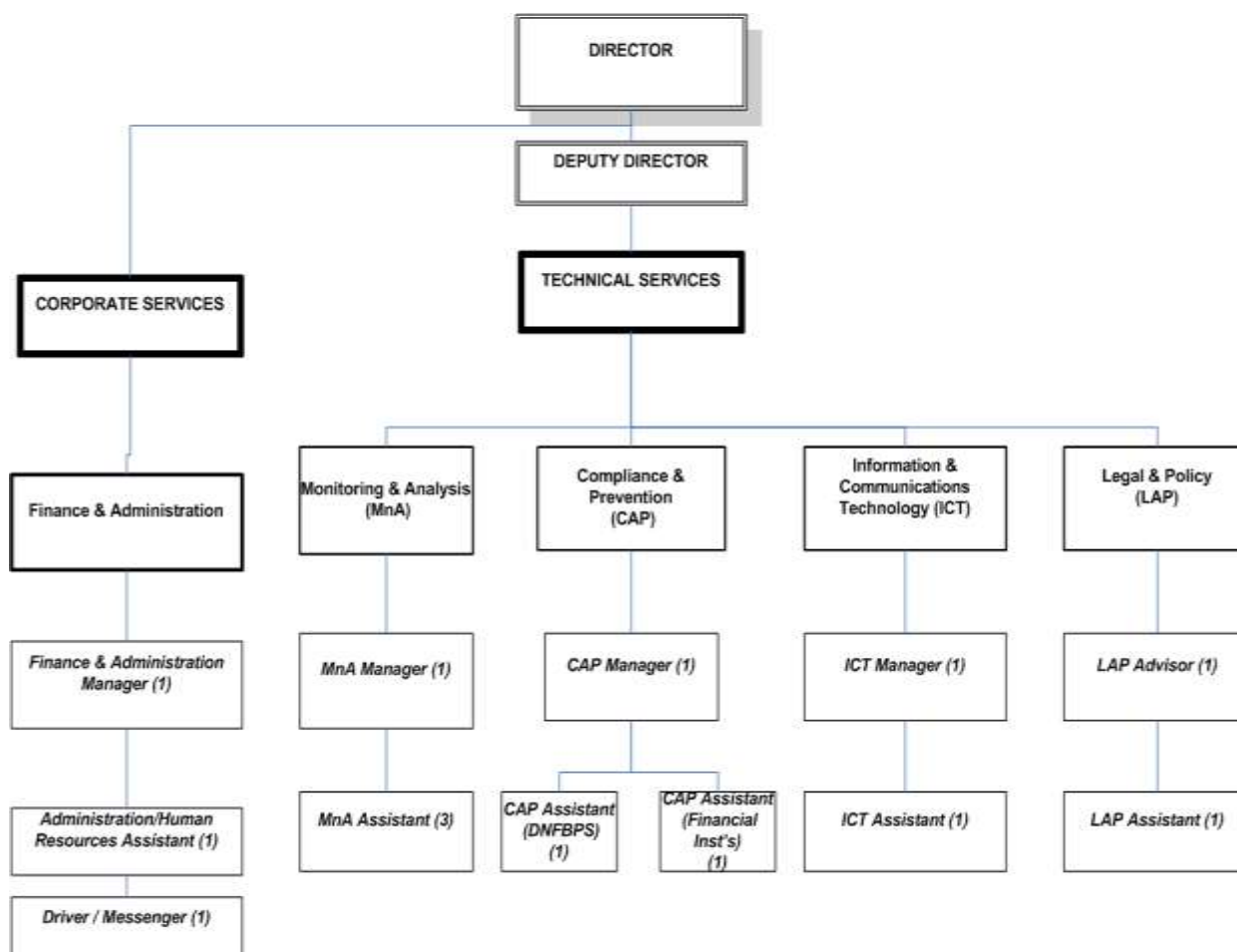
- Carry out its mandate with a sense of **INTEGRITY** by among other things demonstrating honesty, respect and discipline.
- Strive for **EXCELLENCE** and **PROFESSIONALISM** in conducting its operations and working relationships with stakeholders.
- In realising the value of information, adhere to a 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.

1.7. The FIU's Strategic Objectives

The FIU finalized its strategic plan which articulates key strategies, activities and resources necessary to combat money laundering and terrorist financing in the country in pursuant to FIU's mandate. The Plan covers the period 2010 to 2015.

Among the key strategic objectives that the FIU has set to achieve is to increase the number of reports analyzed and disseminated to law enforcement agencies and facilitate the prosecution process of offences of money laundering and terrorist financing. However, for the FIU to achieve these objectives, it requires to receive quality reports from reporting institutions. The FIU has therefore initiated a comprehensive training programme for compliance officers of financial institutions on reporting requirements and identification of suspicious transactions.

1.8. Structure of the Malawi FIU



As shown in the organisational structure, there are 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 that the FIU runs its operations 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).

Monitoring and Analysis Department

The Monitoring and Analysis (M&A) Department is responsible for the core functions of the FIU which are receiving and analyzing reports that are submitted by institutions as defined in the ML Act. In terms of the ML Act, the FIU is mandated to receive large currency transaction reports (LCTRs – which are all transactions above K1 million) and suspicious transaction reports (STRs) and cross-border currency reports (XCRs). Currently, only STRs and LCTRs are being received.

Upon receipt of these reports, the department analyses the information to determine if the information submitted meets relevant criteria to form suspicion of the commission of any crime, in particular the commission of money laundering or terrorist financing offences. Once the suspicion has been substantiated, it is then disseminated as *intelligence* and not *evidence* to relevant LEAs such as the Malawi Revenue Authority, the Anti-Corruption Bureau and the Malawi Police Service to carry out appropriate investigation for possible prosecution.

Further to this, the M&A Department handles requests for information from local and international agencies.

Compliance and Prevention Department

The objective of the Compliance and Prevention (CAP) Department is to ensure that all relevant stakeholders 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:

- The actual monitoring of compliance by financial institutions through onsite inspections and offsite surveillance,
- Provision of guidance in the areas where the ML Act or regulations are ambiguous or in conflict with other obligations that relevant stakeholders have under other Acts of Parliament, and
- Drawing and implementing a public awareness strategy to ensure that Malawians are aware of money laundering issues, and conducting training programs for reporting institutions.

Information & Communications Technology Department

The Information and Communications Technology (ICT) department is central in ensuring that the Financial Intelligence Unit (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 facilities used to input, process, store, transmit and disseminate the FIU's information are very vital. The motto of

the Department is '**Confidentiality**', '**Integrity**' and '**Availability**' (**CIA**) of all the FIU's ICT facilities.

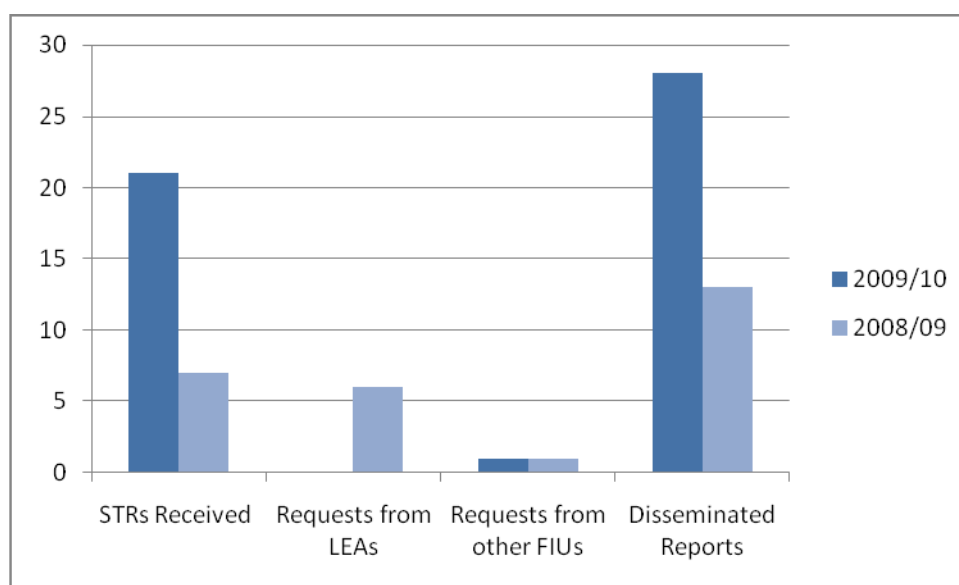
Legal and Policy Department

The Legal and Policy (LAP) Department ensures that the FIU is operating within its mandate, as stated in the ML Act and that at all times the FIU has excellent relations with various stakeholders who include law enforcement agencies and financial institutions. 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, as well as acting as a point of liaison between the FIU and relevant stakeholders. Its liaison functions are exercised within and outside Malawi.

2. ACHIEVEMENTS AND HIGHLIGHTS IN THE REPORTING YEAR

2.1. Disseminating Rich Financial Intelligence

During the financial year under review, the FIU received more STRs from financial institutions than the previous year. This resulted into increased number of reports disseminated to LEAs. From July 2009 to June 2010 the FIU received 21 suspicious reports from financial institutions and 28 reports were disseminated to the LEAs.



Receipt and Dissemination of reports by the FIU

In the period under review, the FIU also received 1 request from the Financial Intelligence Centre (FIC) of South Africa (i.e. the FIU of South Africa).

Through the reports disseminated to the LEAs, funds were recovered from tax evaders and a number of people and business entities not registered for tax purposes had been established and brought to book. This means that the FIU's financial analysis reports are proving to be an effective tool in dealing with violation of tax laws.

In addition to that, an analysis done by the FIU on a number of accounts showed that there was production of false bank statements by immigration permit applicants for purposes of obtaining Business Resident Permits (BRP) in a crooked manner. The applicants are falsely declaring that they have funds above K8, 000, 000 which is a prerequisite for BRP when in actual fact they are not bringing in any funds into the country for investments. The responsible LEAs were carrying out further investigations on this.

2.2. Reinforcing Physical & Logical Security

The FIU completed the development of ICT policies and procedures which started in 2009. Implementation of the policies has since commenced. These policies have enabled the FIU to set out procedures to be followed when using ICT equipment and systems thereby meet requirements of its users and comply with international standards of operation. The FIU has further developed ICT change control procedures and processes so that ICT changes are introduced in an orderly and systematic manner to ensure minimal disruption to ICT services by users. The change controls are also aimed at accelerating service delivery by the staff members.

In line with its 2010 to 2014 Strategic Plan, the FIU is implementing a Business Continuity Planning (BCP) project, which is key to survival of any organization in times of disaster. The project was initiated in June 2010 and aims at documenting processes and procedures for the development, testing and maintenance of a series of plans that will enable the FIU to continue operating during and after a disaster. The plans are expected to cope with incidents affecting all the FIU's critical business processes and activities. The project is expected to be completed within the first half of the 2010/2011 financial year.

2.3. Investing in Information and Communication Technology (ICT)

The FIU finalised the development of its database during the period under review. The database is key to the core business of the FIU in that it contains crucial information such as transaction reports submitted by financial institutions, accountholder details, details of workshops and other activities conducted by the FIU and is linked to the analyst software for easy analysis of financial transaction reports.

The FIU's database has been linked to i2 Analyst's software and this has enabled analysts to capture, control, analyze and visually display complex information and relationships between accountholders, accounts and organizations. Capturing of structured data from STRs and LCTRs that were submitted before this linkage of the software is in progress. This data is helping analysts to identify and monitor trends and typologies in money laundering and terrorist financing

Another milestone on ICT was deployment of an accounting system for the FIU. The accounting system has resulted in the automation of the entire accounting process for the Unit.

2.4. Ensuring Compliance by Reporting Institutions

Assessment of Financial Institution's compliance with the ML Act

In order to assess compliance of financial institutions with the obligations placed upon them by the ML Act, the FIU conducted its first AML/CFT on-site examinations on 5 banks in November 2009. The banks visited were Opportunity International Bank of Malawi (OIBM), NBS Bank, International Commercial Bank (ICB), First Merchant Bank (FMB) and Ecobank. Earlier in the year, the FIU in conjunction with the Reserve Bank of Malawi (RBM) conducted a joint AML/CFT on-site examination of a non-bank financial, the First Discount House (FDH).

The aim of the examinations was to assess whether financial institutions are putting in place appropriate measures and controls in form of policies, procedures, processes and key staff to enable them capture enough details of their customers, monitor customer's financial transactions, and detect and report to the FIU suspicious transactions relating to money laundering and terrorist financing. The major revelations from the examinations are as follows:

- Local directors of the board of some banks were not involved in the process of developing of the AML policy;
- Some banks had no systems for monitoring suspicious transactions;
- Most banks had not clearly defined the roles and responsibilities of their Compliance Officers;
- Most Compliance Officers of the banks were not specifically for the compliance function but doubled their roles with other portfolios;
- Most banks did not employ independent testing/auditing of their AML compliance program;
- Staff members of banks were not trained regularly on AML/CFT;
- Policies of most banks were not clear on how their staff would be screened; and
- Most banks were not financially supporting activities of their compliance departments.

In December 2009, the FIU administered a questionnaire to all banks that was used to capture the measures and controls put in place to counter -money laundering. The responses from the banks offered a basis for the FIU to plan on interventions to equip the banks and their key staff with the necessary skills and knowledge to enable them develop effective measures of preventing criminals from using their products and services for money laundering purposes.

Furthermore, the FIU requested documents and information on AML/CFT programs from 3 stock brokering firms - namely: African Alliance Malawi Ltd, CDH Stockbrokers and Stockbrokers Malawi Ltd - with the aim of conducting desk assessments of their AML/CFT programs. The documents submitted by these firms were being reviewed by Compliance Officers of the FIU.

Reports issued to the financial institutions following the onsite assessments highlighted areas requiring improvement and these included the AML/CFT policies

and procedures of the financial institutions and a need for management of the institutions to make a commitment to implementing recommendations made by the FIU within a given period.

Skills enhancement and awareness training for financial institutions

To address lack of knowledge and reluctance to implement necessary measures and controls for anti-money laundering by financial institutions, the FIU conducted skills enhancement training and awareness workshops for participants drawn from all commercial banks in all the regions of the country. The participants were trained in identifying red flags and analyzing financial transactions to determine money laundering, examining bank documents and how companies can be abused for criminal activities such as money laundering.

After conducting these trainings, the FIU is optimistic that many banks will be able to identify suspicious transactions in their work and report them in time to the FIU. As a result of these trainings, the FIU has noticed an increase in the number of STRs that it receives from the financial institutions.

The FIU also conducted sensitization workshops for casinos and real estate agents. Facilitators of the workshops were drawn from the FIU, Malawi Gaming Board and Ministry of Justice.

The effort to enhance the capacity of financial institutions on AML/CFT issues has been welcomed by various institutions. In this regard, the FIU has also provided training to staff of ZAIN Malawi, Deloitte and Touché, and Sunbird Tourism. A total of 270 people attended the training workshops this reporting year.

2.5. Public Awareness

The FIU continues to take steps to increase the public's understanding of money laundering and terrorist financing issues. To this effect, significant progress in this regard was made as follows:

- The FIU placed 90,000 inserts in the newspapers of *The Daily Times*, *The Nation*, *Malawi News* and *Weekend Nation*.
- About 86,000 brochures and 85 posters were distributed to financial institutions across the country to be displayed in the banking halls or business premises for many customers to access basic information on anti -money laundering and the operations of the FIU.
- The FIU has developed its Public Awareness Strategy and Media Communications Policy. The strategy identifies target audiences and outlines initiatives that the FIU has to undertake to promote and monitor public awareness on money laundering issues. The policy on the other hand serves as a guide on how the FIU should interact with the media and the public and what procedures are to be observed by all officers of the FIU when providing information to other users with the aim of safeguarding the integrity and confidentiality of information that the FIU handles.

An article on the skills enhancement workshop that was conducted for banks and other financial institutions was carried out in the Bankers Association of Malawi (BAM) magazine. This is a portrayal of the developing good working relationship between the FIU and financial institutions towards efforts aimed at strengthening the AML/CFT regime in the country. Malawi Broadcasting Television (MBC TV) and the daily newspapers in the country continued to carry news articles relating to the progress that Malawi is making in the fight against money laundering and terrorist financing.

Development of the FIU Newsletter

In order to create a platform for expounding money Laundering and terrorist financing issues and highlighting developments in the fight against money laundering in Malawi, the FIU developed an electronic newsletter that can be

accessed through the website www.fiumalawi.gov.mw. The development of this newsletter is a deliberate effort to promote awareness on AML/CFT issues.

2.6. Developing Domestic and International Cooperation

Domestic, regional and international cooperations are some of the key pillars of a successful AML/CFT framework as problems of money laundering and terrorist financing are complex, multi-faceted and global in nature. In recognition of this, the FIU continues to take some steps to facilitate cooperation at domestic and international levels.

Domestic Cooperation

The National AML/CFT committee held a stakeholders consultative workshop on the National AML/CFT Strategic Plan which will guide the country to systematically fight against money laundering and terrorist financing for the period 2010 to 2014. The aim of the workshop was to gather input from a wide range of stakeholders before finalisation of the strategic plan. The strategy was finalised and sent to government through the Ministry of Finance for cabinet approval. After approval, the strategy will be submitted to ESAAMLG Secretariat as required of all member countries.

In line with its strategic plan, the FIU has started having quarterly meetings with Law Enforcement Agencies and Compliance Officers of financial institutions. The meetings with the LEAs are vital in that progress on cases disseminated is discussed. On the other hand, meetings with financial institutions provide a forum where they are given general feedback on reports they submit to the FIU. In addition to that, challenges faced by the financial institutions are also discussed and solutions to the challenges are mutually agreed upon.

As mandated by Section 11(2) (q) of the ML Act, the FIU continues to enter into working relationships with various institutions through signing of memorandums of

understanding (MoUs) with the institutions. These agreements are meant to provide a guideline on how information is to be shared, secured and disseminated between the FIU and the other parties. During this financial year, the FIU finalized an MoU with the Reserve Bank of Malawi.

Regional Cooperation

The FIU continued to take a leading role in ensuring that Malawi's efforts in combating money laundering and terrorist financing are recognized at regional level. In this regard, the FIU participated in the ESAAMLG meetings held in Lesotho in August 2009 and Tanzania in March 2010. The Lesotho ESAAMLG Council of Ministers meeting was very significant as it marked 10 years since the establishment of the ESAAMLG. It was also at this meeting that Malawi formally accepted to host the ESAAMLG Task Force of Senior Officials meeting and Council of Ministers meeting in August 2010.

As part of its obligations to ESAAMLG, Malawi was expected to have a Strategic Implementation Plan (SIP) to be used as part of the peer review mechanism by ESAAMLG members in determining the progress made. To enable the country accomplish this, the World Bank organised a training workshop that emphasized on how the SIP should be completed and followed up, and the workshop was attended by representatives from the FIU, RBM and the Ministry of Justice. It is envisaged that the SIP, together with the National AML/CFT Strategy, will make a difference in Malawi's AML/CFT regime.

International Cooperation

In accordance with Section 12 of the ML Act, the FIU concluded an MoU with the Financial Intelligence Centre of Namibia. The MoU will allow both parties to exchange information. As part of enhancing the relationship of the two institutions, the Namibian Financial Intelligence Center hosted two members of staff from the

Malawi FIU on a study tour to learn effective implementation of AML/CFT public awareness campaigns.

Apart from that, the FIU participated in Working Group meetings of EGMONT Group of FIUs. The FIU sent representatives to an EGMONT Working Group meeting in Mauritius in February 2010 and the Main Plenary meeting in Columbia in June 2010. The EGMONT continues to be a good platform of learning and exchanging ideas and knowledge.

In recognition of the strides taken by the FIU, the World Bank engaged staff of the FIU to make presentations in Sierra Leone and Liberia on setting up of an FIU. This was very important to the two countries as they were in the process of setting up their FIUs. The Malawi FIU also made presentations together with the Australian Transaction Reports and Analysis Centre (AUSTRAC) at a regional workshop held in Namibia whose aim was building the capacity of FIUs on AML/CFT implementation.

2.7. Building Capacity of the FIU, Financial Sector Supervisors and Agencies

The FIU is committed to putting in place mechanisms of enhancing its capacity to carry out operations effectively and efficiently. Therefore, a number of capacity building initiatives took place during this reporting period.

Staff Recruitment

The FIU recruited an ICT Manager and two Compliance and Prevention Officers in January 2010. The coming of the three officers helped to consolidate service delivery of the FIU.

Development of Standard Operating Procedures

The FIU continued to develop Standard Operating Procedures (SOPs) to ensure that staff members discharge their duties in a professional and consistent manner and achieve desired outcomes. The SOPs that were developed were on conducting of on-site examinations, partner liaison meetings, desk reviews and follow-up to onsite examinations.

Capacity Building for the FIU Staff

During this financial year, the FIU sent its staff members to various trainings in order to further their skills.

Some staff members attended a training workshop on Advanced Microsoft Office at the Malawi Institute of Management to sharpen their skills on Microsoft Office systems such as Excel, PowerPoint, Access and Word.

Besides that, two Compliance and Prevention Officers attended training on AML Lifecycle for FIUs in Namibia organised by AUSTRAC. Among others, the officers acquired skills in developing an understanding of the industry perspective in complying with AML reporting obligations; the processes of monitoring, assessing and enforcing compliance; developing effective education programs for the general public and other stakeholders, and developing an effective regulatory regime.

Apart from that, an officer from the Monitoring and Analysis Department made a presentation at the AML Lifecycle for FIUs workshop in Namibia. He also made three presentations at a workshop organized by the World Bank in Liberia. The officer further delivered a presentation in Sierra Leone at another workshop organized by the World Bank. The World Bank recognizes the strides made by FIU Malawi hence its continued requests for FIU Malawi officers to make presentations and share its experiences with emerging FIUs in Africa.

Further, all staff members of the FIU attended a training workshop organized by AUSTRAC at Sunbird Capital Hotel in Lilongwe. Through this training, FIU officers furthered their skills in conducting supervision of financial institutions particularly

designated non-financial businesses and professions (DNFBPs). The training focused on the money laundering vulnerabilities, indicators and typologies for these institutions. AUSTRAC conducted its first workshop for the Malawi FIU in November 2009.

Two officers underwent a two-week training program on Analyst's software in South Africa. The training enhanced the officers' analytical skills with regard to quick identification of connections, patterns and trends from complex financial transactions.

On top of the trainings mentioned earlier, two other officers attended an AML/CFT Leadership Conference organized by Austrac in Malaysia in June 2010, and yet another officer attended a Strategic Implementation Plan Framework Review Training in Zambia organised by the World Bank in May 2010.

Development of 5-year Departmental Annual Plans

The Strategic Plan for the FIU, which was developed during the previous reporting year, was reviewed during this financial year and it led to the drawing up of a five year plan for all the departments indicating proposed activities and their budgets. The five year plan is being used as a monitoring tool to measure performance of the departments.

Training of Law Enforcement Agencies

The World Bank conducted training on the last sessions for phase three of Financial Analysis training and these sessions were co-facilitated by local trainers. This training had enhanced the skills and capacity of law enforcers, supervisory bodies and other stakeholders involved in the implementation of AML/CFT framework in the country. The participants to the training sessions were investigators, prosecutors and other officers from the DPPs Chambers, Fiscal and Fraud Unit of the Malawi Police Service, Immigration Department, Malawi Revenue Authority, the Anti-Corruption Bureau, the Registrar General, the Reserve Bank of Malawi, the Malawi Gaming Board and the FIU.

The areas that participants were trained in were wide and varied. They included gathering intelligence, prosecuting ML/FT cases, supervision of financial institutions and casinos, trends and typologies of money laundering and application of the skills in identifying money laundering and terrorist financing cases.

2. MAIN CHALLENGES ENCOUNTERED IN THE PAST YEAR

The following are the major challenges that were faced during the year:

- Despite attending a capacity enhancement workshop, most financial institutions have not fully understood the difference between STRs and LCTRs. They are still reporting LCTRs which really would have been reported as STRs. The FIU will continue to engage the financial institutions, including their branches, in a series of trainings that will enhance their ability to easily identify suspicious transactions.
- Quality of suspicious transaction reports from the financial institutions is still low and this remains a challenge when analyzing the financial transactions.
- Risk assessment of ML/FT on Malawi's financial system has never been carried out and this is limiting the effectiveness of the efforts in AML/CFT. Without this assessment it is difficult to know which financial institutions are most vulnerable to money laundering, how money laundering is being carried out, and its extent and effects on the national economy. A risk assessment exercise would identify priority areas and help in channelling efforts of the FIU and other stakeholders towards addressing the identified ML risky sectors.
- Some banks are yet to complete Customer Due Diligence procedures and this is affecting the work of the FIU. The importance of CDD cannot be overemphasized as without it banks would find it difficult to identify and report suspicious transactions. It is through CDD that banks are able to note any unusual deposits or transactions that are not related to the economic activities of the individual or company.
- There is poor cooperation from financial institutions regarding requests from the FIU for additional information on reports that are under analysis. One of the reasons for this is that some financial institutions appear to see no value in the information submitted to the FIU while others feel that they are under no obligation to submit the requested information. This is being addressed by the

- introduction of a deliberate initiative by the FIU to periodically inform the institutions on how information they submit is being used, what value this is adding to them and the FIU and any actions taken on reports and/or information that they submit. The FIU has also been working hard on sensitizing the reporting institutions on their reporting obligations in accordance with the ML Act.
- There has been inadequate coordination between the FIU and other key stakeholders in AML/CFT such as the Police, Road Traffic Directorate, Anti-Corruption Bureau, Ministry of Justice, Immigration Department, Judiciary and Registrar General. This has, in part, happened because there are no computer systems linking these stakeholders for information sharing purposes. This will be addressed in the next financial year through establishment of links with these institutions. Secure access to shared information between these institutions on one hand and the FIU on the other will accelerate decision-making processes by the FIU.
 - There is a capacity gap on the FIU's knowledge and usage of information systems security. ICT staff of the FIU will therefore be trained in the coming year to enhance their capacity in planning, implementing, configuring and managing secure ICT systems.
 - Some financial institutions such as real estate agents do not have a government appointed supervisory authority, as such they operate in a disorganized manner. The real estate agents have not sufficiently been trained or sensitized to start implementing their obligations under the ML Act such as submitting reports to the FIU. Many others are yet to be sensitized.
 - The onsite examinations that were conducted revealed that most financial institutions are yet to put in place proper AML/CFT programs that can ensure that criminals do not use their financial products and services. Some of the reasons for this are that management of financial institutions do not accord proper support to the compliance function either for lack of human resources or proper knowledge and information on money laundering issues. They therefore do not

appreciate the threat posed by money laundering to the economic development of the country. However, efforts are being made to address this challenge.

- The Malawi FIU, being administrative in nature, faces a challenge where preliminary investigations are required to add value to an STR that has been received from a financial institution. The Malawi FIU does not carry out investigations on suspected money laundering but relies on LEAs for that work.

3. PRIORITIES FOR THE COMING FINANCIAL YEAR

The FIU intends to conduct AML/CFT workshops covering dealers in precious stones and metals, real estate agents and casinos. The intended outcome of the workshops is that these sectors will start complying with the ML Act. According to money laundering typologies from across the globe, these sectors are vulnerable to abuse by criminals.

As part of the FIU's drive to enhance capacity of staff in law enforcement agencies, supervisory authorities and other relevant institutions, two training programs with at least 22 participants per training drawn from various law enforcement agencies and supervisory authorities will be conducted during the next financial year.

The FIU also intends to upgrade its email system and migrate to advanced computer servers. This will ensure that staff members are able to securely access important information and respond to urgent emails while operating away from outside the FIU offices. This will help to accelerate decision-making and other internal communication processes.

The FIU will deploy an offsite backup facility to enable it continue to operate during and after a disaster. The FIU also plans to deploy a Business Continuity Plan (BCP) designed to cope with incidents affecting all the FIU's critical business processes and activities. These may include failure of a computer system and complete loss of a major facility.

Another area to be considered is upgrading the information systems security and network infrastructure to enhance security to the FIU database. This will involve the deployment of network intrusion detection and internet security systems so that attempts by external and internal personnel to access restricted FIU systems and data can be identified and acted upon.

To modernise and simplify its financial accounting and human resource management processes, the FIU will arrange for procurement, implementation and training for concerned staff on an HR and payroll system. The FIU has no computerized payroll and

HR system and relies on a largely manual system which is error prone and time-consuming.

Besides that, the FIU intends to develop a web-based report submission interface. Financial institutions currently submit reports to the FIU via email and courier. This process is costly on the part of both the FIU and financial institutions in terms of the time required to upload transactions in the database and the courier charges, respectively. The process also does not leave behind an automated audit trail for future referencing. The web-based report submission interface will enable financial institutions to securely submit reports to the FIU online and allow reports to be processed straight into the FIU database thereby eliminating the need for manual data capturing by the FIU.

The FIU will arrange for tailor-made training for its Compliance Officers so that they appreciate international best practices and conduct for their job. Money laundering, being a transnational crime, needs to be tackled by measures that are globally applicable and effective.

There is a need to address the knowledge gap that exists among officers of the financial institutions who are expected to monitor compliance on AML/CFT in their institutions. The FIU will ensure that these officers are trained from time to time to enable them work effectively.

The efforts being undertaken by the FIU to hold quarterly meetings with Compliance Officers of financial institutions and representatives of LEAs will continue during the next financial year. The meetings will be done to further coordination on implementation of the National AML/CFT framework and close some knowledge gaps among these stakeholders on AML/CFT concepts and typologies.

4. 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 K93.5 million from the national budget of Malawi and an additional K28.5 million supplementary budget to fund AML/CFT National Committee activities. This brought the total funding to K122 million. However Treasury remitted to the FIU a total of K116.5 million, leaving a shortfall of about K5.5 million.

The FIU wishes to commend Government, in particular the Treasury, for improvements in the remittance of monthly funding. FIU is now able to do its planned activities in time.

The FIU acquired an accounting package in the year under review which will reduce the workload in the Finance Department and thereby help in the production of management reports and financial statements in a timely manner.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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 2010

Income and Expenditure for the Period Ending 30 June 2010

	Notes	MWK 2010	MWK 2009 Restated
Income			
Revenue	4	120,102,584	97,743,264
Total Income		120,102,584	97,743,264
Expenditure			
Expenses	5	120,816,810	85,955,046
Total Expenditure		120,816,810	85,955,046
Surplus/ (Deficit)		(714,226)	11,788,218

BALANCE SHEET**Balance Sheet as at 30 June 2010**

	Notes	30 June 10 MWK	30 June 09 MWK Restated
Noncurrent Assets			
Intangible Assets	7	4,198,400	6,297,600
Property, Plant & Equipment	8	15,105,176	22,919,469
Total Non Current Assets		19,303,576	29,217,069
Current Assets			
Debtors	9	9,355,818	3,023,236
Prepayments		32,681	216,615
Loan Revolving Account		808,897	2,173,528
Cash at Bank and in Hand		18,909,354	12,608,566
		29,106,750	18,021,945
Total Assets		48,410,326	47,239,014
Reserves and Liabilities			
Reserves		45,358,963	46,073,188
Current Liabilities			
Trade and other payables	10	1,968,288	919,226
Accruals		1,083,075	246,600
Total Current Liabilities		3,051,363	1,165,826
Total Reserves and Liabilities		48,410,326	47,239,014

CASH FLOW STATEMENTS

	30 June 10	30 June 09
	MWK	MWK
Cash flows from operating activities		
Cash receipts	126,969,762	97,402,135
Cash Paid to suppliers and employees	<u>(120,592,311)</u>	<u>(79,324,361)</u>
Cash Utilised in operations	6,377,451	18,077,774
Interest received	114,009	86,122
<i>Net cash flow from operating activities</i>	6,491,460	18,163,896
Cash Utilised in Investing Activities		
Purchase of Property, plant & Equipment	(1,555,303)	(27,730,894)
<i>Net Cash flow from investing activities</i>	<u>(1,555,303)</u>	<u>(27,730,894)</u>
Increase in cash and cash equivalent	4,936,157	(9,566,998)
<i>Cash and cash equivalents at beginning of yr</i>	14,782,094	24,349,092
<i>Cash and Cash equivalents at end of yr (note 6)</i>	<u>19,718,251</u>	<u>14,782,094</u>

NOTES TO THE FINANCIAL STATEMENTS

Accounting Policies to the Annual Financial Statements for the year ended 30 June 2009

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 and was given donations, in form of computer equipment from the Office of Technical Assistance of the US Treasury. 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

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

2.7 FIU Gratuity Fund

Members of staff at FIU are on contract and are entitled to gratuity at the end of their contract. The FIU accrues the Gratuity funds and they are deposited in a separate account on a monthly basis.

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 10	30 June 09
	MWK	MWK
4. Revenue		
Government Funding	119,012,824	97,373,407
Other Income	687,290	82,122
Interest on Staff Loans	402,471	287,735
Total Revenue	<u>120,102,585</u>	<u>97,743,264</u>
US Treasury (IT Equipment & Software, cash (Included in Govt Funding figure above))		19,787,951
5. Expenses		
Depreciation	9,369,596	7,323,649
Amortization	2,099,200	2,099,200
Staff costs	42,771,407	34,682,078
Travel expenses	22,652,417	18,998,910
National AML CFT Expenses	11,285,630	2,388,100
Other Expenses	32,638,560	20,463,109
Total Expenses	<u>120,816,810</u>	<u>85,955,046</u>

	30 June 10	30 June 09
6. Cash and Cash Equivalents	MWK	MWK
Cash comprises cash at bank and in hand.		
Deposits and Bank balances	18,889,889	12,592,366
Cash on Hand	19,465	16,200
Loan account	808,897	2,173,528
Total cash and cash equivalents	19,718,251	14,782,094

7. Intangible Assets

	Analyst Notebook MWK	Database- FIMTRAC MWK	Micro SQL Server 05 MWK	M Visual Studio MWK	Total MWK
Cost					
At 1 July 2009	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Additions					
At 30 June 2009	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Amortization Charges					
At 1 July 2009	1,036,000	712,500	265,650	85,050	2,099,200
Amortization Charge for the yr	1,036,000	712,500	265,650	85,050	2,099,200
Acc Amortization	2,072,000	1,425,000	531,300	170,100	4,198,400
Value of Assets at 30 June 2010	2,072,000	1,425,000	531,300	170,100	4,198,400

8. Property, Plant and Equipment

	Computer Equipment MWK	Office Equipment MWK	Motor Vehicles MWK	Office Furniture MWK	Total MWK
Cost					
At 1 July 2009	7,596,995	6,679,914	17,274,934	955,203	32,507,046
Additions	221,963			1,333,340	1,553,303
At 30 June 2010	7,818,958	6,679,914	17,274,934	2,288,543	34,062,349
Depreciation					
At 1 July 2009	2,060,720	1,598,653	5,839,658	88,546	9,587,577
Disposals	-	-	-	-	-
Charge for the yr	2,453,044	2,002,161	4,523,536	390,855	9,369,596
Accumulated Dpn At 30 June 2010	4,513,764	3,600,814	10,363,194	479,401	18,957,173
Net Book Value					
At 30 June 2010	3,305,194	3,079,100	6,911,740	1,809,142	15,105,176

30 June 10 **30 June 09**

MWK

MWK

9. Debtors

Staff Debtors	8,825,728	2,493,146
Other Debtors	530,090	530,090
	<u>9,355,818</u>	<u>3,023,236</u>
	30 June 10	30 June 09
	MWK	MWK

10. Trade and other Payables

Trade Creditors	1,968,288	853,864
Other Creditors (FBT)	-	65,362
	<u>1,968,288</u>	<u>919,226</u>