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How to Check Integrity of Fiscal Data

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HOW TO CHECK INTEGRITY OF FISCAL DATA

This note provides guidance on how to detect issues with data quality, perform integrity checks, and reconcile fiscal data from various sources. The first section discusses the importance of reconciliation to provide reasonable assurance on the quality and reliability of government fiscal data, the second section explores the main reasons for which discrepancies may arise, the third section describes how to assess the quality of fiscal data, and the fourth section explains how to conduct quality checks. The note concludes with recommendations for country teams of concrete steps to ensure data quality. Annex 1 covers in more detail the procedures to perform bank reconciliations by country authorities. Annex 2 identifies the common sources of the main line items of a fiscal table. Finally, Annex 3 presents two country examples (Malawi and Nicaragua) of reconciliation of fiscal and financing data.

Why Is Reconciliation Important?

Ensuring that the use of public funds is accurately reported is a high priority for governments and donors, as well as for the IMF in its surveillance and program monitoring. Comprehensive fiscal reporting in line with international standards such as the IMF Fiscal Transparency Code and *Government Finance Statistics Manual* (GFSM) provides reasonable assurance about a government's fiscal position and its integrity. However, before fiscal reports are issued, checks should be made to ensure that the data are reliable, consistent, accurate, and complete.

The accuracy and reliability of government accounts and fiscal data is an issue in a number of countries. In many cases fiscal data provided by the authorities for program monitoring and surveillance are characterized by significant and persistent discrepancies.[1] These discrepancies can be an indication of underlying weaknesses in the public financial management (PFM) system of the country, as well as problems with the integrity of financial data and processes. In any case, discrepancies call for deeper investigation of their possible causes.

As an illustration of the size of discrepancies, Figures 1 and 2 show the estimated (1) statistical discrepancies between the fiscal balance (above-the-line) and net financing (below the line) and (2) stock–flow discrepancies over 2010–13 of a sample of countries by region.[2] Among the regions, above-/below-the-line discrepancies were relatively high in Africa, Middle East and Central Asia, and Western Hemisphere while discrepancies in Asia and Pacific and Europe were small over the four-year period (2010–13).[3] Furthermore, the level of discrepancies in AFR, EUR, and WHD increased in 2013, being kept in check in the previous years. On the other hand, the stock–flow discrepancies were a problem across all regions over the four-year period, though the level of discrepancy was relatively higher in AFR, WHD, and MCD, compared with other regions.[4]

Reconciliation of fiscal data can identify PFM weaknesses and opportunities for reform, and can also shed light on potentially fraudulent or illegal financial transactions. Despite the availability of sophisticated financial management information systems (FMIS) with embedded controls in many countries, simple accounting reconciliations can highlight many types of irregularities. Nevertheless, these accounting reconciliations are often not routinely conducted. For example, in Malawi and Uganda, substantial unauthorized leak-

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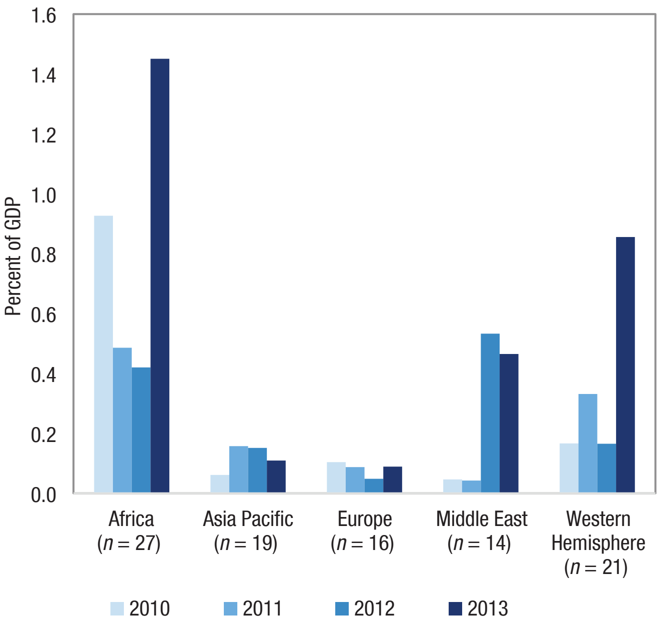
[1] The term "discrepancy" in this paper is used in a broad sense, combining aspects of all of the following: in GFSM it refers to statistical discrepancies; in accounting it refers to differences between two sources or sets of data/balances that could be due to various reasons; and in some fiscal tables discrepancies are referred to as "errors and omissions."

[2] Statistical discrepancy in most of the countries in all these regions was in the range of 0.2–0.6 percent of GDP.

[3] Above-/below-the-line discrepancy in AFR jumped in 2013 primarily due to the addition of the Tanzania discrepancy.

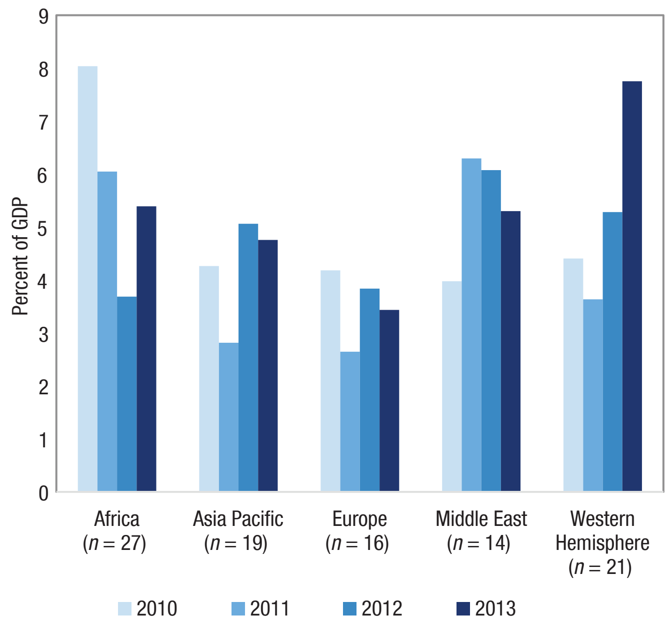
[4] In a cash-based accounting and reporting framework the stock–flow adjustment is likely to be large, whereas in the case of a full accrual-type reporting, consistency between stocks and flows should be attained. In a cash-based reporting environment, it is still important to know the reasons for the stock–flow differences.

Figure 1. Above-/Below-Line Discrepancy



Note: The above-/below-line discrepancy is a country's transactions in financial assets and liabilities minus net lending/borrowing.

Figure 2. Stock–Flow Discrepancy



Note: The stock–flow discrepancy is calculated by taking the year-on-year difference of debt and subtracting that from the net lending/borrowing position of the country.

age of public funds from government bank accounts should have been detected by bank reconciliation. In Guinea, reconciliation of financing requirements with changes in outstanding loans could have brought to light debt contracted outside the government accounting system and procedures. These cases emphasize the need for the authorities to reconcile and verify the integrity of data underlying fiscal reports.

Understanding Reconciliation

Reconciliation is a process of comparing two or more sets of related records from different sources to ensure consistency. When differences arise (usually in balances), they should be explained and justified, and adjustments and corrections made in accounting records as required. Timely and frequent reconciliation of data is fundamental for data reliability.[5] It is important that ministries/departments/agencies (MDAs) and their accounting and treasury units routinely conduct basic reconciliations to ensure their financial information is accurate, complete, and consistent.

Internally consistent fiscal operations and financial data are key to ensuring credibility and accuracy of fiscal reports. In a cash-based accounting system every financial transaction that the government enters into, be it spending, receiving revenue, or borrowing, should have a counterpart entry in financial assets or liabilities, allowing the verification of the accuracy of fiscal reporting against independent data sources (most commonly bank account data). In a well-structured internal control system, fiscal documentation should demonstrate reconciliation of internally generated reports—such as the annual budget cash deficit—with externally generated figures (such as borrowing from domestic and external sources plus or minus cash holdings) in order to verify that the budget balance (deficit/surplus) figure is accurate and reliable.

In a sound public financial management (PFM) system, the key reconciliations to ensure internal consistency, accuracy, and reliability of fiscal data are the following:

- *Reconciliation of bank accounts with cash accounts.* This fundamental reconciliation will ensure accuracy between the reported government cash operations and bank accounts (changes in bank balances of the reporting unit). This reconciliation is vital to ensure that cash accounts are stated correctly. Bank

[5] Further references to data consistency, reconciliation, and integrity can be found in the *Manual of Fiscal Transparency* (4.1.3) and Data Quality Assessment Framework (Dimension 3).

reconciliation compares the banks' records (from bank statements) with the government general ledger (cash accounts). It also helps ensure that public sector entities' records (general ledger, cash accounts, etc.) and the bank's records are complete and correct. Annex 1 reviews in more detail the process of bank reconciliation, which is at the heart of fiscal data quality. Usually the main difficulty with this type of reconciliation is the multiplicity of bank accounts; the existence of a Treasury Single Account (TSA) system greatly simplifies this task.

- *Reconciliation and clearance of suspense, advance, and similar below-the-line accounts.* Suspense, advance, and clearance accounts can result in significant discrepancies between fiscal operations and financing data. As below-the-line cash financing operations can bypass regular budgetary procedures, it is important to check whether all financial transactions that should be reflected in budget transactions are correctly registered in the budget execution system. Regular clearance and reconciliation of suspense and advance accounts is essential for proper classification and recording of budgetary and financial transactions included in these accounts. The lack of proper clearance and reporting of these accounts may compromise the quality and consistency of fiscal data.
- *Reconciliation of payables recorded in the government financial systems and receivables registered by external suppliers*. A significant problem is the accumulation of expenditure arrears, as obligations to third parties may not be fully recorded in the FMIS. It is important to periodically check with the main providers of goods and services (for example, large construction companies and public utility companies such as water, telephone, and electricity) whether all invoices issued by them are fully recorded in the accounting system.
- *Reconciliation of stock and flow of government debt.* This exercise reconciles the flow of net incurrence of debt liabilities to the change in the stock of government debt.[6] Differences between the two, known as stock–flow discrepancies, can occur for a range of reasons which should be identified in a reconciliation statement.[7] A related aspect of reconciliation links the reported amount of gross public debt—the liabilities of the government—to the counterpart holders of this debt (i.e., the value of public assets held by other public and private entities, such as banks, pension funds, government entities, and private investors). This reconciliation verifies whether a government's reported public debt is accurate.
- *Reconciliation of government fiscal data.* Reconciliation of data on government fiscal operations (above-the line) with financing data (below-the-line) is vital. Differences in the amounts reported as net claims between the government sector (fiscal accounts) and the financial sector (monetary accounts) should be used to check the accuracy and consistency of the respective data sets. Where the two sets of data are materially different, reasons for the discrepancy must be investigated to resolve, or at least minimize, the differences.
- *These areas of reconciliations are broadly complementary.* In particular, the first two (bank reconciliation and regular clearance of suspense and advance accounts) facilitate the process of reconciling government fiscal data and data on government accounts obtained from the financial sector. Table 1 lists the main fiscal and financial reports and other key documents (in addition to the key reconciliations outlined above) prepared in Commonwealth, Francophone, and Latin American countries that are useful for the overall reconciliation of government fiscal data.

It is important for country teams to seek evidence that bank reconciliations are prepared on a timely basis at the end of a period (day, week, month, quarter, or year). The frequency of reconciliations depends on the level of activity and risk of error associated with particular bank accounts, but also on government accounting capacity and levels of automation. In more sophisticated FMIS systems, identification of discrepancies (though not their explanation) can be automated to a large extent. Unreconciled items should be investigated and necessary adjustments made in the accounting records and, if required, in the banking records to ensure that there are no material errors in the fiscal data and bank statements. Mere identification of unreconciled items does not

[6] The stock–flow adjustments are discussed in detail in IMF Working Paper 12/39 by Anke Weber: "Stock-Flow Adjustments and Fiscal Transparency: A Cross Country Comparison." This paper investigates which factors are driving discrepancies, commonly referred as stock–flow adjustments, and whether they tend to be lower in countries that are more fiscally transparent.

[7] This statement could broadly derive from the bank reconciliation template presented in Annex 1.

Table 1. Key Fiscal Reports and Other Documents for Reconciliation of Government Fiscal Data

Commonwealth countries	Francophone countries	Latin America	What can fiscal economists use it for?
Budget documentation			
Budget	*Loi de finances*	*Presupuesto*	Verify projected revenues, expenditures, annual budget cash deficit, borrowing, appropriations
Supplementary budget	*Loi de finances rectificative*	*Modificaciones presupuestarias*	Verify any in-year changes to approved budget and underlying explanation
Budget execution			
Budget execution reports (in-year and end-year)	*Rapports d'exécution budgétaire (infra-annuelles et fin d'exercice)*	*Informes de ejecución del presupuesto (intra-anuales y de fin de año) – valores agregados y composición*	Compare aggregate fiscal outturns and composition with original budget for selected items
Appropriation accounts	*Comptes de gestion*	*Informes de ejecución del presupuesto – valores desagregados y composición* *Informe de la Cuenta Anual del Estado*	Compare disaggregated expenditure outturn and composition with original budget for selected items. In purely cash-based fiscal reporting, it may also allow capturing payables and receivables, which may not be reported in the financial statements.
Government debt reports	*Rapports d'exécution de la dette*	*Informe de deuda pública*	Compare debt stocks with net borrowing
Budget compliance			
Financial statements	*Loi de règlement*	*Estados financieros*	Check year-end cash balances, suspense and advance accounts, stock and changes in the stock of government debt, etc.
Fiscal operations table	*Tableau des Opérations Financières de l'Etat*	*Estado de operaciones del gobierno*	Verify in-year and year-end changes of the above-the-line items
Trial balance (in-year and end-year)	*Balance générale des comptes (infra-annuelles et fin d'exercice)*	*Balance de comprobación (o comprobación de cuadre del balance)*	Check in-year and year-end cash balances, balances on suspense and advance accounts, stock and changes in the stock of government debt

complete the reconciliation process; differences must be investigated and resolved.

What Are the Reasons for Discrepancies between Fiscal and Financial Data?

Discrepancies between sets of data (above-the-line and below-the-line, and stock and flows) can be due to technical or methodological issues, a weak PFM system, or circumvention of legal obligations and PFM systems. It is important to identify the reasons for the discrepancies before conducting individual reconciliations and integrity checks.

Technical or methodological reasons for discrepancies could include the following:

- *Inconsistent institutional coverage*. The institutional coverage of general/central government budget and financial data could be different for legal or practical reasons.[8] Any divergence between the two should be understood and clearly explained (Table 2). A common case exists where certain autonomous government institutions, like universities, hospitals, and other entities, are covered in the net claims on the government but are not included in budget. In other words, the fiscal operations data could be confined to budgetary central government accounts and thus exclude the operations of the extra-budgetary entities. Differences may also arise if government units have bank accounts in multiple financial institutions, some of which are not included in the monetary statistics.[9] Related reasons for discrepancies include inappropriate or inconsistent classification of some institutional units as central government/general government or public sector units, and the different classification of sub-sectors in the two data sets. For example, for some externally financed projects or grants, bank accounts may not be appropriately categorized as government accounts in banks' records and are therefore not included in the government financial data. In

[8] The Malawi and Nicaragua case studies (Annex 3) identify inconsistency in institutional coverage as one of the main reasons for statistical discrepancy.

[9] For example, "net credit to government" in the monetary survey typically refers only to central government and may exclude lower levels of government that are included in the fiscal operations table.

Table 2. Types of Institutional Coverage of the Fiscal Table

Coverage	Observation
Budgetary central government. The fiscal table will record only budgetary operations of the central government that could be narrowly defined and may not include, for example, autonomous agencies, extra-budgetary funds, the judiciary, or the legislature.	The coverage of net credit to government should be consistent.
Central government. Covers all budgetary and extra-budgetary entities and/or social security funds. In the Francophone area, this would include, for example, hospitals and universities.	Transfers among these entities should be eliminated in the consolidation to avoid double counting.
General government. Covers all central government and subnational governments (SNGs, which may include regions, states, provinces, municipalities).	Transfers to SNGs should be eliminated in the consolidation to avoid double counting; there may also be intra-SNG transfers, which are not netted out.
Public sector. Covers all general government and financial and nonfinancial public corporations and state-owned enterprises SOEs. SOEs may be commercially run and largely produce and sell market products and services, unlike government units, which are primarily involved in the nonmarket production. SOEs could be largely funded by sales of goods and service and own borrowing.	Transfers and other transactions among the general government entities and SOEs should be eliminated in consolidation to avoid double counting.

other cases, spending on externally financed projects may not be accounted for on a timely basis even though the financing information is included.

- *Different bases of accounting.* Use of different bases of accounting (i.e. cash or accrual) typically results in discrepancy between fiscal operations and financial data. It is important to understand the accounting basis used in each item of the fiscal tables. In the fiscal operations, timing of recording of expenditure transactions may vary—for example, countries may use pure cash accounting, accrual accounting, or (most likely) some mix of these methods.[10] Similarly, the time of recording of tax revenue may vary—it could be at the stage of issuance of tax demands/notices, deposit of tax with the revenue collecting banks, or remittance of tax collections to revenue accounts with the central bank. The use of a complementary period (i.e., keeping the accounts open for a defined period in the following year, usually for one or two months) may also result in discrepancies.
- *Classification and coverage of financial instruments.* The classification of financial instruments included in financial assets and liabilities may differ, or an instrument may not be consistently classified in the two data sets. For example, a loan may be incorrectly reported as an equity investment.

[10] The cash basis of accounting measures the flow of cash resources; it recognizes transactions and events only when cash is received or paid. The full accrual basis recognizes transactions and events when the economic transaction occurs irrespective of when cash is paid or received. On a full accrual basis, revenues reflect the amounts that are due during the year whether received or not, and expenses reflect the amount of goods and services consumed during the year whether or not they are paid in that period. However, many countries adopt some form of modified accruals with some transactions both on the revenues and expenditures side still registered on a cash basis.

Weaknesses in the PFM systems mostly relate to accounting and reporting procedures, non-transparent budgetary processes, and poor budget execution mechanisms. Common issues that compromise the quality of fiscal data include the following:

- *FMIS/automated accounting systems* may not fully meet the data requirements for a fiscal table. As a result, divergent sources are used for collecting revenue, grants, expenditure, and financing data, resulting in weak data quality and lack of timeliness in reporting. Ideally, the FMIS general ledger should be the main record for the entire set of fiscal data, although this is not the case in many countries.
- *Lack/delays in bank reconciliation* can result in errors and omissions in general ledger (cash) and bank records that are not detected in a timely manner and adjusted/corrected in the accounts. Ideally, this type of reconciliation should be performed daily. This can be a major issue, and is discussed in detail in Annex 1.
- *Use of suspense, advance, trust, and other such accounts* may include off-budget spending or delayed recording of spending in accounts; the use of such accounts also undermines the credibility of fiscal data and transparency.[11] Furthermore, if such accounts are not reconciled and cleared in a timely manner, transactions are then not recorded in the fiscal data, while they are included in the financing data (see Box 1).

[11] Many countries using the cash accounting system also have suspense or "such other accounts" where they record some outstanding liabilities. Such accounts may include financial assets such as advances, imprest accounts, and financial liabilities such as deposits retained from contractors and some expenditure arrears.

Box 1. Reconciliation of Suspense and Advance Accounts

Use of accounts such as suspense, advance, and trust accounts are not transparent and may result in off-budget spending if not adequately monitored. Such accounts are found in many countries with inadequate accounting/financial management information systems for conducting expenditure advances/payments. The problems happen when these payments are not timely regularized and posted to appropriate expenditure heads in financial accounts and included in the fiscal data.

Advances (*avances du trésor*) can cover amounts such as payments to vendors under public procurement contracts as well as travel advances and petty cash (also called operational imprest). In the case of public procurement contracts, clearance of advances needs to comply with contractual arrangements. However, clearance of travel advances and operational imprests need to follow national accounting regulations. All possible efforts should be made to clear advances and imprests before the close of the fiscal year, and any balances left in these accounts should be properly reflected in the fiscal table and carried forward to the following year.

A suspense account (*compte d'imputation/d'affectation provisoire*) is an account that temporarily classifies any transaction for which there is uncertainty about the correct account in which to record it. These suspense accounts are operated in government accounts to reflect transactions of receipts and payments, which cannot be booked immediately to the final head of account/expenditure/revenue code due to lack of or incorrect information as to their nature or for other reasons. Typically, a suspense account is used

- because the proper accounting code for the payment or receipt is not known; or
- for an expenditure that is recoverable (e.g., travel costs, which are recoverable from the beneficiary).

Suspense accounts can be necessary in certain circumstances, but their use should be kept to a minimum. Where used, transactions in the suspense accounts should be regularly cleared so they don't accumulate and present a distorted picture of government finances and fiscal data. All suspense accounts should be reviewed at the end of every month and monthly financial statements should include the balances in these accounts. Fiscal data should include balances of suspense accounts.[1]

Intermediate accounts (*comptes spéciaux*) are used to transfer budgetary allocations to spending units or off-budget entities that have not necessarily spent the entire amounts during the fiscal year. Such transfers not fully spent can result in an overestimation of the deficit that is not matched by drawdowns of the government's deposits.

[1] Debit balances would form part of expenditures and credit balances and would be included under the other revenues category until their true nature is known and adjusted in the appropriate accounts.

- *Payment arrears* may be unreported in the fiscal operations data and are often reflected only in financing data. Arrears can be related to the expenditure side, for example to invoices issued but not paid in time, or revenues when refunds on value-added or other taxes are not returned to taxpayers.

Discrepancies can also result from intentional circumvention of control and reporting mechanisms. In the context of weak transparency, poor controls, and insufficient accountability frameworks, reporting mechanisms can be circumvented by not fully disclosing extra-budgetary operations, accumulated payment arrears, assumption of contingent liabilities—especially non-performing loans—and guarantees that have been called. All such activities and operations, if correctly reported, would be deficit-increasing. However, reporting these only in the financial data would contribute to discrepancies between the fiscal operations and the financial data. Examples of circumvention include the following:

- *Conducting activities off budget or failing to report quasi-fiscal activities.*[12] These activities may or may not be captured by reconciliation exercises, depending on the coverage of the government accounts.
- Poor recording of the assumption of government guarantees when called.

[12] Quasi-fiscal activities are fiscal operations conducted through transactions undertaken by the central bank or state-owned entities to achieve government policy goals. These operations include interest rate subsidies and support for enterprises in financial distress.

- Misclassification or non-recording of non-bank borrowing by the government (e.g., borrowing from pension funds or other public entities).

How to Assess the Quality of Government Fiscal Data

Fiscal data have to be consistent, complete, and accurate. For IMF surveillance and program monitoring in member countries, fiscal data are presented in the "Statement of Government Operations" (GFSM 2001) or "Government Fiscal Operations" (GFSM 1986). The fiscal table has two parts: (1) fiscal operations data (referred to as above-the-line) comprising revenue (tax revenue, social contributions, grants, and other revenue) less expenses and net acquisition of nonfinancial assets that result in net lending or borrowing, and (2) financing data or transactions relating to financial assets and liabilities (referred to as below-the-line). The financial data comprise external and domestic financing. While a number of countries and IMF area department teams have started to present consistent with GFSM 2001 and 2014 standards, a large number of staff reports is still based on GFSM 1986. Table 3 presents a broad comparison between the two presentations.

The fiscal table is usually compiled by the ministry of finance using data provided by various departments. Common sources of data for various components of the fiscal table are listed in Annex 2.

Checking the integrity of data in the fiscal table provides reasonable assurance of a reliable and accurate picture of government fiscal operations. The net lending/borrowing needs to match with the value of financing, and discrepancies between the two need to be reported, investigated, and resolved.[13] Errors and omissions may result in unavoidable discrepancies between the overall balance and its financing, however the size of such a discrepancy should be small and consistent over time, ideally less than 0.3 percent of GDP.

A large discrepancy raises concerns for the quality and accuracy of fiscal data and a potential financial integrity issue. If net financing is smaller than the overall balance (revenue minus expenditure) this could indicate the presence of expenditure arrears, unreported financing (below-the-line) or unreported revenue; and if net financing is higher than the overall balance, this could indicate the presence of off-budget expenditures and possible circumvention of the PFM system.

Another way to conduct integrity checks is to examine possible gaps between the flow of net liabilities and the change in the stock of government debt. In normal circumstances (leaving aside any valuation changes), the stock of government debt should increase by approximately the amount of net new liabilities: if the government runs a budget deficit of $10 million, which it finances by issuing $10 million of bonds, the stock of government debt should increase by $10 million, all else being equal. Differences between the two measures, known as stock–flow adjustments, can occur for a range of reasons, and should be presented in a reconciliation table. These include valuation changes due to variations in exchange rates on external debt and interest rate variations that can change the market value of debt (although common practice is to report

Table 3. Comparative Table of GFSM 2001 and GFSM 1986 Presentations

Statement of Government Operations (GFSM 2001)	*Government Fiscal Operations (GFSM 1986)*
Revenue (A) • Taxes • Social contributions • Grants • Other revenue	Total revenue and grants (A) • Tax revenue • Non-tax revenue • Grants
Expense (B) • Compensation of employees • Use of goods and services • Consumption of fixed capital • Interest • Subsidies • Social benefits • Other	Expenditure and net lending (B) • Wages and salaries • Goods and services • Transfers • Subsidies • Interest payments • Capital expenditure • Net lending
Net/Gross operating balance (A) – (B) = (C)	
Net acquisition of nonfinancial assets (D)	
Net lending/borrowing (C) – (D) = (E)	**Overall balance (A) – (B) = C**
Transactions in financial assets and liabilities = (–E) = (F) – (G)	**Net financing = (–C) = (D) + (E) + (F)**
Net acquisition of financial assets (F) • Domestic • Foreign Net incurrence of liabilities (G) • Domestic • Foreign	Net domestic financing (D) • Bank • Non-bank Net external financing (E) • Loans • Amortization Privatization receipts (F)

[13] The overall balance (deficit) is usually measured by above-the-line balance (revenue minus expenditure) rather than net financing flows; however, in cases where the fiscal data are incomplete and there are questions on its reliability, the net financing data may have to be used for measuring deficit until the issues with the quality of fiscal data are addressed adequately.

debt at face value).[14] In addition, discrepancies may ensue, if discrete actions, such as writing off public debt, or reclassifying private sector debt as general government debt (which should be recorded both above-the-line as a subsidy or transfer and below-the-line as an increase in debt) are not properly recorded and included in fiscal data.

Another useful check is to compare the reported amount of gross public debt (part of the financial liabilities of the government) with the amount of public assets held by other entities, such as banks, pension funds, and investors. The debt issued by the public sector is generally held as assets by the private sector. The value of debt can also be compared with the monetary survey and balance of payment data prepared by central banks and statistics agencies. If necessary, debt data can be further cross-checked against individual entity balance sheets. This check verifies that the government's reported debt level is relatively accurate. However, gaps can occur when the definition of debt is not uniform, the boundary of reported general government debt extends beyond that of the debt management office (for instance when state-owned enterprises' debt is included within the general government boundary), or when valuation methods differ, where, for example, the government may report debt at face value while the counterparties report it at market value.

How to Investigate Discrepancies and Conduct Data Quality Checks

The primary responsibility to investigate and resolve differences between two sets of data rests with the country authorities. However, country mission teams may have to assist the authorities in this process, initially requesting that data be reconciled, then offering support for the process; if no action is undertaken by the authorities, country teams should alert departments providing technical assistance (Fiscal Affairs or Statistics Departments, depending on the nature of the problem) since country teams will generally not be in a position to perform detailed reconciliations. Technical assistance teams can apply the following steps and checks to facilitate the resolution of data discrepancies:

- *Identify sources of fiscal data and assess their reliability.* As indicated in Annex 2, there are various possible sources of fiscal data. The fiscal table often does not disclose the source used for the presented data nor the methodology to consolidate the table. Country mission teams may not be fully aware of the sources used by the authorities. Fiscal data should be drawn from relevant and reliable sources like the general ledger of the accounting system (FMIS) and related automated systems, such as payroll, debt, budget, accounting statements, central bank statistics, etc. However, these may not all be readily available in many developing countries. Also, discrepancies can occur if fiscal data are drawn from divergent sources—some of those may be unreliable—and involve manual entries in consolidating the fiscal table.
- *Review institutional coverage and ensure consistency.* The institutional coverage of the fiscal operations and financial data should be consistent; any divergence between the two would cause discrepancies. The coverage of the financing data, coming from bank accounts, could be ascertained from the central bank data. It is important to get from the central bank (and also from other depository institutions such as commercial banks, if applicable) a breakdown of the financial data and the list of bank accounts whose balances have been included in the computation. It is quite likely that fiscal operations of some of the entities included in the financial data have not been incorporated in the fiscal operations data. If this is the case, adjustments need to be made to the fiscal dataset in order to reflect accurately what is the country's fiscal position. In cases where there are issues with coverage in the financial data, those need to be resolved with the respective financial institutions in coordination with the Statistics Department. A specimen of a statement reconciling the fiscal balance with the net financing could be as Table 4.
- *Confirm reconciliation of bank accounts.* Regular reconciliation of bank accounts and resolution of unreconciled items and discrepancies are vital to ensure the accuracy of fiscal data and minimize errors and omissions between two data sets. The country mission teams should discuss the reconciliation process of the main treasury accounts as evidence that all bank accounts are being reconciled in a timely manner and unreconciled discrepancies are resolved. *The important steps to be taken by the authorities that should be verified (by country mission team) are the following:*
    - o Conduct a census and compile a list of all bank accounts operated by MDAs with the central bank, public banks, private banks, and other

[14] For further details on valuation changes, please refer to GFSM 2001/2014, Chapter 4, "The Analytic Framework."

depository institutions, and agree on the frequency and timing of the reconciliation. If the reconciliation is not completed, a first step could be to establish the reconciliation on a quarterly basis, eventually moving to a monthly routine. In countries with automated FMIS, reconciliation should be performed weekly or even daily.

- Prepare a monthly report on the bank reconciliation indicating the month of reconciliation completed for each bank account, the balance in each account and the balance in the accounting system, discrepancies, reasons for the discrepancies, an explanation for each difference and measures taken to address the difference.
- Ensure the quality of reconciliation—consider how the cash and bank accounts have been adjusted for unreconciled items; investigate items that have remained unreconciled for more than three months and review what remedial measures have been taken.
- Report on delays in completing the reconciliation and clearance of items for the attention of senior management.
- Conduct periodic internal audit reviews of the reconciliation process, bank reconciliation statements, and clearance of unreconciled items and report on the progress of reconciliation.

- *Confirm reconciliation and clearance of suspense, advance, and intermediate accounts.* As stated earlier, use of "suspense accounts" to record financial transactions should be avoided. However, if they are used, it is necessary to ensure their regular reconciliation and clearance on a monthly basis. The important steps to be taken by the authorities in this regard are the following:
  - Compile a list of "suspense, advance, intermediate, and other such accounts" with their purpose, rules of operation, clearance, and closure.
  - Prepare a monthly report on the progress of reconciliation and clearance of all those accounts indicating the month of reconciliation and clearance completed for each such account. List delays in completing the reconciliation and clearance for attention of senior management.
  - Conduct internal audit review of the reconciliation and clearance process, and prepare a quarterly audit report on the progress of reconciliation and clearance of these accounts.
  - Include in country mission tasks a check on the existence of regular reconciliation reports, resolution of discrepancies, and audit; and ensure that below-the-line accounts are reconciled in a timely manner and unreconciled discrepancies resolved.
  - Ensure that adjustments are made to the fiscal operations data to incorporate the balances of accounts such as suspense and advance accounts under appropriate heads.

Table 4. Reconciliation Statement of Fiscal Balance with Net Financing

Fiscal data (above the line)		Net financing (below the line)	
Overall balance (fiscal table)	XXX	Net financing	XXX
– Cash/Revenue in transit	XXX	+/– Errors/Omissions in bank records	XXX
+ Checks in float	XXX		
+/– Other adjustments	XXX	+/– Other adjustments	XXX
Reconciled fiscal balance	**XXX**	**Reconciled net financing**	**XXX**

Recommendations for Country Teams

The integrity of fiscal data is vital for IMF programs and surveillance. The country authorities must ensure that the fiscal operations and financial data provided to IMF mission teams are accurate and reliable and, where the two sets of data are materially different, explain the reasons for differences and the measures being taken to resolve the issues. Primarily, the authorities should investigate and resolve the differences. Documentation on the size and reasons for discrepancies and measures taken to resolve them should be provided to mission teams. In cases where the above-/below-the-line discrepancy is relatively high (say, more than 0.3 percent of GDP) and persists during and at the end of fiscal years, an IMF-supported program could include measures to conduct reconciliation of fiscal and financing data and reduce the level of discrepancy.[15] In such cases country teams, the Fiscal Affairs Department (FAD) and Statistics Department (STA) staff need to collaborate in providing technical assistance to authorities to resolve discrepancies and address issues.[16] Some concrete examples of reconciliation

[15] In a number of developing countries, the program includes a benchmark on completing reconciliation of bank accounts—this was the case in Malawi in 2015.

[16] In the case of Malawi (see Annex 3) an STA mission was conducted in March/April 2015 to assist the authorities in analyzing the statistical discrepancy. Further technical assistance is being provided by the FAD/PFM resident advisor on reconciliation of bank accounts.

issues and remedial steps, relating to experience in Malawi and Nicaragua, are presented in Annex 3.

If there are doubts about data quality and fiscal integrity, country teams should also consult FAD, and STA technical assistance reports to check if any issues were flagged earlier. FAD's technical assistance reports and general diagnostic reports, such as the Fiscal Transparency Evaluation and Public Expenditure and Financial Accountability (PEFA) reports, usually highlight issues in the PFM framework that compromise the quality of fiscal data. The most common issues of concern are (1) a large number of bank accounts in the central bank as well as in commercial banks;[17] (2) lack of/delays in reconciliation of entities' bank accounts with discrepancies remaining unresolved; (3) failure to report on or clear suspense, advance, and other such accounts; (4) issues with the FMIS and other PFM systems not covering all budgetary operations; and (5) limited coverage of fiscal reports. In such cases, country teams need to give special attention to reconciliation and look into these areas, as explained earlier. Similarly, STA reports, including the Data Reports on Observance of Standards and Codes (ROSCs), can flag issues related to the construction of fiscal and monetary tables, which can point to sources of discrepancies. Wherever required, mission teams should ask FAD/STA to provide diagnostic TA and assist the country authorities to build requisite capacity to address identified issues, perform reconciliation, and apply integrity checks on a regular basis to enhance quality of fiscal data.

It is important that IMF-supported programs specify quantitative performance criteria and indicative targets clearly to avoid misunderstandings and ambiguities in data reporting. The Technical Memorandum of Understanding should be drafted in detail so as to be comprehensive and minimize loopholes. In particular, data reconciliations, precise institutional coverage, and bases of recording and valuation, as well as any other adjustments to reported data, should be defined precisely, especially if these are different from the budgetary coverage. Attention should be given to the following:

- The fiscal data/table should be accompanied by a statement/note explaining the specific source used for major categories of revenues, expenditures, and financing data, and provide possible reasons for discrepancies and how these could be resolved.
- There should be a clear agreement between Fund staff and the authorities on the types of official source data reports supporting the fiscal data. Bridge tables from source data to a staff report (fiscal table) presentation might be useful, if these present major differences. There should also be agreement on the appropriate source to be used and adjustments, if any, to be made to the sources of data.
- Some items of the fiscal data may require adjustments, in particular for checks float,[18] revenue collections in transit, payment arrears, unreconciled items in bank reconciliation, operation of below-the-line accounts, etc. A table listing such adjustments to resolve the discrepancies should be provided.
- Relatedly, off-budget operations or misclassification of below-the-line deficit-increasing activities should be included in the measurement of the fiscal deficit.
- A statement reconciling the fiscal balance (fiscal operations data) with the financial data should be prepared, and adjustments made to the fiscal and financial data should be clearly reflected.[19]

In addition to the above, mission teams should apply the integrity verifications mentioned in previous sections to ensure soundness of fiscal data. Specifically, mission teams should confirm (1) consistency of the institutional coverage of fiscal operations and financial data sets (using STA reports to understand and address inconsistencies, if any); (2) existence of regular reconciliation of bank accounts and timely resolution of discrepancies; (3) existence of regular clearance of suspense, advance, and other such accounts; and (4) reconciliation between stock and flow of public debt and adjustment of discrepancies.

Annex 1. Bank Reconciliation

Bank reconciliation is a method of reconciling the balance shown in the bank statement with the cash balance as per the general ledger at any given date.[20] In this context, the word "reconcile" means (1) compare both data sets and assess whether the balances are the same; (2) if they are not, identify the

[17] The issue of a large number of bank accounts needs to be addressed by reducing and consolidating the number of bank accounts into a Treasury Single Account (TSA); a TSA would also streamline and reduce the reconciliation workload.

[18] Checks float refers to total of checks issued and recorded as payments in the general ledger but awaiting payments from respective bank accounts.

[19] A specimen of a reconciling statement is provided in Table 4.

[20] A general ledger (*Grand livre)* is the entity's main accounting record and contains all the accounts for recording transactions relating to revenue and expenses, assets and liabilities, equity, and so on.

reasons for the difference between the closing balances shown in the two records; (3) adjust the discrepancies when possible; and (4) prepare a reconciliation report explaining any differences that remain. It is important to note that the balances that are being compared must be established at the same date. For example, if the reconciliation is for the month of March 2016, the balance shown in the bank statement as at March 31, 2016, should be reconciled with the balance shown in the general ledger (cash account) as at March 31, 2016 (see Annex Table 1.1).

Monthly reconciliation is crucial to ensure accurate and reliable fiscal reporting, because it identifies errors and inconsistencies requiring correction by verifying the accuracy of each bank account. The main advantages of bank reconciliation are the following:

- Bank reconciliations may uncover differences that will need further investigation.
- Bank reconciliations help to safeguard cash by detecting errors on the part of the bank and/or the ministries (or the accounting and treasury department in the Francophone area)/departments/agencies (MDAs) when recording transactions in accounts.
- Bank reconciliations help to create stronger internal controls, whereby accountability for cash assets is greatly enhanced.
- Bank reconciliations ensure that account balances are accurate and that they reflect the true financial position of the MDAs and facilitate more informed decisions.

Differences between a bank statement and general ledger/cash accounting records are typically due to the following:

- *Items recorded in the general* ledger *cash account but not on the bank statement*—for example, checks issued but not yet cleared/paid by the bank (check float), checks or amounts received and deposited into bank accounts but not yet processed and recorded in the bank statement (deposits in transit)
- *Items on the bank statement but not in the general ledger cash account*—for example, bank interest/charges; direct debits/standing orders for payments of debts and other obligations, wire transfers, dishonored checks, etc.
- *General ledger (cash* account*) errors or bank account errors*—for example, transactions recorded in an incorrect account, a figure in the amount is transposed by mistake, transaction not recorded or posted twice

Annex Table 1.1. Illustration: Bank Account Reconciliation Template (Should accompany bank statement)

Adjust cash account in general ledger (Section 1) (For items on the bank statement but not in the general ledger cash account)		
Balance per cash account in general ledger		____
Adjustments to cash account (based on bank statement):		
Add:	Bank interest	____
	Credit/Electronic transfers	____
Subtract:	Bank charges	____
	Direct debits	____
	Dishonored checks	____
Add/Subtract:	Errors	____
Adjusted cash account in general ledger		X
Adjust balance on bank statement (Section 2) (For items recorded in general ledger cash account but not on bank statement)		
Balance per bank statement		____
Adjustments to bank statement balance (based on accounting records):		
Add:	Deposits in transit	____
Subtract:	Checks issued, but have not cleared bank (checks float)	____
Add/Subtract:	Bank errors	
Adjusted balance per bank statement		Y
Compare adjusted balances (Section 3)		
Adjusted cash account in general ledger		X
Adjusted balance per bank statement		Y
Difference		Z
Reconciling items		
Item a—short description		
Item b—short description		____
Total reconciling items (= difference)		Z

Prepared: __________ Reviewed: __________ Approved: __________

The bank reconciliation process is usually automated as a part of financial management information systems (FMIS); however, problems may happen. For example, the format for the data on the bank statement and in the general ledger may differ and reconciliation of the two data sets becomes difficult. As a result, many countries are still performing the reconciliation manually, often with significant delays. Work on bringing reconciliations up to date has revealed many errors in accounts.

There are two major issues contributing to delays in reconciliations. First, a large number of government bank accounts in countries creates substantial reconciliation workloads. In addition, if these accounts are operating outside of the treasury and the FMIS, they are frequently not reconciled at all. Second, the dependency on checks as the payment method creates a large volume of work for reconciliation. Moving to a Treasury Single Account for government and an electronic payment system would reduce the extent of reconciliation problems.

Bank accounts and cash reconciliations should be performed at least monthly to ensure accuracy and accountability for all cash transactions; someone other than the person responsible for completing monthly bank reconciliations should monitor account balances and statements to ensure more independent and effective internal control.

Annex 2. Main Sources of Fiscal Data in the Central Government Table

Line item	Source[1]	Department
Revenue		
Tax revenue: Look into the sources for each category of tax revenues in the fiscal table. In cases where the revenue authorities or collecting banks' records are used for reporting the tax revenues in the fiscal table, it is quite likely that the entire collections might not have been remitted to the central bank (Treasury Single Account/revenue accounts constituting part of the financing data) and there might be cash-in-transit. In such cases it is necessary to make adjustments in the table for revenue collections in transit to resolve the discrepancy. It is also important to reconcile the tax collections by commercial banks with remittances to central banks to ensure that all collections have been remitted fully and in a timely manner.	General ledger/trial balance (revenue accounts), subsidiary ledgers, revenue bank accounts	Tax and customs departments/ accounting and treasury department
Other revenues are usually collected by respective ministries/departments/entities and subsequently deposited in designated bank accounts with the central bank. In some countries even the commercial banks have been allowed to collect non-tax revenues along with tax revenues and remit to the central bank. In cases where central bank accounts for non-tax revenues are not used as a source, it becomes necessary to make adjustments for non-tax revenue collections in transit.	General ledger/trial balance (non-tax revenue accounts), subsidiary ledgers, non-tax revenue bank accounts	Accounting and treasury department
Grants could be budget support as well as project grants. Data for budget support grants are usually drawn by the treasury from the central bank records. However, data for project grants could be drawn from various sources. It is important to look into those and ensure that the data reflect actual disbursements made by international institutions and bilateral donors, and adjustments need to be made for differences, if any.	Budget support grants—central bank Project grants—treasury (general ledger/trial balance), central bank, donors	Budget department/ accounting and treasury department/ Donors—debt department
Expense		
Compensation of employees: Look into how the payroll is drawn and disbursed. Where the salaries are paid directly to employees' bank accounts, there may not be a problem; however, where salaries are paid by checks, there is likely to be a check float and fiscal data would require adjustment. The check float would be reflected in the reconciliation statement of bank accounts used for issue of salary checks.	Payroll records, general ledger (salary checks issued), salary disbursements by banks electronically	Budget department/ accounting and treasury department
Use of goods and services and other expense: An important issue relating to the expenditure is the stage at which a financial transaction is recorded as an expenditure. It could be (1) commitment, (2) receipt of goods and services and invoice (accrual), (3) payment order (*ordonnancement* in the Francophone system), and (4) payment—cash basis. In some countries, the budget execution (monthly cash releases/transfers) data are used for compiling expenditure data. Depending on the source used for expenditure data, adjustments need to be made to resolve differences between the two sets of data.	Budget execution reports/ releases, general ledger/ trial balance[2]	Budget department/ accounting and treasury department
Capital expenditure: This could be foreign financed, as well as domestically financed. The source of the two must be looked into to determine the adjustments to be made to resolve differences. The data for foreign financed capital expenditure need to be reconciled with external grants and loans. In addition, the project bank accounts with the commercial banks and central banks needs to be reconciled and adjustments made to resolve the differences.	Budget execution reports, accounting and treasury (general ledger/trial balance) for domestic financed capital expenditures, donors' disbursements statements for externally financed	Budget department/ accounting and treasury department, donors—debt department

[1] Even if the trial balance is used as a source for the fiscal table, subsidiary ledgers may still be necessary to get the appropriate level of detail.
[2] The trial balance is a report run at the end of an accounting period listing the ending balances in each account. It is primarily used to ensure that the total of all debits equals the total of all credits and there are no unbalanced journal entries in accounts.

Annex 3. Country Case Studies: Discrepancy in Fiscal Data

Malawi

The coverage of the central government for fiscal data (above-the-line) is different from the financing reported by the Reserve Bank of Malawi (RBM) (below-the-line), thus resulting in discrepancies.[21] The discrepancies are generally quite substantial for quarterly data but are often reduced for the annual data after reconciliation of funding provisions, cash payments, and checks still in circulation (Annex Figure 3.1). An analysis of data on budget execution in the past four years shows that discrepancies were sizable and varied between 1.7 percent and −1.7 percent of GDP, with positive (negative) meaning that expenditures, and thus the deficit calculated from above-the-line, was greater than financing.

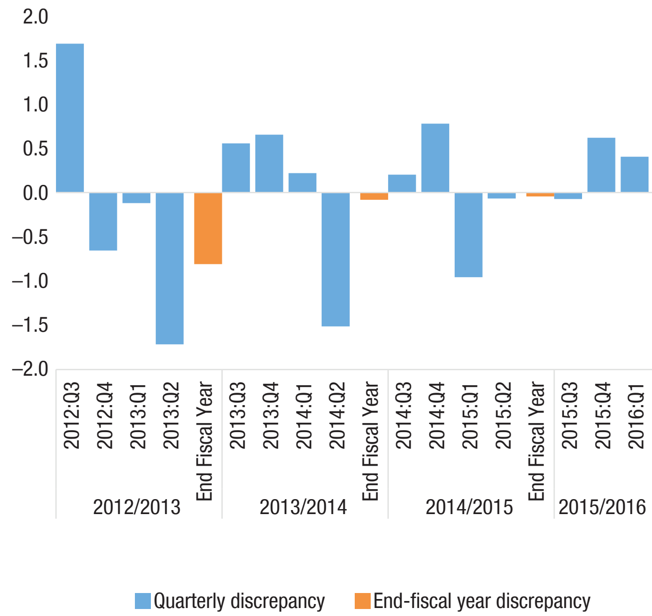
An examination of the items below-the-line indicates that net domestic financing coverage is one of the main factors behind the discrepancies in fiscal data. Net domestic financing is computed monthly by the RBM as the sum of net financing from the central bank, commercial banks, and the non-bank sector. Its coverage and the timing of recording of government transactions are not exactly the same as those underlining government revenues and expenditures presented above-the-line. Net external financing is generally well captured in terms of effective cash payments or has equal counterparts above the line.

In response to a request by the ministry of finance (MoF), an IMF Statistics Department technical assistance mission was conducted in 2015 to assist the authorities to compile and disseminate government finance statistics. The mission identified three factors contributing to Malawi's large quarterly discrepancies observed above- and below-the-line:

- *Differences in coverage*. The financing data supported by the RBM have wider coverage, covering more institutional units, than the revenue and expenditure data compiled by the MoF. This was the most significant cause of the discrepancies.
- *The recording of expenditures*. For a few spending items, the MoF does not use the actual spending data recorded in financial management information systems (FMIS). Instead, it uses the funding data provided by the budget division, which records the budgetary allocations or transfers made rather than the actual amounts spent. This creates discrepancies above- and below-the-line as some expenditure will be recorded at the time of transfer and not at the time of the payment being made (which will be reflected in the financing data).
- *The recording of tax revenue reported by the Malawi Revenue Authority (MRA)*. The MRA reports taxes collected, either in cash or in checks. However, each month, some checks collected may not be cashed yet and therefore will not be reflected in the government bank accounts. The discrepancy created by this factor is relatively small.

[21] This case study has been prepared by Reza Yousefi (Fiscal Affairs Department) with the help of Fabien Nsengiyumva (African Department).

Annex Figure 3.1. Discrepancies in Fiscal Data: Malawi
(Percent of GDP)



To reduce discrepancies between above- and below-the-line, the technical assistance (TA) mission recommended three major actions in line with the diagnosis:

- RBM should require commercial banks to make a distinction between deposits and borrowings by the budgetary central government, other units of central government, and local governments as an amendment to its reporting requirements.
- The economic affairs department within the ministry of finance should work with the accountant general department to define reporting formats that would suit the fiscal table, and enable FMIS data to be used for compiling expenditures.

Annex Table 3.1. Main Sources and Amounts of Discrepancies

Source of discrepancy	Description of the discrepancy	Recommendation
Intermediate external loans to public entities signed between the loaner and the ministry of finance and public credit	This transaction was not recorded and included in the fiscal data, understating the deficit by 0.7 percent of GDP for 2013 and 2014.	Record transactions above-the-line as a capital transfer
Contracts and agreements between the public entities and the government to capitalize the entity to cover losses.	The transaction was not registered above-the-line. Expenditure was understated by 0.4 percent of GDP for 2013 and 2014.	Record transactions above-the-line as current/capital transfer based on their nature
Bonds are issued as indemnity to citizens for a variety of reasons	As no cash was received by bonds issue, the transaction was not recorded above-the-line, resulting in discrepancies of 0.1 percent and 0.2 percent of GDP for 2013 and 2014, respectively.	Record the transactions above-the-line as a capital/social transfer
Existence of floating checks	Different timing of issuing and cashing checks produced temporary differences between above- and below-the-line records. This amounted to 0.2 percent of GDP.	Replace the process of check payments with electronic transfers

- On revenues, MoF should either (1) change the definition of revenues so as to only recognize taxes that have been paid into the relevant account or (2) record the difference between amount received and taxes collected in another account.

The economic affairs department has escalated its efforts to understand the sources of discrepancies in quarterly fiscal data and to minimize these discrepancies in final reported data for the past two completed fiscal years. Ongoing actions to ensure continuous reconciliation of government accounts and to strengthen expenditure controls and statistical reporting are continuing in the period ahead.

Nicaragua

The quality of fiscal data has been an issue in Nicaragua over the past five years.[22] There were large discrepancies between the overall balance compiled by the ministry of finance and public credit (MHCP) and the financing data provided by the Central Bank of Nicaragua (BCN). The discrepancies varied during the period 2010–14, reaching up to 1.7 percent of GDP. In 2015 a Fiscal Affairs Department TA mission was requested by the authorities to explore possible reasons for discrepancies between above- and below-the-line data and to recommend steps to ensure consistency.

The fiscal balance was monitored primarily by above-the-line fiscal data and was not reconciled with the monetary data (below-the-line). To check accuracy of fiscal data, the mission used a simple methodology to calculate fiscal balance using below-the-line data on changes in financial assets and liabilities (net debt). Applying this methodology for the central government, the data showed a discrepancy of 1.7 percent and 1.2 percent of GDP in 2013 and 2014, respectively, indicating that the deficit was over/underestimated when calculated from revenue and expenditure data.

After adjusting the above-mentioned transactions, the discrepancy was reduced to 0.4 percent of GDP in 2013, and almost eliminated in 2014.

In the process of this reconciliation the mission identified other possible sources of discrepancy, which required further work by the authorities to analyze and address them. These sources are shown in Annex Table 3.2.

The authorities have initiated measures to address these issues and minimize discrepancies with the help of a short-term expert. Also, the authorities aim to publish below-the-line information quarterly and monitor it on a monthly basis.

[22] This case study has been prepared by Ramon Hurtado (Fiscal Affairs Department).

Annex Table 3.2. Other Sources of Discrepancies

Source of discrepancy	Description of the discrepancy	Recommendations
Difference in institutional coverage of fiscal and monetary data	This is the main reason for a discrepancy with the balance calculated using below-the-line data, where the coverage is relatively broader. The above-the-line fiscal data exclude the decentralized entities by function, a few public corporations, and all the municipalities with the exception of Managua.	Increase the institutional coverage of the fiscal balance above-the-line
Extensive use of revolving funds (advance accounts) to make transfers to some public entities	The extensive use of revolving funds produces differences due to the different timing to record them above and below the line.	Reduce gradually the amount and earmarking of revolving fund
Application of different exchange rates to some transactions	The central bank and the ministry of finance and public credit (MHCP) applied a different set of exchange rates to value the foreign currency debt.	Add to the reports produced by the Central Bank of Nicaragua (BCN) additional tables including the foreign currency debt and applied exchange rate
Limited scope and coverage of the Treasury Single Account (TSA)	This weakens compilation of payments made through accounts outside the TSA.	Extend the coverage of the TSA at least to the central government
Earmarking of expenditures and revenues	These constitutional and legal earmarks cannot be guaranteed fully due to budgetary constraints, which lead to some reclassification of revenues or expenditures that are the basis of earmarking.	Calculate and disclose the weight of the earmarks over the expenditures and revenues to show their implications and how they limited budgetary space for other expenses
Basis of accounting: mix of cash and accruals	The budget execution reports compiled by the BCN and MHCP differ due to use of different basis (cash/accrual) to record the information.	Make more frequent reconciliations and get a Memorandum of Understanding between MHCP and BCN to exchange clear information regularly
Inconsistency between the data used by MHCP and BCN on stock of deposits.	There is a lack of consistency between the amount of the stock of deposits published and calculated with data from the monetary balance and the rest of the financial system	Make more frequent reconciliations and get a Memorandum of Understanding between MHCP and BCN to exchange information

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