

TASK 3.25

Article on FICA

Read the following extract from THE FINANCIAL INTELLIGENCE CENTRE ACT (FICA) - June 2003.

Banks need to know their customers:

Customers opening a new bank account as of 30 June 2003 will need to provide banks with additional personal information to comply with new anti-money laundering legislation.

The Financial Intelligence Centre Act (FICA) 2001 aims to bring South Africa in line with international standards for combating money laundering and identifying the proceeds of unlawful activity. It also imposes strict regulations on institutions and their employees where they encounter incidents of money laundering.

A Financial Intelligence Centre was established on 3 February to receive and analyse suspicious and unusual transaction reports.

According to the new provisions of FICA recently announced by the government, a bank:

- Must establish and verify the identity, and authority, of bank clients acting on behalf of other persons.
- Must keep specified records of all business relationships and transactions.
- Must report any suspicious and unusual transactions to the Financial Intelligence Centre. This includes not only money laundering but also tax evasion and breaches of exchange control regulations.

FICA also imposes an obligation on banks to re-identify all existing clients, according to the new know-your-client criteria, within a 12-month period starting 1 July until it has established and verified their identity.

Banks will, therefore, be conducting extensive programmes to update their existing customer files according to the new requirements.

Extracts from The Banking Council report 2 of 2004

Money laundering is a criminal activity - often run by organised crime syndicates - in which money generated by crime is passed through legitimate businesses and bank accounts to hide its shady origins.

FICA imposes a statutory requirement for banks to re-identify and verify every existing client as at 30 June 2004.

The "Know-your-Client" requirements legislated in December 2002, are seen as a critical element in effectively managing business risks.

As the law currently stands, where customers fail to meet the deadline, the banks would be committing a criminal offence unless they freeze the relevant accounts.

Of particular concern to the banks is the need to re-identify and verify the approximately ten million low-income account holders living in informal settlements and who are not easily contactable by telephone or letter. These are the people who will, in all likelihood, not meet the 30 June deadline and will struggle to provide the necessary documentation (utility bills, tax documents, etc.) to verify residential addresses.

Questions:

- 3.25.1 What do you understand by the term 'money laundering'?
- 3.25.2 Why do you think it was necessary to introduce these regulations?
- 3.25.3 What evidence do the banks require their clients to produce when opening an account or confirming their identity on existing accounts?
- 3.25.4 Why is this a problem to people living in informal settlements?
- 3.25.5 What implications have these regulations had for the banking world in order to comply with the regulations?
- 3.25.6 What is going to happen to the bank accounts of clients who have not been verified?

TASK 3.26



Ethics and Internal control

You have recently been appointed as the Chief Accountant for Bestbuy Stationers, a business owned by Barry Best. During the course of completing the Bank Reconciliation for July 20.6 you come across the following queries:

Required:

With regard to each case, explain:

- Whether you think a problem exists or not,
- How you would handle each case.

- 3.26.1 The balance on the bank statement at the end of each month is always greater than R50 000.
- 3.26.2 The bookkeeper, I.M. Idle, has not prepared a Bank Reconciliation Statement for the past two months. She says she has been too busy.
- 3.26.3 You notice that the bank statement reflects a dishonoured cheque of R5 500. This



Match the definitions in column A with the correct explanation in column B. Write down only the letters in the second column.

COLUMN A		COLUMN B	
1.	Creditors journal	A	Records items returned to suppliers or allowances granted to us.
2.	Creditors allowances journal	B	Document sent by the business to the supplier when goods are returned or an allowance is requested.
3.	Original invoice	C	Document that records all purchases on credit.
4.	Debit note	D	Summary of what each creditor is owed.
5.	Credit note	E	Records all purchases on credit.
6.	Creditors list	F	Document issued by the creditor if the return or allowance is accepted.

CREDITORS RECONCILIATION STATEMENT

In the previous section, we have focused on bank reconciliation when we compared and updated our records with those of the bank. Note that there are 2 sources of information, i.e. our CRJ and CPJ which have been posted to the Bank account in the General Ledger and secondly the bank's records of our account which is summarised in a bank statement. The whole purpose of doing the reconciliation is to ensure that the 2 sources of information agree, i.e. reconcile.

In a similar manner, it is also necessary to compare our records with those of our creditor. Let's take an example where we (R. Rayne) buy goods from S. Swart. In our books, we will show S. Swart as a Creditor (liability). S. Swart, on the other hand, will also be keeping records of goods that he is selling to R. Rayne but he will be showing R. Rayne as a Debtor (asset). The normal procedure would be for S. Swart to send a copy of the Statement to R. Rayne at the end of the month. It would then be R. Rayne's responsibility to check this statement against his records - in the same way that we compare our cash book with the bank statement received from the bank.

Example:

The following creditor's account appears in the books of R. Rayne:

CREDITORS LEDGER OF R. RAYNE S. SWART

Date	Details	Fol	CL		Balance
			Dr	Cr	
20.8 May	1 Balance				4 200 (Cr)
	8 Invoice no. 25	b/d			9 300
	10 Cheque no. 100	CJ			8 200
	15 Debit note no. 12	CPJ	1 100	5 100	7 700
	25 Invoice 33	CAJ	500		11 300
	28 Cheque no. 110	CJ			7 100
		CPJ	4 200	3 600	

The following debtors account appears in the books of S. Swart. S. Swart will send a statement reflecting the following entries.

DEBTORS LEDGER OF S. SWART
R. RAYNE

				DL		
Date		Details	Fol	Dr	Cr	Balance
20.8			b/d			4 200 (Dr)
May	1	Balance	DJ	5 100		9 300
	8	Invoice no. 25	CRJ		1 100	8 200
	10	Receipt no. 88	CRJ	100	8 100	
		Discount allowed	DAJ		500	7 600
	15	Credit note no. 20	DJ	3 600		11 200
	25	Invoice no. 33	DJ	600		11 800
	26	Invoice no. 34				

Explanation of the ledger accounts:

According to R. Rayne he owes S. Swart R7 100 while S. Swart states that R. Rayne owes him R11 800.

Clearly there is a problem and the discrepancies (differences) need to be determined and corrective action taken, i.e. a Creditors' Reconciliation Statement needs to be prepared.

PROCEDURE FOR RECONCILIATION:

The reconciliation will be prepared by R. Rayne. The following steps would have to be followed:

1. Mark off on both accounts all amounts that are the same - if they are the same then they are not a problem. Remember, however, the amounts will be on **opposite sides**. Thus the following amounts would be **ticked off**:

Opening balance	R4 200
Invoice no. 25	5 100
Credit note 20/Debit note 12	500
Cheque no. 100 / Receipt 88	1 100
Invoice no. 33	3 600

2. Secondly you would need to determine why the other entries do not agree and correct them.
3. Rayne would identify that he did not process an entry for the **discount** he received on the 10th for R100. As the CPJ will have already been completed for the month and posted he would now have to process a General Journal entry to record this discount as follows and post to the respective accounts:

GENERAL JOURNAL OF R. RAYNE - MAY 20.8

GJ

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
	31	S. Swart Discount received Discount received on payment of account.	CL	100	100			100	

CREDITORS LEDGER OF R. RAYNE - MAY 20.8
S. SWART

CL

Date		Details	Fol	Dr	Cr	Balance
20.8						4 200 (Cr)
May	1	Balance	b/d			9 300
	8	Invoice no. 25	CJ		5 100	8 200
	10	Cheque no. 100	CPJ	1 100		7 700
	15	Debit note no. 12	CAJ	500		11 300
	25	Invoice no. 33	CJ		3 600	7 100
	28	Cheque no. 110	CPJ	4 200		7 000
	31	Discount received	GJ	100		

- In Rayne's books the other entry that does not appear in the books of S. Swart is the cheque for R4 200. This is probably a cheque that Rayne has issued and sent but to date S. Swart has not received it. Therefore, this is not an error but would be regarded as an outstanding cheque.
- If we then make a study of S. Swart's books we will notice that he is showing an invoice for goods sold on the 26th for R600. On investigation, it was revealed that this invoice was for goods sold to S. Rayne and not us (R. Rayne). S. Swart will pass a credit note to fix this error.
- In order to check that our books do agree with those of S. Swart we would now draw up a Creditors Reconciliation Statement as follows:

CREDITORS RECONCILIATION STATEMENT AS AT 31 MAY 20.8

Balance as per S. Swart's statement	11 800
Invoice no. 34 / error	(600)
outstanding cheque	(4 200)
Balance as per ledger account	R 7 000

NOTE: The two balances agree - we have reconciled them.

The Creditors Reconciliation Statement can also be shown in 2 columns as follows:

CREDITORS RECONCILIATION STATEMENT AS AT 31 MAY 20.8

	DR	CR
Balance as per S. Swart's statement	11 800	
Invoice no. 34 wrongly debited		600
Outstanding cheque		4 200
Balance as per creditors ledger account		7 000
	11 800	11 800