



MALAWI

TECHNICAL ASSISTANCE REPORT—STRENGTHENING FUNDAMENTAL CONTROLS AND REPORTING

November 2017

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Malawi

Strengthening Fundamental Controls and Reporting

Abdul Mudabbir Khan, Paul Seeds, and Mozammel Hoque

Technical Assistance Report | August 2017



I N T E R N A T I O N A L M O N E T A R Y F U N D

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ACRONYMS

AFE	AFRITAC East
AFRITAC	African Regional Technical Assistance Center
AFS	Annual Financial Statements
AG	Accountant General
AGD	Accountant General's Department
AP	Accounts Payable
ATS	Automated Transfer System
BCG	Budgetary Central Government
BD	Budget Division
CIAU	Central Internal Audit Unit
CMC	Cash Management Committee
CMU	Cash Management Unit
CO	Controlling Officer
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CSV	Comma separated value
DAD	Debt and Aid Department
DP	Development Partner
ECF	Extended Credit Facility
EFT	Electronic Funds Transfer
FAD	Fiscal Affairs Department
FEAD	Financial and Economic Affairs Division
FROIP	Financial Reporting and Oversight Improvement Project
GL	General Ledger
GoM	Government of Malawi
GWAN	Government Wide Area Network
ICT	Information and communication technology
IFMIS	Integrated Financial Management Information System
MDA	Ministry, Department, and Agency
MG1	Malawi Government Account No. 1
MK	Malawi Kwacha
MoF	Ministry of Finance, Economic Planning, and Development
MRA	Malawi Revenue Authority
MTEF	Medium-Term Expenditure Framework
NAO	National Audit Office
ORT	Other Recurrent Transactions
PFM	Public Financial Management
PFMA	Public Financial Management Act
QBPR	Quarterly Budget Performance Reports
RBM	Reserve Bank of Malawi
ST	Secretary to the Treasury
TIBCO	The Information Bus Company (RBM system for bank transfers)
TMS	Treasury Management System
UAT	User Acceptance Testing

PREFACE

A technical assistance mission from the Fiscal Affairs Department (FAD) of the International Monetary Fund visited Lilongwe during the period March 29–April 7, 2017 to review progress on urgent public financial management (PFM) reform priorities and provide further guidance on their implementation. The mission team was led by Abdul Khan (FAD expert) and consisted of Paul Seeds (PFM Advisor AFRITAC East) and Mozammel Hoque (Resident PFM Adviser). This technical assistance (TA) was provided with financial support from the Government of Japan.

During its stay, the mission met with the Minister of Finance, Honorable Mr. Goodall Gondwe; the Secretary to the Treasury, Mr. Ben Botolo; the Secretary Treasury; Mr. Stephenson Kamphasa, the Auditor General; Mr. William Matmbo, the Accountant General; other officials of the Ministry of Finance; and Mr. Dickson Chassambira, Deputy Director of Central Internal Audit Unit. The mission also met senior officials of the Reserve Bank of Malawi, and the Ministries of Health and Land. The mission held discussions with the representatives of development partners including the UNDP, African Development Bank, European Union, JICA, USAID, World Bank, and DfID.

The mission would like to thank all of the above individuals and institutions for the frank and candid discussion of all issues, and courtesy extended throughout its stay. The mission appreciates the courtesy and assistance provided by Mr. Jack Roo, the Resident Representative) and Mrs. Audrey Kampola of the IMF office in Lilongwe.

EXECUTIVE SUMMARY

The government is determined to restore control over public funds. The Fiscal Affairs Department (FAD) of the IMF had identified in 2014 the lack of effective bank reconciliations as a major impediment to achieving this objective and recommended measures to address this deficiency. Reconciling the accounting records with the RBM statements is a fundamental control over bank accounts to, among other things, establish the reliability of the records and to identify promptly any errors and irregularities. The Extended Credit Facility (ECF) incorporated prior actions related to bank reconciliations. This report summarizes the current status of bank reconciliations and makes recommendations for further and sustainable improvements in this area. This report also discusses the need to improve the accounting records, including bank reconciliations, in order that the Integrated Financial Management Information System (IFMIS) can be used effectively for fiscal reporting purposes.

Considerable progress has been made on the reconciliation of the 2015/16 transactions of selected bank accounts. Unmatched items have been investigated and adjustments have been made in many cases. This is an important step towards re-establishing control over bank accounts.

However, more efforts are required to complete the reconciliations for 2015/16. The Salaries account has not yet been reconciled. The reconciliations of the other bank accounts are at various stages of completion. The bank reconciliations are yet to reflect the cashbook balances after all the necessary adjustments have been made. The bank reconciliations should also present transparently the differences in the balances as at June 30, 2015 between the cashbook and the bank statements. The documentation related to the bank reconciliations should be improved. Inconsistent statements particularly about the status of adjustments (e.g., “has been made, is being made, or to be made”) should be avoided. The templates for the reconciliations should be completed and the specified supporting documents should be attached. The full documentation should be made available to the FAD. Work on the salaries account should continue and the account fully reconciled.

Issues related to the pre-2015/16 transactions should be investigated and resolved. The Auditor General (through the forensic auditors RSM) and the Central Internal Audit Unit (CIAU) are investigating unmatched or potentially duplicate payments for period 2009–June 2015. Interim reports have been issued based on the original scope of the investigations and the final reports based on the extended scope are expected by May 2017 (CIAU) and October 2017 (Auditor General). These reports will provide valuable inputs that should be used by the AGD to fully reconcile the bank accounts. Any issues that cannot be resolved or any loss of public money that may be discovered must be dealt with in accordance with laws and regulations and appropriate adjustments made to ensure that an accurate starting position is established and future reconciliations are not affected by past differences.

The Accountant General (AG) should investigate the possible duplicate payments (MK 25 billion) identified by the CIAU. The CIAU report recommended that the AG should refer these immediately to the Auditor General for forensic examination. However, the AG has decided to defer action until the Auditor General's existing investigation is completed. This decision could be revisited given the potential for significant errors and irregularities and the importance of time in such circumstances.

The AG should also investigate the bank accounts identified by the Auditor General that may be outside the government accounting systems. All bank accounts must be recorded in the IFMIS in order to, among other things, provide a comprehensive record of government finances and facilitate the preparation of reliable fiscal reports.

The AG should commence work on the bank reconciliations for 2016/17 immediately to avoid building up another backlog of unreconciled transactions. The reconciliation up to March 2017 should be completed by June 2017. Thereafter the AGD should complete monthly reconciliations by the end of the next month.

Progress has been made in addressing some of the systemic issues that affect bank reconciliations, but further effort is required. The issues include those concerning systems at the MoF, AGD, and RBM (e.g., the lack of consistency in the treatment of exchequer releases), and processes such as those related to the treatment of returned electronic payments. The procedures for the treatment of stale checks need to be revisited to avoid potentially serious issues with the credibility of government accounts and bank reconciliations. The report discusses the systemic issues in detail.

Fiscal reports should be prepared from the information recorded in the IFMIS. Currently, fiscal reports are prepared from disparate data sources and little use is made of the IFMIS. In order for the IFMIS to become the main source of fiscal reports, the comprehensiveness, timeliness, and reliability of the IFMIS have to be improved significantly. The issues discussed under bank reconciliations, if addressed, would facilitate the use of the IFMIS for fiscal reporting, particularly by improving its comprehensiveness and reliability. Particular attention should be given to recording debt and revenue transactions in the IFMIS on a regular and timely manner.

Table 1. Malawi: Summary of Recommendations

Action	Responsibility	Time frame	TA Requirements
Completing Bank Reconciliations			
1.1 Finalize the bank reconciliation statements as at June 30 2016 by reflecting the actual cash book balances after the adjustments.	AG	April, 14, 2017	IMF Resident Adviser
1.2 Reflect the differences in the balances between bank statements and cashbook as at June 30 2015 transparently in the finalized bank reconciliation statements.	AG	April, 14, 2017	IMF Resident Adviser
1.3 Complete the templates for 2015/16 reconciliations.	AG	April, 14, 2017	IMF Resident Adviser
1.4 Tidy up the documentation supporting the reconciliations. Use consistent language in the main reconciliation and the supporting documentation.	AG	April 14, 2017	IMF Resident Adviser
1.5 Provide the FAD with documentation, including bank reconciliations, the templates and the supporting evidence.	AG	April, 17, 2017	IMF Resident Adviser
Going Forward with Bank Reconciliation			
1.6 Complete the reconciliation of the salaries bank account for 2015/16.	AG	June 2017	IMF Resident Adviser
1.7 Investigate the unrecorded bank accounts, identified by the auditor general and incorporate them into the IFMIS	AG	September 2017	
1.8 Commence bank reconciliations for 2016/17 immediately. Reconcile the backlog July 1 2016 to March 31 2017 by the end of June 2017. Thereafter complete monthly reconciliations by the end of the next month.	AG	Start Immediately Complete June 2017	IMF Resident Adviser
1.9 CIAU should conduct regular audits of bank reconciliations.	CIAU	Commencing July 2017	IMF Resident Adviser
1.10 Improve the procedures for resolving issues between the government and RBM.	ST	September 2017	IMF Resident Adviser
1.11 Resolve the issue of the opening balance differences as at June 30, 2015.	AG	Commence November 2017 Conclude April 2018	IMF Resident Adviser
Systemic Issues Impacting Bank Reconciliation			
1.12 Take steps to address systemic issues to avoid or minimize reconciliation challenges in the future.	AG	Ongoing	IMF Resident Adviser
1.13 Use the IFMIS transaction record for making the bank transfers through TIBCO and attach a copy of the IFMIS record with the TIBCO records - no transfer should be made through TIBCO unless there is an IFMIS posting record attached.	AG	May 2017	IMF Resident Adviser
1.14 Implement a formal process for dealing with all returned payments through ATS.	AG	July 2017	IMF Resident Adviser

Table 1. Malawi: Summary of Recommendations (concluded)

Action	Responsibility	Time frame	TA Requirements
1.15 Give Revenue Section access to bank statement and credit and debit advice slip data in soft copy to facilitate timely recording of transfers into MG1 Account.	AG	May 2017	IMF Resident Adviser
1.16 Revise the stale check procedures—a reversal of payment must lead to a reversal of expenditure.	AG	Immediately	IMF Resident Adviser
1.17 Discontinue the practice of backdating payments. Adjustments may be backdated only in exceptional circumstances and if approved by the ST.	AG	Immediately	IMF Resident Adviser
<i>IFMIS Support to Reporting</i>			
2.1 Process all public debt payments (external and domestic) through the IFMIS.	DAD	May 2017	IMF Resident Adviser
2.2 Expedite the restoration of the DAD CS-DRMS database and record all external and domestic debt activity.	DAD	July 2017	IMF Resident Adviser
2.3 Chase up the MDAs for returns of non-tax revenue collection deposits.	AG Revenue Section	July 2017	IMF Resident Adviser
<i>Enhancements to Current IFMIS</i>			
2.4 Seek funding to support full rollout of TMS to MDAs.	ST/AG	May 2017	IMF Resident Adviser
2.5 Implement TMS in MDAs.	IFMIS Department	July 2017	IMF Resident Adviser
2.6 Investigate with the vendor options for implementing multi-currency in a way which would avoid exchange rate differences.	AG	July 2017	IMF Resident Adviser
2.7 Agree with RBM an appropriate mechanism for handling rejected payments in ATS.	ST/AG	May 2017	IMF Resident Adviser
2.8 Address all outstanding security and control issues on EFT and complete the interface between IFMIS and ATS.	ST/AG/RBM	July 2017	IMF Resident Adviser
2.9. Require the vendor to fix the control weakness relating to “apply-date” for payments.	AG/IFMIS Team /Vendor	Immediate	IMF Resident Adviser
2.10. Engage the vendor to reconfigure IFMIS so that all cancelled checks, are reversed along with reversing the expenditures.	AG	July 2017	IMF Resident Adviser
<i>Planning for the new IFMIS</i>			
2.11 Seek funding through the development partners (DPs) for engaging a highly experienced international IFMIS consultant.	ST/AG	Immediate	IMF Resident Adviser
2.12 Seek alternative sources of funding for the IFMIS implementation.	ST/AG	Immediate	IMF Resident Adviser
2.13 Undertake an assessment of the infrastructure and broader prerequisites for IFMIS implementation, not covered under the IFMIS contract, and liaise with DPs to ascertain whether unutilized FROIP funds can be used for this purpose.	AG/IFMIS Team	Immediate	IMF Resident Adviser

I. BANK RECONCILIATION

A. Introduction and Background

1. Restoring control over government bank accounts is recognized as a key priority of the Government. Previous FAD TA reports have underscored the crucial role that bank reconciliations play in exercising effective control over public funds. It is a fundamental control that provides assurance that the government and the Reserve Bank of Malawi (RBM) records of banking transactions and balances are consistent and facilitate the identification of any errors and irregularities. The more timely and frequent the bank reconciliations, the more likely it is that any errors are rectified and any potential irregularities are investigated and corrective actions taken promptly. The lack of effective bank reconciliations in Malawi contributed to a significant weakening in the control environment that, in turn allowed, among other things, the large-scale theft of public funds, as evidenced by the cashgate scandal, to occur and remain undetected for some time. The authorities are therefore determined to make improvements in this area.

2. Past FAD TA reports drew attention to the importance of performing bank reconciliations on a regular basis and provided guidance for improvements in this area. The November 2014 FAD TA mission recommended, among other things, maintaining complete records of all government bank accounts in IFMIS and reconciling them with bank statements as a fundamental control.¹ One of the major deficiencies of the bank reconciliation process in Malawi was that the unmatched items remain unresolved and unadjusted in the accounting records for a long time. The FAD mission of August/September 2016 reiterated the need to make the adjustments in a timely manner and on a regular, at least monthly, basis.²

3. The Extended Credit Facility (ECF) arrangement incorporated prior actions related to bank reconciliations. The reconciliation of all FY 2015/16 transactions of government bank accounts—Malawi Government Account No. 1 (MG1) and the six operational accounts and Ways and Means—until end-December 2015 was a prior action for the 7th and 8th reviews. The reconciliation of the entire FY 2015/16 transactions is a prior action for the completion of the 9th review. It should be noted that the prior actions relate to 2015/16 transactions only and not the balances of the bank accounts. This was because the transactions prior to 2015/16 are being examined by external and internal auditors. Once these examinations are completed, the balances as at June 30, 2015 would need to be reconciled. The mission reviewed the progress toward meeting the prior action for the 9th review as well as the related issues to ensure that the reconciliation process is completed in a transparent and sustainable manner and is accompanied by evidentiary support.

¹ See "Restoring Financial Control and Accountability," December 2014, Fiscal Affairs Department, IMF.

² See "Building and Sustaining Financial Control," September 2016, Fiscal Affairs Department, IMF.

B. Progress with Bank Reconciliation

4. Considerable progress has been made on the reconciliation of the 2015/16 transactions of bank accounts. This reflects the significant effort made by the Accountant General's Department (AGD) to address the long-standing issue of bank reconciliation. A serious effort has been made to investigate the long list of unmatched items that were part of past attempts at bank reconciliations and adjustments have been made with the result that the list of unresolved items is shortened significantly. This is an important step towards re-establishing control over bank accounts as items that remain unmatched for a long period of time can, among other things, make it difficult to identify errors and irregularities.

5. However, more efforts are required to complete the bank reconciliations of the transactions for 2015/16. Of the accounts required to be reconciled under the ECF arrangement, the reconciliations of six accounts—MG 1, ORT (or Other Recurring Transactions), Development, Advances, Compensation and Refund, and Pensions and Gratuity—were available for review. The bank reconciliation of the remaining bank account—Salaries—was not available for review by the mission as officials were still working on them. The template for documenting the reconciliations in a more structured manner—developed by FAD—was available only for Advances, Compensation and Refund, and Pensions and Gratuity accounts. The supporting evidence for the bank reconciliations—including the evidence of adjustments—as specified in the template was also not available for the mission's review. However, as discussed below, the AGD is working on these and committed to make the fully completed bank reconciliations and templates and supporting evidence (excluding the salary account) available by April 14, 2017.

6. The bank reconciliation statements do not reflect cashbook balances after any necessary adjustments have been made. As a result, the existing bank reconciliation statements continue to show large amounts as reconciling or unmatched items. Separate notes indicate that adjustments have been made and the number and amounts of unreconciled items have been reduced significantly, although not cleared completely (See Box 1).

Box 1. Malawi: Balance of Cashbook that Should Be Reconciled

If the cashbook balance was 100 when the reconciliation exercise commenced and various reconciliation adjustments were made in the cashbook amounting to say a net outflow of 75, the revised cashbook balance will be 25. This is the balance that should be used to prepare the final bank reconciliation statement. This is also the balance that should be reflected in the fiscal reports. This will, among other things, ensure that receipts and payments are reflected correctly in the accounts after taking into account all adjustments. Detailed guidance on the preparation and review of bank reconciliations can be found in earlier FAD TA reports. However, the existing bank reconciliations do not reconcile the cashbook balance after these adjustments (25 in this example). Instead the reconciliations show the cash book balance before the adjustments (the equivalent of 100 in the above example).

7. The AG indicated that the final bank reconciliation statements will reflect the cashbook balances after the adjustments. The intention was to complete these final reconciliation statements in time for the mission. However, there were practical difficulties,

including the fact the IFMIS could not process two fiscal years concurrently. Therefore, the IFMIS was processing 2016/17 transactions during the day and could only be used in the evenings to process 2015/16 transactions and adjustments. This made it impossible to have the finalized reconciliations ready in time for the mission. However, the AG was confident that the finalized bank reconciliation statements incorporating the post adjustment balances would be available by April 14, 2017.

8. The existing bank reconciliation statements do not reflect the cashbook balances before the adjustments either. Instead, a reconstructed balance was calculated by starting with the bank statement balance as at June 30 2015 and adding the receipts and deducting the payments in the cashbook during the year. This method was applied to eliminate the impact of the unreconciled differences in the balances between the cashbook and the bank statements as at June 30, 2015 (See Box 2). In addition to making the reconciliations difficult to understand, this is inconsistent with the fundamental principle that a bank reconciliation should reconcile the actual cash book balance with the bank statement balance.

Box 2. Malawi: Example of Reconstructed Cashbook Balance Used in Bank Reconciliations

The Advances account had a cashbook balance before adjustments as at June 30, 2016 of MK 90.9 million. However, the bank reconciliation reconciled a reconstructed cashbook balance of MK166.7 million. The difference of MK 75.8 million reflects the difference in the opening balances as at June 30, 2015 between the cashbook and the bank statement.

9. The FAD report of October 2016 discussed the need for presenting the difference in the opening balance transparently in the bank reconciliation. This can be achieved by showing the actual balance per cashbook on the reconciliation followed by an adjustment for the difference in opening balance. For example, if the opening balance difference was 100 (cash book balance is greater than the bank statement balance) and the closing balance on cashbook was 500, the reconciliation should start with the 500 and then show the 100 as a reconciling item that reduces the 500 to 400. The mission was pleased that the AG agreed to adopt this presentation when preparing the revised bank reconciliation statements.

10. The documentation of the bank reconciliation needs to be improved. For example, adjustments for unmatched items were described in some documents as “passed” or “cleared” while the supporting documents described them as “to be passed” or “being followed up.” The AG explained that this was just an issue of language (i.e., the wrong expression being used). However, it is important to stress that language is important in this context as a key and long-standing weakness in the bank reconciliation area has been the failure to make adjustments in a timely manner. Any review of bank reconciliation therefore should be able to conclude with certainty whether adjustments have been made or not. It is expected that the revised bank reconciliation statements will use the cash book balances after the adjustments, thereby significantly reducing the need for such explanations.

11. The bank reconciliation of the salaries account was not available for the mission's review. The reconciliation of this account presents a number of challenges. The challenges are caused by many factors, including the sheer volume of transactions, the use of different systems that employ different references and show different aggregation of amounts. The processing of deductions, including the transmission of deducted amounts to third parties such as lending institutions from which the employees have borrowed present particularly difficult challenges. The systemic issues affecting the bank reconciliation are discussed in more detail in Section E. Progress has been made in reconciling the Salaries bank account but the reconciliation is yet to be completed. The AGD estimates that about Mk 350 million of the 2015/16 transactions remain unreconciled and work is continuing to resolve these.³

C. Status of Investigations of Pre-2015/16 Transactions

12. The reconciliation of 2015/16 transactions excludes any differences between cashbook and bank statements as at June 30, 2015. Two separate reviews are being conducted on these pre-2015/16 bank account transactions—one by forensic auditors on behalf of the Auditor General and the other by the Central Internal Audit unit (CIAU)—with a view to identifying and resolving differences. The FAD report of the August-September 2016 mission discussed the scope of these reviews and their impact on the reconciliation of balances as at June 30, 2015. In summary, it was noted that while these reviews would provide valuable input for the bank reconciliations as at June 30, 2015, the AGD would need to use this information to undertake a reconciliation after making any necessary adjustments.

The forensic audit

13. The forensic audit being carried out on behalf of the Auditor General is continuing and a final report is expected in October 2017. The forensic auditors (RSM) initially investigated the difference between the value of bank statement and cashbook payments during the period January 2009 to December 2014 amounting to MK 577 billion focusing on items over MK 10 million. This examination led to a reduction of the unexplained difference to MK 236 billion. As indicated in the previous FAD report the auditors concluded that "...the figure of MK 577 billion that is regularly quoted as 'unaccounted for' is incorrect." This is because the same data captured from two different sources was probably the cause of the identified duplications. The scope of the audit has been expanded to include an examination of all the remaining differences (i.e., no sampling). The forensic auditors are also expected to review the effectiveness of controls in the IFMIS. Other findings of the forensic audit included:

- Some direct payments by the RBM were not booked;
- Some problems arose as a result of the shutdown following the cash gate scandal; and
- Errors in data entry accounted for some of the differences.

³ The payroll is some MK 20 billion a month.

14. The Auditor General has written to the AGD regarding the bank accounts that could potentially be outside the IFMIS and government accounting records. As discussed in the previous FAD report this was one of the findings of the forensic audit. The Auditor General wrote to the AG about these accounts—possibly four bank accounts with a combined balance of 260 billion. The Auditor general is awaiting a response from the AGD and intends to elevate this to the Minister level if no responses are forthcoming. The AGD indicated that a census of bank accounts has been just completed and will be reported to the ST but it was too early to say what actions might be taken in respect of the accounts identified by the Auditor General.

The CIAU audit

15. The CIAU submitted a report on its work on bank accounts and unmatched transactions. The report covered six bank accounts⁴ and examined transactions on a sample basis during the period January–June 2015.⁵ The CIAU’s report covers 2,400 transactions amounting MK 116.4 billion (19 percent). The scope of the assignment was subsequently revised to include the examination of all unmatched transactions and assisting the AGD to correct the accounting records.⁶ A total of 17,119 transactions amounting to MK 622.8 billion were reported as unmatched (the CIAU uses the term non-reconciling) and are to be examined by the CIAU. The CIAU’s work is continuing and is expected to be completed by May 2017.

16. The CIAU found significant duplication of payments and recommended that the AG should immediately refer these to the National Audit office for forensic examination. Duplicate payments on bank statements amounted to MK 25.0 billion, while the cashbook contained MK 1.0 billion of duplicate payments. The CIAU also noted that some transactions were duplicated more than once. Other CIAU findings included:

- MK 77.5 billion were matched and incorrectly shown as unmatched on the bank reconciliations;
- MK 9.3 billion were valid payments (subventions) to government institutions that had been received by the institutions but were not traceable on the bank statements.

17. The AGD has not yet acted on the CIAU recommendation to submit the possible duplicate payments for forensic examination. The AG indicated that he had contacted the RBM who disagreed that these were duplicate payments. The AG also indicated that he was waiting for the completion of the work by the forensic auditors on behalf of the Auditor General,

⁴ ORT, Development, Statutory Expenditures, Advances, Salaries, and Deposits.

⁵ See Central Internal Audit Unit, *Audit report on Non-Reconciling Transactions Between Bank Statements and Cashbooks for Six Government Accounts January – June 2015*, (December 2016).

⁶ The initial purpose of the assignment was to establish the causes of non-reconciling transactions and the CIAU adopted the standard audit practice of examining transactions on a sample basis.

because he wanted to avoid taking actions in isolation. This decision could be revisited given the potential for significant errors or irregularities and the importance of time in such circumstances.

D. The Way Forward

18. The remaining work on 2015/16 bank reconciliations should be completed immediately. This includes resolution of the remaining unresolved items, finalization of the reconciliations statements using the adjusted cashbook balances, completion of the templates and compilation of the necessary evidence. The AGD is confident that this can be done by April 14, 2017 for all accounts other than salaries. The balances in the cashbooks should then be regarded, as final and no further changes should be made to these balances.

19. Work on salaries account should continue with a view to resolving the outstanding issues and fully reconciling this account. It is clear that the salaries account will not be reconciled within the above timetable (April 14, 2017). The AGD should document a plan to complete this work including the manner in which any unresolved errors or irregularities should be dealt with. It is stressed that any unresolved issues could potentially represent a loss of public money and should be treated with the utmost seriousness, including following the relevant legal and regulatory procedures.

20. The systemic issues causing reconciliation difficulties should be addressed to avoid or minimize the challenges in respect of future reconciliations. The AGD has rightly identified that the systemic issues need to be addressed in order to reduce the time and effort required to complete reconciliations in the future. The systemic issues are discussed below.

21. Work on 2016/17 bank reconciliations should commence immediately. While the 2015/16 reconciliations must be finalized as a matter of discipline and also to provide a starting point for future reconciliations, it is important to avoid building up another big backlog of unreconciled transactions and balances. Nine months of 2016/17 have already passed, and therefore some backlog has already built up. Therefore, work on 2016/17 reconciliations should start immediately. With the introduction of the TMS the reconciliations should now take less time. The MDAs appear to be undertaking the reconciliations of 2016/17 on a monthly basis. This should reduce the challenges of reconciling the ORT and the Development accounts. The AGD should aim to complete the reconciliations up to March 2017 by the end of June 2017. Thereafter, reconciliations including adjustments should be completed on a monthly basis within 30 days of the month end. A dedicated team should be undertaking reconciliations. Given the specialist nature of this work, staff turnover should be minimized and should only take place in a planned manner to avoid loss of relevant knowledge and experience.

22. The CIAU should conduct regular audits of bank reconciliations. The CIAU work program should incorporate such audits. Ideally, CIAU should audit monthly bank reconciliations as soon as they are completed by the AGD. Any shortcomings or delays in reconciliations should be reported to the ST. The ST should follow up the CIAU findings and recommendations with the

AGD. The ST should also intervene if delays are caused by the RBM and the AGD is unable to resolve them in time to adhere to the monthly reconciliation deadlines.

23. As discussed in earlier FAD reports, the procedures for the resolution of issues between the government and the RBM also need to be improved significantly. It is noted that even after nine months there still remain issues on the bank reconciliation statements as at June 30, 2016 that are being followed up with the RBM. Such a protracted issues-resolution process, if allowed to continue, will make it difficult if not impossible for the government to exercise effective control over its bank accounts. The mission reiterates earlier recommendations regarding a service level agreement with the RBM and the formation of a high-level team comprising the ST and the Governor of the RBM to help resolve issues in a timely manner.

E. Systemic Issues Impacting the Bank Reconciliations

24. A number of systemic issues need to be addressed to facilitate timely and effective bank reconciliations. Timely recording of transactions in IFMIS (preferably transacting through IFMIS) in a manner corresponding to the bank records with a one-to-one relationship⁷ is necessary to enable straightforward, system based auto-matching of the transaction. This would result in a relatively small number of transactions requiring further investigation and manual matching. Currently, auto-matching is only possible for a minority of transactions. The systemic issues impacting bank reconciliation are summarized in Box 3 below, and detailed observations are made in the subsequent paragraphs in this Section:

Box 3. Malawi: Summary of Systemic Issues Impacting Bank Reconciliation

- Late or non-recording of transactions (where transactions are recorded *ex-post* rather than effected through the IFMIS);
- Different transaction referencing used in IFMIS (in the cashbook) from that used by the RBM;
- Exchequer releases for independent agencies external to the core IFMIS are recorded only upon consolidation of the externally held data into IFMIS;
- Recording of Exchequer Release information at different levels of aggregation between the IFMIS cash book and bank statements, and data recording discrepancies between IFMIS and TIBCO;
- An overly complex process for reconciling the Salaries bank account and a lack of procedures for handling returned payments;
- Different amounts between cash book and bank due to exchange rate differences and human recording errors;
- Shortcomings in the processes for recording revenue (tax and non-tax) deposits in IFMIS;
- The procedures for stale checks will complicate bank reconciliation;
- The system permits back-dating of payments using "apply-date", which changes balances in previously completed bank reconciliations;
- Different cash book reports containing different information (related to transaction date and apply date) is confusing users, e.g., by showing different opening and closing balances for the same account and period;
- Errors on RBM data in the soft copy bank statements provided to the AGD; and
- Narrative description inadequacies or errors in the cashbook that hinder the identification of the proper nature of the cash book entry.

⁷ Where both sets of data reflect transactions in the same amount and same reference number.

25. Whereas check payments are transacted through IFMIS, until recently bank payment instruction letters were produced manually, and often posted into the IFMIS late or not at all. This has now been largely resolved, as discussed under IFMIS developments in Chapter II.

26. A major challenge to system based auto-matching was the different referencing used by the IFMIS and the RBM. Auto-matching is undertaken against amount and transaction reference. For non-check payments, e.g., payments through bank instruction letters, the RBM was picking up their own system generated reference number but is now picking up the IFMIS reference number. For check payments, there are many instances where the commercial banks record wrong information (e.g., bank account number) and the RBM rejects those payments through the clearing house system. The commercial banks then correct the transactions and resubmit manual requests for payment. RBM's manual processing was not previously picking up the check number (which is the reference used for auto-matching these transactions) in the bank statements, resulting in a large volume of check payments going unmatched. The RBM now uses SWIFT to capture the check number in the bank statements, so all checks should now be matched automatically in the IFMIS. This will reduce significantly the volume of unmatched items requiring manual investigation.

27. Exchequer releases to agencies operating externally to the main IFMIS database are recorded only when the data from those external systems are consolidated. These agencies include: Malawi Defense Force; State House; Embassies; and Local Authorities. Discussion was held on this issue during the previous mission. The current practice is to debit the "independent" agency bank account in IFMIS at the time of consolidation, but this is often overlooked, resulting in bank statement receipts not recorded in the IFMIS cashbook. The problem can be addressed by ensuring that all releases are recorded by BD in IFMIS before AGD makes the bank transfer through TIBCO, and using source documents from the IFMIS posting to support the TIBCO transfer.

28. Reconciling Exchequer Releases is complicated by discrepancies between the entries in IFMIS and RBM data (captured through TIBCO). These discrepancies include: wrong amounts posted in IFMIS; different levels of aggregation between the two systems;⁸ and different referencing. Where the release is under recorded making an additional transaction to correct the situation, is straightforward. However, previously, there was no mechanism in the IFMIS to reduce the amount of the release, where a recording was overstated. The partial withdrawal functionality has now been implemented, which addresses the problem of reducing release figures in the IFMIS. The AGD is engaging closely with Budget Division (BD) to ensure that data is captured in both systems in a consistent manner. The RBM has worked on the transaction referencing (referred to as TREF) and the bank data now records MoF's referencing, entered by the AGD through the TIBCO system. This then enables easier matching of transactions. The best approach

⁸ The recording of the releases in IFMIS is undertaken by BD and the creation of the actual bank transfer in TIBCO is undertaken by AGD.

is to avoid any differences between cashbook and bank in the first place. AGD can ensure consistency by printing out details of the releases from the IFMIS when making the transfer in TIBCO.

29. The salaries bank account appears to be the most complex in regards to bank reconciliation, and the account with the largest volume and value of items requiring manual matching. The reconciliation task is complicated by: the volume of transactions; differences in batching between IFMIS and the Automated Transfer System (ATS); errors in capturing payroll transactions in IFMIS; and the lack of a clear process for dealing with unpaid (i.e., returned salaries due to incorrect bank account details). Work is almost complete on the interface between the Human Resource Management Information System (HRMIS) and IFMIS, which will auto-create the payment voucher (AP payroll invoice) based on and supported by the GP5a⁹ from the HRMIS. This will eliminate recording errors in IFMIS. Net pay is settled through ATS but remittances¹⁰ are currently paid by check, often in a tardy manner. Payment of the gross payroll through ATS is scheduled for May 2017, which should simplify this part of the process.

30. The lack of a clear process for dealing with unpaid salaries represents a serious control weakness, and the AGD is planning to implement formal procedures to deal with this. A business process review of the ATS bank account procedures is also planned. It should be noted that all returned electronic payments are deposited to the ATS account and ultimately deposited back into the salaries bank account, complicating the reconciliation further. The revised procedures for returned salaries, should be reviewed in context of all returned payments. As ATS is extended to all areas, eventually replacing check payments, the incidence of returned payments is likely to escalate significantly. It is vital that the procedures not only address the accounting for the returned payments but also consider the correction of the underlying cause of incorrect payee bank account details.

31. In response to the problems currently experienced with reconciling the salaries account, some suggestions have been floated that the payroll processing will be decentralized. The major concern is that AGD central payments office is makes the payments but cannot possibly know which employees are in position in the MDAs. It should be stressed that the accountability for the payrolls rests with the respective Accounting Officers and the AGD is only responsible for making the payments in accordance with the approved payrolls. It is the mission's view that decentralizing the payroll payments, especially before resolving the current issues fully, could create a major problem.

⁹ The GP5a is the payroll summary which presents the accounting entries, for the gross payroll expenditures (by GL account code) and the liabilities to third parties, e.g., lending institutions, relating to payroll deductions made against employee net pay.

¹⁰ Remittances refer to the settlement of third party liabilities resulting from payroll deductions, and include such items as repayment of loans, etc.

32. Exchange rate differences on foreign currency payments complicates auto-matching. These differences arise on account of IFMIS using a different exchange rate from that used by RBM when making the actual payment. This therefore requires manual adjustment in the cash book to reflect the actual value of the payment, and requires manual matching for bank reconciliation purposes, as there are now two entries in the cash book to match against the bank (the original transaction and the adjustment). Chapter II discusses the implementation of the IFMIS multi-currency functionality to deal with this issue.

33. There is often delay in bringing both tax and non-tax revenues to account, which impacts on the reconciliation of the MG1 Bank Account. In terms of recording of revenues, there are three separate stages in the process: (i) the source collection; (ii) the banking of the collections in the agency's holding bank account; and (iii) the remittance of the monies in the holding accounts to MG1 Account. Although managing source collections is important, especially from a reporting perspective (See Chapter II on reporting of revenues), the key issue for this bank reconciliation exercise is the recording of the receipt into the MG1 Account, which is processed in the AGD. The Revenue Section officials are responsible for overseeing collections and recording the receipts into MG1, transferred from the Malawi Revenue Authority (MRA) and Ministry Department Agencies (MDA) revenue holding accounts. Currently, they rely on manual credit advices, which are often received late. Providing relevant officials with access to the soft copy bank statement data (and soft copies of credit and debit advice slips), would ensure timely recording of these transfers, significantly reducing the volume of bank receipts not yet in cash book.

34. Payments entered in the wrong accounts in the RBM system created a significant reconciliation problem. In the manual clearing process discussed above, there are many instances where RBM has cleared the payments against the wrong bank accounts. This results in problems in two sets of reconciliations, i.e., in the account where the check is still showing as outstanding (and often stale) and in the other account where the check is showing as payments on bank statement not in cashbook. The use of SWIFT should help reduce these errors but due care on the part of the RBM is also needed to reduce the incidence of human errors on their part.

35. Unrepresented checks appear to have contributed significantly to the challenges of bank reconciliations. Given the economic climate, it is difficult to understand why payments would remain presented for any length of time. Explanations such as the payees are in no hurry to present the checks because they are aware that the checks are valid for six months does not seem plausible. Another explanation may be that checks are entered in the cashbook but they may not be actually received by the payee until some time later. Another factor may be that checks can be made out on a date but the IFMIS might show an earlier date. Finally, according to the AG, some checks might be actually paid but did not appear on the electronic bank statements of the RBM. Although, the RBM did not agree during the discussions with the mission that this was an issue, the mission saw some correspondence that supported the AG's position.

36. The procedures for treatment of stale checks should be revised. In summary, the procedures¹¹ involve the reversal of the original payment and the entries in the general ledger. However, the procedures state that the reversal will not affect the expenditure balances. Instead, the payment will be treated as “on hold” and an accounts payable will be recognized. The rationale for this is that if the original payee makes a claim in the future, a payment will be made—effective in the fiscal year when the original payment was made. This procedure has several implications as discussed in Box 4 below.

Box 4. Malawi: The Implications of the Stale Check Procedures

The procedures will impair the credibility of the government account and accounting records. If the annual accounts of the year of the original payment were finalized and audit the completed, the procedures will allow those finalized amounts to be changed in the cashbook. This will mean annual audited accounts would no longer be reliable or authoritative nor will they match the cashbook – the principal accounting record under cash accounting.

The procedures will make in year control and reconciliation of bank accounts more difficult. As reconciliations are undertaken regularly at least on a monthly basis, it is essential that month-end bank balances remain stable. If stale checks are reissued and affect the bank account at an earlier month, the reconciliation tasks will become more challenging. The line ministries are already facing this problem of changing cashbook balances.

Budget execution reports will also be difficult to interpret. Although the PFM law is somewhat ambiguous, the budget and appropriations are commonly thought of as based on the cash basis. This means that the budget execution reports should present cash expenditures and compare them with the related budget amounts. The stale check procedures would be inconsistent with this expectation as the budget execution reports will include expenditures that have not been paid in cash.

Some expenditures would be recognized on an accrual basis solely because the related payments have become stale, while other revenues and expenditures are reported on a cash basis. This is inconsistent with a cash accounting system under which expenditures are recognized when cash payments occur. Therefore, if the cash payment is reversed, the expenditure should also be reversed. Instead the stale check procedures will recognize the related expenditures and corresponding liability on an accrual basis. The procedures therefore introduce an accrual concept solely for stale checks while the rest of the framework continues to be on a cash abs. This is a mixture of concept that could lead to confusion. For example, the liability for all other goods and services and corresponding invoices received but not paid will continue to be not recognized.

Finally, the stale check procedures may lead to public funds being kept on hold unnecessarily while other priorities remain unfunded. The procedures assume that the payees will come back in future and demand payment. However, it does not take into account possibility that this may not happen in some cases. In such cases, the related amounts would be kept on hold unnecessarily, instead of being used for higher priorities. Keeping such amounts on hold could also present unnecessary temptations to use them for unauthorized purposes.

37. The bank reconciliation used cashbook balances of the MDA accounts that did not always agree with the amounts used by the MDA in their own reconciliations as at June 30 2016. No conclusive explanation or documentary evidence was available to explain this. It is

¹¹ Treatment of Stale Check, Version 1.0. – Soft-Tech Consultants Ltd.

possible that this was caused by the adjustments made for unmatched items as part of the 2015/16 reconciliation process. The Ministries indicated that the balances on the cash book change frequently. One known reason for this is that entries can be made in the cashbook with retroactive effect. It is possible therefore that the reconciliation as at June 30, 2016 carried out by a Ministry was followed by payments or adjustments that were made after June 30, 2016, but entered with retroactive effect before June 30, 2016.

38. In addition, balances at the end of a period in the cashbook can be different from the balances at the beginning of the following period. The mission saw cashbook reports showing the balance at the end of December 2016 and the beginning of January 2017, and these showed different balances. This appears to be caused by the fact that the two reports—both titled cashbook reports—show different transactions. One report shows transactions according to “posting date” while the other shows transactions according to “apply date”. This appears to be an example of the problems that the practice of posting transactions with retroactive effect are causing. In addition, the similarity in the names of the reports also causes confusion among the users.

39. The cash books are confusing to users as a large volume of payment and receipt transactions have a narrative description “bank charges.” The description and narrative is important for identifying and investigating transactions, which have failed the auto-match and require manual matching. In IFMIS the description is selected from a drop-down list of values but the system defaults to “bank charges.” Despite training, users tend to ignore fields already defaulted. System defaults are normally used where a particular value is the norm or represents the significant majority of transactions. This is clearly not the case here and thought needs to be given to removing the default forcing the user to make a (correct) selection.

F. Summary of Recommendations

1.1. Finalize the bank reconciliation statements as at June 30, 2016 by reflecting the actual cash book balances after the adjustments. The AG expects this to be completed by April 14, 2017.

1.2. Reflect the differences in the balances between bank statements and cashbook as at June 30, 2015 transparently in the finalized bank reconciliation statements. The difference in the opening balances should be shown clearly on the bank reconciliation statement as a reconciliation item until such time as the issue is resolved (see below). A similar recommendation was made in the FAD TA report of October 2016.¹²

1.3. Complete the templates for 2015/16 reconciliations. The templates will provide a systematic check on the reconciliations. As the bank reconciliations are finalized incorporating the balances

¹² The Minister requested the mission to indicate any recommendations in this report that had been made earlier.

after the adjustments, the completion of the templates should also become less challenging. The templates should be accompanied by supporting evidence as specified.

1.4. Tidy up the documentation supporting the reconciliations. Use consistent language in the main reconciliation and the supporting documentation.

1.5. Provide the FAD with documentation, including bank reconciliations, the templates, and the supporting evidence by April 17, 2017.

1.6. Complete the reconciliation of the salaries bank account for 2015/16 by June 15, 2017.

1.7. Investigate the unrecorded bank accounts, identified by the auditor general and incorporate them into the IFMIS. (AG – September 2017)

1.8. Commence bank reconciliations for 2016/17 immediately. Reconcile the backlog July 1, 2016 to March 31, 2017 by the end of June 2017. Thereafter complete monthly reconciliations by the end of the next month.

1.9. CIAU should conduct regular audits of bank reconciliations, commencing July 2017.

1.10. Improve the procedures for resolving issues between the government and the RBM by September 2017. A similar recommended in earlier TA reports.

1.11. Resolve the issue of the opening balance differences as at June 30, 2015 as soon as the work by RSM and the CIAU are completed. At the conclusion of the exercise any adjustments that might be necessary should be made to the cashbook and bank statements, in accordance with relevant laws and regulations, so that future reconciliations are not impacted by any past differences. A similar recommendation was made in the FAD TA report of October 2016.

1.12. Take steps to address systemic issues to avoid or minimize reconciliation challenges in the future. Similar recommendations were made in the October 2016, FAD TA.

1.13. The AGD should use the IFMIS transaction record for making the bank transfers through TIBCO and attach a copy of the IFMIS record with the TIBCO records—no transfer should be made through TIBCO unless there is an IFMIS posting record attached (by May 1, 2017).

1.14. A formal process should be implemented for dealing with all returned payments through ATS (by July 1, 2017).

1.15. AGD Revenue Section should be given access to bank statement and credit and debit advice slip data in soft copy to facilitate timely recording of transfers into MG1 Account (by May 1, 2017).

1.16. The AG should revise the stale check procedures—a reversal of payment must lead to a reversal of expenditure (immediate).

1.17. The AG should discontinue the practice of backdating payments. Adjustments may be backdated only in exceptional circumstances and if approved by the ST (immediate).

II. INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM AND FISCAL REPORTING

A. Current Status on Reporting

40. This mission reviewed financial and fiscal reporting from the perspective of the AGD, the Financial and Economic Affairs Division (FEAD) and the Budget Division (BD). The AGD prepares quarterly financial statements and publishes the following schedules of those statements on the website after they have been audited: (i) Schedule 2A: Consolidated Receipts and Payments for the Quarter; and (ii) Schedule 4A: Analysis by Vote for Quarter. The Budget Division prepares: (i) Quarterly Performance Reports; and (ii) Monthly Report on Analysis of Financial Transactions of MDAs. The FEAD prepares the monthly fiscal tables, which are submitted to the IMF.

41. The AGD has not published any quarterly reports for FY2016/17 as they have not yet been audited. The PFMA 2003 requires the publication of audited quarterly statements. This is being interpreted as requiring all reports to be audited before publication, yet ironically the draft unaudited Annual Financial Statements (AFS) for FY2015/16 have been published on the website. There is merit in terms of increased transparency in publishing draft unaudited statements, as long as there is a clarification note explaining that the statements are yet to be audited.

42. The BD's reports for FY2016/17, i.e., quarterly budget performance reports (QBPR) and monthly reports on analysis of MDA financial transactions are published on the website. The MoF website contains the Quarter 2 Report FY2016/17, and monthly report on analysis of MDA financial transactions for December 2016. Previously, the BD used budget releases as a proxy for the expenditures but is now using actuals, where possible, for the QBPRs. The monthly analysis report is based on submissions from MDAs, in accordance with the provisions of Section 84 (3) of the PFMA 2003, which requires MDAs to submit the following information within 14 days of the month end:

- i. Revenue return;
- ii. Expenditure return;
- iii. Commitment return;
- iv. Bank reconciliation report; and
- v. Payroll return.

43. The FEAD of the Economic Affairs Department is responsible for preparing the monthly fiscal tables provided to the IMF, which was included as a structural benchmark and is now a prior action. The requirement was to publish detailed monthly budget execution data for FY2015/16 on the MoF website to foster greater fiscal transparency and monitoring. This benchmark has been assessed as having been met and the challenge is now to sustain this for FY2016/17 and future years. FEAD currently compiles information from multiple, disparate sources to produce the fiscal tables. It is unable to utilize the IFMIS as a central data-repository, as information contained therein is incomplete and late. FEAD requires the data by the 10th of the following month, as they need to report the fiscal tables by the 15th of the following month. Currently, FEAD compiles information from: IFMIS; Revenue Policy Department; MRA; Sector Wide Approach (Swap) projects, e.g., in Agriculture; Debt and Aid Division (DAD); RBM; and other sources. Currently, FEAD reports only for Budgetary Central Government (BCG) but wishes to extend to the General Government (GG) in accordance with broader Government Fiscal Statistics (GFS) standards.

44. Many of the IFMIS and process shortcomings which impact bank reconciliation also affect the ability to report fully from the IFMIS. Bank reconciliation is a key control which gives reassurance that the information in reports is complete. The issues relating to reporting are largely in respect of gaps in comprehensiveness or late recording in IFMIS. Initiatives to address these aspects are discussed in Chapter I above, under systemic bank reconciliation issues, i.e., to record all transactions through IFMIS in real-time, and eliminate *ex-post* capture of transactions, where possible.

45. Additional information gaps relate to the timely recording of development part 1, externally funded project transactions. The current process, is based on a straight-in, straight-out approach, referred to as “cash controls”, whereby the project expenditures are offset by project revenues, e.g., grants and loans. However, the MDAs are not capturing these transactions in a timely and consistent manner, and this is not included as part of the package of monthly reports required from MDAs (discussed above). Furthermore, the cashbook balances are not carried in the MDAs’ accounts. The current practice, if followed fully by all MDAs in a consistent and timely manner, would be adequate to support the reporting needs. In the longer term, consideration should be given to bringing the bank accounts for externally funded projects into IFMIS.

46. Public debt transactions are not currently processed through the IFMIS, which represents a significant information gap for fiscal reporting purposes. External debt servicing and domestic debt interest payments are recorded *ex-post* but often significantly after the event, purportedly on account of late receipt of public debt information from RBM. The multi-currency functionality is to be extended to Debt and Aid Division (DAD) during April 2017 and external debt servicing payments will be made through IFMIS. Domestic debt instruments are usually rolled over and the Debt and Aid Department (DAD) does not capture the rolling over

transactions in the IFMIS. As previously recommended, domestic debt should also be recorded in the IFMIS in a timely manner.

47. In May 2016 DAD experienced an irrecoverable breakdown of its Commonwealth Secretariat - Debt Recording and Management System (CS-DRMS), and currently relies on the installation in RBM. Effective management of all public debt activity requires appropriate availability of information and supporting systems, within the DAD. It is understood that the CS-DRMS instance in the DAD is currently being restored, using an upgraded version of the software. This should be undertaken as a priority. Historically, the CS-DRMS was used only for external debt but it will be important to also bring domestic debt into the newly restored system.

48. Revenues are often recorded late in the IFMIS, so alternative information sources are required for reporting purposes. Implementation of eReceipting in the IFMIS should help in capturing non-tax revenues at source. However, this development is lower down in the long list of IFMIS priorities, and a date for its implementation has not yet been decided. It is understood that the configuration of the system is included under an existing contract but there is the need for additional logistics, e.g., hardware and connectivity, etc. In the absence of an automated solution, the revenues swept to the MG1 account can be used as a proxy.

B. Ongoing Integrated Financial Management Information System Developments and Enhancements

49. There are many recent and ongoing developments and enhancements to the current IFMIS which should provide improved support to bank reconciliation and timely reporting. Table 2 below summarizes the status of the various developments, which are discussed in greater detail in the following paragraphs.

Table 2. Malawi: Recent and Ongoing Integrated Financial Management Information System Developments

Development	Status¹	Objective/Outcome/Impact
Treasury Management System (TMS): Tested Go-Live	February '17 April '17	Assist bank reconciliation, via auto-matching of transactions on a daily basis.
Bank Instruction Payments	February '17	Non-check payments through IFMIS.
Multi-Currency MDAs Public Debt Embassies (piloting) Embassies rollout	March '17 April '17 April '17 July '17	Enables foreign currency payments to be transacted through IFMIS.
Public Debt Through IFMIS	May '17	Bringing external and domestic debt transactions into IFMIS.

Table 2. Malawi: Recent and Ongoing Integrated Financial Management Information System Developments (concluded)

Development	Status ¹	Objective/Outcome/Impact
Electronic Payments (EFT) Net Pay Gross Pay Pensions Payments MDA ORT and Development	February '17 July '17 July '17 October '17	Gradually replacing all manual payments with electronic payments, eliminating checks and need for manually signing.
Interface IFMIS with ATS	June '17	Automate the file upload for EFT.
Interfacing IFMIS with HRMIS	May '17	Creates the payroll invoice for IFMIS from the GP5a.
eReceipting	Planned late 2017	Capturing non-tax revenue collections at source.
Partial Withdrawal	Tested but not deployed	Enables adjustments to reduce exchequer releases to correct errors.

¹ Note: Where dates are past, it reflects activities already completed, where they are future it represents planned activities. These dates are based on discussions with the authorities.

50. The development of the TMS has been completed and the User Acceptance Testing (UAT) was completed in February 2017. The training of the core IFMIS team has been completed end user training is due to commence April 2017 for users in the AGD Cash Management Unit (CMU) bank reconciliation section. It is planned that auto-matching will be undertaken for FY2015/16 and FY206/17. This will provide a full and comprehensive audit trail of the matching and reconciliation from June 2015, when the new IFMIS databases were setup. Consideration could be given to an action learning approach to training on this module, where the users are taken through not only the workings of the TMS but also the practical application, by undertaking the auto-matching and reconciliations in a controlled training environment against the live data. Given, past problems experienced with errors in the RBM data, the training will also need to cover balancing the loaded data.

51. The data-files for the soft copies of the bank statements are compiled weekly, although RBM can provide these daily. The weekly data-files make uploading easier and quicker, whilst there is a large backlog of data yet to be uploaded. Once initial auto-matching has been undertaken for FY2015/16 and FY2016/17 (to date), consideration should be given to uploading the data-files daily. Currently, this data is only considered from the perspective of the bank reconciliation exercise. This data would be useful to support other areas, for example the revenue section in AGD could review the bank statement data to ensure all deposits to MG1 are recorded in a timely manner, prior to the reconciliation process. If the RBM is able to provide soft copy of the debit and credit advices on a daily basis, this would clarify the nature of transactions where it is not self-evident from the bank statement.

52. Lack of funding has been identified as a problem for rolling out the TMS to MDAs (for reconciling ORT and Development accounts). This points to lack of effective planning of all the IFMIS developments, ensuring that the requirements are fully accommodated over the

medium term. This needs to be escalated to MoF senior management as a matter of urgency to secure the necessary funding to support full rollout, including end-user training in the MDAs.

53. Bank payment instruction letters are now produced through the IFMIS in real-time, which will reduce errors and eliminate delays in recording. This process started in February 2017 and all payments (through government funds) are now transacted through the IFMIS. This ensures no payments are missed and eliminates discrepancies between the IFMIS records and the actual payments. The RBM has made developments in TIBCO, which will ensure the IFMIS reference number is recorded against transaction in the bank statement. Moving forward, auto-matching in the TMS should be possible for the majority of transactions, significantly reducing the need for manual investigation of unmatched items.

54. The UAT on multi-currency functionality was completed October 2016 and was implemented in MDAs and independent sites in March 2017. This functionality now enables agencies to transact foreign currency payments through IFMIS in real-time, which will ensure no payments go unrecorded. Rollout to the Debt and Aid Department (DAD) and piloting in two Embassies is scheduled for April 2017.

55. The AGD plans to use a monthly fixed average exchange-rate for converting foreign currency payments in IFMIS, which will require adjustment for exchange rate differences. Inevitably, the actual rate used for the payment will differ to the average rate. Users will therefore have to: (i) make adjustment in the IFMIS for the difference (charged to the relevant expenditure account); and (ii) will have to match the two cash book entries against the single entry on the bank statement. This complicates the transaction processing as well as bank reconciliation. It should be possible to avoid exchange rate differences when using multi-currency. The software vendor should be asked to come up with a simpler solution avoiding exchange rate differences.

56. Electronic Funds Transfer (EFT) has been implemented through ATS for payroll salary net payments but not yet for other payments. Currently, the payment files are uploaded through the ATS¹³ terminal. Electronic payments through ATS will be extended to other payments once, the interface between IFMIS and ATS is completed, anticipated by July 2017. This is being funded under the RBM project, Financial Sector Technical Assistance Project (FSTAP), and detailed technical requirements have been submitted to RBM. EFT will be extended to remittance and pension payments by July 2017 and to MDAs (for ORT and development payments, replacing check payments) by October 2017. All other payments will be brought under EFT by January 2018.

¹³ The ATS file is based on the industry standard SWIFT file format MT103.

C. Status of Readiness for the New Integrated Financial Management Information System

57. The ST has appointed a new Chief Director of IFMIS to oversee the sustained operations of the current IFMIS as well as the implementation of the new. This is a positive move in strengthening the institutional arrangements for both the current and new IFMIS, which each have separate section heads.

58. Despite the positive appointment above, concerns remain regarding the overall adequacy of human resources to support both systems during the transition period. This relates to both numbers of staff and specialist skills. It is vital that GoM staff participate fully alongside vendor counterparts, so that skills are transferred in all aspects of the technologies being implemented. The required skills include (just to list a few): data center management; hardware support; connectivity support and network operating systems (NOS); database development; database administration (DBA); systems security; systems administration (technical); systems administration (applications); management of all aspects of applications (different lead officials for each module); business process reengineering; training; change management; help-desk management; fault logging; project management; vendor/contract management, etc. The different roles and responsibilities need to be planned ahead of time to the various officials to avoid holding up the vendor and incurring expensive cost-overruns. Prior to contracting it will be vital that the respective responsibilities of purchaser and supplier are fully understood and agreed as part of the contract. GoM should ensure it does not sign up to any responsibilities which it cannot live-up to. It needs to be recognized that many activities during implementation are concurrent, so staff engaged on configuration may not be available for delivering training or other activities.

59. Implementation of an IFMIS is a complex, highly technical intervention, requiring expertise at a level, which is probably beyond the current capacity within MoF. This expertise on many implementations is provided in the form of a highly experienced international consultant. It would be worthwhile considering this option, and seek early agreement with the development partners on funding this.

60. It is understood that under the specification of requirements, the vendor is only required to deliver training to the core IFMIS team, which will then rollout training to the whole end-user community. This is a huge undertaking and a high-risk option. It could lead to disagreement on problems experienced during implementation, e.g., adequacy and quality of the training, impacting on milestone deliverables. With a large user-base, e.g., 1,000 plus users, it may be necessary to have a sizeable team dedicated solely to training.

61. The IFMIS management has taken on board earlier comments regarding over-optimistic implementation timeframes. This is a positive recognition. It will be important that

expectations at all levels in respect of realistic timeframes are properly managed, especially given so many unknowns, not least of which is the funding.

62. The FROIP¹⁴ Trust Fund lapses in April 2018, which leaves the new IFMIS project with a major funding issue. It is expected that any IFMIS contract should be managed with milestone deliverables. Whilst there would be several intermediate milestones, the ultimate milestone, is operational acceptance, which usually occurs after the system is put into production in all sites and is operational for at least one full year (to test year-end closing, reporting, a full budget and financial cycle, etc.). It is doubtful that within the remaining 12 months of FROIP that even the systems configuration could be completed. An alternative funding source needs to be identified, which is adequate to cover the full turn-key implementation.

63. In recognition of the impending closure of FROIP, MoF is considering utilizing the funds for updating the supporting infrastructure. It is recognized that the existing LANs in the MDAs are inadequate to support the new IFMIS. This approach makes sense, and could consider upgrading the data centers (including disaster recovery site) and wide-area connectivity. A broader assessment of the prerequisite conditions for successful implementation of the new IFMIS is vital, otherwise there could be delays attributable to GoM, which could incur cost overruns.

D. Summary of Recommendations

Recommendations:

- 2.1. Process all public debt payments (external and domestic) through the IFMIS. (DAD – May 2017)
- 2.2. Expedite the restoration of the DAD CS-DRMS database and record all external and domestic debt activity. (DAD – July 1, 2017)
- 2.3. Chase up the MDAs for returns of non-tax revenue collection deposits. (AG Revenue Section – July 1, 2017)
- 2.4. Seek funding to support full rollout of TMS to MDAs. (AT/AG – May 2017)
- 2.5. Implement TMS in MDAs. (IFMIS Department – July 2017)
- 2.6. Investigate with the vendor options for implementing multi-currency in a way which would avoid exchange rate differences. (AG – July 2017)

¹⁴ The Financial Reporting and Oversight Improvement Project (FROIP) is a basket fund, supporting a wide range of PFM reforms.

2.7. Agree with RBM an appropriate mechanism for handling rejected payments in ATS. (ST/AG – May 2017)

2.8. Address all outstanding security and control issues on EFT and complete the interface between IFMIS and ATS. (ST/AG/RBM – July 2017)

2.9. Require the vendor to fix the control weakness relating to “apply-date” for payments. (AG/IFMIS Team/Vendor – Immediate)

2.10. Engage the vendor to reconfigure IFMIS so that all cancelled checks, are reversed along with reversing the expenditures. (AG – July 2017)

2.11. Seek funding through the development partners (DPs) for engaging a highly experienced international IFMIS consultant. (ST/AG – Immediate)

2.12. Seek alternative sources of funding for the IFMIS implementation. (ST/AG – Immediate)

2.13. Undertake an assessment of the infrastructure and broader prerequisites for IFMIS implementation, not covered under the IFMIS contract, and liaise with DPs to ascertain whether unutilized FROIP funds can be used for this purpose. (AG/IFMIS Team – Immediate)

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