

FINANCIAL INTELLIGENCE AGENCY
FINANCIAL STATEMENTS
MARCH 31, 2012



Office of the Auditor General

Reid Hall, Penthouse
3 Reid Street
Hamilton HM 11, Bermuda

Tel: (441) 296-3148

Fax: (441) 295-3849

Email: oag@oagbermuda.bm

Website: www.oagbermuda.gov.bm

INDEPENDENT AUDITOR'S REPORT

To the Minister of Legal Affairs

I have audited the accompanying financial statements of the Financial Intelligence Agency (the "Agency"), which comprise the statement of financial position as at March 31, 2012, and the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with public sector accounting standards generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2012, and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.



Hamilton, Bermuda
March 26, 2013

Heather A. Jacobs Matthews, JP, FCA, CFE
Auditor General

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2012

	2012	2011
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents	<u>484,538</u>	<u>745,967</u>
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	79,595	78,154
Due to the Government of Bermuda (note 6)	<u>43,544</u>	<u>16,379</u>
	<u>123,139</u>	<u>94,533</u>
NET FINANCIAL ASSETS	<u>361,399</u>	<u>651,434</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	43,172	42,827
Tangible capital assets (note 4)	<u>319,229</u>	<u>419,686</u>
	<u>362,401</u>	<u>462,513</u>
ACCUMULATED SURPLUS	<u><u>723,800</u></u>	<u><u>1,113,947</u></u>
COMMITMENTS (note 11)		

The accompanying notes are an integral part of these financial statements.

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED MARCH 31, 2012

	2012 \$ Budget (Note 12)	2012 \$ Actual	2011 \$ Actual
REVENUES			
Government of Bermuda operating grant (note 6)	<u>1,378,000</u>	<u>1,378,000</u>	<u>1,840,000</u>
EXPENSES			
Salaries and employee benefits (note 8)	978,954	961,528	911,658
Rent (note 11)	214,347	214,346	225,844
Professional fees	142,000	120,784	119,404
Amortization of tangible capital assets	-	112,084	113,033
Computer	91,620	75,419	71,387
Government taxes, fees and permits	78,221	69,344	78,223
Travel and entertainment (note 7)	63,000	56,218	43,013
Equipment rental and maintenance	73,800	55,697	65,282
Communication costs	47,000	38,989	47,305
Directors' fees (note 6)	25,000	22,361	21,640
Office maintenance	18,000	12,843	15,006
Membership fees	17,500	12,485	18,461
Office supplies	14,000	9,305	8,485
Insurance	4,000	3,541	3,164
Education, training and awareness	36,400	542	19,100
Miscellaneous	5,500	2,661	1,820
	<u>1,809,342</u>	<u>1,768,147</u>	<u>1,762,825</u>
ANNUAL (DEFICIT) SURPLUS	<u>(431,342)</u>	<u>(390,147)</u>	<u>77,175</u>
ACCUMULATED SURPLUS, BEGINNING OF PERIOD		<u>1,113,947</u>	<u>1,036,772</u>
ACCUMULATED SURPLUS, END OF PERIOD		<u>723,800</u>	<u>1,113,947</u>

The accompanying notes are an integral part of these financial statements.

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED MARCH 31, 2012

	2012	2011
	\$	\$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	<u>651,434</u>	<u>468,879</u>
Annual (deficit) surplus	(390,147)	77,175
Change in prepaid expenses	(345)	2,290
Acquisition of tangible capital assets (note 4)	(11,627)	(9,943)
Amortization of tangible capital assets (note 4)	<u>112,084</u>	<u>113,033</u>
Change in net financial assets during the year	<u>(290,035)</u>	<u>182,555</u>
NET FINANCIAL ASSETS, END OF YEAR	<u><u>361,399</u></u>	<u><u>651,434</u></u>

The accompanying notes are an integral part of these financial statements.

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2012

	2012	2011
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Annual (deficit) surplus	(390,147)	77,175
Adjustment for items not affecting cash:		
Amortization of tangible capital assets (note 4)	112,084	113,033
Change in non-cash working capital items:		
Increase in accounts payable and accrued liabilities	1,441	14,022
Increase (decrease) in due to the Government of Bermuda	27,165	(9,378)
(Increase) decrease in prepaid expenses	(345)	2,290
	<u> </u>	<u> </u>
Net cash (used in) generated from operating activities	<u>(249,802)</u>	<u>197,142</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of tangible capital assets (note 4)	<u>(11,627)</u>	<u>(9,943)</u>
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		
	(261,429)	187,199
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
	<u>745,967</u>	<u>558,768</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR		
	<u><u>484,538</u></u>	<u><u>745,967</u></u>

The accompanying notes are an integral part of these financial statements.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2012

1. AUTHORITY

The Financial Intelligence Agency (the “Agency”) was established under the Financial Intelligence Agency Act 1997 (the “Act”) on November 15, 2008. The Agency is designated as the central reporting authority in Bermuda to receive, gather, store, analyze and disseminate reports of suspected proceeds of crime and potential financing of terrorism. Section 4 of the Act states that a Board of Directors shall be appointed by the Minister of Justice which is to be responsible for managing the affairs and business of the Agency. The Agency is operationally independent. Section 8 of the Act states that the funds of the Agency shall consist of such sums paid out of the Confiscated Assets Fund and such sums as may be appropriated by the Legislature for the purpose of the Agency.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with generally accepted accounting principles as recommended by the Public Sector Accounting Board (“PSAB”) of the Canadian Institute of Chartered Accountants. For financial reporting purposes, the Agency is classified as an other government organization and has adopted accounting policies appropriate for this classification. The accounting policies considered particularly significant are set out below:

(a) Cash and cash equivalents

Cash and cash equivalents include all cash held with financial institutions that can be withdrawn without prior notice or penalty and time deposits with an original maturity of 90 days or less.

(b) Tangible capital assets and amortization

Tangible capital assets are stated at cost less accumulated amortization. Tangible capital assets are classified according to their functional use. Amortization is recorded on a straight-line basis over their estimated useful lives as follows:

Computer and telecommunications equipment	- 3 years
Furniture and fixtures	- 3-10 years
Computer software	- 10 years
Leasehold improvements	- Lesser of 10 years or term of lease

Tangible capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the asset no longer contributes to the Agency’s ability to provide goods and services, or the value of future economic benefits associated with the capital tangible asset is less than its net book value. In either case the cost of the tangible capital asset is reduced to reflect the decline in the asset’s value.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue recognition

The Government of Bermuda (the “Government”) operating and special grants received and receivable for use in the day-to-day operations of the Agency are recognized as revenue on the statement of operations and accumulated surplus in the year to which they relate.

(d) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations.

(e) Translation of foreign currencies

Assets and liabilities in foreign currencies are translated to Bermuda dollars at rates of exchange in effect at the statement of financial position date.

Revenues and expenses are translated at the exchange rate in effect at the transaction date.

(f) Accounts payable and accrued liabilities

Accounts payable are stated at amortized cost.

The Agency recognizes accrued liabilities if a present obligation has arisen as a result of a past event, payment is probable and the amount can be measured reliably. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date, that is, the amount the Agency would rationally pay to settle the obligation to a third party.

(g) Measurement uncertainty

The preparation of financial statements in accordance with accounting principles as recommended by PSAB requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. Significant areas requiring the use of estimates relate to the useful lives of tangible capital assets.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Subsequent events

Post-year-end events that provide additional information about the Agency's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed the notes to the financial statements when material.

3. ECONOMIC DEPENDENCE

The Agency is economically dependent upon the financial assistance provided by the Government to fund its daily operations, cash flow, capital development and capital acquisitions.

4. TANGIBLE CAPITAL ASSETS

	2012				
	Furniture and Fixtures	Computer and Telecommunications Equipment	Computer Software	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
Opening cost	39,380	221,402	302,796	43,553	607,131
Additions	-	11,627	-	-	11,627
Closing cost	39,380	233,029	302,796	43,553	618,758
Opening accumulated amortization	13,324	118,903	45,419	9,799	187,445
Amortization	9,405	68,043	30,280	4,356	112,084
Closing accumulated amortization	22,729	186,946	75,699	14,155	299,529
Net book value	16,651	46,083	227,097	29,398	319,229

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
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4. TANGIBLE CAPITAL ASSETS (continued)

	2011				Total
	Furniture and Fixtures	Computer and Telecommunications Equipment	Computer Software	Leasehold Improvements	
	\$	\$	\$	\$	\$
Opening costs	29,437	221,402	302,796	43,553	597,188
Additions	9,943	-	-	-	9,943
Closing cost	39,380	221,402	302,796	43,553	607,131
Opening accumulated amortization	6,406	47,422	15,140	5,444	74,412
Amortization	6,918	71,481	30,279	4,355	113,033
Closing accumulated amortization	13,324	118,903	45,419	9,799	187,445
Net book value	26,056	102,499	257,377	33,754	419,686

5. FINANCIAL INSTRUMENTS

The Agency's financial instruments consist of cash and cash equivalents and accounts payable and accrued liabilities. The estimated fair value of these financial instruments approximates their carrying values due to their relative short-term nature.

6. RELATED PARTY TRANSACTIONS

The Agency is related in terms of common ownership to all Government departments, funds and agencies. The Agency enters into transactions with these entities in the normal course of business and such transactions are measured at the exchange amount which is the amount of consideration established and agreed by the related parties.

(a) Operating grant

During the year, the Government provided an operating grant of \$1,378,000 (2011 - \$1,840,000) to the Agency.

(b) Due to the Government of Bermuda

The Fund had transactions totaling \$163,626 (2011 - \$165,585) relating to payroll tax, pension submissions, health insurance and social insurance, of which \$43,544 (2011 - \$16,379) was owed to the Government of Bermuda at year end.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2012

6. RELATED PARTY TRANSACTIONS (continued)

(c) Other

During the year, the Agency paid Directors of the Agency, fees in the amount of \$22,361 (2011 - \$21,640).

7. TRAVEL AND ENTERTAINMENT

Approximately 95% of the expenses in this category represent associated travel costs incurred for attendance at Egmont Group and Caribbean Financial Action Task Force working groups and plenary meetings.

8. EMPLOYEE BENEFITS

(a) Pension plan

All employees of the Agency are covered by the Public Service Superannuation Fund (the "Fund") administered by the Government. Contributions to the Fund are required from both the employee and the Agency. These contributions represent the total liability of the Agency and are recognized in the accounts on a current basis.

Contributions to the Fund are 8% of gross salary and are matched equally by the Agency.

The Agency is not required under present legislation to make contributions with respect to actuarial deficiencies of the Fund. As a result, the current year contributions to the Fund represents the total liability of the Agency. The total pension expense contributed by the Agency during the period amounted to \$54,896 (2011 - \$52,232).

The Agency has an outstanding pension contribution amounting to \$9,382 (2011 - \$21,640) to the Fund, and this balance is included in accounts payable and accrued liabilities in the statement of financial position.

(b) Other benefits

Other employee benefits include maternity leave, sick leave and vacation days. All these benefits are unfunded.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
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8. EMPLOYEE BENEFITS (continued)

(b) Other benefits (continued)

Maternity leave does not accumulate or vest and therefore an expense and liability is only recognized when applied for and approved. There were no maternity benefits applied for or approved during the current period and therefore, no liability has been accrued in the financial statements.

Sick leave accumulates but does not vest, and like maternity leave, a liability is recorded only when extended leave is applied for and approved. There was no extended sick leave applied for or approved during the current year and therefore, no liability has been accrued in the financial statements.

Vacation days accumulate and vest and therefore a liability has been accrued at year end. The accrued vacation liability as at March 31, 2012 is \$32,478 (2011 - \$30,402) and is included in accounts payable and accrued liabilities.

9. FINANCIAL RISK MANAGEMENT

The Agency is exposed to various risks through its financial instruments. The Board has overall responsibility for the establishment and oversight of its risk management framework. The Agency manages its risks and risk exposures through sound business practices. The following analysis provides a measure of the risks at the reporting date, March 31, 2012.

(a) *Credit risk*

Credit risk arises from cash held with banks. The maximum exposure to credit risk is equal to the carrying values of these financial assets. It is management's opinion that the Agency is not exposed to significant credit risk.

(b) *Liquidity risk*

Liquidity risk is the risk the Agency will not be able to meet its financial obligations as they fall due. The Agency's objective in managing liquidity is to ensure that it will always have sufficient liquidity to meet its commitments when due, without incurring unacceptable losses or risking damage to the Agency's reputation. The Agency manages exposure to liquidity risk by closely monitoring supplier and other liabilities, focusing on generating positive cash flows from operations and establishing and maintaining good relationships with various financial institutions.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2012

9. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the fair value of recognized assets and liabilities or future cash flows of the Agency's results of operations. The Agency has minimal exposure to market risk.

(i) Foreign exchange rate

The Agency's business transactions are mainly conducted in Bermuda dollars and, as such, it has minimal exposure to foreign exchange risk.

(ii) Interest rate

The Agency is exposed to changes in interest rates, which may impact interest revenue on cash deposits. The Agency's accounts payable and accrued liabilities are non-interest bearing.

10. CAPITAL MANAGEMENT

The Agency's objective when managing capital is to hold sufficient equity to enable it to withstand negative unexpected financial events. The Agency seeks to achieve this objective through receipt of grants from the Government and maintaining a surplus. The Agency maintains sufficient liquidity to meet its short-term obligations as they come due. The Agency is not subject to any externally imposed capital requirements.

11. COMMITMENTS

The Attorney-General and Minister of Justice, on behalf of the Board, entered into the following lease agreements:

- (a) With respect to the 5th floor of the premises currently occupied by the Agency, the lease which was effective August 15, 2008 for 3 years, calls for an annual rent of \$108,405. The remaining obligation under this lease is \$nil (2011 - \$36,135);
- (b) With respect to the 6th floor of the premises currently occupied by the Agency, the lease which was effective November 15, 2008 for 3 years, calls for an annual rent of \$108,405 for the first 18 months and the remaining portion of the lease will increase to \$118,260 per annum. The remaining obligation under this lease is \$nil (2011 - \$68,985); and

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2012

11. COMMITMENTS (continued)

- (c) Effective November 2011, the leases above were combined and the new lease is for an annual rent of \$197,100 per annum. There have been no changes in respect of the maintenance expense which continue on the same basis. The remaining obligation under this lease is \$114,975 (2011 - \$nil).

12. BUDGET

Budget amounts represent the operating budget approved by the Board and is presented using a basis consistent with that used for actual results.

13. FUTURE ACCOUNTING POLICY DEVELOPMENT

PSAB issued Section PS 3450 “Financial Instruments” in March 2011. This section proposes reporting on the nature and extent of risks associated with financial instruments held and issued by an entity. Financial instruments which are quoted in an active market will need to apply fair value measurement (e.g. equity investments or derivatives). All other non-derivative financial instruments will be measured at cost or amortized cost unless the entity elects to apply the fair value option. To support meaningful budget to actual comparisons, when fair value measurement is applied, the presentation of surplus/deficit will need to be reported both excluding and including any re-measurement gains or losses. Early adoption is permitted. This standard is effective for the Agency’s March 31, 2013 financial statements and management does not anticipate a significant impact as a result of adoption.

In conjunction with Section PS 3450, PSAB also issued, Section 1201 which replaces the existing Section PS 1200, “Financial Statement Presentation”, and includes a new statement of re-measurement gains and losses. The new statement will report unrealised gains and losses associated with financial instruments in the fair value category, exchange gains and losses associated with monetary assets and liabilities denominated in a foreign currency, amounts reclassified to the statement of operations upon derecognition, and other comprehensive income reported when a public sector entity includes the results of its government business enterprises and partnerships in the financial statements. Early adoption is permitted. The standard is effective for the Agency’s March 31, 2015 financial statements and management does not anticipate a significant impact as a result of adoption.