

ANNEX I

**FINANCIAL INTELLIGENCE AGENCY**

Financial Statements

For the Year Ended March 31, 2016



## Management's Responsibility for the Financial Statements

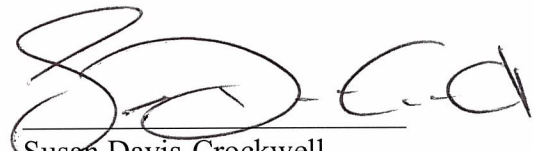
These financial statements have been prepared by management, who are responsible for the reliability, integrity and objectivity of the information provided. The preparation of financial statements necessarily involves using management's best estimates and judgments, where appropriate.

Management is responsible for maintaining a comprehensive system of accounting records, internal controls, policies and management practices, designed to provide reasonable assurance that transactions are properly authorized and in compliance with legislation, assets are safeguarded, and reliable financial information is available on a timely basis.

The Financial Intelligence Agency's Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Board of Directors meets periodically with management to discuss matters relating to financial reporting, internal control and audits. The Board of Directors also reviews the financial statements before their approval. The financial statements have been approved by the Board of Directors and have been examined by the Office of the Auditor General.

The accompanying Independent Auditor's Report is presented herein.

  
Sinclair White  
Director

  
Susan Davis-Crockwell  
Senior Legal Counsel

DATE 13/07/2017



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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, 2016, and the statements of operations and accumulated surplus, change 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, 2016, and the results of its operations, 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  
June 13, 2017

Heather Thomas, CPA, CFE, CGMA  
Auditor General

FINANCIAL INTELLIGENCE AGENCY  
STATEMENT OF FINANCIAL POSITION

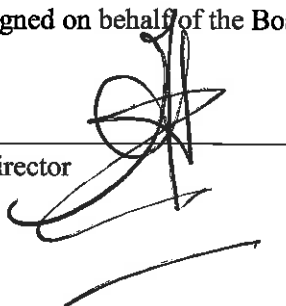
As at March 31, 2016

	2016	2015
	\$	\$
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	340,621	93,461
Accounts receivable	1,251	-
	341,872	93,461
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	34,951	74,545
Due to the Government of Bermuda (Note 6)	40,018	14,133
	74,969	88,678
<b>NET FINANCIAL ASSETS</b>	266,903	4,783
<b>NON-FINANCIAL ASSETS</b>		
Prepaid expenses	7,380	10,216
Tangible capital assets (Note 4)	124,784	162,021
	132,164	172,237
<b>ACCUMULATED SURPLUS</b>	399,067	177,020

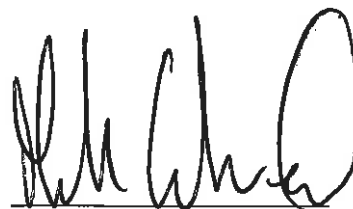
CONTRACTUAL OBLIGATIONS (Note 11)

Signed on behalf of the Board:

Director



Director



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, 2016

	2016 \$ Budget (Note 13)	2016 \$ Actual	2015 \$ Actual
<b>REVENUES</b>			
Government of Bermuda grant (Note 6)	1,500,000	1,500,000	1,200,000
	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,200,000</u>
<b>EXPENSES</b>			
Salaries and employee benefits (Note 8)	975,189	840,983	865,938
Rent (Note 11)	145,854	145,854	175,748
Payroll tax	67,422	59,606	57,758
Computer expenses	67,500	7,959	40,947
Equipment rental and maintenance	61,200	54,436	56,347
Amortization (Note 4)	-	37,237	41,262
Communication costs	36,580	34,145	42,496
Travel and entertainment (Note 7)	32,200	19,817	25,122
Directors' fees (Note 6)	25,000	23,800	23,600
Professional fees	27,750	21,100	39,525
Office maintenance	11,600	9,266	7,578
Membership fees	12,500	12,030	10,962
Office supplies and expenses	7,830	5,707	4,927
Insurance	4,000	3,868	3,625
Miscellaneous	4,000	1,360	(3,301)
Education, training and awareness	7,000	785	2,570
	<u>1,485,625</u>	<u>1,277,953</u>	<u>1,395,104</u>
<b>ANNUAL SURPLUS (DEFICIT)</b>	<u>14,375</u>	222,047	(195,104)
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>		<u>177,020</u>	<u>372,124</u>
<b>ACCUMULATED SURPLUS, END OF YEAR</b>		<u>399,067</u>	<u>177,020</u>

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

FINANCIAL INTELLIGENCE AGENCY  
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS  
FOR THE YEAR ENDED MARCH 31, 2016

	2016	2015
	\$	\$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	4,783	129,353
Annual surplus (deficit)	222,047	(195,104)
Change in prepaid expenses	2,836	29,272
Amortization of tangible capital assets (Note 4)	37,237	41,262
Increase (decrease) in net financial assets	262,120	(124,570)
NET FINANCIAL ASSETS, END OF YEAR	266,903	4,783

The accompanying notes are integral part of these financial statements.

FINANCIAL INTELLIGENCE AGENCY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2016

	2016	2015
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Annual surplus (deficit)	222,047	(195,104)
Adjustment for items not affecting cash:		
Amortization of tangible capital assets (Note 4)	37,237	41,262
Change in non-cash working capital items:		
Increase in accounts receivable	(1,251)	-
(Decrease) increase in accounts payable and accrued liabilities	(39,594)	27,290
Increase (decrease) in due to the Government of Bermuda	25,885	(23,942)
Decrease in prepaid expenses	2,836	29,272
Net cash provided by (used in) operating activities	247,160	(121,222)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	247,160	(121,222)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	93,461	214,683
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	340,621	93,461

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

FINANCIAL INTELLIGENCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

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 (the “Board”) 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. SUMMARY OF 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.

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 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 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, 2016

2. SUMMARY OF 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. Transfers are recognized 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 public sector accounting standards generally accepted in Canada and Bermuda 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.

FINANCIAL INTELLIGENCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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 to fund its daily operations, cash flow, capital development and capital acquisitions.

4. TANGIBLE CAPITAL ASSETS

2016

	Furniture and fixtures	Computer equipment	Computer software	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Opening cost	39,380	242,009	302,796	43,553	627,738
Additions	-	-	-	-	-
Closing cost	39,380	242,009	302,796	43,553	627,738
Opening accumulated amortization	39,380	232,579	166,538	27,220	465,717
Amortization	-	2,603	30,279	4,355	37,237
Closing accumulated amortization	39,380	235,182	196,817	31,575	502,954
Net book value	-	6,827	105,979	11,978	124,784

FINANCIAL INTELLIGENCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

4. TANGIBLE CAPITAL ASSETS (continued)

2015

	Furniture and fixtures	Computer equipment	Computer software	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Opening cost	39,380	242,009	302,796	43,553	627,738
Additions	-	-	-	-	-
Closing cost	39,380	242,009	302,796	43,553	627,738
Opening accumulated amortization	37,883	227,448	136,259	22,865	424,455
Amortization	1,497	5,131	30,279	4,355	41,262
Closing accumulated amortization	39,380	232,579	166,538	27,220	465,717
Net book value	-	9,430	136,258	16,333	162,021

5. FINANCIAL INSTRUMENTS

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

6. RELATED PARTY TRANSACTIONS

The Agency is related to all Government departments, ministries, funds and agencies and quasi autonomous non-governmental organizations under the common control of the Government. Also, the Agency is related to organizations that the government jointly controls or significantly influences. 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. Significant related party transactions are as follows:

(a) Government of Bermuda Grant

During the year, the Government of Bermuda provided an operating grant of \$1,500,000 (2015 - \$1,200,000) to the Agency.

(b) Due to the Government of Bermuda

The Agency had transactions totaling \$149,940 (2015 - \$143,503) relating to payroll tax, pension contributions, health insurance and social insurance, of which \$40,018 (2015 - \$14,133) was owed to the Government at year end.

FINANCIAL INTELLIGENCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2016

6. RELATED PARTY TRANSACTIONS (continued)

(c) Other

During the year, the Agency paid Directors of the Agency fees in the amount of \$23,800 (2015 - \$23,600).

7. TRAVEL AND ENTERTAINMENT

Approximately 99% 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. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES

(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 recognised 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 represent the total liability of the Agency. The total pension expense contributed by the Agency during the year amounted to \$46,764 (2015 - \$46,764).

The Agency has an outstanding pension contribution amounting to \$7,793 (2015 - \$7,793) to the Fund, and this balance is included in accounts payable and accrued liabilities in the statement of financial position.

(b) Compensated absences

Compensated absences include maternity and paternity leave, sick leave and vacation days. All these benefits are unfunded.

Maternity and paternity 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.

FINANCIAL INTELLIGENCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

8. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES (continued)

(b) Compensated absences (continued)

Sick leave does not accumulate or vest, and like maternity and paternity 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, 2016 is \$18,343 (2015 - \$37,666) 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, 2016.

(a) *Credit risk*

Credit risk arises from cash held with banks and accounts receivable. The maximum exposure to credit risk is equal to the carrying values of these financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Agency determines, on a continuous basis, amounts receivable on the basis of amounts it is virtually certain to receive based on their estimated realizable value. 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.

(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 recognised assets and liabilities or future cash flows of the Agency's results of operations. The Agency has minimal exposure to market risk.

FINANCIAL INTELLIGENCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

9. FINANCIAL RISK MANAGEMENT (continued)

*(c) Market risk (continued)*

*(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 rate 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 accumulated surplus to enable it to withstand negative unexpected financial events. The Agency seeks to achieve this objective through receipt of grants from the Government. 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. CONTRACTUAL OBLIGATIONS

The Agency entered into a lease of the premises currently occupied by the Agency effective November 15, 2014 with an annual rent of \$145,854 per annum for 5 years. The remaining obligation under this lease is \$528,721(2015 - \$674,575).

The lease agreement also calls for the Agency to pay a maintenance expense of \$3,912 per month. 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 maintenance expense is more than the monthly amount paid by the Agency the difference is to be paid by the Agency. These adjustments are recorded on an as notified basis.

12. SEGMENTED REPORTING

The Agency receives revenue from a single source (Government of Bermuda grant) and considers itself to be a simple operating segment for segmented disclosure purposes.

13. BUDGET

Budget amounts represent the operating budget approved by the Board on January 8, 2015 and is presented using a basis consistent with that used for actual results.

FINANCIAL INTELLIGENCE AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2016

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

15. SUBSEQUENT EVENT

On August 3, 2016, the legislature passed the Proceeds of Crime Amendment (No. 2) Act 2016 which amended multiple pieces of legislation that formulate Bermuda's Anti-Money Laundering and Anti-Terrorist Financing regime (the "AML/ATF Regime"), amongst which were provisions to bring dealers in high value goods ("DHVG") in scope of the AML/ATF Regime and empowering the Agency to undertake the monitoring and supervision of businesses which make up that group to ensure compliance with the AML/ATF Regime ("DHVG Supervisory Regime"). These legislative provisions came into effect on December 1, 2016 thereby establishing a DHVG Supervisory Regime within the operations of the Agency.