

CASH GATE SCANDAL IN MALAWI

A presentation made at

The Global Expert Group Meeting on Corruption involving Vast Quantities of Assets
held in Lima, Peru

3RD December, 2018

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BRIEF OVERVIEW

- Cash gate scandal involved the misappropriation of government funds through the transfer of funds from the government bank accounts to private companies in disguise for payment of goods and services.
- The scandal was dubbed cash gate because low level public officers who were arrested for committing the offenses under this scheme were found with stockpiles of cash in their homes and vehicles.
- It was uncovered in September, 2013, when a government accounts clerk whose monthly emoluments were less than \$100 was found with huge sums of cash estimated at over \$300,000.00 in his car.
- A week later, there was an assassination attempt on Malawi's budget director.

THE SCHEME THAT WAS USED

The government with assistance from the British Government conducted a forensic audit and the results were as follows;

- A preliminary report revealed that public officers had manipulated the payment system (integrated Financial Management Information System – IFMIS) to steal over \$32 million within 6 months from April 2013 to September 2013.
- Public officers drew checks through the system in favor of private contractors on the pretext that they had supplied goods or services to the government when they had not. Once a check was issued they would delete the transaction from the system.
- A full audit showed that the cash gate scandal may date back to 2009, and for the period ending 2014 the amounts involved were \$356 million.

THE COST TO THE SOCIETY

- Foreign donors withdrew budgetary aid to Malawi worth about 40% of its annual budget (about \$150 million).
- The government started borrowing domestically leading to high inflation and a massive increase in prices for goods and services.
- There was underdevelopment in general as the Government had to make double payments for goods and services already procured through the cash gate scandal.

INVESTIGATIONS BY LAW ENFORCEMENT AGENCIES

- Besides the forensic audit, the Anti-Corruption Bureau and the Fiscal Police launched parallel investigations into matter
- 70 people in both public and private sector were arrested amongst them an ex-Minister of Justice, an ex-Commander General of the Army and Senior Army Officials, Senior Police officers, Politicians, public officers and businessmen.
- Real property and vehicles were seized and dozens of bank accounts frozen.

PROSECUTION OF SUSPECTS

- The Director of Public Prosecution and the Anti-Corruption Bureau charged the suspects with theft and money laundering offenses.
- So far at least 20 suspects have been convicted and were sentenced to between 3 years and 12 years imprisonment with hard labor. The convicts had their seized properties forfeited.
- Criminal trials are still on going with the remaining suspects.

SANCTIONS AND ASSETS RECOVERY

- All the building contractors who were involved in cash gate had their licenses revoked.
- An estimated \$1.4 million in cash and property has been recovered.



CHALLENGES IN PROSECUTION & ASSET RECOVERY

At the dawn of cash gate the prosecution team faced the following challenges;

- (a) There were no proper guidelines or law on plea bargain.
- (b) The law only provided for conviction based forfeiture.
- (c) The prosecution agencies lacked capacity (human and financial resources) to prosecute all the cases at once or in good time.

WHAT CAUSED THE CASH GATE SCANDAL AND HOW COULD IT HAVE BEEN PREVENTED

CAUSES

- Lack of application of the existing internal controls.
- Lack of detailed external audit.
- Banks failure to query apparent irregular withdraws.

HOW IT COULD HAVE BEEN PREVENTED

- If people who were tasked to preform the above responsibilities did their job diligently, the cash gate scandal could have been avoided.

STEPS TAKEN TO OVERCOME CHALLENGES FACED

- Adoption of laws that allow civil forfeitures under the Financial Crimes Act (2017).
- Development of Plea Bargain guidelines by the Director of Public Prosecutions (2014).
- Procurement of new IFMIS software (2019). But in the meantime the following measures were undertaken;
 - a. Institutionalization of daily reconciliation;
 - b. Setting up of constant audit procedures;
 - c. Creation of disaster recovery site where information is being replicated at an offsite;

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THANK YOU