

NIGERIA

CASH MANAGEMENT STRATEGY

JULY, 2017



STATE OF OSUN, NIGERIA

CASH MANAGEMENT STRATEGY





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CASH MANAGEMENT STRATEGY

Compiled by:
OFFICE OF THE ACCOUNTANT-GENERAL
July, 2017

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CERTIFICATION

It is the primary responsibility of any responsible and responsive Government to entrench the culture of Accountability, Transparency and Probity as a guide in the conduct of its day to day activities.

The Cash Management Strategy (CMS) concept was therefore actualized by the administration of Ogbeni Rauf Adesoji Aregbesola, to expose public officers to the importance of good cash management in the conduct of Government financial transactions.

I hereby certify the contents of the Cash Management Strategy (CMS) Document as being robust and comprehensive for usage by all Public Officers in the service of the State Government of Osun.

Hon. Bola Oyebamiji,

Honourable Commissioner of Finance,

3rd July, 2017

FOREWORD

In April 2009, a review of the adopted Oyo State Government Revised Financial Regulations of 1978 was carried out by the State Government of Osun after which a new document known as the Osun State of Nigeria Financial Regulations, 2009 emerged. The document was therefore approved to serve as a statutory guide to all Public Officers in the Osun State Public Service for the conduct of financial transactions.

At the inception of the Administration of Ogbeni Rauf Adesoji Aregbesola in November, 2010, the State Government of Osun initiated various reforms aimed at strengthening transparency and accountability in Governance and Public Financial Management, with a view to fortifying the effective utilization of the existing Financial Regulations and Acts. One of such reforms is the State of Osun Cash Management Strategy, July 2017 Document.

The Cash Management Strategy, July 2017 Document is a comprehensive review of procedures by which Ministries, Departments and Agencies of government conduct financial transactions as well as mechanisms to improve not only on cash management practices, but also Financial Management Services. This involves cash forecasting, collecting, analyzing, reviewing of cash items and its allocation according to MDAs need, prompt remittance of Government revenue to the Treasury and making Transparency, Accountability and Probity our watchwords when it comes to disbursements and a host of other transactions. We recognize the indispensable role played by Mr M. S. Igbaroola under whose able supervision the Draft Committee compiled this document.

This publication bridges the gap leftover by the Osun State of Nigeria Financial Regulations, 2009 and further facilitates Transparency and Accountability in the management of government business while the decision of the Executive Council of the State Government of Osun to adopt it, is one significant initiative that will revolutionize the cash and financial management procedures in the State.



Adebimpe Ogunlunmade,
*Permanent Secretary,
Ministry of Finance,
State Government of Osun*



Alaba Akintayo Kolawole,
*Accountant-General,
State Government of Osun*

Chapter 1

INTRODUCTION AND BACKGROUND

1.0 INTRODUCTION

In Government Business, Ministries, Departments and Agencies (MDAs) have strict cash management controls to monitor its inflows and outflows while retaining a sufficient amount in order to meet urgent public service delivery. This enhances efficient management of cash, prevent loss of money due to theft or error in processing of transaction. Numerous best practices are adopted to enhance management of government fund. This involves cash forecast, prompt remittance of Government revenue to the Treasury and disbursement to enhance transparency, accountability and probity.

Moreover, Cash Management is the system and procedure for managing flows of receipts and payments of cash in government MDAs and management of cash balances held by government bodies including investments outside government towards achieving an optimal cash balance that guarantees timely processing of government obligations and avoidance of unnecessary idle cash balances with the aid of technology.

1.1 SCOPE

The cash management policy involves collecting, analysing, reviewing of cash items and allocating as it relates to where they are mostly needed to achieve government goals/objectives through the use of full implementation of Treasury Single Account (TSA) and other mechanisms for proper monitoring of government funds.

1.2 CASH MANAGEMENT POLICY

1.2.1 MANAGEMENT OF GOVERNMENT RECEIPTS AND PAYMENTS

- **RECEIPTS**

Government receipts comprises Revenue from FAAC (Statutory Allocation), Internally Generated Revenue, Grants and Aids, Loans (Internal and External) and other sources. This is centrally managed through implementation of TSA in the State.

- **PAYMENTS**

These include: Recurrent and Capital expenditures.

- Recurrent expenditures are the expenses incurred on the day-to-day activities of government as they occur. It comprises salaries, overheads and Consolidated Revenue Fund (CRFC) charges.

- Capital expenditures are those incurred on items for future benefits and developmental purposes which are in line with government programmes and projects.

The Treasury manages the government's cash (and debt) positions to ensure that sufficient funds are available through collection of all types of revenue to meet its financial obligations. In the advent of idle cash or debt, idle cash shall be efficiently invested, while debt shall be optimally managed in accordance with the Osun State Debt Management Law (2012). The disbursement shall be done through electronic/online payment platform for government vendors, personnel, pension, overheads and any other form of payments. Payment shall be made on the account of issuance of expenditure warrant from Ministry of Economic Planning, Budget and Development. These payment procedures are managed by the Ministry of Finance through the Office of the Accountant-General.

1.2.2 MANAGEMENT OF CASH BALANCES

Money that is not invested or earn no interest is Idle Cash Balance. This fund may be utilized by investing it between the time it is received and the time it is expended.

Amount of idle fund shall be lessened through adequate fiscal planning. However, it is always essential to maintain adequate working capital for the government operations or activities.

1.2.3 MANAGEMENT OF SEASONAL CASH SURPLUS

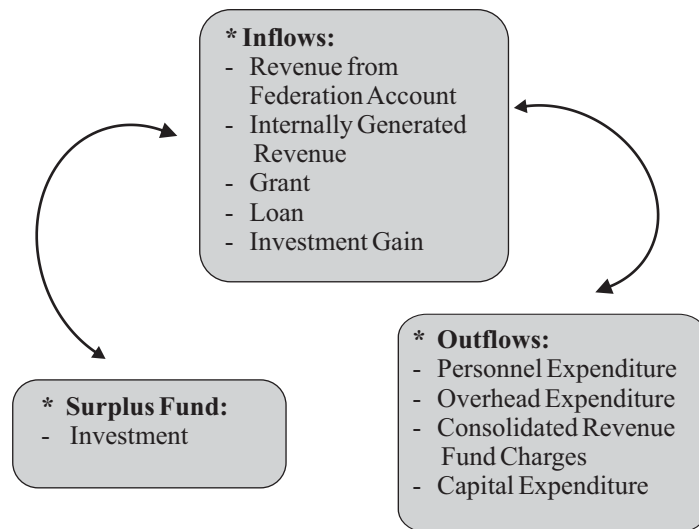
Surplus is an infrequent fund that is received unexpectedly. There may be a need to review budget execution and implementation in case of cash surplus and subsequently, temporarily invest the surplus cash.

1.2.4 CASH MANAGEMENT CYCLE

The main cash inflows or receipts shall be from revenue from Federation Account, Internally Generated Revenue, Grant, Loan and Gain from sale of investment while the main cash outflows shall be for Personnel Cost, Overhead Cost associated with Travel and Transport, Utilities, Materials and Supply/Services General, Training, Consulting and Professional services, Fuel and Lubricants, Financial Charges and other related overhead expenditures, CRF charges and Capital Expenditure. If there is surplus cash, it shall be put to use on investments where it will earn interest. If deficit occurs, the State Government shall source for fund to cover the shortfall and the duration. Efficient cash flow management requires optimum information, professional training and objective management decision making.

Part of the ways to measure working capital management performance, is to calculate the time in days during which the cash is 'trapped' as inventory and account receivables together

with the number of days credit is generated through deferring accounts payable.

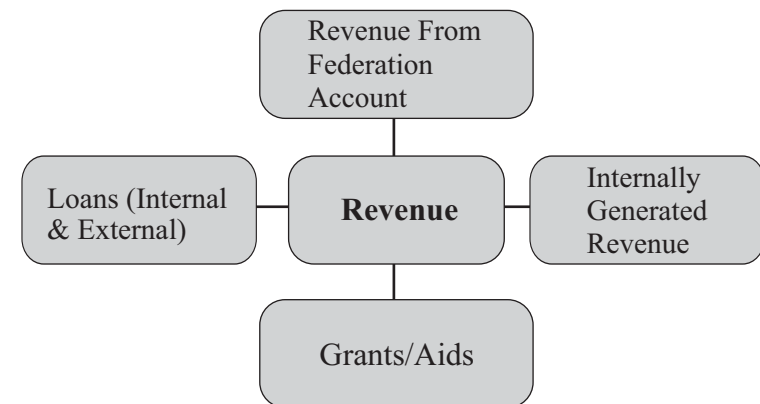


• REVENUE PROFILE

Revenue include gain, income, interest, proceeds, profits, receipts, returns, rewards, takings and yield depending on the nature of financial activities. Revenue collectible by the State shall include; Statutory Allocation from FAAC, Grants and Aids, Loans (Internal and External) and Internally Generated Revenue in form of:

- ✓ Taxes
- ✓ Personal Income tax (applies to residents of the State)
- ✓ Withholding tax (individual only)
- ✓ Capital gain tax (Individual only)
- ✓ Stamp duties (applies to instruments executed by individual only)
- ✓ Road taxes (e.g. Vehicle License)
- ✓ Taxes on pool bets, lottery and casino wins
- ✓ Business Premises and Registration fees

- ✓ Development levy (applies to taxable individual only)
- ✓ Fees for right of occupancy on urban land owned by the State Government.
- ✓ Market taxes and levies where State finance is involved;
- ✓ Miscellaneous revenue (e.g. rent on government property, income from investment etc.)
- ✓ Fines, Fees and Rates: School Fees, Water Rate etc.
- ✓ Licenses: Issuance of licenses of various types
- ✓ Earnings from Sales: Sale of Government Vehicles, Houses etc.
- ✓ Rent from Government Properties: Rent of Houses, Land etc.
- ✓ Interest received
- ✓ Re-imbursements: These are refunds for services rendered to the Federal and Local Government, Public corporations and other Statutory Bodies owned by the State Government.
- ✓ Miscellaneous: Other Sources than those mentioned above e.g. Dividend from Investment.



• EXPENDITURE PROFILE

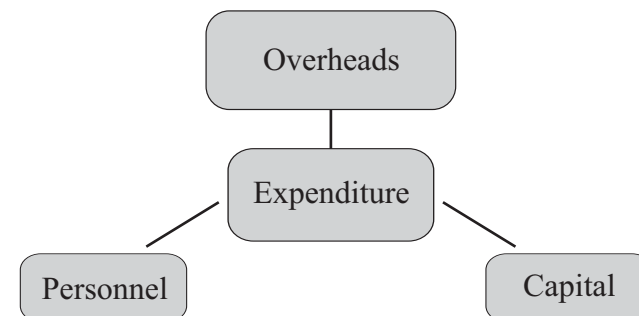
Expenditure is an actual payment or the creation of obligation to make a future payment for some benefits, items or service received. The State government shall incur expenditure for the

provision of public goods to satisfy the collective social wants of the people. The Expenditure of the state shall be classified into two broad categories:

I. Recurrent Expenditure: Recurrent Expenditure are government spending on administration in the form of Personnel and Overheads like interest on loans maintenance, transfer payments, travel and transport, utilities, materials & services general, training, Consulting & Professional Services, Fuel and Lubricants, Financial Charges etc. and Consolidated Revenue Fund (CRF) charges.

- a. **Personnel Cost:** Personnel Cost shall comprise salaries and allowances of Civil Servants, Public Servants in Government Agencies and Parastatals, members of the State House of Assembly, Judicial Officers, Political Office holders, Permanent Secretaries, Accountant-General.
- b. **Overhead Cost:** Overhead expenditure shall comprise operational and maintenance cost for running Government activities.
- c. **CRF Charges:** Consolidated Revenue Fund (CRF) charges shall include Public Debt Charges, Pensions and Gratuities, other social contribution items. Salaries of Judicial Officers, Political Office holders, Auditor General for State, Auditor General for Local Government and members of Statutory Commissions.

II. Capital Expenditure: Capital Expenditure shall include the main investment of government through implementation of programmes and projects.



1.3 OBJECTIVES OF CASH MANAGEMENT

The objectives of cash management include:

- To reduce idle cash balances: minimizing idle cash balances requires accurate information about expected receipts and likely disbursements.
- Timely deposit of collections: having funds in-hand is better than having accounts receivable. The cash is easier to convert immediately into value or goods. A receivable, an item to be converted in the future, often is subject to a transaction delay or a depreciation of value. Once funds are due to the Government, they shall be converted to cash-in-hand immediately and deposited in the Treasury's account as soon as possible.
- To ensure proper time disbursements: some payments must be made on a specified or legal date, such as social security payments; for such payments, there is no cash management decision. For other payments, such as vendor payments, discretion in timing is possible.
- To manage risks by investing temporary surpluses productively, against adequate collateral.

Chapter 2

STATE OF OSUN CASH MANAGEMENT STRATEGY

2.0 BACKGROUND

Cash according to the Government Financial Statistics (GFS) manual are notes, coins, and deposits held on demand by government institutional units with bank or other financial institutions. Cash equivalents are defined to be highly liquid investments that are readily convertible to cash on hand.

Cash management is necessary because there are mismatches between the availability of cash and the timing of payments. Even if the annual budget is balanced, with realistic revenue and expenditure estimates, in-year budget execution will not be smooth, since both the timing and seasonality of cash inflows (which depend in turn on tax and non-tax flows, and timing of grant or loan disbursements) and of expenditures can result in conditions of temporary cash surpluses or temporary cash shortfalls.

Cash management shall minimize idle cash balances, productively invest excess cash temporarily, and make the best possible arrangements for meeting planned and unexpected demands on the government's cash. Cash Management shall aim at reducing the required level of cash but minimizing the risk of being unable to discharge claims against the government as they arise.

2.1 RATIONALE FOR A CASH MANAGEMENT STRATEGY

Management of cash poses many challenges for Government, whether any surplus cash should be invested to earn more profit or retained to ensure appropriate liquidity to meet demand in the future. When activities are risky and the levels of their cash flow are high, there is need to be cautious on the management of cash so as to prevent deficit/shortage.

2.2 OBJECTIVES OF STATE OF OSUN CASH MANAGEMENT STRATEGY

The objectives of cash management strategy are:

- ✓ Ensure sufficient liquidity;
- ✓ To meet working capital requirements;
- ✓ To be able to meet short term requirements, forming part of administrative activities.
- ✓ To promote transparent and fraud-resistant government operations;
- ✓ To align with global acceptable standards on cash management;
- ✓ An indirect objective shall be to ensure that the good people of Osun are well served in an efficient and effective manner.

2.3 CASH MANAGEMENT FRAMEWORK IN THE STATE OF OSUN

2.3.1 LEGISLATIVE FRAMEWORK FOR CASH MANAGEMENT IN THE STATE OF OSUN

The fundamental law governing Cash Management in Nigeria and the State of Osun in particular is the 1999 Constitution as amended. Section 120 and 121 of the Constitution

provides that all revenues accruing to the State Government of Osun shall be received into a Consolidated Revenue Fund (CRF) to be maintained by the Government and revenue cannot be paid into any other fund, except as authorized by the State House of Assembly (SHoA) for a specific purpose. The Governor of the State of Osun shall prepare and lay expenditure proposals for the coming fiscal year before the SHoA, and the SHoA shall approve the expenditure proposal by passing an Appropriation Law. The Appropriation Law shall authorize the executive arm of government to withdraw and spend the amounts specified from the CRF.

Apart from the Nigerian Constitution, the State of Osun has a set of laws and regulations that govern its Cash Management. The laws are:

(a) Public Administrative Law, Cap. 133 of the Laws of Osun State of Nigeria, 2002

(b) Financial Regulations, 2009 issued by the Treasury Board of Osun State in exercise of the powers vested in the Treasury Board by Section 5(1) of the Public Administrative Law, 2002. The Financial Regulations makes provision for regulating the management of the financial business of the government as well as control and use of public fund.

(c) The State of Osun Fiscal Responsibility Law (FRL), 2012. The FRL was enacted in 2012 based on the Federal Fiscal Responsibility Act. The FRL provides the following:

- ✓ the creation of the implementation organ,
- ✓ medium term fiscal framework,
- ✓ how public expenditure may be carried out,
- ✓ borrowing processes,
- ✓ transparency and accountability in governance,
- ✓ principles of sound financial management,
- ✓ Application of law to Local Governments.

(d) The State of Osun Public Procurement Law, 2015 provides for a bicameral approach to procurement administration. The policy arm is the State of Osun Public Procurement Agency Governing Board while the State of Osun Public Procurement Agency is the technical oversight arm. The Governing Board consist of the Commissioner in charge of Finance as Chair, Commissioner for Economic Planning, Budget and Development, Attorney General/Commissioner for Justice, one other member of State Executive Council and three members from public (including a member of a Civil Society Organisation). The Agency is led by a General Manager who shall also serve as Secretary to the Governing Board.

(e) Omoluabi Conservative Law, 2012 provides that certain percentages of the revenue of the state should be set aside and kept in a special account, which is called Omoluabi Conservative Fund. The fund in the special account can only be drawn with special resolution of the SHoA. Basically, Omoluabi Conservative Fund is meant to address infrastructure fund, future generation fund and stabilisation fund.

(f) Occasional Treasury Circulars issued by the Office of the Accountant General of the State of Osun for additional rules and guidelines to support accounting, internal audit, stores procedures and cash handling in all MDAs in the State.

2.3.2 INSTITUTIONAL FRAMEWORK FOR CASH MANAGEMENT IN THE STATE OF OSUN

The Constitution vests executive powers of the State in the hands of the Governor. The Governor shall cause to be prepared and laid before the House of Assembly, estimates of the revenues and expenditures of the State for the next financial year.

The Governor of the State of Osun exercises his executive powers directly or through the Deputy Governor, the Commissioners, Special Advisers, Permanent Secretaries and other officers in the public service of the State of Osun.

- (a) Specifically, the State of Osun Executive Council (EXCO) formulates the priorities of the State Government, considers and recommends the State budget to the House of Assembly. On passage, the Governor assents the appropriation bill into law.
- (b) The Ministry of Finance is the main organ of the EXCO for formulation and execution of fiscal policy. The functions of Ministry of Finance include; financial policy, borrowing, investment, loans and advances, banking and treasury, boards of survey and boards of enquiry etc. The Finance conglomerate consists of; Ministry of Finance, the Office of the Accountant General (OAG), Osun Internal Revenue Service (OIRS), Public Procurement Agency, Bureau of Statistics, Ministry of Economic Planning, Budget and Development, Debt Management Office (DMO), e.t.c.
- (c) The Office of the Accountant-General (OAG) shall maintain accounting policies and procedures, supervise and inspect the accounting operations of all MDAs, inspect and monitor all revenue collectors, accounting for the State Government's revenue and expenditure, safe custody of all revenue-earning books including license books. The OAG shall be responsible for funds management, expenditure control of all MDAs, investment of surplus short-term funds, compilation of monthly and annual financial statements of accounts, treasury operations, maintenance of accounts (local and foreign), and internal audit among others. The OAG shall

deploy accounts staff to all MDAs.

- (d) Osun Internal Revenue Service (OIRS) shall be responsible for generation of government revenue. The OIRS Board formulates and executes Joint Tax Board (JTB) policies on taxation, stamp duties, motor vehicle licensing, pools betting and gaming machines, lotteries, raffles etc.
- (e) The Ministry of Economic Planning, Budget and Development issues Warrant Releases as authority to incur expenditure and also coordinates preparation of State's Annual Estimates in line with the state development plan (long and medium-term), medium term sector strategies, medium term fiscal framework within the framework of fiscal strategy paper; Leads in formulation of tools and tracking of the implementation of plans and budget; Coordinates all development assistance from both bilateral and multilateral sources; and Supports the Local Government Councils (LGCs) in developing sound plans at the grass root level.
- (f) The Office of the Auditor General (State) audits and certifies the accounts of the State Government and submits certified reports to the SHoA. The Auditor General (Local Government) performs similar responsibilities for the Local Government Councils.

2.4 INSTRUMENTS FOR CASH MANAGEMENT STRATEGY

2.4.1 TREASURY SINGLE ACCOUNT (TSA)

Treasury Single Account (TSA) is a control account unifying all government bank accounts under a single structure so that the treasury can easily trace all cash flows in the account. Cash management shall focus on maintaining adequate cash balance overall.

- **DEFINITION**

A Treasury Single Account (TSA) is a bank account, or a set of linked bank accounts, through which government transacts all its receipts and payments i.e. all revenue and expenditure of government shall be transacted through the account.

- **OBJECTIVES OF THE TREASURY SINGLE ACCOUNT (TSA)**

The main objective of the TSA is to enable government to consolidate all its cash into one account instead of holding multiple disconnected bank balances across its various Ministries, Departments and Agencies (MDAs). This enables Treasury to operate efficient cash management and controls, by taking custody of all revenue as soon as it is earned and controlling the payment of all approved expenditures as soon as it is incurred. The e-collections scheme is a comprehensive electronic solution for the remittance, management and reporting of Government receipts (revenues, donations, transfers, refunds, aids, grants, fees, taxes, duties, tariffs etc.) into the TSA. Other objectives shall include:

- ✓ To ensure total compliance with the relevant provisions of the 1999 constitution of the Federal Republic of Nigeria (section 80 and 162);
- ✓ To collect and remit all revenues due to the State Government Consolidated Revenue Fund.
- ✓ To block all leakages in government revenue generation, collection and remittance.
- ✓ To promote transparency and accountability in the management of government receipts.
- ✓ To make available funds for developmental programmes and projects.

- ✓ To prevent the idle balances being maintained in multiple accounts.
- ✓ To align with the Central Bank of Nigeria's cashless policy.
- ✓ To minimize transaction costs during budget execution.
- ✓ To facilitate reconciliation between banking and accounting data.
- ✓ To enhance efficient control and monitoring of funds allocated to various government agencies.

- **OPERATION OF TSA**

The operation of the TSA's e-collection initiative shall be monitored by all relevant agencies, including the Office of the Accountant-General (OAG), Ministry of Finance, Ministry of Economic Planning, Budget & Development, and office of the Auditor-General for the State to ensure that MDAs comply with the relevant government financial management provisions, as well as the TSA implementation guidelines.

A main TSA/Consolidated Revenue Fund Account shall be held with an appointed lead bank to host all the accruable revenue (IGR) from all other collecting banks. It is to be christened **OSSG Main TSA**. The expenditure leg, be it recurrent and capital expenditure shall be funded from the TSA expenditure account on the basis of Warrant releases by the Ministry of Economic Planning, Budget and Development.

- **ACCOUNT SWEEPING POLICY**

The State Government of Osun shall ensure that every commercial bank in the state, holds a single revenue transit account in which all tax and non-tax revenue are deposited. Tax payer shall deposit either through Pay-direct, Point of sale (POS) and other terminals. Cash sweeping arrangement shall be in place

in order to lower the volume of idle cash balances and overdraft/borrowed costs. In particular, these accounts are to be linked to the main TSA, while CBN approved Inter-Bank Payment System such as, Nigeria Inter Bank Settlement System (NIBSS), NIBSS Automated Payment Systems (NAPS), National Electronic Fund Transfer (NEFT) and others, operate automated system that sweeps revenues collected into the Main TSA Account. The Office of the Accountant General shall retain all monies in the TSA until they are required to settle obligations as approved by the Governor.

- **RECEIPTS DEPOSITED INTO THE TSA**

There are two types of receipts to be deposited directly into OSSG Main TSA:

- (a) Federal transfers i.e. statutory revenue
- (b) Internally Generated Revenue (IGR)

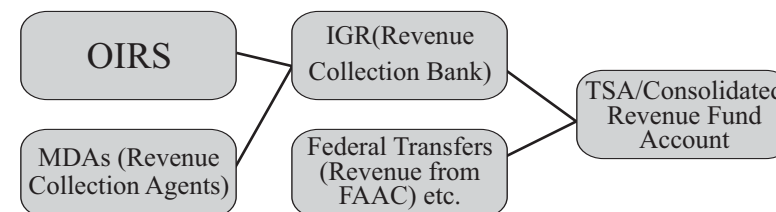
- ✓ **Federal Transfers**

In line with Section 160(2) of the Constitution, all states are eligible to receive a monthly statutory allocation from the Federation Account. The monthly allocation is disbursed net of any payments made by the Federal Government on behalf of the state. Each state also gets a share of Excess Crude and VAT accounts respectively.

- ✓ **Internally Generated Revenue**

The State of Osun Internal Revenue Service (OIRS) controls and administers both tax and non-tax revenue. Such revenue includes personal income tax, fines, fees, licenses etc. A tax payer/non-tax revenue payer has the option to discharge his or her liability by making payment into any of the revenue collection account in any commercial bank using Taxpayer Identification Number (TIN). Once the deposit is recorded, each system generates an

Automated Revenue Receipt (ARR) which is issued to the taxpayer/non-tax revenue payer as evidence of receipt of payment. The MDAs shall update its records and deliver the service. The Office of the Accountant-General shall have access to all information, including viewing and debit rights to the revenue collection accounts.



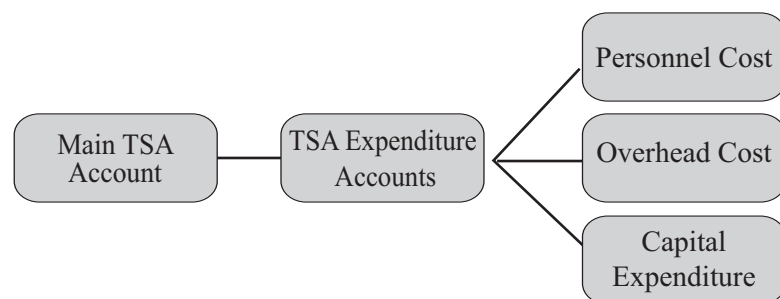
- **PAYMENT FROM TSA**

No disbursement shall be made from the TSA expenditure account without release warrant from the Ministry of Economic Planning, Budget and Development. Government's proposals for expenditure are embodied in Annual Estimates. Before expenditure can be incurred, such expenditure shall be budgeted for in the approved Annual Estimates.

The Accounting officers of MDAs shall be saddled with the responsibility of memo initiation on the specific item/activity under the budget for onward approval of Mr. Governor. If the memo is approved, request for release of fund shall be forwarded to Ministry of Economic Planning, Budget and Development for the issuance of payment warrant to the Office of the Accountant-General (OAG) authorizing the Accountant-General to proceed on the payment of fund being one of the mandates of the Accountant General's office. The OAG shall compile all the outstanding payment warrants to be presented at the Fund Allocation Committee (FAC) meeting which is to be presided over by the Executive Governor. The approved expenditure at the

meeting shall be cash-backed by the office of the Accountant-General for disbursement to various beneficiaries. Following the foregoing, the OAG shall prepare payment mandate authorizing the transfer of funds from the TSA expenditure Account to the beneficiaries after proper documentation. In this respect, when payments are approved, funds shall be moved from the Main TSA into the TSA Expenditure account for onward disbursement. The under listed showcase disbursement for both recurrent and capital expenditures.

- (i). **Personnel Cost:** Salary account shall be profiled and automated. As a result, salary shall be paid directly into the beneficiary's account from the TSA Expenditure Account.
- (ii). **Overhead Cost:** MDAs shall close all existing accounts, have one dedicated and operational costs account.
- (iii). **Capital Expenditure:** Capital Expenditure shall be paid directly to the contractor/supplier's account from the TSA Expenditure Account after all statutory deductions have been made.



• **MONITORING**

A monitoring committee shall be set up which shall comprise representatives of the Office of the Accountant-General, Ministry

of Finance, office of the Auditor-General, Osun Internal Revenue Service, Ministry of Economic Planning, Budget and Development. The committee shall have access to the revenue platform of the state for reconciliation purpose and prevention of revenue leakages.

• **INSTITUTIONAL ARRANGEMENTS**

Expenditure transactions shall be approved centrally through Fund Allocation Committee and paid from the TSA accordingly. Individual MDAs shall not be responsible for payments nor have transaction accounts in the bank for this purpose.

2.4.2 **FORECAST**

Forecast relies on robust data about past revenue and expenditure performance to inform analyst of likely future trends. The information needed for this process shall include:

- ✓ Data on outstanding and expected payments in the period ahead;
- ✓ The current available cash book balance to meet these payments; and
- ✓ Forecasts of quarterly cash inflows and outflows for the future period.

If resources are insufficient, the Debt Management Office (DMO) may raise additional finance. If resources are surplus, the government may repay debt or invest some of the balances in the higher-interest generating accounts.

• **OBJECTIVES**

A key goal of consolidating bank accounts is to reduce idle cash balances and thereby reduce the net interest costs of government debt. Accurately forecasting cash inflows and outflows allows governments to go a step further and actively target a specific balance (or at least a range) in the TSA. This allows the government to minimise its overall borrowings and at the same

time ensure there is enough cash available when payments fall due each day.

- **OPERATIONS**

Forecast shall be used to devise the strategies for streamlining the cash flow profile. At the beginning of the year, forecasts shall be consistent with annual budget being realistic i.e. – what is going to happen, not what “should” happen;

- **EXPENDITURE FORECASTS**

This shall align with the following:

- (i). Expected expenditure (cash not commitments) on quarterly basis or bi-annually;
- (ii). Focus on largest spending units;
- (iii). Notification of anticipated expenditures;

- **REVENUE FORECASTS**

Revenue Generating MDAs shall plan receipts on a quarterly basis. Tax revenue is more variable and more unpredictable. It should be noted that emphasis on forecasting must be historical and purely based on experience not econometrics which shall be in line with MTEF that is handled by Ministry of Economic planning, Budget and Development.

For cash projections, relevant players such as Ministry of Finance, Ministry of Economic planning, Budget and Development, Bureau of Statistics, Office of the Accountant-General and Internal Revenue Service shall contribute to the provision of necessary data. Information sharing networks shall be set up, and with clear understanding of the responsibilities of each player for different aspects of Cash Forecast (cash management). Office of the Accountant-General shall have adequate historical data for projecting all inflows and outflows from the TSA (revenue remittances, payments for expenditures, debt transactions, etc.).

- **INSTITUTIONAL ARRANGEMENT**

The State Government of Osun shall cause to be drawn up in each financial year, an Annual Cash Plan which shall be prepared by the Office of the Accountant-General of the State. The Annual Cash Plan shall be prepared in advance of the financial year setting out projected monthly cash flows and shall be revised periodically to reflect actual cash inflows. This is in accordance with Osun Fiscal Responsibility Law, 2012.

2.4.3 AGGREGATE CASH CONTROL

- **DEFINITION**

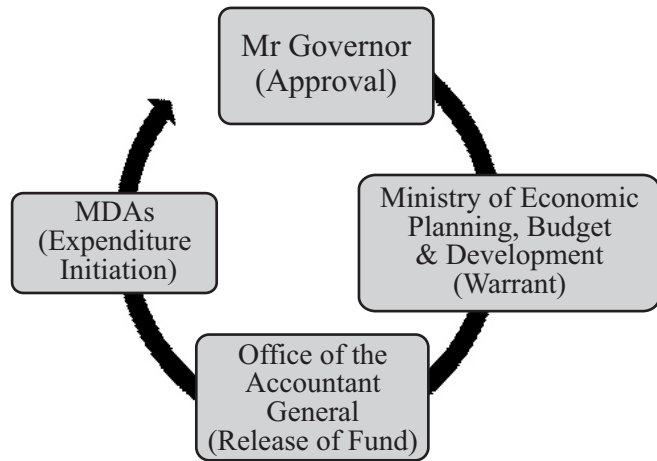
The State Government of Osun shall minimize cost of financing government programs by bridging the gap between cash inflow and outflow. This control is a key element of the overall cash management system.

- **OBJECTIVES**

- ✓ To reduce cash shortage
- ✓ To manage idle cash
- ✓ To reduce risk of misappropriation of funds

- **OPERATION**

The releases by the Ministry of Economic, Budget and Development (Warrants) shall be controlled against an annual cash plan that is updated on rolling basis, payments by MDAs shall be coordinated by the Office of the Accountant-General to ensure that sufficient cash is available in the TSA.



• INSTITUTIONAL ARRANGEMENT

The State Government requires all officers responsible for expenditure to exercise due diligence. There shall be justification for every expenditure, money must not be expended merely because it has been voted for. Abnormal expenditures of unexpended balances at the end of the Financial Year shall be prohibited.

Expenditure shall be classified strictly in accordance with the estimates, and votes shall be applied only to the purpose for which the money is provided. Expenditure wrongly charged to a vote shall be disallowed by the office of the Accountant-General.

Officers controlling votes shall, as far as it is practicable; allocate expenditure evenly over the year. When expenditure of exceptionally huge amounts is anticipated, the office of the Accountant-General shall be informed in advance to make funds available for payment. Whenever possible, a portion of each vote shall be set aside at the beginning of each year to meet unforeseen contingencies. Apart from this safeguard, officers responsible shall review the balances in their votes periodically throughout the year and whenever it becomes apparent that commitments

will exceed the vote available, immediate steps shall be taken to obtain additional provision. Officers controlling votes shall solely be responsible for unauthorized expenditure in excess of the vote allocated. This shall be achieved, provided Accountants are saddled with the responsibility of budget processes within the Ministry of Economic Planning, Budget and Development.

In exceptional cases, where it is mostly in public interest that expenditure should be incurred immediately and there is time constraint to obtain the approval of the authority in the normal procedure, an officer may on his own responsibility, incur the expenditure; but such officer shall at once forward an application for additional provision together with a covering memorandum explaining the reasons, which induced him to depart from the ordinary course.

In such cases, the officer shall be held liable for the expenditure in the event of the payment not being finally approved; and any items which may appear unnecessary or extravagant will be disallowed and surcharged against him. Before making any payment, officers in charge of accounts shall ensure that:

- (i). The voucher has been correctly classified in accordance with the Estimates or Supplementary Estimates;
- (ii). The payment will not cause an excess on the amount provided in the Estimates as included in the Release Warrant or on the line items to which it is chargeable;
- (iii). The expenditure has been authorized by Warrant/Letters of Release;
- (iv). The information furnished on the vouchers in all particulars is correct and duly signed by the authorising officer;
- (v). All necessary deductions from salaries or pensions on account of contributors, repayments of advances,

remittances, or other liabilities have been duly made.

2.4.4 COMMITMENT CONTROL

- **DEFINITION**

Commitments are a legal promise to pay at a future date, for which at some point, cash will need to be sourced, as long as the goods or services are supplied as required. A ministry may order a delivery of goods or services, once the order is placed, such ministry has created a commitment that the government will pay the bill, subject to the satisfactory delivery of the goods or services. Commitment may take two forms, namely:

- (i). Specific Commitment
- (ii). Continuous Commitment

- **Specific commitments** require a single payment or a number of payments over a fixed period (e.g. the purchase of stationery or payment for construction contracts).

- **Continuous commitments** require a series of payments over an indeterminate period of time and may not involve a specific contract (e.g. payment for salaries or utilities).

Managing commitments is a key element of effective cash management, since only by knowing its commitments can a government know what bills it has to pay. Commitment control aims to prevent ministries from entering into commitments when authority to spend has not been granted (through the budget or a warrant) or when there is a risk that revenue will be insufficient. Commitment control shall be enforced in order to prevent MDAs from incurring bills without sufficient funds to fulfil the financial obligation.

- **OPERATIONS**

The Treasury (Office of the Accountant-General) shall ensure that expenditure commitments by MDAs are fully in line with the provision of the budget and the release warrant by the Ministry of

Economic Planning, Budget and Development. In this respect, MDAs shall enter into commitments only when the cash plan covers the expected payment profile of the commitments. The State shall ensure settlement of arrears and prevent further accumulation through the treasury by:

- (i). Giving tools to protect expenditure plan from cash flow volatility;
- (ii). Restraining or slowing expenditure and delaying bill payment i.e. cash rationing;
- (iii). Monitoring cash balances, maintain cash buffer to handle both cash volatility and unanticipated outflow;

- **INSTITUTIONAL ARRANGEMENT**

There shall be commitment authorization procedures at line ministry level. Clear and enforced procurement rules and procedures shall be monitored by the Public Procurement Agency.

2.4.5 APPROPRIATION CONTROL

Appropriation is the law that authorises the expenditure of government funds. It gives power to the government to withdraw funds from the Consolidated Revenue Fund for meeting expenditure during a financial year.

- **OBJECTIVES**

- ✓ To prevent unauthorized spending
- ✓ To ensure proper planning and control
- ✓ To regulate spending

- **OPERATION**

Cash management is easier when the budget approved by the legislature is based on a reliable estimate of revenues and planned spending for the year ahead. In the State of Osun, the government budget follows a cycle of preparation, approval, execution and quarterly performance. During budget preparation, the Ministry of Finance forecasts the revenues it expects to flow into

government coffers and the expenditures it expects to flow out over the coming financial year. Ministries, Departments and Agencies (MDAs) are often asked to present a break-down of these forecasts in a quarterly or monthly cash plan to assist with cash management. Budget formulation is one of the points in the cash management chain at which problems can begin to arise. The Ministry of Economic Planning, Budget and Development in the State of Osun shall ensure that expenditure is provided for in the budget and the proposed amount of expenditure includes all relevant expenditures. In this respect, vote shall be checked after deducting all expenditures previously approved to ensure that only appropriated expenditures are issued release warrants. Where expenditures cannot be financed within the available resource envelope, the budget shall effectively be reprioritised in-year during execution.

Government's proposal for expenditures are embodied in Annual Estimates, each of which is divided into segments and line items. The division of the expenditure into segments corresponds to the manner in which the funds are to be appropriated. The purpose of the breakdown of the Estimates into segments and line items is to make further information available to the funds voted by the Legislature.

- **AUTHORISATION FOR EXPENDITURE**

- ✓ **Limit on amount of expenditure:** Government's expenditure shall be within the amounts that the budget appropriations have established, with some flexibility allowed through reallocation of surplus head to deficit head and contingency reserve mechanisms.
- ✓ **Limit on time horizon of expenditure:** The expenditure must occur within the time limits applicable to the expenditure authorization. The annual budgets authorizing spending is for one fiscal year.

- ✓ **Authorized purpose of the expenditure:** The authority for expenditure is given for a specific pre-defined purpose. The budget classification organized by programs, sub-programs, projects, economic categories, or line items usually specifies the purpose for which the expenditure shall be made.
- ✓ **Administrative unit accountable for expenditure:** The department of Finance and Accounts in all MDAs is assigned the responsibility to ensure how the appropriated resources are spent as intended within the authorized limits.

- **INSTITUTIONAL ARRANGEMENT**

In accordance with Financial Regulation of the State Government of Osun, all disbursements of public funds shall be made by the office of the Accountant-General on the authority of the appropriate warrant/letter of release issued by the Ministry of Economic Planning, Budget and Development. The ultimate responsibility to the State Executive Council for the control of votes rests with the Accounting Officers at all times. No expenditure may be incurred by any Officer until there is proper authorisation in accordance with the Regulations.

2.4.6 ACCOUNTING CONTROLS

- **DEFINITION**

Accounting Controls are methods and procedures that are implemented to ensure the validity and accuracy of Financial Statements. The accounting controls ensure compliance with rules and regulations.

- **OBJECTIVES**

- ✓ To ensure that transactions are properly recorded;
- ✓ To produce timely and reliable fiscal reports and financial

statements.

- **OPERATIONS**

Proper internal control mechanisms provide management with a reasonable assurance that intended safeguards of government assets are being practiced consistently. Therefore, the integrity of any cash management shall depend on the application of internal control principles and standards. The attainment of these principles and standards in the cash management shall be achieved by undertaking the following guidelines:

- ✓ The time-value-of-money shall be recognized as a part of each cash management decision.
- ✓ Cash related transactions shall occur only after the formal approval.
- ✓ Cash related transactions shall be fully documented for ease of audit trail.
- ✓ Cash related transactions shall be recorded promptly during each step of the cash handling function.
- ✓ Serially numbered forms shall be used to document cash related transactions to enhance reconciliation and accountability.
- ✓ Documents used in cash related transactions shall be safeguarded against re-use, tampering, or unauthorized disposal.
- ✓ Provisions shall be made for the regular review and comparison of transaction documentation to detect errors and duplicate payments.
- ✓ The approval of adjustments to cash related transactions shall be administratively controlled.
- ✓ Supervision of cash management activities shall be strictly and continually administered.
- ✓ Cash related duties, such as maintenance of accounts receivable and imprest, disbursing, collecting funds and accounting shall be segregated.
- ✓ Cash related accounts shall be frequently reviewed and reconciled with subsidiary records.
- ✓ The accessibility to funds and fund records shall be restricted and administratively controlled.
- ✓ Only properly designated employees shall handle imprest funds, disbursement certifications, and collection duties.
- ✓ Employees' assigned cash related duties shall be properly trained.
- ✓ Unnecessary clerical routines and handling of cash or cash related documentation shall be eliminated to lessen the risk of loss and exposure to errors.
- ✓ Electronic funds transfer and direct deposit shall be used to prevent revenue leakages.
- ✓ Computer edit programs shall be used to the maximum extent possible to disclose or reduce the incidence of error in cash related transactions.
- ✓ Cash derived from collections and cash used for disbursements shall not be commingled.
- ✓ Cash transactions shall not be used to substitute, or circumvent, prescribed procurement approvals and procedures.

Chapter 3

SYSTEM AND OPERATIONAL PROCEDURES

3.0 INTRODUCTION

The following operating models shall be considered in relation to cash management:

- ✓ How cash flow forecasting and variance analysis will be conducted to achieve required working capital target
- ✓ Required changes to Governance, Policies and Procedures
- ✓ Risk appetite of the Government and appropriate risk management strategies to protect cash flow.

Therefore, transaction authorization shall be separated from transaction processing and this shall be handled by different officers so as to strengthen the System. Internal liquidity management plan shall be created to spread liquidity financing across alternative sources and understand its stability.

With a properly maintained audit trail, it will be possible to track transactions through the System and find where and when errors were made. The state shall maintain systems that review cash management practices. Such systems should:

- ✓ Monitor efficiency, effectiveness, and savings attributable to improved cash management practices.
- ✓ Measure the compliance with Financial Regulations (2009).

- ✓ Cheque received in collections shall be endorsed upon receipt and collections shall be safeguarded until deposit is accomplished.
- ✓ Deposits shall be processed within prescribed intervals and reconciled against records of funds received.
- ✓ Cash disbursement transactions shall be processed promptly, and cash shall be reconciled daily.
- ✓ Cash held outside the Treasury shall be maintained at the minimum amount needed to cover current transactions.
- ✓ Credit shall be extended only when authorized by a designated official who is aware of the debt management policies.
- ✓ Approved price lists shall be published to ensure a control over Internally Generated Revenue.

• INSTITUTIONAL ARRANGEMENT

The Office of the Accountant-General through the Directorate of Finance and Accounts in all MDAs shall enforce strict accounting control in accordance with Osun State Financial Regulation (2009) for compliance with laid down rules and regulations.

3.1 MANAGING PAYMENT ARREARS

Payment arrears refer to outstanding financial obligations for which payment is considered overdue. Payment arrears shall arise from:

- ✓ An unrealistic budget (including overestimation of revenues),
- ✓ Poor cash management,
- ✓ Poor commitment control, and
- ✓ Corruption and other related causes

Payments of arrears should always be a primary concern for the Treasury; they indicate that the government accounts are under substantial fiscal pressure and/or that budget execution and control procedures are failing.

Accumulation of arrears is detrimental to the government's credibility with suppliers and on budget execution as it distorts spending and/or borrowing plans. Avoiding arrears and preventing further accumulation requires a sustained strategy from the Ministry of Finance and Treasury (Office of the Accountant-General).

• POLICY ON PAYMENT OF ARREARS

Ministry of Finance (Debt Management Office) through the Office of the Accountant-General will establish evidence of arrears for the purpose of accounts recognition (IPSAS 1). This shall assist presentation and measurement of financial information in the Statement of Financial Position. Configuration of payment plan shall become indispensable and this shall prevent difficulty in settlement of arrears. The Payment plan of arrears shall ensure repayments and avoid unnecessary accumulation that will become unmanageable. Ministry of Finance through Debt Management Office in collaboration with the Bureau of Statistics shall configure **Arrears Payment Plan** using appropriate Statistical tools.

3.2 COMMITMENT AND PAYMENT CONTROL

Implementing a budget legally and accurately requires effective control on expenditure commitment and payment, including effective sanctions on unauthorized activity. The System shall impose limits on both expenditure commitments and cash payments. Commitment limits may be multi-year in nature (usually for capital projects) and carried over from one financial year to the next, while cash expenditure limits are usually set for the budget year.

• KEY ELEMENTS OF COMMITMENT CONTROL

- ✓ Identified purpose and financial limit of approved budget line
- ✓ Commitment authorization procedures at line Ministry level
- ✓ Clear and enforced procurement rules and procedures

• KEY ELEMENTS OF PAYMENT CONTROL

- ✓ Effective procedures for receiving and verifying goods and supplies as ordered and updating records of stocks/inventory;
- ✓ Clear and enforced procedures for issuing of payment orders;
- ✓ Effective sanctions on wrong payment procedures/decisions;
- ✓ Sensitisation of suppliers on procedures and requirements of government purchases and payments.

3.3 IMPREST

Imprest system shall be maintained at MDAs level to allow for smooth operation in respect of the disbursement of operational cost. The State of Osun Financial Regulations 14001 to 14011 explained procedural steps of managing accountable imprest while the following information is to be provided to allow Value for Money Audit (Accountability through Retirement):

- (a) Imprest fund title/number;
- (b) Physical location of the MDA;
- (c) Purpose;
- (d) Naira value;
- (e) Number of transactions;
- (f) Total Naira amount disbursed; and
- (g) Replenishment cycle through petty cash book.

- **REPLENISHMENT CYCLE THROUGH PETTY CASH BOOK**

- ✓ A fixed amount of cash shall be allocated to a petty cash fund which is stated in a separate account in the general ledger.
- ✓ All cash distributions from the petty cash fund shall be documented with receipts.
- ✓ Petty cash disbursement receipts shall be used as the basis for periodic replenishment of the petty cash fund.
- ✓ Variances between expected and actual fund balances shall be regularly reviewed and investigated.

- **JUSTIFICATION OF IMPREST FUND**

- ✓ The MDA shall state the operational reason(s) for usage of the imprest fund;
- ✓ The MDA shall state the imprest fund Policy Directive waiver category, under which the imprest fund fall;
- ✓ The MDA shall make a brief statement of what efforts have been undertaken by it to increase Imprest Fund account;
- ✓ MDAs shall ensure that paying unit at MDAs shall not maintain cash in excess of immediate disbursing needs;

3.4 PURCHASE ORDER

This is used to control the purchase of products and services from external suppliers. The state shall make it a policy that payments are made within the due date to prevent

accumulation of liabilities/arrears. The environment of the cash plan also reflects expected payments, and eliminates exceptional procedures for payment; modernizing the mode of payment through electronic fund transfer, streamlining check floats, and introducing active cash management to ensure cash availability for payments and bank reconciliation.

All the necessary conditions must have been met before the Purchase Order is initiated. Once the offer of purchase has been accepted by the seller, it shall be backed up with Local Purchase Order Certificate, which will serve as a guarantee that the contractual obligation in respect of the Purchase Order shall be honoured in as much as the terms and conditions stipulated in the order have been met. This forms part of the government's commitments which is to be met in the future.

3.5 VOUCHERS

Voucher is an accounting document which highlights details of receipts and payments. Voucher shall be filed when payment/receipt is due. Failure to file voucher with request for payment/ receipt could cause a delay in prompt payment/receipt. Payment/Receipt Voucher is classified into Cash and Non-cash Voucher. Cash Voucher is mainly used for Cash Transaction and such voucher is sub-divided into two namely:

- **Debit Voucher** – This is prepared for all the cash payment made by the State Government E.g. Payment Voucher (State of Osun Financial Regulation 09005).
- **Credit Voucher** – This is prepared for cash receipt from various sources. For Example, Receipt Voucher. Non-Cash Voucher is used in a computerised working environment where filling is done electronically, then electronic payment voucher known as Transfer Voucher will be involved.

3.6 DEBT

Debt is a contractual term regarding the amount and terms of repayment of principal, interest, loans, bonds, notes and mortgages.

In carrying out its civic responsibilities to the populace, government needs other sources of fund to meet these obligations. In doing so, the government may seek for funds from other sources based on certain terms and conditions. These externally sourced finances are referred to as **DEBT** and which have to be properly accounted for.

Osun Debt Management Office (DMO) has been empowered by Osun Debt Management law 2012 to carry out day-to-day management of the debt. It is tasked with the Government's debt management policy of minimizing financing costs over the long term, taking account of risk, and managing the aggregate cash needs of the creditors in the most cost-effective way, in both cases consistently with the objectives of monetary and any wider policy considerations.

The Office has statutory power to enter into contractual obligation on behalf of State Government of Osun. Also, the Office collaborates with The Office of the Accountant-General to prepare Cash Repayment Plan/Schedule to ease debt management and prevent non-availability of cash for critical expenditures of the State Government.

3.7 INTERNALLY GENERATED REVENUE

Internally Generated Revenue (IGR) are the government other sources of revenue apart from share from Federation Account. It can simply be referred to as the revenue generated by the government through the application of revenue generating mechanism internally within the legal range. The sources of

Internally Generated Revenue within the state include various forms of taxes as stipulated by law, interest and other returns on government assets etc.

Since IGR is one of the major options available to cushion the effect of the dwindling share from the Federation Account, it is pertinent that effective and efficient revenue management processes are put in place. It has been identified overtime that poor cash management is one of the major source of government failure in Nigeria. For the government to be able to meet its financial commitments and obligations, the under listed shall be enforced for proper control and management of Internally Generated Revenue:

- ✓ The officers in charge of collection and possibly the disbursement of public revenue shall be properly identified and proven to be capable of good character.
- ✓ Revenue receipt shall be officially designed and monitored to avoid forgery or unauthorized duplication.
- ✓ Strict remittance measure shall be put in place.
- ✓ There shall be daily summary of revenue collected from MDAs.
- ✓ Periodical report of public revenue shall be prepared for routine check.
- ✓ Revenue forecast shall be made at the beginning of every financial year.
- ✓ Proper accounts of public revenue shall be kept in line with the required standard.

Chapter 4

RISK MANAGEMENT

4.0 INTRODUCTION

Cash management refers to a broad area of finance involving the collection, handling, usage of cash, assessing market liquidity, cash flow, and investments. This process has the ultimate goal of managing liquidity and mitigating against risks.

Risks shall be managed to minimize its threats and maximize its potentials. Risk Management involves understanding, analysing and addressing risk to make sure government achieve its objectives.

Turning Risks into Opportunities require professional due diligence, as a result, Treasury (Office of the Accountant-General) shall employ professional skills to handle cash management. Technology has posed a new set of risks in the area of Treasury computerization for effective cash management. The response to these challenges has led to innovative solutions.

Risk is everywhere in everyday transaction. In the Treasury, due to the nature of public sector financial transactions which exposes the Treasury to Fraud risk provided there is lack of institutional control and effective cash management. Therefore, The Office of the Accountant-General has to ensure that there is adequate liquidity on time and regularly.

4.1 DEFINITION

Risk is the combination of likelihood and consequence of a hazard being realised. Risk cannot be totally controlled by

mankind, but can only be minimized. Therefore, risk may be redefined as “the uncertainty that, if it occurs, will affect achievement of objectives. This includes negative and positive risks, threats and opportunities, all of which are types of future uncertainty.

4.2 COMMON RISKS IN TREASURY MANAGEMENT

- ✓ Misappropriation of advance disbursements.
- ✓ Inadequate cash resources to fulfil authorized disbursements.
- ✓ Cash may be lost, misused or diverted as a result of overstatement of account receivables.
- ✓ Cash withheld from employees may be diverted for other purposes as a result of unrecorded liabilities.
- ✓ Non-restriction of authorisation of cash allocation to particular personnel in MDAs.

4.3 ELEMENTS OF RISK MANAGEMENT

- **Cash planning:** this involves planning of inflows and outflows of MDAs.
- **Managing the cash flow:** this involves the management of collection and disbursement of funds in MDAs.
- **Cost control:** this is a practice of identifying and reducing expenditure.
- **Strategic planning:** this is a process of defining directions and making decisions on allocating cash resources.
- **Optimum cash level:** this involves deciding the appropriate level of cash balance that will reduce the cost of carrying surplus cash against the dangers of cash deficiency.

4.4 BENEFITS OF RISK MANAGEMENT

- ✓ Proper planning of cash management will guarantee effective liquidity position.
- ✓ Irrelevant cost is safeguarded.
- ✓ Minimum losses & maximum opportunities.
- ✓ Improved efficiency in cash management.
- ✓ Well informed decision making.
- ✓ Minimum disruptions in treasury management.
- ✓ Better utilization of cash resources.
- ✓ Ensure continuity of treasury operation.
- ✓ Proper safeguard of cash assets.

4.5 RISK PROFILES IN CASH MANAGEMENT

A risk profile is an evaluation of the willingness and ability for the state to take risks in cash management. It can also refer to the threats to which a state is exposed. A risk profile is important for determining a proper investment decision for resources allocation. State uses risk profile as a way to mitigate potential risks and threats. The greater the risk with an investment, the greater the potential returns. However, opting for riskier investments also means acceptance of the potential of losing money.

4.6 FORMS OF RISK

• OPERATIONAL RISK

Operational risk is the process of loss resulting from inadequate or failed procedures, systems or policies, employee errors, system failures, fraud or other criminal activity, and any event that disrupts government processes.

The operational risk management shall be implemented in the daily cash operations of MDAs. There shall be Operational Risk Review to overhaul the cash operations of all MDAs and to ensure that cash management risk is identified, assessed and managed accordingly.

• CREDIT RISK

Credit risk is the risk that a financial loss will be incurred if a counter party to a transaction does not fulfil its financial obligation in a timely manner.

Credit risk is especially relevant due to the average large amount of cash funds. The Government requires high credit ratings of its counterparties and the guidelines of the Office of the Accountant-General in collaboration with the Debt Management Office to stipulate counter-party limits in accordance with these credit ratings.

Long-term credit risk resulting from derivative transactions shall be mitigated by the State Treasury through collateral. Under the collateral system, the counter-party provides bonds or cash as collateral for government receivables. The collateral agreements are unilateral among the parties involved.

• MARKET RISK

Market risk is the possibility of an investor experiencing losses due to factors that affect the overall performance of the financial markets in which the government is involved. Market risk, also called “systematic risk”, cannot be eliminated through diversification, though it can be hedged against.

However, the strategic target of the government shall be expressed in the form of a benchmark portfolio. The benchmark portfolio also enables the government to evaluate the performance of debt management office. The targeted interest rate risk profile is defined in terms of average fixing (the average period of repricing/re-fixing the debt). The State Treasury shall be allowed to deviate from the benchmark's risk portfolio within the limits set in the guidelines of the Federal Ministry of Finance. In order to fine-tune the government's interest rate risk exposure, the State Treasury shall execute mainly interest rate swaps.

- **LIQUIDITY RISK**

Liquidity risk is the risk that government may be unable to meet short term financial demands.

Cash is King and at the same time Cash is Risk. Therefore, without cash, there is no governance. Liquidity is the availability of fund to the government in order to pay its short term debt obligations or ability to meet anticipated and contingent cash needs. Cash needs shall arise from withdrawal of deposits, liabilities, maturities' and loan disbursals. A minimum criterion of liquidity is the ability to meet commitments when due and to undertake new transactions when desirable.

4.7 CASH HELD OUTSIDE THE TREASURY

Cash held outside the Treasury includes cash maintained in Imprest Funds, Cash in transit, and below the line Account (Revolving Fund) or negotiable instruments.

The objectives shall be to provide for uniformity in the administration and accountability of funds in the State. This is to lessen the vulnerability, loss or misuse of cash funds; and promote good cash management practices. Treasury account balance will only be possible if all accounts are administered by the TSA Policies.

In whatever capacity whether prescribed by laws or other policies, the administration of fund outside Treasury shall be discouraged and Osun Public Financial Management (PFM) Law shall expressly state the operation of TSA. Osun PFM Law shall make TSA mandatory for all MDAs, Tertiary Institutions, Corporations and other Government Agencies in the State.

4.8 GENERAL INSTRUCTION FOR HANDLING CASH

Cash handling shall ensure proper internal controls,

segregation of duties, and adequate safeguards of Government Assets. The Office of the Accountant-General and other MDAs shall be responsible for complying with cash handling policies and other procedures outlined in this Cash Management Strategy and also for developing detailed written MDAs operating procedures. Osun State Financial Regulation and Public Financial Management Law shall review the procedure documents and Accounting records necessary for cash handling. This shall assist in making and formulating appropriate guidelines for Cash handling structure in the State.

- **GUIDELINES FOR CASH HANDLING**

Documentation of:

- ✓ General information as to sources of cash received, bank accounts, and/or investments held with trustees.
- ✓ Cash receipts processes describing methods of receiving payments and how deposits are processed
- ✓ Cash, cheques, debit and credit card payments
- ✓ Wire transfers
- ✓ Payments by mail
- ✓ Online payments through third party electronic billing system, Pay mode, or Automated Bill Pay, etc.
- ✓ Cash and cheque received directly
- ✓ Reconciliation of deposits
- ✓ Research processing
- ✓ Unidentified payments received
- ✓ Returned cheque from bank
- ✓ Accounting procedures for recording collections and deposits
- ✓ Analytical review by staff that do not handle cash to monitor daily cash balances and trends or variances
- ✓ Inventory control over receipt books
- ✓ Develop written policies and staff procedures for performing duties with respect to the safeguarding of

- cash.
- ✓ Develop, formalize and update staff procedures for processing transactions and handling collections in performing their duties.
- ✓ Train staff in the handling of cash based on their duties.
- ✓ Document and maintain a list of names and titles of all persons:
 - ✓ Collecting cash
 - ✓ Recording cash receipts
 - ✓ Depositing cash
 - ✓ Reconciling cash
 - ✓ Having access to safes, vaults, etc.
 - ✓ Preparing accounting entries for financial systems
 - ✓ Managing revolving funds
- **TRACKING OF CASH**
 - ✓ Perform and document cash placed in each drawer at the beginning of the financial year.
 - ✓ Remind employees to log out of the POS (Point of Sale) systems.
 - ✓ Implement a cash management system that allows each cashier to have their own cash drawer and can then be held responsible for any cash shortages and overages.
 - ✓ Ensure that cash registers allow individual users to input a unique login code when they conduct a transaction. This will help track any shortages or misappropriation of cash so it can be properly investigated and resolved.
- **RECONCILING DAILY COLLECTIONS**
 - ✓ Ensure that cash, cheque, and credit/debit card collections on cashier's balance sheet at the end of the day match the cashier's recap. Note any discrepancies on the cashier's recap.

- ✓ Ensure that a supervisor review and approve any adjustments to financial reports, verify that adjustments are appropriate and discrepancies are adequately explained in the report.
- ✓ Cash reports shall be forwarded to staff with responsibilities for daily reconciliation namely:
 - (i) Cashier Workstation Summary
 - (ii) Cashier Recap
 - (iii) Deposit Summary
 - (iv) Cash Summary
 - (v) Cheque Summary
 - (vi) Credit Card Summary
 - (vii) Credit Card Detail
 - (viii) Phone Payments
 - (ix) Electronic Payments
- **TRAINING OF STAFFS HANDLING CASH**

Ensure employees are well trained on important cash handling functions and maintain adequate segregation of duties by:

 - ✓ Implementing a detailed annual training programme of cash handling procedures.
 - ✓ Ensuring back-up staff's ability to perform each segregated set of cash-handling functions.
 - ✓ Documenting all training that is provided.
 - ✓ Exploring ways to train staff involved in collections to increase their ability to detect counterfeit currency, such as using a counterfeit pen and mercury light
- **PAYMENT COLLECTION AND DEPOSITING OF CASH**
 - ✓ Establish procedures to have supervisors routinely collect revenue from the cash collection point. This procedure will increase the location's ability to protect its cash collections, especially during busy times such as

mornings, weekends, and weekday holiday.

- ✓ Require deposits of cash with the Treasury (Office of the Accountant-General) not later than the next business day after its receipt. However, if MDA's operations cannot meet this requirement, such case shall be referred to the Office of the Accountant-General.

- **SECURITY**

Analyse the security needs of each cash collection point and strengthen security controls whenever necessary. This includes:

- ✓ Installing security cameras that can monitor all areas where cash is collected and handled, providing additional security guards, and securing the safe and cash registers or drawers.
- ✓ Restrict Cashier areas to Cashier personnel and other authorized persons. Access doors to area shall be locked at all times.
- ✓ During business hours, all active cash drawers shall be secured in a locked drawer at the cashier's window, including lunches and breaks.
- ✓ The key to the cash drawer shall remain in the sole custody of the cashier and shall never be given to anyone else or left in the drawer when the cashier is away from the window.
- ✓ Unused cash drawers shall remain in the vault storage during the day.
- ✓ Ensure that cashier's office is safeguarded against fire outbreak.

- ✓ Avoid counting cash in view of the public during hours of operation.

- ✓ Ensure that other employee or security officer accompanies any employee transporting large amounts of cash and cheques. This procedure shall minimize risk to staff's personal safety and decrease the risk of cash being unprotected.

- ✓ Enhance the Point of Sale (POS) systems to regularly prompt users to change their password. Security standards indicate that passwords should be changed every 30 days and users should not be allowed to reuse old passwords. Frequently changed passwords have the benefit of preventing predictability and provide greater protection of confidential information.

- ✓ In the event that an emergency requires that the section staff evacuate from the area, all negotiable instruments must be locked and secured immediately. The key to the cash drawers will remain in the possession of the assigned cashier. All cheques and any unopened mail must be placed in a secure location. After all items are locked up, the building must be evacuated immediately until further instructions from authorized personnel.

- **SEGREGATION OF DUTIES**

Segregation of duties for handling and managing cash shall be maintained by implementing the following procedures:

- ✓ Only employees who need the code to the safe should have it

- ✓ At least two staff should be present to open a safe
- ✓ The supervisor should observe and verify each cashier's cash count for end-of-day balancing
- ✓ Cash counts certified by two employees should occur for all deposits
- ✓ Cash acceptance certified by two employees should be done
- ✓ Individuals present during cash counts and acceptances should sign directly on the cash count forms
- ✓ Signatures required on reconciliation documents indicating their presence for the cash deposit reconciliation and that totals agree
- ✓ Prohibit employees responsible for collecting cash from preparing bank deposits
- ✓ Other internal control measures (custody of spare keys) in the absence of key employees.

Chapter 5

CONCLUSION AND RECOMMENDATION

In line with best practices, the following shall be deduced as a policy for Cash management strategy in the State of Osun:

- Government cash resources shall be pooled in the TSA.
- Idle balances shall be minimized, thereby avoiding unnecessary government borrowing.
- Unremunerated government deposits in the banking system shall be avoided.
- Revenue and Expenditure float non-existent. All non-TSA government bank accounts should have zero balances at the end of each working day.
- Transactions shall be conducted through the banking system. Electronic transactions are maximized, so as to reduce transactions delays, and increasingly, to replace checks processed in payment clearing systems. These practices contrast with those used in countries with inefficient payment systems and underdeveloped banking systems, which may even involve the transportation of physical cash (banknotes).
- Banks providing treasury services are remunerated on a per transaction basis, independent of the value of the transactions. Qualified banks are selected by competitive

bidding for providing revenue transmittal services and/or making payments on behalf of government. Banks' ability to sweep balances back to the TSA, reducing idle balances to zero, is highly relevant.

- Payments shall be made on real time. Disbursement (payment) delays and penalties for late payment shall be avoided.
- Targets for end-day TSA balances shall be adopted. Any unexpected cash calls (e.g., due to timing differences) shall be financed through short-term borrowings from the banking system, so as to minimize the need to hold large low-yielding cash balances.
- Temporary surplus in the TSA shall be invested in interest-bearing instruments, usually with full collateral so as to minimize risk. There is increasing participation of treasuries in secondary markets for government securities, with the twin objectives of maximizing returns on available balances and avoiding timing mismatch.

