



FINANCIAL INTELLIGENCE UNIT

REPUBLIC OF MALAWI

Fighting Money Laundering & Terrorist Financing

2010 / 2011 Annual Report

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Any communication should be forwarded to:

The Acting Director

Financial intelligence Unit

Private Bag B441

Lilongwe 3

Malawi

Tel: +265 1 771 001/ 004

Fax: +265 1 772 987

Email: info@fiumalawi.gov.mw

www.fiumalawi.gov.mw

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 foreign FIUs.

The FIU's commitment extends to the provision of training, development and employment of an effective compliance framework to reduce money laundering and terrorist financing (ML & TF) risks and implementation of public awareness on the effects of ML & TF on the economic and financial stability of Malawi.

31st December 2011

Honourable Dr. Ken Lipenga, M.P.

Ministry of Finance

P. O. Box 30049

LILONGWE 3

Dear Minister,

4TH 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 fourth Annual Report on the operations of the Financial Intelligence Unit (FIU) for the year ended 30th June 2011.

Yours faithfully,



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
CAP	Compliance and Prevention
CDD	Customer Due Diligence
CFT	Combating the Financing of Terrorism
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
MPS	Malawi Police Service
DNFBPs	Designated Non-Financial Businesses and Professions
RBM	Reserve Bank of Malawi
STRs	Suspicious Transaction Reports
XTRs	Cross-border Transaction Reports

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MESSAGE FROM THE DEPUTY DIRECTOR



The Financial Intelligence Unit (FIU) has produced this fourth annual report which highlights activities carried out over the period from July 2010 to June 2011 as mandated by section 11 of the Money Laundering, Proceeds of Serious Crime and Terrorist Financing Act Cap 8:07 of the Laws of Malawi. Key roles played by the FIU are receipt, analysis and dissemination of reports on financial transactions in order to detect money laundering and financing of terrorism. After analysis, relevant information is disseminated to law enforcement agencies (LEAs) for investigations. These key roles are augmented by training of financial institutions and LEAs, public awareness initiatives, and compliance inspections, among others.

Through coordination with financial institutions, the FIU received 18 suspicious transaction reports (STRs) and the figure increased to 35 after extracting some STRs from large currency transaction reports.

Fruits of timely analysis and dissemination of STRs were once again registered this reporting period. The FIU helped the Malawi Revenue Authority (MRA) to recover millions of Kwacha in evaded tax. Further to this, the FIU collaborated with LEAs and financial institutions to uncover a syndicate where millions of Kwacha were externalised under the guise of paying for imports from companies based overseas. Through networking with partners, the FIU established that the companies were dubious.

Overall, it was a very busy year for the FIU. The country hosted the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) 10th Council of Ministers Meeting and 20th Task Force of Senior Officials Meeting from 30th August to 8th September 2010 at Crossroads Hotel in Lilongwe. The meetings were attended by over 400 delegates from the region and beyond. At this meeting, Malawi assumed the Presidency of ESAAMLG for a period of one year from September 2010 to September 2011. During Malawi's Presidency, ESAAMLG made a number of achievements and the country represented the Group in various international meetings.

The ESAAMLG meetings and the Presidency were significant as they assisted in promoting visibility of Malawi's efforts in fighting money laundering and terrorist financing. Apart from that, the meetings enhanced the country's regional cooperation.

Other activities implemented by the FIU during the year were conducting onsite examinations of some financial institutions, training of bank officials, and carrying out public awareness activities.

The FIU is advancing at a very good pace and emerging FIUs appreciate this with envy. The FIU will build on the gains registered in this reporting year with the hope of surpassing them in the forthcoming reporting year.

Tom Malikebu
DEPUTY 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.

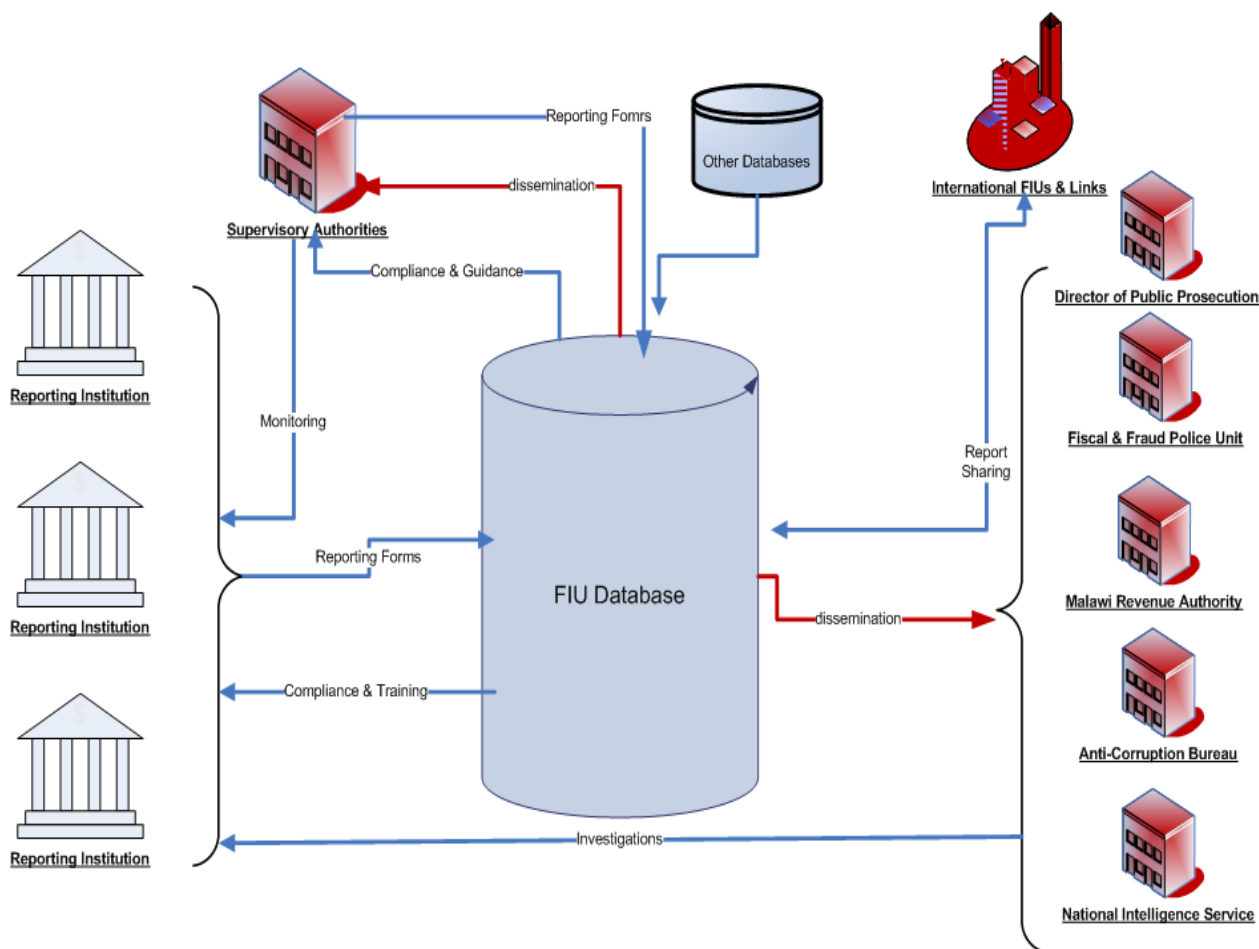
More specifically, the FIU's mandate is to:

- 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

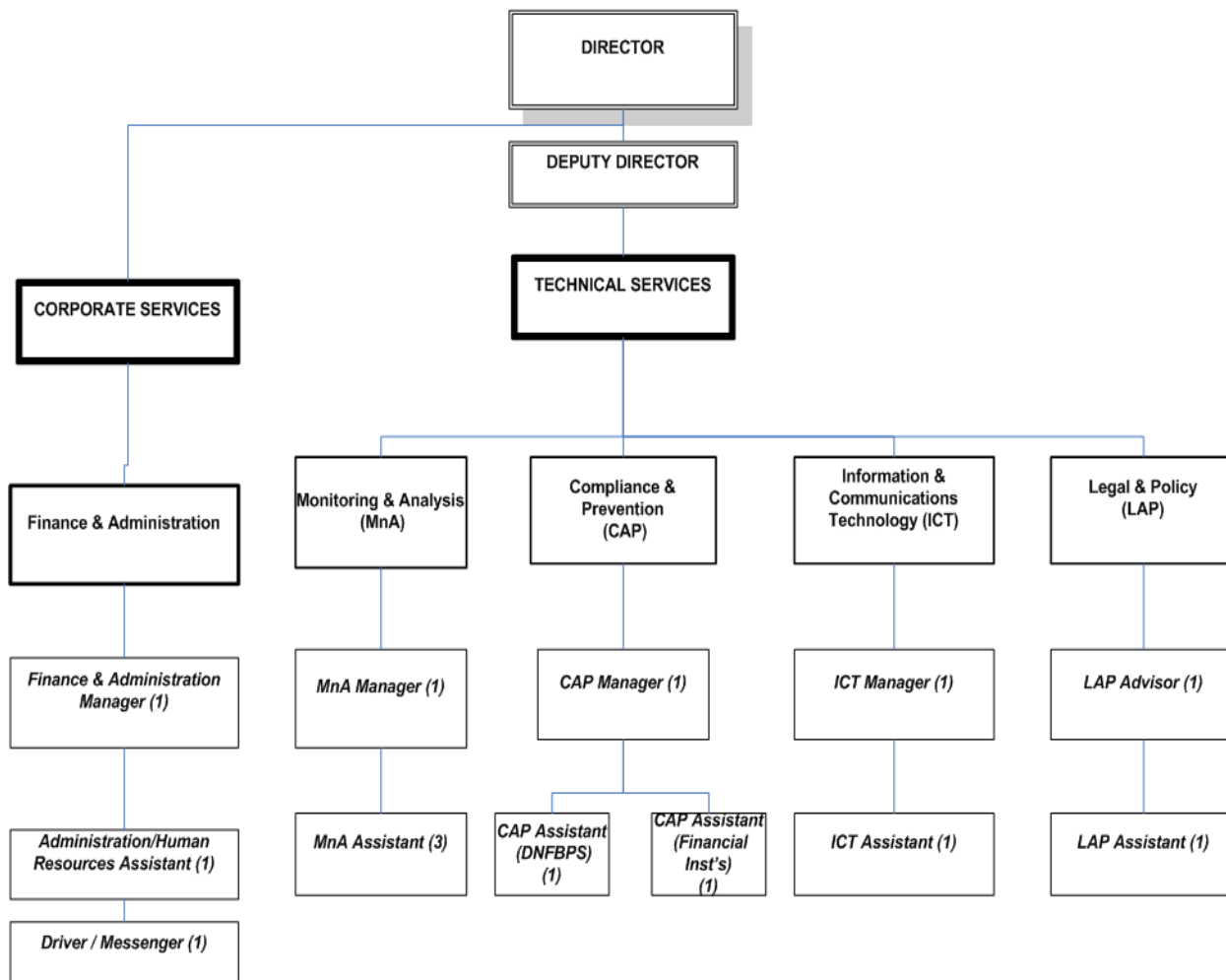
The FIU has a Strategic Plan that runs from 2010 to 2014 which contains the following strategic objectives:

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. Structure of the Malawi FIU



As shown above, 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 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 law enforcement authorities 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.

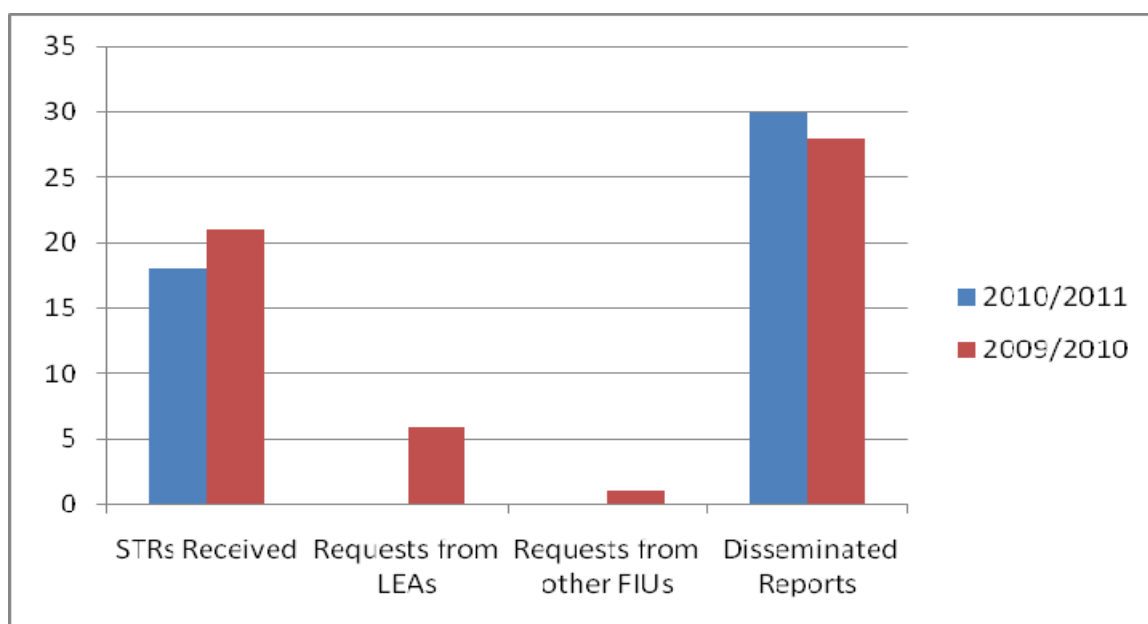
2. ACHIEVEMENTS AND HIGHLIGHTS IN THE REPORTING YEAR

2.1 Disseminating Rich Financial Intelligence

During the year under review, the number of suspicious transaction reports (STRs) received by the FIU dropped as compared to last year. The FIU received 18 STRs filed by banks, Accounting firms and supervisory bodies.

The FIU received 403, 470 large currency transaction reports from which 17 STRs were extracted. This brought the number of STRs to 35. And out of these, 30 were disseminated to law enforcement agencies (LEAs) for investigations and possible prosecution.

During the previous year, the FIU received 21 STRs from financial institutions and 28 reports were disseminated to LEAs.



Receipt and Dissemination of reports by the FIU

LEA	Number of Reports Disseminated
Fiscal Police	6
Immigration	1
Malawi Revenue Authority	16
Anti-Corruption Bureau	1
Reserve Bank of Malawi	6

Disseminated reports to LEAs

Through the reports disseminated to the LEAs, the FIU uncovered a syndicate where funds, over K300 million, were externalised to China, Pakistan and United Kingdom within a period of four months on the pretext of payments for importations. It was established that the payments were made to dubious companies.

The reports that were disseminated to MRA helped in the recovery of over MK100 million from tax evasions. It was discovered that a number of business entities create parallel bank accounts and present one account to MRA for tax declaration. Figures in these accounts are usually lower than in the real accounts whose details are kept under the lid. Another revelation was that some business entities do not register for tax remission to MRA and use personal accounts for business purposes to avoid paying tax.

2.2 Ensuring Compliance by Financial Institutions

Assessment of Financial Institution's compliance with the ML Act

In order to determine the level of compliance of financial institutions in implementing AML/CFT requirements, the FIU conducted AML/CFT onsite compliance examinations of the following financial institutions during the year:

Banks

NBS Bank (Karonga and Mchinji branches) and National Bank (Karonga branch)

Money Markets

Continental Discount House (CDH) in Blantyre

Forex Bureaus

MSB Forex Bureau (Capital City and Kamuzu International Airport branches),

FDH Forex Bureau (Capital City, Crossroads and Lilongwe branches), and

NBS Forex Bureau (Lilongwe Branch).

Mobile Money service provider

Airtel Money (Lilongwe Head Office).

Reports with recommendations made to address the shortcomings identified during the examinations were sent to the management of the respective financial institutions for their appropriate actions.

In December 2010, the FIU administered questionnaires to 11 commercial banks that operate in the country on their annual AML/CFT compliance implementation. This is a self-assessment exercise on the part of the banks which gives an indication to the FIU of where the banks are placing themselves with regard to compliance with the ML Act. The analysis of the questionnaires revealed serious shortcomings in the banks' implementation of AML/CFT requirements which include that almost all banks did not have any system in place that could monitor transactions and trigger suspicious transaction reports. Further to that, it was established that most banks were not doing enough to implement KYC procedures.

The findings will assist the FIU in identifying critical areas that require interventions towards strengthening the financial institutions' compliance with AML/CFT requirements.

Skills enhancement and awareness training for financial institutions

The FIU continued to empower financial institutions with knowledge and skills to assist them in complying with their AML/CFT obligations as stipulated in the ML Act. This was achieved through conducting training workshops for the financial institutions.

The FIU organised a training workshop in Mzuzu for banks that operate in the northern region. The workshop was attended by 21 officers from Malawi Savings Bank (MSB), Opportunity International Bank of Malawi (OIBM), First Merchant Bank, NBS Bank, National Bank and Standard Bank.

On request from the management of the Opportunity International Bank of Malawi (OIBM), the FIU conducted training programs for the bank in Blantyre, Lilongwe and Mzuzu where 126 employees were in attendance. The employees comprised tellers, cashiers, back office staff and senior employees. The training mainly dwelt on sensitizing the employees on the basic concepts of money laundering as most of them had not undergone any training on money laundering.

The FIU also conducted a training workshop for Malawi Postal Corporation since the company offers money transmission services. 35 senior employees attended the two- day training workshop in Blantyre.

The FIU also held a meeting with management of microfinance businesses operating in Lilongwe to sensitize them on AML/CFT requirements and their reporting obligations. The microfinance institutions that were sensitized are Real People (Greenwing Capital), Izwe Loans and Blue Financial Services. Following these sensitization meetings, the microfinance businesses undertook to implement AML/CFT compliance programs, appoint compliance officers and submit reports to the FIU.

2.3 Investing in Information and Communication Technology (ICT)

During the year under review, the FIU embarked on a number of information technology advancement initiatives. The FIU's email system was upgraded to enable officers securely access and respond to urgent official emails from outside the FIU computer network. In a related development, the FIU developed a facility for its officers to securely access official documents while operating from outside the internal system. These have helped to accelerate decision-making and other internal processes.

Further, the FIU populated its database with information from various financial institutions and law enforcement agencies for the purpose of cross-referencing. The details will help simplify the process of analysis and review of suspicious transactions.

In addition to that, the institution upgraded its ICT equipment to advanced computer servers. This equipment has high storage capacity and increased processing speed which ensures data availability and reliability.

Apart from that, the FIU deployed an offsite backup facility for storing backups for the FIU's systems to ensure that disasters such as fire, theft or other natural disasters should not bring operations of the FIU to a halt.

When Malawi hosted the ESAAMLG meetings for Task Force of Senior Officials and Council of Ministers in August and September 2010, the FIU provided ICT support and developed a special website for the event to enable delegates get necessary information.

2.4 Public Awareness

The FIU continued to implement activities to sensitize the public on anti-money laundering issues. The FIU produced 2 *Pamajiga* plays which were aired four times each during the year on MBC Radio One. The plays covered the basic concepts and the evils of money laundering on the social and economic development of the country.

The FIU also produced 7 radio jingles which were aired for a period of one month on MBC Radios 1 and 2, Joy Radio, Capital FM and Zodiak Broadcasting Station.

During the same period, the FIU circulated 15,000 newspaper inserts through *The Nation* newspaper. In addition to that, the FIU distributed 6,000 brochures to various financial institutions and non-governmental organizations.

To complement the above public awareness efforts, an online publication called The FIU Update was issued in September 2010. The publication, which can be accessed at <http://www.fiumalawi.gov.mw>, helped to raise awareness on Malawi's international cooperation in the fight against money laundering and terrorist financing and its membership in the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG).

Apart from that, a one-day AML/CFT media training workshop was conducted with the support of the National AML/CFT Committee in July 2010 when the country was just about to host ESAAMLG meetings of Task Force of Senior Officials and Council of Ministers. The objective of the workshop was to sensitize the media fraternity on anti-money laundering roles played by stakeholders such as the National AML/CFT Committee and the FIU. A total of 21 media officials attended the workshop.



Mr. G. Kamba, one of the members of the National AML/CFT Committee, being interviewed during a sensitization workshop for the media in July 2010 held in Lilongwe

The training workshop helped to deepen the media's understanding of AML/CFT issues. This led to increased coverage of AML/CFT issues by the media. A total of 41 articles were carried by the media and these were on anti-money laundering efforts by Malawi, the role of the FIU, and the hosting of ESAAMLG meetings for Task Force of Senior Officials and Council of Ministers in September 2010.

2.5 Developing Domestic and International Cooperation

Money laundering and terrorist financing are global problems that require global efforts. For this reason, strengthening relations with local and international stakeholders is one of the cornerstones of the FIU's operations. Such relations help

the FIU share information and skills with regard to identifying, investigating and prosecuting financial crimes.

Domestic Cooperation

There is a National AML/CFT Committee whose core objective is to facilitate close cooperation and rich information sharing required for an effective anti-money laundering and the combating the financing of terrorism. The ability of various authorities to freely exchange information about Money Laundering and Terrorist Financing targets and investigations is key to combating money laundering and terrorist financing effectively on a national scale. This Committee membership provides gateways to facilitate prompt and effective information exchange.

The Committee is also mandated to coordinate national AML/CFT activities. For instance, the Committee organised the hosting of the ESAAMLG Task Force of Senior Officials and Council of Ministers' meetings in August/ September 2010.

The FIU is the Secretariat of the National AML/CFT Committee. In fulfilling its role, the FIU facilitated meetings of the committee before and after hosting the ESAAMLG Task Force of Senior Officials and Council of Ministers meetings.

In addition to that, the FIU, Reserve Bank of Malawi (RBM), Malawi Revenue Authority (MRA), Malawi Police Services (MPS) and the Immigration Department signed a Memorandum of Understanding (MoU) on cross-border currency declaration requirements. Following the signing of this MoU, a database will be developed to capture currency declarations at borders and airports for onward submission to the FIU.

Further, the FIU held periodic meetings with Law Enforcement Agencies (LEAs) and AML Compliance Officers of financial institutions. Through meetings with

Compliance Officers, areas requiring close attention were highlighted and acted upon. The meetings with Law Enforcement Agencies helped to follow up on cases and iron out some challenges faced during investigation of various cases.

Regional Cooperation

Malawi is one of the founding members of ESAAMLG, a FATF Styled Regional Body, which was established in 1999. The country has been actively involved in activities of the body. In the year under review, Malawi hosted the ESAAMLG Council of Ministers and Task Force of Senior Officials meetings in September 2010 during which the country assumed Presidency of the Group. In the period of the Presidency, Malawi has steered a number of activities of the Group and the following are some of significant achievements that ESAAMLG has made:

- ESAAMLG completed its first round of evaluations;
- The evaluated countries submitted first Progress Reports to show developments that had taken place after the mutual evaluations; and
- Drug and Human Trafficking typologies projects were completed.



President Mutharika delivering his speech marking the official opening of ESAAMLG Council of Ministers Meeting on 8 September 2010



A group of ESAAMLG Task Force of Senior Officials and Malawian Ministers waiting for President Mutharika's arrival to officially open the Council of Ministers Meeting on 8 September 2010, and below are women in ESAAMLG cloth who were also waiting to welcome the State President at Crossroads Hotel



In April 2011, the FIU attended a Task Force of Senior Officials meeting in Zanzibar where Malawi continued to chair the meetings. The Presidency will be handed over to Mauritius in August 2011.

International Cooperation

During this reporting year, the FIU signed an MoU with France FIU through which the two FIUs will be sharing information to help in the fight against money laundering and terrorist financing.

The FIU attended Financial Action Task Force (FATF) meetings held in France and Mexico. These meetings are very important as they offer an opportunity to share information and learn of new developments in fighting money laundering and terrorist financing across the globe.

The FIU also participated in Working Group meetings of the EGMONT Group of FIUs held in Moldova in October 2010 and Aruba in March 2011. This continues to be a good platform of learning and exchanging ideas and knowledge.

Apart from attending the said meetings, the FIU hosted two officers from Sierra Leone FIU. The visit was aimed at imparting skills to staff of Sierra Leone FIU on operations of an FIU. The two were taken through operations of all departments of the Malawi FIU. Sierra Leone FIU, which is still in the development stages, operates under the central bank of that country.

2.6 Building Capacity of the FIU, Financial Sector Supervisors and Agencies

The FIU is committed to putting in place operational mechanism and enhancing the skills of its staff for them to carry out their duties effectively and efficiently.

Capacity Building for the FIU Staff

In this fiscal year, staff members of the FIU were trained on a number of areas with the aim of furthering their skills to fight money laundering and terrorist financing. This involved training workshops within the country and abroad as well as attachment at a counterpart FIU. Details of the capacity building activities are as follows:

- Staff from Monitoring and Analysis Department attended a training course on Criminal Intelligence Analysis held in Johannesburg, South Africa and Texas, United States of America.
- Staff from Information and Communication Technology Department attended an ICT Security Ethical Hacking training workshop in India. Skills acquired from this training enhanced means of protecting FIU's systems from hackers.
- A staff member from Finance and Administration Department attended a Public Sector Financial Management course in Accra, Ghana in February 2011.
- Another staff member attended a training workshop organized by MEFMI on Fundamentals of Financial Market held in Blantyre from 28th March to 1st April 2011. The training enhanced the FIU's knowledge on other products offered on the financial markets which are also available for criminals to use for money laundering purposes.
- Some staff members of the FIU were trained by the Australian Transaction Reports and Analysis Centre (AUSTRAC) on Financial Intelligence Analysis, Risk Assessment, Typology Development, and Development of AML Guidance Notes. The training workshops took place at Sunbird Livingstonia Beach Hotel in Salima and Crossroads Hotel in Lilongwe.

- AUSTRAC also organised a workshop in South Africa entitled *Enhancing AML Methodologies and Principles: A Forum for the FIUs* which was attended by two officers of the FIU.
- Some staff members attended a World Bank consultative workshop on 15th February 2011 in Lilongwe where the findings of the survey conducted by the bank on the effects of money laundering on the Malawi economy were discussed and adopted various stakeholders.
- An officer from Compliance and Prevention Department was attached to the Federal Deposit Insurance Corporation (FDIC) in the United States from 25th October 2010 to 6th November 2010 to learn about conducting onsite examinations. The trip was co-funded by the FIU and the Financial Services Volunteers Corps (FSVC).
- Another officer from Compliance and Prevention Department attended a training workshop on Investigating Organized Crimes that involve Intellectual Property. The training took place in Lusaka, Zambia, from 6th to 9th December 2010 and was organized by the United States Department of Justice in conjunction with the Zambian Police Service. The workshop was funded by the United States Department of State.
- Two Compliance Officers attended a training workshop in Gambia on Combating Money Laundering and other Financial Crimes from 11th to 15th April, 2011. The knowledge and skills gained at this workshop has enabled the FIU to put in place extensive awareness and sensitization programs for the public and other relevant stakeholders on how to implement effective measures to detect money laundering and fraudulently produced documents that facilitate money laundering. The FIU made a presentation at the workshop on FIU Malawi's experience in AML/CFT implementation.

3. MAIN CHALLENGES ENCOUNTERED IN THE REPORTING YEAR

The major challenges faced during the year were as follows:

- **Cash-Based Economy**

Most financial transactions are conducted outside the financial system because Malawi's economy is predominately cash-based and this leaves no paper trail. As a result, such transactions are not captured in the AML net.

- **Few And Largely Low Quality STRs**

Most financial institutions were not fully compliant with the obligation to file LCTRs and STRs. The financial institutions filed LCTRs intermittently and the FIU received few STRs. Lack of proper understanding of the difference between LCTRs and STRs and lack of commitment by the financial institutions might have contributed to this situation.

Related to this is the fact that the quality of most suspicious transaction reports from the financial institutions remained low and this caused the period of analysis of the financial transactions to unnecessarily elongate as the FIU had to request additional information or documents from the reporting institutions.

The FIU will continue to engage the financial institutions in a series of trainings that will enhance their ability to easily identify suspicious transactions.

- **Bank's Customer Due Diligence Task Was Still Outstanding**

Some banks have not yet completed Customer Due Diligence (CDD) procedures and this continued to affect the work of the FIU. Furthermore, most banks had difficulties in monitoring transactions of their customers in relation to the banks' knowledge of economic activities of the customers and this affected their generation of suspicious transactions.

- **Low AML Awareness Among Unregulated Financial Institutions**

Real estate agents do not have a government appointed supervisory authority and they operate in an uncoordinated manner. Operators in the real estate business sector have also not been adequately trained. It is therefore not easy to coordinate with the real estate business sector in the fight against money laundering.

However, the FIU has planned trainings for this sector during the next financial year. The operators of the sector will be required to start reporting to the FIU in the same financial year.

- **Staff Changes At LEAs Affected Progress Of Cases**

Changes in staff of certain law enforcement agencies through restructuring and redeployment left gaps that required those who replaced them to acquaint themselves first with how the FIU relates with their institutions. The MRA, Fiscal and Fraud Unit of the Malawi Police Service, and the Anti-Corruption Bureau were the institutions that were affected by this.

Continuity of staff of LEAs who link with the FIU is very important as regards to the pace of progress of cases being pursued by the FIU.

- **Nature Of The FIU In Relation To Preliminary Investigations**

Because the Malawi FIU is administrative in nature, there continues to be a challenge where preliminary investigations are required to add value to an STR that has been received from a financial institution.

4. PRIORITIES FOR THE COMING FINANCIAL YEAR

Financial Institutions Skills Enhancement

The FIU intends to continue enhancing the capacity of banks and forex bureaus through training them in their anti-money laundering obligations. Emphasis will be made on enhanced monitoring of transactions of customers and identification and filing of suspicious transactions to the FIU. Few banks and forex bureaus filed STRs to the FIU and this is an area that the FIU considers very crucial to fulfillment of its mandate.

Training workshops will be conducted for internal auditors of financial institutions, real estate businesses and other designated non-financial businesses and professions (DNFBPs).

Law Enforcement Skills Enhancement

In order to effectively investigate and prosecute cases involving money laundering in court, there is a need for a continuous empowerment of the law enforcement agencies in the country. The FIU will therefore conduct regional trainings of law enforcement agencies to help them understand properly the link between money laundering and the predicate offences.

FIU Staff Skills Enhancement

The FIU will arrange trainings of its staff to enhance their skills and enable them deliver in their respective official undertakings thereby contributing to achievement of the goals of the FIU. Attachments at other FIUs will also be considered for hands-on experience of specific operations of an FIU.

Risk Assessment of Financial Institutions

During the year under review, an AML/CFT risk assessment exercise on Malawi's financial system commenced. This task will continue in the coming fiscal year. Through this exercise, the FIU will be able to determine 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. This will help the FIU and other stakeholders to channel efforts towards addressing the identified risks.

Development of Web-based Filing of Reports

The FIU started consultations and other ground work on development of a web-based report submission by financial institutions. The aim behind this is to enable financial institutions to securely submit reports to the FIU online and allow reports to be processed straight into the FIU database. This will eliminate the need for manual data capturing by the FIU. The task of developing the web-based reporting system will continue during the following financial year.

System Security Enhancement

Information systems security and network infrastructure will be enhanced to protect the FIU's database and other systems. This shall involve the deployment of network intrusion detection and internet security systems so that attempts to access restricted FIU systems and data can be identified and acted upon.

Finalisation of Business Continuity Plan

Business Continuity Plan (BCP) project was initiated in June 2010 with the aim of documenting the processes and procedures for the development, testing and maintenance of a series of plans that will enable the FIU to continue operating during and after a disaster. The project was expected to be finalized within this reporting period but faced some challenges. The project is expected to be finalised during the next financial year.

ICT Systems

The FIU intends to procure an HR and payroll system and train concerned staff in using the software. This will help the FIU to reduce prospects of errors in its system and save time.

Further, the FIU shall procure and implement a backup software to be used for creation of backup copies of data for safe storage at an offsite Disaster Recovery site.

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 K93.5 million from the national budget of Malawi. Out of this allocation, K27.2 was specifically meant to fund the hosting of ESAAMLG main plenary meeting. However, the Treasury remitted to the FIU a total of K154.2 million, including ESAAMLG hosting, thereby creating 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. The FIU is now able to do its planned activities in time.

The FIU has migrated to a new accounting package system in the year under review. This system, Sage Pastel, 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 2011

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 2011

Income and Expenditure for the Period Ending 30 June 2011

	Notes	MWK 2011	MWK 2010 Restated
Income			
Revenue	4	156,973,363	120,102,584
Total Income		156,973,363	120,102,584
Expenditure			
Expenses	5	181,896,626	120,816,810
Total Expenditure		181,896,626	120,816,810
Surplus/ (Deficit)		(24,923,263)	(714,226)

BALANCE SHEET**Balance Sheet as at 30 June 2011**

	Notes	30 June 11 MWK	30 June 10 MWK Restated
Noncurrent Assets			
Intangible Assets	7	2,099,200	4,198,400
Property, Plant & Equipment	8	14,419,814	15,105,176
Total Non Current Assets		16,519,014	19,303,576
Current Assets			
Debtors	9	9,823,311	9,355,818
Prepayments		32,681	32,681
Loan Revolving Account		1,054,868	808,897
Cash at Bank and in Hand		3,995,057	18,909,354
		14,905,917	29,106,750
Total Assets		31,424,931	48,410,326
Reserves and Liabilities			
Reserves		20,435,699	45,358,963
Current Liabilities			
Trade and other payables	10	10,555,001	1,968,288
Accruals		434,230	1,083,075
Total Current Liabilities		10,989,232	3,051,363
Total Reserves and Liabilities		31,424,931	48,410,326

CASH FLOW STATEMENTS

	30 June 11	30 June 10
	MWK	MWK
Cash flows from operating activities		
Cash receipts	156,418,647	126,969,762
Cash Paid to suppliers and employees	<u>(159,867,978)</u>	<u>(120,592,311)</u>
Cash Utilized in operations	(3,449,331)	6,377,451
Interest received	31,005	114,009
<i>Net cash flow from operating activities</i>	(3,418,326)	6,491,460
Cash Utilized in Investing Activities		
Purchase of Property, plant & Equipment	(11,250,000)	(1,555,303)
<i>Net Cash flow from investing activities</i>	<u>(11,250,000)</u>	<u>(1,555,303)</u>
Increase/ (Decrease) in cash and cash equivalent	(14,668,326)	4,936,157
<i>Cash and cash equivalents at beginning of yr</i>	19,718,251	14,782,094
<i>Cash and Cash equivalents at end of yr (note 6)</i>	<u>5,049,925</u>	<u>19,718,251</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 and was given donations, in form of cash or direct payments to suppliers from organizations like Airtel, Nedbank, and Malawi Revenue Authority. 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 11	30 June 10
	MWK	MWK
4. Revenue		
Funding *	156,418,647	119,012,824
Other Income	178,292	687,290
Interest on Staff Loans	376,424	402,471
Total Revenue	<u>156,973,363</u>	<u>120,102,585</u>

*Funding includes assistance received from Air Tel and MRA in form of cash during ESAAMLG hosting

5. Expenses

6. Depreciation	11,935,362	9,369,596
7. Amortization	2,099,200	2,099,200
8. Staff costs	47,942,072	42,771,407
9. Travel expenses	21,063,460	22,652,417
10. National AML/CFT Expenses	63,367,282	11,285,630
11. Other Expenses	35,489,250	32,638,560
12. Total Expenses	<u>181,896,626</u>	<u>120,816,810</u>

	30 June 11	30 June 10
	MWK	MWK
13. Cash and Cash Equivalents		

Cash comprises cash at bank and in hand.

Deposits and Bank balances	3,965,486	18,889,889
Cash on Hand	29,571	19,465
Loan account	1,054,868	808,897
Total cash and cash equivalents	5,049,925	19,718,251

14. Intangible Assets

	Analyst Notebook MWK	Database- FIMTRAC MWK	Micro SQL Server 05 MWK	M Visual Studio MWK	Total MWK
Cost					
At 1 July 2010	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Additions					
At 30 June 2011	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Amortization Charges					
At 1 July 2010	2,072,000	1,425,000	531,300	170,100	4,198,400
Amortization Charge for the yr	1,036,000	712,500	265,650	85,050	2,099,200
Acc Amortization	3,108,000	2,137,500	796,950	255,150	6,297,600
Value of Assets at 30 June 2011	1,036,000	712,500	265,650	85,050	2,099,200

15. Property, Plant and Equipment

	Computer Equipment MWK	Office Equipment MWK	Motor Vehicles MWK	Office Furniture MWK	Total MWK
Cost					
At 1 July 2010	7,818,958	6,679,914	17,274,934	2,288,543	34,062,349

Additions	-		11,250,000	-	11,250,000
At 30 June 2010	7,818,958	6,679,914	28,524,934	2,288,543	45,312,349
Depreciation					
At 1 July 2010	4,513,764	3,600,814	10,363,194	479,401	18,957,173
Disposals	-	-	-	-	-
Charge for the yr	2,453,044	2,002,161	7,027,817	452,340	11,935,362
Accumulated Dpn At 30 June 2011	6,966,808	5,602,975	17,391,011	931,741	30,892,535
Net Book Value					
At 30 June 2011	852,150	1,076,940	11,133,923	1,356,802	14,419,815

30 June 11	30 June 10
MWK	MWK

16. Debtors

Staff Debtors	9,293,221	8,825,728
Other Debtors	530,090	530,090
	<u>9,823,311</u>	<u>9,355,818</u>

30 June 11	30 June 10
MWK	MWK

17. Trade and other Payables

Trade Creditors	-	1,968,288
Other Creditors (Tax)	10,555,001	-
	<u>10,555,001</u>	<u>1,968,288</u>