



FINANCIAL INTELLIGENCE CENTRE (FIC)

REVIEW OF THE QUALITY OF REPORTS SUBMITTED TO THE FIC: AUCTIONEERS REPORTING PERIOD: MAY 2009 TO DECEMBER 2017

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1. Acronyms, Abbreviations and Glossary

AI (s)	Accountable Institution(s)
AML	Anti-Money Laundering
CFT	Combatting the Financing of Terrorism
CTR	Cash Transaction Report(s)
CPF	Combating Proliferation Financing
FIA	Financial Intelligence Act
FIC	Financial Intelligence Unit
GoAML	A standard software system used for AML/CFT reporting and communication
LED	Law Enforcement Agents
ML	Money Laundering
NAD	Namibia Dollars
NAMFISA	Namibia Financial Institutions Supervisory Authority
RI (s)	Reporting Institution(s)
SAR	Suspicious Activity Report
STR (s)	Suspicious Transaction Report(s)
TF	Terrorist Financing

2. Introduction

The Financial Intelligence Act, 2012 (Act no.13 of 2012) as amended (FIA), classifies Auctioneers as Accountable Institutions (AI) under Schedule 1. Consequently, the FIA requires these institutions to implement control measures (including reporting controls) aimed at preventing, detecting and mitigating Money Laundering, Terrorism Financing and Proliferation Financing (ML/TF/PF) risks. Services provided by Auctioneers are vulnerable to ML/TF/PF activities. Auctioneers, by virtue of availing such services have a role to play in contributing to prevention measures. The sector's Anti-Money Laundering, Combatting of Terrorism and Proliferation Financing (AML/CFT/CPF) activities therefore contribute to the national combatting efforts.

The Financial Intelligence Centre (FIC) is mandated to, amongst others: coordinate, supervise, monitor and regulate AIs' efforts to mitigate ML/TF/PF risks, thus enhancing FIA compliance. In furtherance of this, the FIC has embarked on a review of the quality of reports submitted by Accountable and Reporting Institutions in terms of sections 32, 33 and 34 of the FIA. The outcomes of such review are contained herein. It is hoped that this report highlights observations which may enhance controls geared towards detecting and reporting suspicious transactions. The ability to detect specified transactions which are reportable reflects an institution or sector's overall control effectiveness level.

The objective of the assessment was to identify potential challenges and highlight such in an effort to enable interventions which will enhance the quantity and quality of FIA reports. The review of the quality of reports considered reporting behaviour relating to Suspicious Transaction Reports (STRs), Suspicious Activity Reports (SARS) and Cash Threshold Reports (CTRs) above NAD 99 999.99. Such reports were analysed to enable objective assessments related to the design and adequacy of AML/CFT/CPF controls (herein referred to as controls) in reporting the above mentioned reports.

3. Industry Overview

Auctioneers are required as per section 32 and section 33 to report CTRs above NAD 99 999.99. On the other hand, STRs are reported based on an unusual transactional behaviour of a client, which is found to be inconsistent with the known client financial profile. A SAR is different from a STR described above, in that a suspicious activity is not a transaction per se but activities that may escalate to a future transaction or activities that give rise to reportable matters.

STRs and SARs are reported to enable the FIC to collect, analyse transactions and share intelligence outputs with relevant law enforcement agencies such as the Namibian Police, Anti-Corruption Commission, the Receiver of Revenue and the Office of the Prosecutor General. On the other hand, CTRs, Electronic Funds Transfers (EFTs) and International Funds Transfers (IFTs) are submitted to form part of a vital database used for ML/TF/PF combatting efforts.

Auctioneering services are inherently vulnerable to ML activities as they are cash intensive businesses. Equally, the ease with which proceeds from criminal activities can be presented as legitimate earnings enhances such risks. The dealings in high value goods are also attractive to laundering activities.

At the time of issuing this report, the FIC had registered a total of 20 Auctioneers for FIA supervision and monitoring purposes. The scope of this review covered the period from 01 January 2009 to 31 December 2017.

4. Suspicious Transaction Reports (STRs)

STRs are reported for the purpose of enabling the FIC to collect, analyse and disseminate case reports to the relevant law enforcement agencies. When an Auctioneer has knowledge of any suspicious transactions concluded with them, or suspects that it has received or is about to receive the proceeds of unlawful activities, it should report such to

the FIC. Equally, if an Auctioneer has been used or is about to be used in any other way for ML/TF/PF purposes, it must within 15 working days of detecting such suspicion report to the FIC.

For the period under review, only 10 STRs were received from the sector. From the total of 10 STRs received from Auctioneers, only 1 of the reports was escalated for further analysis and resulted in actionable intelligence. The rest were categorized as “low priority”. Low priority categorization refers to such reports that are not immediately attended to by the FIC.

The FIC applies a risk-based approach in assigning priority levels to STRs/SARs received. The same applies to the actual investigation of such reports. Reports regarded as ‘high priority’ are normally attended to at the earliest opportunity, depending on various considerations. Those categorized as ‘low priority’ are usually only attended to at a later stage when time permits. Some of the factors taken into consideration when assigning priority levels include:

- a) the significance of monetary values involved in the suspicious transaction(s);
- b) the possibility of movement of perpetrators from local jurisdiction;
- c) the risk of funds being withdrawn from accounts, spent or placed beyond the reach of law enforcement agencies (at times, this guides decisions on intervention by the FIC in terms of section 42 of FIA);
- d) the likelihood that the transaction relates to the most prevalent predicate offences such as tax evasion, etc.;
- e) whether dissemination to Law Enforcement will likely add any value to the administration of justice;
- f) prospects of recovery, seizure, preservation of funds and/or property;
- g) whether involved subjects/entities are related to other reports known to the FIC or on the FIC database or can be traced to reports in FIC database etc;
- h) feedback received on similar reports issued to Law Enforcement in the past;

- i) whether related to known typologies and trends considered to be high risk;
- j) clear links to criminal organizations/activities;
- k) priorities of law enforcement agencies;
- l) whether there are any pending investigations led by investigating authorities;
- m) whether geographic location of transactions is regarded as high risk; and
- n) whether the transaction has already been executed, is in the process or has not yet commenced.

Table 1: Number of STRs received from Auctioneers.

Year	Number of Reports	Amount NAD	Case File Opened
2015	1	128,892.50	0
2016	3	665,654.80	0
2017	6	1,301,704.15	1
Total Amount Involved	10	2,096,251.45	1

Table 2: Grounds for suspicion as per reports filed (STR).

Number of STRs	Grounds of reporting STR
2	Huge amount of cash over N\$100 000.00 spend at once
2	Fraudulent activities
2	Suspicious buyers (no further details)
3	Money received from the client, who bought cattle from auction.

The FIC is of the view that more reports could have been received from the Sector. Regardless of the FIC's significant supervision and monitoring activities in the sector since 2009, there is still no significant change in the reporting behaviour of this sector.

4.1 Areas that need Improvements: STRs

- a) Auctioneers should provide adequate reasons for reporting suspicious transactions. It has been highlighted that reasons for suspicion are too vague and not specific enough to add value in terms of directing investigations. For this reason, many reports have been set as 'low priority' and would mostly likely not be attended to timely. Creating an adequate client financial profile and using same for monitoring purposes can go a long way towards helping to determine behaviour which is not in line with a client's financial profile. This in turn is useful as a guide for demonstrating grounds for suspicion in an STR/SAR;
- b) Most of the STRs reported do not have supporting documents attached. Institutions should always attach transactional identification or any related evidence that supports the suspicion;
- c) All entities are encouraged to comply with the provisions of the FIA and ensure that controls are implemented to enable effective monitoring of suspicious transactions or activities. This is the most prudent manner to detect reportable activities/transactions;
- d) Institutions should avail their staff with relevant AML/CFT/CPF training to ensure that they are knowledgeable with their respective FIA obligations, especially on identification of suspicious client behaviour and on reporting same.

5. Suspicious Activity Reports

There were no SARs reports received from the Auctioneers since the FIA came into effect.

6. Cash Threshold Reports (CTRs)

Auctioneers have an obligation to report within five (5) working days, any transaction concluded by or on behalf of a client which involves cash payments presented to and received by it, or cash pay outs made by the Accountable Institution in excess of the threshold amount of NAD 99,999.99, with effect from 28 January 2015.

Table 3: CTRs reported per year

Year	Number of Reports	Amount
2015	1	1,300,946.13
2016	106	20,715,885.50
2017	305	66,295,572.18
Total Amount Involved	412	88,312,403.81

Only 412 CTRs were received from Auctioneers since the reporting obligation came into effect. There is an improvement in the number of CTRs reported from the years 2016 to 2017. However, having regard to the number of potential CTR transactions (reportable), as per findings in FIA compliance assessment reports, the FIC is concerned that the sector of 20 registered institutions in this cash intensive industry, is severely under reporting.

Only 6 entities from this sector reported CTRs. The review noted that one Auctioneer reported a transaction below the NAD 99,999.99 threshold as a CTR. The underreporting noted could suggest that Auctioneers do not fully understand the characteristics of transactions that are reportable as CTRs. Equally, by reporting transactions which should not have been reported, it is safe to conclude that the limited number of CTRs as documented herein could have been lesser.

6.1 Areas that need improvements: CTRs

- a) Reporting of cash transactions in general across the sector is very low (quantities), as demonstrated in section 6 above. All Auctioneers should file cash transaction reports for cash paid and received above the required threshold of NAD 99,999.99, within the prescribed period of such transactions occurring. Auctioneers should ensure that they have implemented mechanisms for the purposes of timely detecting CTRs in order to ensure compliance with the obligation, in line with Circular No. 3 of 2015;
- b) Auctioneers should ensure that all required fields are completed when CTRs are submitted on the GoAML Portal;
- c) The FIC recommends that Auctioneers further ensure the AML/CFT/CPF control framework, such as controls designed to effect the reporting obligations, are periodically subjected to independent reviews or audits. These reviews should be aimed at giving management such reasonable assurance on the level of control effectiveness. Importantly, findings from such assessments should guide management's corrective measures.

7. Conclusion

The most notable observation as far as reporting STRs, SARs and CTRs are concerned is under-reporting. The sector's reporting behaviour requires significant improvement.

Auctioneers should ensure that relevant staff members pay particular attention to a client's financial behaviour/transactions and if such is not in line with their financial profile, report same to the FIC (STRs/CTRs) timely.

The reporting trends documented herein should be used by all Auctioneers as a benchmark and guideline in detecting and reporting STRs, SARs and CTRs.

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