

GOVERNMENT PAYMENT SYSTEMS:

THE ROLE OF THE RESERVE BANK OF MALAWI

Preamble

In the wake of the on-going investigations by the Public Accounts Committee (PAC) of Parliament into the mismanagement and misappropriation of government finances, public interest in the role of the Reserve Bank of Malawi (the Bank/RBM) became clear from the beginning. Because of the very close working relationship with the Ministry of Finance, and as its customer, the Bank considered it inappropriate to explain its role to the general public but to do so through PAC when called upon to do so.

In a letter dated 29 October 2013, PAC invited the Governor of the Reserve Bank of Malawi to a meeting scheduled for 2 November 2013 at Sunbird Livingstonia Beach Hotel, Salima. As stated in the letter, the aim of the meeting was for the Governor “to brief the Committee on the way the transaction chain operated between the Government Ministries, Departments and agencies, on the one hand, and commercial banks and the Reserve Bank of Malawi, on the other hand within the period since IFMIS was introduced”. The Reserve Bank of Malawi was further expected to facilitate the meeting by providing for the logistical requirements for the meeting and the members of the Committee.

The Reserve Bank of Malawi, being an institution set up by an Act of Parliament, and clearly knowing that the matter was being investigated by relevant government authorities, communicated in writing its readiness to attend the meeting. All arrangements for the meeting were ready. However, a member of the Committee called to advise the Governor of the postponement of the meeting at the eleventh hour, citing logistical reasons.

In the event, therefore, the Governor is yet to be called back to a meeting with PAC. However, since PAC has submitted its Report and Parliament has adopted it, the Bank has deemed it appropriate to issue

this statement for the information of the general public. The purpose of the statement is to explain the roles of the Bank in the Government payments system.

Government Account Number One

At the outset, the Government Account Number One is a consolidated account with no cheque book and as such no cheques are or can be issued against it. When Government revenues or donor funds are deposited into it, the Government instructs the Bank to transfer specific amounts to individual government transactional / operational accounts. Government cheques are issued from these transactional / operational accounts.

Since the Government does not operate a cash budget, the consolidated account is not pre-funded. Drawings beyond available resources constitute borrowing (Ways and Means Advances) from the Bank. Indeed, all account balances are consolidated to determine Government's cash position with the Bank. Thus, advances to Government reflect a net position.

It should therefore be noted that government cheques are not encashed against Government Account Number One, nor can the Government write or issue cheques against that account. The Ministry may however issue written instructions to make payment from Account Number One. As will be noted below, cheques are issued only by controlling officers in ministries and departments.

Government Payment System

There are two payment systems for government transactions: the Credit Ceiling Authority (CCA) and the Central Payments System (CPS). Operations under these systems are governed by Memorandum of Understanding (MOU) between individual commercial banks and the Malawi Government acting through the Reserve Bank of Malawi.

1. Credit Ceiling Authority(CCA)

Currently only District Assemblies and some donor funded projects use the CCAs. The CCAs enable departments or donors to have individual holding and corresponding operating accounts for each

project and ensures accountability by Government officers. Cheques for the accounts are procured by the Bank but are issued by relevant Government officers.

The CCA mainly involves two processes firstly, communication of credit/funding ceilings to commercial banks by Ministry of Finance (Treasury) through RBM. Secondly, Treasury reimburses commercial banks through RBM. Communication of credit ceilings and cheque payment claims between Government and RBM and commercial banks is through MALSWITCH using Staffware System.

Under the CCA system controls are built within the Staffware through presetting of spending limits. As such commercial banks are expected to ensure that cheques honoured do not exceed the preset ceilings at any point in time. Secondly controls are expected to be enforced at the point of originating the cheques. Government controlling officers are therefore expected to ensure that issued cheques are not in excess of their funding.

Should an account be overdrawn for any reason, and indeed as a matter of procedure, the Bank advises Treasury's Accountant General on the status of each and every account on daily basis.

2. Central Payments System (CPS)

This system was designed to move away from CCA and centralize the government payment process. Currently it is operating under six Central Payments Offices (CPOs); the Accountant General; Southern Region Treasury Cashier; Eastern Region Treasury Cashier, Northern Region Treasury Cashier, Malawi Defense Force and State Residences. This system is interfaced with the IFMIS through Staffware.

Controls in the CPS system are enforced at the CPOs where cheques are issued. The controls include segregation of duties among responsible officers.

The process starts with the Treasury loading virtual credits / budgets into the system. An originating government department

generates transaction in IFMIS such as preparation of vouchers and LPOs against set funding and this documentation is passed on to the CPOs for verification and issuing of cheques. Cheques are printed by CPOs against five accounts: ORT, Development, Advances, Misc Deposits and Statutory.

Cheques are supposed to be printed from the system only when accounts have been pre-funded and validation of the transaction has been done. The cheques are then drawn from participating commercial banks where normal clearing takes place. In keeping with the MOU, commercial banks are mandated to honour all government cheques on presentation at the designated branches after technical verification such as the signatures and confirming the cheque's authenticity against the cheque list. A commercial bank is liable if it encashes a cheque that does not meet agreed standards, including encashment of cheques issued in the name of a company or organization.

The Bank's Role under the MOU

- Advising commercial banks of credit ceilings for operating accounts as Spending Pay Limits.
- Reimbursing commercial banks based on submitted claims which contain details of cheques that have been encashed.
- Managing signatory list and communicating changes to commercial banks.
- Paying commission and interest charges as agreed between government and commercial banks.
- Honouring all Government cheques drawn on accounts maintained at the RBM which have been presented at the commercial banks unless the cheques fail to meet technical requirements. Where a cheque is suspected to be fraudulent, the Bank verifies with Accountant General's office before clearing.

- Providing a cheque list to commercial banks bearing names of payees and corresponding amounts.

Major Challenge of the CPS

- The CPS system was designed in such a way that only cheques printed in the system should be honoured. However, government also operates a parallel manual system under which cheques are hand written. This mostly happens when there are technical problems with the system. Government communicates information about the manually issued cheques to the Bank and government officers are expected to update the IFMIS accordingly. However, delays in updating IFMIS results in a mismatch between funding and expenditure, and thereby rendering reconciliation difficult.

The Bank's Role As Advisor To Government

- The RBM provides government with fiscal position on daily basis highlighting major developments in revenue and expenditure.
- The RBM provides government with fiscal statistics on weekly and monthly basis and on demand which is also discussed with Government in Cash Management Committee Meetings.
- Before processing Supplementary Credit Ceiling Authority (SCCA), the Bank informs the Government if an account is overdrawn or if processing the limit will lead to an overdrawn status.

- The RBM constantly provides the status of all accounts (dormant, active, overdrawn) to the Government.
- Fiscal performance is also discussed at high level meetings such as the Monetary Policy Committee (MPC) and Economic Management Meetings.

General Information

The Bank wishes to assure the general public that its internal operating systems have never been infiltrated by outside fraudsters. The persons that interfered with IFMIS did not enter the Bank's operating systems to move funds from Government Account Number One. The Bank's internal controls and operating systems have always been robust and meet and adhere to international standards necessary to safeguard the country's resources.

To buttress this culture of high integrity, the Bank boasts of an internal and external audit system and governance structure that stand up to international standards.

The Bank's operating systems are further subjected to stringent reviews by international organizations, such as the International Monetary Fund (IMF).

Conclusion

The Bank has always operated in accordance with agreements and understandings reached through a consultative process with Treasury. The Bank has followed to the letter the MOU guiding government transactions. To strengthen coordination of fiscal

operations, the Bank provides statistics on revenues, expenditures, and financing through daily, weekly and monthly consolidated fiscal tables.

The RBM remains committed to professionalism in its dealings with Government as an agent and will always adhere to the set agreements and will go even further to advise Government when things do not flow as expected.

In the wake of the fraud in Government, the Bank wishes to state categorically that, to the best of its knowledge, its officers were not in any way involved in the fraud in Government.

RESERVE BANK OF MALAWI

November 2013