

FINANCIAL INTELLIGENCE AGENCY

FINANCIAL STATEMENTS

MARCH 31, 2013



Office of the Auditor General

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INDEPENDENT AUDITOR'S REPORT

To the Minister of Legal Affairs

I have audited the accompanying financial statements of the Financial Intelligence Agency, which comprise the statement of financial position as at March 31, 2013, 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 Financial Intelligence Agency as at March 31, 2013, and the results of its operations and accumulated surplus, changes in its net financial 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
January 22, 2014

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

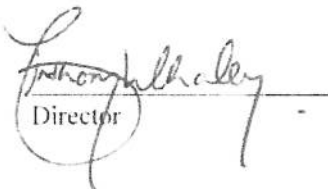
FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF FINANCIAL POSITION

As at March 31, 2013

| | 2013 | 2012 |
|---|----------------|----------------|
| | \$ | \$ |
| FINANCIAL ASSETS | | |
| Cash and cash equivalents | <u>527,738</u> | <u>484,538</u> |
| | <u>527,738</u> | <u>484,538</u> |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | 47,705 | 79,595 |
| Due to the Government of Bermuda (Note 6) | <u>44,197</u> | <u>43,544</u> |
| | <u>91,902</u> | <u>123,139</u> |
| NET FINANCIAL ASSETS | <u>435,836</u> | <u>361,399</u> |
| NON-FINANCIAL ASSETS | | |
| Prepaid expenses | 43,367 | 43,172 |
| Tangible capital assets (Note 4) | <u>241,862</u> | <u>319,229</u> |
| | <u>285,229</u> | <u>362,401</u> |
| ACCUMULATED SURPLUS | <u>721,065</u> | <u>723,800</u> |
| COMMITMENTS (Note 11) | | |

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

Signed on behalf of the Board:


Director


Director

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED MARCH 31, 2013

| | 2013 \$ Budget (Note 12) | 2013 \$ Actual | 2012 \$ Actual |
|---|-----------------------------------|----------------------|----------------------|
| REVENUES | | | |
| Government of Bermuda grant (Note 6) | 1,696,000 | 1,695,696 | 1,378,000 |
| | <u>1,696,000</u> | <u>1,695,696</u> | <u>1,378,000</u> |
| EXPENSES | | | |
| Salaries and employee benefits (Note 8) | 1,001,377 | 993,925 | 961,528 |
| Rent (Note 11) | 197,100 | 197,100 | 214,346 |
| Professional fees | 125,240 | 86,855 | 120,784 |
| Computer expenses | 79,500 | 80,443 | 75,419 |
| Depreciation (Note 4) | - | 77,367 | 112,084 |
| Government taxes, fees and permits | 69,617 | 67,784 | 69,344 |
| Equipment rental and maintenance | 66,600 | 66,781 | 55,697 |
| Travel and entertainment (Note 7) | 54,000 | 41,091 | 56,218 |
| Communication costs | 33,180 | 34,873 | 38,989 |
| Directors' fees (Note 6) | 25,000 | 23,024 | 22,361 |
| Office maintenance | 11,600 | 13,724 | 12,843 |
| Office supplies and expenses | 7,830 | 7,099 | 9,305 |
| Insurance | 3,500 | 3,625 | 3,541 |
| Membership fees | 7,500 | 3,191 | 12,485 |
| Miscellaneous | 4,775 | 2,014 | 2,661 |
| Education, training and awareness | 8,850 | (465) | 542 |
| | <u>1,695,669</u> | <u>1,698,431</u> | <u>1,768,147</u> |
| ANNUAL (DEFICIT) SURPLUS | <u>331</u> | (2,735) | (390,147) |
| ACCUMULATED SURPLUS, BEGINNING OF YEAR | | <u>723,800</u> | <u>1,113,947</u> |
| ACCUMULATED SURPLUS, END OF YEAR | | <u>721,065</u> | <u>723,800</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, 2013

| | 2013 | 2012 |
|--|-----------------------|-----------------------|
| | \$ | \$ |
| NET FINANCIAL ASSETS, BEGINNING OF YEAR | <u>361,399</u> | <u>651,434</u> |
| Annual deficit | (2,735) | (390,147) |
| Change in prepaid expenses | (195) | (345) |
| Acquisition of tangible capital assets (Note 4) | - | (11,627) |
| Depreciation of tangible capital assets (Note 4) | <u>77,367</u> | <u>112,084</u> |
| Changes in net financial assets during the year | <u>74,437</u> | <u>(290,035)</u> |
| NET FINANCIAL ASSETS, END OF YEAR | <u><u>435,836</u></u> | <u><u>361,399</u></u> |

The accompanying notes are integral part of these financial statements.

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2013

| | 2013 | 2012 |
|---|-----------------------|-----------------------|
| | \$ | \$ |
| OPERATING TRANSACTIONS | | |
| Annual deficit | (2,735) | (390,147) |
| Adjustment for items not affecting cash: | | |
| Depreciation of tangible capital assets (Note 4) | 77,367 | 112,084 |
| Change in non-cash working capital items: | | |
| Increase (decrease) in accounts payable and accrued liabilities | (31,890) | 1,441 |
| Increase in amount due to the Government of Bermuda | 653 | 27,165 |
| Increase in prepaid expenses | (195) | (345) |
| | <u>43,200</u> | <u>(249,802)</u> |
| Net cash generated by (used in) operating transactions | | |
| CAPITAL TRANSACTIONS | | |
| Purchase of tangible capital assets | <u>-</u> | <u>(11,627)</u> |
| Net cash used in capital transactions | <u>-</u> | <u>(11,627)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 43,200 | (261,429) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>484,538</u> | <u>745,967</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>527,738</u> | <u>484,538</u> |

The accompanying notes are integral part of these financial statements.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2013

1. AUTHORITY

The Financial Intelligence Agency (the "Agency") was established by Section 3 of the Financial Intelligence Agency Act 2007 (the "Act") on November 15, 2008. The Agency is designated as the central reporting authority in Bermuda to receive, gather, store, analyse 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 Canadian Public Sector accounting standards as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada ("CPA Canada"). For financial reporting purposes, the Agency is classified as an other government organization and has adopted accounting policies appropriate for this classification. The Agency has early adopted the accounting standards contained in PS 1201 "Financial Statement Presentation", PS 2601 "Foreign Currency Translation" and PS 3450 "Financial Instruments" in the preparation of these financial statements. There is no significant impact on the Agency as a result of the adoption of these standards.

A statement of remeasurement gains and losses has not been presented as there are no unrealised gains or losses arising on the financial instruments measured at fair value, or on monetary and non-monetary assets and liabilities denominated in foreign currencies. 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 depreciation

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

| | |
|------------------------|--|
| Computer equipment | - 3 years |
| Furniture and fixtures | - 3-10 years |
| Computer software | - 10 years |
| Leasehold improvements | - the lesser of 10 years or the lease term |

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 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, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue recognition

The Government of Bermuda (the "Government") operating grants received and receivable for use in the day-to-day operations of the Agency are recognised as revenue on the statement of operations and accumulated surplus in the year to which the transfer is authorised.

The Government special capital grants received and receivable for use in the day-to-day operations of the Agency are recognised as revenue on the statement of operations and accumulated surplus in the year to which the transfer is authorised and any eligibility criteria are met. Transfers are recognised as deferred revenue when transfer stipulations give rise to a liability.

(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 period and are not intended for sale in the normal course of operations.

(e) Translation of foreign currencies

Monetary and non-monetary assets and liabilities in foreign currencies are translated to Bermuda dollars at rates of exchange in effect at the statement of financial position date. Any unrealised foreign exchange gains and losses are recognised in a statement of remeasurement gains and losses.

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

(f) Measurement uncertainty

The preparation of financial statements in accordance with Canadian Public Sector accounting standards 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.

(g) 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 in the notes to the financial statements when material.

(h) Financial instruments

Financial instruments which are quoted in an active market are measured at fair value. All other financial instruments are measured at cost or amortised cost. Any unrealised gains and losses from changes in the fair value of financial instruments are recognised in a statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognised in the statement of operations. To support meaningful budget to actual comparisons, when fair value

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

measurement is applied, the presentation of surplus/deficit is reported both excluding and including any remeasurement gains or losses.

3. ECONOMIC DEPENDENCE

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

4. TANGIBLE CAPITAL ASSETS

2013

| | Furniture and fixtures | Computer equipment | Computer software | Leasehold improvements | Total |
|----------------------------------|---------------------------|-----------------------|----------------------|---------------------------|---------|
| | \$ | \$ | \$ | \$ | \$ |
| Opening and closing cost | 39,380 | 233,029 | 302,796 | 43,553 | 618,758 |
| Opening accumulated depreciation | 22,729 | 186,946 | 75,699 | 14,155 | 299,529 |
| Depreciation | 8,187 | 34,545 | 30,280 | 4,355 | 77,367 |
| Closing accumulated depreciation | 30,916 | 221,491 | 105,979 | 18,510 | 376,896 |
| Net book value | 8,464 | 11,538 | 196,817 | 25,043 | 241,862 |

2012

| | Furniture and fixtures | Computer 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 depreciation | 13,324 | 118,903 | 45,419 | 9,799 | 187,445 |
| Depreciation | 9,405 | 68,043 | 30,280 | 4,356 | 112,084 |
| Closing accumulated depreciation | 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
MARCH 31, 2013

5. FINANCIAL INSTRUMENTS

The Agency's financial instruments consist of cash and cash equivalents and accounts payable. 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. The Agency received the following grants from the Government of Bermuda:

(a) Operating grant

During the year, the Government of Bermuda provided an operating grant of \$1,695,696 (2012- \$1,378,000) to the Agency.

(b) Due to the Government of Bermuda

The Agency had transactions totaling \$165,997 (2012 -\$163,626) relating to payroll tax, pension submissions, health insurance and social insurance, of which \$44,197 (2012 - \$43,544) was owed to the Government at year end.

(c) Other

During the year, the Agency paid Directors of the Agency fees in the amount of \$23,024 (2012- \$22,361).

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 of Bermuda. Contributions to the Fund are required from both the employee and the Agency. These contributions represent the total liability of the Agency and are recognised in the accounts on a current basis.

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

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2013

8. EMPLOYEE BENEFITS (continued)

(a) Pension plan (continued)

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 represent the total liability of the Agency. The total pension expense contributed by the Agency during the year amounted to \$56,757 (2012 -\$54,896).

The Agency has an outstanding pension contribution amounting to \$9,570 (2012 - \$9,382) 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.

Maternity leave does not accumulate or vest and therefore an expense and liability is only recognised when applied for and approved. There were no maternity benefits applied for or approved during the current year maternity 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 of March 31, 2013 is \$31,597 (2012- \$32,478) 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, 2013.

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.

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

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2013

9. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

monitoring supplier and other liabilities, focusing on generating positive cash flows from operations and establishing and maintaining good relationships with various financial institutions.

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 recognised 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 risk

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

(ii) Interest risk

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 maintain 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:

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, called for an annual rent of \$108,405. The remaining obligation under this lease is \$nil (2012 - \$nil).

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, called for an annual rent of \$108,405 for the first 18 months and the remaining portion of the lease increased to \$118,260 per annum. The remaining obligation under this lease is \$nil (2012 - \$nil).

The lease agreement also called for the Agency to pay a maintenance expense of \$3,912.44 per month which covers both the 5th and 6th floors. Further, the agreement stipulates that at the end of each year of the agreement, the landlord is required to produce accounts showing the actual maintenance expenses for that period. If the actual maintenance expense is less than the monthly amount noted herein the balance is to be remitted to the Agency. Conversely, if the actual