BAUCHI STATE

CASH

MANAGEMENT STRATEGY

Prepared by:
Office of the Accountant-General,
Bauchi State,
Nigeria.

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ACRONYMS AND DESCRIPTION

Acronym	Description
ARC	Accountability, Responsiveness and Capability
BSBO	Bauchi State Budget Office
BSIRS	Bauchi State Internal Revenue Services
BSG	Bauchi State Government
CDF	Comprehensive Development Framework
ExCo	Executive Council (of Bauchi State Government)
FAAC	Federation Accounts Allocation Committee
FRL	Fiscal Responsibility Law
IGR	Internally Generated Revenue
IPSAS	International Public-Sector Accounting Standards
MDAs	Ministries, Departments and Agencies
PFM	Public Financial Management
ShoA	State House of Assembly
SIFMIS	State Integrated Financial Management Information System
SPARC	State Program for Accountability, Responsiveness and Capability
TSA	Treasury Single Account

APPROVAL FOR IMPLEMENTATION OF CASH MGT STRATEGY

BAUCHI STATE OF NIGERIA

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Your Ref:

Our Ref: *GO/SS/FIN/S/7*

Date:
23rd June, 2019

The Honourable Commissioner
Ministry of Finance
Bauchi.

ADOPTION OF CASH MANAGEMENT STRATEGY FOR THE STATE

I am pleased to inform you that, in line with the SFTAS Disbursement Link Indicator (DLI) No. 3, the State Governor has approved the immediate implementation of the Cash Management Strategy in the State.

2. Accordingly, the Ministry of Finance is to commence the implementation of same in accordance with the guidelines/procedure stipulated in the document.

3. While anticipating that you will bring this to the notice of all concerned.

4. Please, accept the assurances of my highest regards.

MOHAMMED SABI'U BABA
SECRETARY TO THE STATE GOVERNMENT

Executive Summary

Bauchi State Government (BSG) is a participant in the Federal Government of Nigeria and World Bank multi-year (2018 – 2022) program to support Nigerian states to strengthen fiscal performance and sustainability: *The State Transparency, Accountability and Sustainability (SFTAS) Program for Results ("The Program")* and one of the disbursement-linked indicators under the Program is (DLI 3) Improved Cash Management and Reduced Revenue leakages through Implementation of State TSA

Cash management is one of the major components of the Bauchi PFM Agenda. Implementation of the Bauchi PFM Agenda has resulted in significant improvement in the state PFM system.

The main achievements included strong budget performance, which is currently within the range of 80%, significant reduction in the number of bank accounts and centralization of Internally Generated Revenue (IGR), salary and pensions payroll system improvements, and capital expenditure programming and payments. These have helped all the MDAs, particularly the Treasury Department which continues to exercise greater control over the financial resources of the State.
However, the success of these PFM reforms is not perfected yet. Therefore, it is necessary to improve the PFM system and performance including the need for more effective and efficient **Cash Management Strategy**.

Generally, these imperfections constitute hindrances to effective budget execution which could potentially lead to failure in service delivery.

A notable sign of imperfection of the Cash Management System is that the flow of budget resources to MDAs is not predictable. This occurs due to a less strong cash planning process involving robust cash forecasting and its alignment with MDAs' spending plans in form of annual cash plan.

Before the implementation of the TSA, the Treasury department did not have real-time view of financial resources either across its own centrally controlled bank accounts or across bank accounts under the direct control of all other Government Agencies.

This **Cash Management Strategy** is developed by the Office of the Accountant General, Treasury Division, Ministry of Finance, and Ministry of Budget and Economic Planning, Bauchi State, in collaboration with Bauchi State Budget Office in order to address the identified ineffectiveness and move toward best practice in cash management.

The overall goal of the strategy is to reposition the entire PFM reforms as well as to enable the Treasury Division play a leading role in safeguarding government financial resources, efficient disbursement of funds to help execute the budget as planned and deliver government priorities.

Foreword

The creation of Cash Management Strategy is another step forward in the ongoing Public Expenditure and Financial Management reforms by Bauchi State Government.

The ultimate purpose of the reforms – including the development of this document – is to facilitate the achievement of the socio-economic development of the State.

PFM reforms ensure the effective functioning of the system across all stages of the budget cycles. In particular, these reforms promote strategic resources allocation in line with government development priorities and engender aggregate fiscal discipline with effective and efficient management of financial resources in the execution of the State's budget.

Bauchi State Cash Management Strategy will provide basis for the deepening and broadening of some of the ongoing reforms particularly with respect to approved budget profiling, preparation of revenue forecast and annual cash plans, as well as pursuit of the **Treasury Single Account** policy.

With reforms continuously ongoing, it is intended that soon, an Organic Finance Law would be developed by the State Government.

Subsequently, when a new law is enacted, it will provide impetus for the review and enrichment of other financial rules and regulations including this Cash Management Strategy Policy. In the same vein, this resolve is further reinforced by the ongoing development of the State Integrated Financial Management Information System (SIFMIS) which will come with far-reaching positive implications on the way and manner in which funds are mobilized, expended and accounted for.

It is our belief therefore, that this newly developed document will go a long way in facilitating the attainment of the PFM reforms being pursued by the State Government.

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Honourable Commissioner
Ministry of Finance
Bauchi State

1 SECTION ONE: INTRODUCTION

1.1 Background

Treasury Single Account (TSA) has been defined as a unified structure of government bank accounts enabling consolidation and optimum utilization of government cash resources.

In other words, a TSA is a bank account or a set of linked bank accounts through which the government transacts all its receipts and payments and gets a consolidated view of its cash position **at the end of each day**.

It is an essential tool for consolidating and managing government's cash resources, **thus minimizing borrowing cost.** Treasury Single Account is a public accounting system under which all government revenue, receipts and income are collected into one single account, usually maintained by the country's Central Bank and all payments done through this Account as well. It is a policy or monetary tool that increases the revenue inflow in the purse of the government as well as places it in a better stead to adequately meet its financial obligations to the citizens of the country.

It is a way of unifying various governments' bank accounts to give a consolidated view of government cash resources. **For Treasury Single Account (TSA) to work effectively there must be daily clearing of and consolidation of cash balance into the central account even where the MDA's accounts are already held at the CBN.**

However, this objective can be achieved through proper accounting rather than by holding cash in separate bank accounts. Treasury Single Account therefore covers all funds including votes and extra–budgetary accounts or even funds held in trust by government. To actualize this aim, accounting system must be robust and capable of accurately distinguishing trust assets in the Treasury Singly Account (TSA).

Bauchi State Government (BSG) has embraced reforms in Public Financial Management (PFM). The reforms are encapsulated in the Bauchi PFM agenda; the implementation of which has led to significant gains for the State.

The PFM reform plan was implemented across the various MDAs including but not limited to:

i. Ministry of Finance (MoF),
ii. Budget and Economic Planning Directorate (BEPD),
iii. Due Process and Monitoring Bureau,
iv. Board of Internal Revenue Services,
v. Office of the State and Local Government Auditors-General and
vi. Directorate of Salary and Pensions Administration

A strong cash management system helps in effective budget execution and also contributes to the achievement of all the budgetary outcomes of a good:

i. PFM system comprising of aggregate fiscal discipline,
ii. Strategic allocation of resources, and
iii. Efficient service delivery.

These were the Fiscal Responsibility processes for effective budget preparation and execution including cash management, and the State Public Procurement Law meant to promote accountability, transparency and value for money in public procurement and public service delivery.

Among the targets set for cash management includes:

1. Fitting cash availability to within 100% of the cash demand of MDAs by 2020;
2. Centralization of all capital expenditure payments at the Treasury by end of 2020 (including for direct labour projects); and
3. Central payment for major recurrent expenditure involving payment to service providers and vendor items within the range of ₦5 million and above by year 2020.

Major gains that would be made from the implementation of the PFM reforms include improved budget performance. It is expected that the number of State's bank accounts is reduced significantly to a considerable number of 100 bank accounts.

Other achievements are expected to include the use of single platform to view all government bank accounts, improvement of information management through the installation and upgrade of IT system (i.e., State Integrated Financial Management Information System, SIFMIS) and adoption of International Public-Sector Accounting Standards (IPSAS) based on National Chart of Accounts.

However, despite these gains, the Cash Management Strategy still faces a number of challenges and as such necessitate the need for further strengthening in order to make the system sufficiently strong to support predictable, orderly and effective budget execution and enhance service delivery. It is for this reason that strengthening the cash management system is a major priority in the public financial management reform agenda being pursued by the State.

1.2 Objective of Cash Management Strategy

The State Cash Management Strategy is generally conceived within the context of the State PFM reform as it affects general improvements in treasury management. The overall aim is to reposition the State Treasury to perform its functions more effectively and play a leading role in the execution of the budget to deliver government policies and programmes. This also includes the desire to strengthen the existing Cash Management System in order to improve efficiency in the management of the financial resources of the State.

1.3 Cash Management Practice

The credibility of the State's budget depends to a large extent, on the ability of the government to put in place an effective cash management system that can make accurate forecast to determine monthly cash availability and to also prepare an annual cash plan which provides the basis for the disbursement of funds to execute the budget as planned in line with the MDAs spending plans.

Cash management is therefore a pillar in the budget execution and it is a central function of the Treasury.

Public financial management, cash management, among others, is about:

i. Identifying when cash will be received/available over a period of time;
ii. Identifying what payments will arise over the same period;
iii. The synchronization of the above two to ensure that cash is made available to MDAs at the time of need;
iv. Cash pooling in form of the centralization of receipts and payments commonly referred as TSA.

The Central Bank of Nigeria (CBN) has graciously issued some guidelines to help states of the federation towards:

i. TSA Essential Requirements
ii. General Requirements
iii. TSA Account Opening and Maintenance, and
iv. TSA Payments Infrastructure, as follows;

1.4 TSA Essential Requirements

i. Government agencies are not to operate ANY bank account under any guise, outside the purview and oversight of the Treasury.

ii. The consolidation of government cash resources should be comprehensive and encompass all government cash resources, both budgetary and extra-budgetary. This means that all public monies, irrespective of whether the corresponding cash flows are subject to budgetary control or not, should be brought under the direct control of Government.

iii. Government banking arrangement should be unified, to enable the relevant Government stakeholders such as the Ministry of Finance (MOF) and the Accountant General (AG) have full oversight of Government cash flows across bank accounts.

iv. **There are two TSA models**:
   a) The main TSA and associated ledger sub-accounts (where they exist) are to be maintained in a single banking institution OR
   b) The main TSA is maintained in a single banking institution and associated zero balance ledger sub-accounts (ZBAs) (where they exist) are maintained in other institutions from where balances are swept daily to the main TSA in CBN or the appointed main TSA hosting financial institution.

1.5 TSA General Requirements

i. Each State Government shall select any TSA model of its choice. The choice of a TSA model shall be informed and guided by the availability of clear operational processes and basic technology infrastructure that supports the implementation of the model of choice.

ii. Each State Government shall inform the Governor of the Central Bank of Nigeria of its decision to introduce the TSA scheme, detailing; the State's preferred TSA model (banking structure) and level of preparedness to commence, operate & support the scheme, which shall include, but not limited to project organization and resourcing, operational process workflow, available technology infrastructure, etc.

iii. Each State Government shall ensure that all legal framework, extant laws, cash management processes and policies, financial regulations, Treasury Circulars, etc. are put in place to guide the TSA operation, as well as ensure that, clear information is regularly issued to relevant internal and external stakeholders before, during and after the commencement of the TSA scheme.

iv. Each State Government shall maintain contractual agreement(s) with parties involved in the design, delivery and ongoing support of its TSA scheme. Such Agreement shall clearly define the terms and the roles and responsibilities of the State Government and the relevant parties. Such stakeholders may include, but not limited to the CBN, Deposit Money Banks, Payment Technology Solution Providers, etc.

v. Each State Government shall have a clear and unambiguous position of ALL outstanding debts owed Deposit Money Banks (inclusive of debts incurred by its MDAs) before the commencement of the TSA scheme. Where a State is unable to fully liquidate its debts with DMBs before the commencement of the TSA, it shall put in place a firm repayment schedule, before commencing the TSA scheme, with the CBN.

vi. Each State Government shall establish a TSA Project Team to be led by an official not below the position of a Director in the public service, to coordinate the implementation of the State's TSA initiative. The Team shall have primary responsibility for coordinating all pre-implementation, implementation and post-implementation programmes required for the successful implementation of the State Government's TSA scheme. This shall include but not limited to organising sensitization workshops, system specifications gathering, project documentation, user training, change management, risk management, project reporting, etc.

vii. Each State Government shall undertake a comprehensive review, harmonization and update of its financial and treasury management processes, procedures and system, as may be necessary, to support the successful implementation and operation of the TSA initiative. This shall include but not limited to the establishment of a State Cash Management Unit (CMU), which shall be guided by the State's cash management provisions, processes, procedures, etc.

viii. Each State Government shall be responsible for the provision of adequate sustainable capacity and resources at different levels across all MDAs. This is required to ensure the long-term success of the State's TSA initiative.

1.6 TSA Account Opening & Maintenance

i. Each State Government shall apply for the opening and maintenance of TSA accounts at the CBN or a DMB, through an application letter endorsed by any two persons of; the State Governor, the State Commissioner in charge of Finance or the State Accountant-General. Such application shall clearly state the type of account to be opened, such as; revenue, payments, etc.

ii. Each State Government shall undertake a comprehensive inventory of ALL bank accounts maintained with all financial institutions by the State and all her MDAs without exception. Such accounts must be harmonized and aligned before the commencement of the TSA scheme, to avoid the exclusion or replication of accounts.

iii. Each State Government shall open only one main TSA account and other such ledger sub-accounts as it deems fit with the Central Bank of Nigeria or any Deposit Money Bank of its choice, provided such ledger sub-accounts shall be limited to one for each MDA and shall always be linked to the main TSA account. The choice of a State Government to host the TSA main account with a DMB and sub-ledger accounts with the same or other DMBs shall be guided by the same considerations as hosting the Main TSA account with the CBN.

iv. The administration and operation of a State Government's main TSA and ledger sub-accounts hosted by the CBN shall be through the CBN branch in the State Government's capital.

v. The operation of the TSA scheme hosted by the CBN for each State Government shall be operated at all times through the use of approved electronic channels and shall exclude the handling of cash or processing of manual cheque transactions by the CBN at any of its offices.

1.7 TSA Payments Infrastructure

a. TSA operations are conceptualized and designed to be operated on a full end-to-end basis, across various approved electronic channels, for all payment and collection transactions.

b. Bauchi State Government shall adopt a CBN licensed payment platform for the operation of its TSA scheme. Approved platforms for the controlled take-off of the TSA scheme are; SystemSpecs, Interswitch, Unified Payment Services, e-Transact and NIBSS. Other approved platforms shall be advised as the TSA initiative matures.

c. The State Government shall ensure the availability of a functional Government Financial Information Management System (GIFMIS) or such other application, that enables it to handle the different aspects of its activities, covering; budgeting, budget control, transactions workflow management, chart of accounts management, payables & receivables ledger management, Purchase Requisition Management, Purchase Order Management, Supplier & Vendor Payments Processing, Revenue Receipting, Treasury Management, Transactions Monitoring, Reconciliation, Payment Gateway Interface, Reporting & Data Analytics, etc.

d. The State Government shall ensure the availability of basic Information Technology infrastructure and training programs required for the successful implementation and ongoing support of the TSA scheme.

1.8 Acts Instituted by Government to Strengthen Treasury Single Account (TSA) in Nigeria

1. Fiscal Responsibility Acts (2007): These are economic tools designed to enhance fiscal prudence by placing statutory obligations on federal, state and local governments to commit to transparent fiscal, budget practices and economic objectives that can be evaluated overtime

2. CBN 2015 Guidelines for Compliance with Treasury Single Account by Banks in Nigeria.
3. The Constitution of Federal Republic of Nigeria, 1999 (as amended), Section 8.

2 SECTION TWO: REVIEW OF PREVIOUS CASH MANAGEMENT ARRANGEMENT

2.1 The "Treasury Single Account"

Under this strategy, the plan is to improve the system with the long-term objective of having a comprehensive TSA which involves a unified structure of Government Bank Accounts in a single account for all receipts and payments. The medium-term aim of the strategy is having a TSA system with a set of linked accounts for all Government payments and receipts. The new system will have the ability to consolidate bank account balances and provide real time government cash position at all times.

A dashboard will be created to provide at a glance view of the cash balances for authorized government officials. This will provide information on a continuous basis to enable the Treasury takes full control of the financials with the ability to identify and sweep all idle balances. The primary objective of the TSA is to bring all Government funds in bank accounts within the effective control and operational purview of the State Treasury.

The purpose is to:

i. Have centralized, transparent and accountable revenue management;
ii. Facilitate effective cash management to ensure cash availability;
iii. Centralize and improve efficiency in payment;
iv. Allow optimal investment of idle cash and improve liquidity management; and
v. Eliminate operational inefficiencies and costs associated with maintaining multiple accounts across multiple financial institutions.

Major features of the new arrangement would include the following among others:

- No new bank account, under any guise, shall be opened without Treasury approval and all accounts must be within the purview and oversight of the Treasury.
- All revenues must be paid through the central revenue account;
- All MDA bank accounts will be linked to the TSA;
- The consolidation of government cash resources will take place on a basis
- daily at the close of business;
- All cash balances in excess of N5 million that sit for maximum of four weeks in any MDA bank account will be swept back to the TSA. This amount will be appropriately reviewed periodically and communicated through Treasury circulars;

- All capital expenditure, salary and pension and payments of major overhead cost items like institutional feeding, and payment of examinations fees and others in excess of ₦10 million will be centrally made;
- Payments to be as much as possible via end-to-end and other modern e-based payment methods.

The long-term vision is to operate the treasury reference model in which there is a single banker for the government. The target for achieving is 2025 by which time, the implementation of the State Integrated Financial Management Information System will be fully functional.

3 SECTION THREE: CASH MANAGEMENT STRATEGY

3.1 Institutional Arrangement for Cash Management in Bauchi

Although there is no definite institutional arrangement for cash management, however, a good practice is to set up a Cash Management Unit or its equivalent in the Ministry of Finance and to review and consolidate periodic cash flow plans and reports provided by the spending MDAs. It is important to note that the location of the unit is not sacrosanct as there are cases where it is located in the Treasury or Accountant General's Office, Budget Department or Debt Management Office.

Typically, however, the unit is staffed by 3 – 5 professionals, on a full-time basis. They are experienced in planning, budgeting and financial management, control and reporting.

The main functions of the Unit will usually include:

i. Developing and administering cash management manual and guidelines that include uniform templates for cash projections and timelines for the submission of projections;
ii. Establishing a schedule of regular cash review meetings with the main stakeholders and opening lines of communication with other government agencies;
iii. Arranging for capacity building initiatives in the area of cash management, including the organization of regular training sessions and seminars;
iv. Coordinating the submission of prescribed cash flow projections by the cash management committees in line ministries;
v. Reviewing, validating, consolidating and analyzing the projections received from line ministries;
vi. Reviewing, validating, and analyzing cash balances in the bank accounts of government agencies;

vii. Monitoring and reviewing the alignment of cash flows forecasts with the procurement plans submitted by the line ministries and seeking necessary clarifications;
viii. Submitting cash flow analysis and recommendations on future cash requirements to the liquidity committee;
ix. Collaborating with those responsible for debt management to ensure that the very short-term focus of in-year cash management is consistent with the more long-term outlook of debt management;
x. Collaborating with the banks to ensure that the short-term in-year cash management recommendations are consistent with the monetary policy requirements;
xi. Interacting with the revenue authorities, major line ministries and the banks to exchange information on major receipts and payments and the daily cash position;
xii. Monitoring transfers and subventions to MDAs to ensure that these subventions and transfers are made according to cash plans submitted by these entities and are need-based; and
xiii. Establishing networks with cash managers in government organisations for continuing evaluation and mitigation of risks to cash management.

3.2 Procedural Approach for Cash Management

Achieving the cash management objectives requires the deployment of tools and instruments which are guided by a procedural framework, especially since there are regular and routine activities. A sound cash management strategy, therefore, should identify not only possible instruments for operationalising the strategy but also include clear procedural guidelines for applying those instruments.

For example, the procedural framework should discuss mechanism for the integration of the centrally approved top-down estimates based on macroeconomic assumptions, government priorities and historical trends with bottom-up periodic (quarterly, monthly and daily) reports.

Similarly, the framework should describe cash forecasting procedures that guide and predict continuing budget baseline, and also identify and prioritise significant cash flows and reasonable projection of planned expenditures and revenues. Cash management instruments, which include tools for systematically organising the process of forecasting, collecting, accounting and disbursing cash resources, should be discussed extensively in a cash management strategy or policy.

Instruments generally used include:

- Cash forecasting and planning;
- Treasury single accounts (TSAs) for centralization, consolidation and management of Government's cash resources;
- Investments for optimizing idle funds;
- Debts, which could be through using tax anticipation notes (TAN), revenue anticipation notes (RAN) etc.

While investment and debts as instruments can be captured in separate policy documents, their use for cash management purposes should be highlighted in any sound strategy.

The main purpose of the TSA is to have a system whereby a single account with a number of linked sub-accounts will be maintained starting with Treasury Central Accounts and gradually extended to cover all Government Agencies.

The Accountant-General (AG) will maintain a bank account database through which all balances in government bank accounts can be viewed. A single account will be maintained for IGR collection and payment.

Each MDA will be allowed to have one expenditure account for overhead transactions. Other than overhead remittances to MDAs all payments will be centralized.

Balances in MDA bank accounts that sit for a specified period of time will automatically be swept.

MDAs will not be allowed to have more than one expenditure account such as Special Project Accounts managed with external development grants. In the same vein, payments would be centrally controlled by the Treasury above certain threshold as may be determined from the time to time by the State Government.

4 SECTION FOUR: THE ROLE OF TREASURY AND TREASURY MANAGEMENT

4.1 Review of Previous Treasury Management System

- As earlier stated, the State has long ago moved toward TSA by significantly reducing the number of bank accounts and the centralization of IGR.
- On the expense side, presently, over 7O% of total expenditure payments are made centrally through the Treasury.
- Specifically, all capital expenditure payments and staff salaries and pensions are centrally paid. However, about 7O% of overheads are remitted to the MDAs by the treasury through releases made into their respective bank accounts.
- The Accountant General maintains a bank account database which gives him an overview of all government bank accounts. The account into which all IGR collections are deposited is reconciled monthly as a minimum and swept to central expenditure account routinely.

The scenario is that the treasury represents the government pay office while the MDAs manage their own expenditures.

- Bauchi State Government will see to it that it harnesses fully the option of **Internally Generated Revenue (IGR)** as a medium of generating revenue and increasing its revenue base. The state Government will achieve this only with the existence of an efficient Treasury Department being put in place. The Treasury Department will be guided by the Legal framework that will be put in place to perform its role as the live wire of the Government.
- The Treasury department is responsible for the generation and collection of external and internal revenue due to the state government, the judicious utilization/disbursement of revenue collected and the preparation of annual budget for consideration of the finance committee and subsequent approval by the approving authority.
- The Treasury is responsible for managing the financial resources of the government and as such plays a key role in budget management and delivery.
- Exercising financial control is one of the primary functions of the Treasury. This entails putting in place processes, systems and procedure that ensure mobilization of financial resources economically and their effective and

efficient utilization in budgetary execution.

- Simply put, collecting and disbursing funds in a manner that safeguards government financial resources while ensuring efficient utilization.
- The Accountant-General, as Head of the Treasury derives its powers from the General Release Warrant signed by the Governor to disburse funds from the consolidated revenue fund of the State in a manner that ensures effective execution of the budget. Therefore, repositioning the State Treasury is a key functional undertaking of the ongoing PFM reforms.
- The objective is to strengthen the overall treasury management to enable the Treasury perform its functions and deliver on its mandate.

The strategy aims at improving the cash management system to meet the requirement of modern treasury management.

Key aspects of the strategy include:

- Integration of TSA with a single account and other subsidiary accounts including the central revenue accounts that are swept on a timely basis. This arrangement will also allow the consolidation of bank account balances and enable the Treasury to determine the overall government financial position on real time basis.
- This would require instituting a sort of an electronic control panel that gives authorized personnel a central view (either on individual basis or consolidated basis) of all Government Accounts across all MDAs;
- Application of cash forecasting and preparation of annual cash plan including budget profiling to facilitate efficient disbursement of funds to MDAs in accordance with their spending plans;
- Engaging IT support through the upgrade of the existing IFMIS to facilitate the automation of processes and improve efficiency; the system will be interfaced with the banks through reliable platforms to facilitate timely electronic clearance and payment arrangements
- Changes in organizational structure to suit the new cash management system and arrangements;
- Updating the legal and other institutional frameworks;
- Review of procedures and processes in line with the changes introduced;
- Human resource development in form of staff deployment and training
- The repositioned Treasury will be staffed and adequately equipped to carry out its functions including:

4.2 Functions of Treasury Department in Enhancing Revenue in Bauchi State

- **Management of Government Bank Accounts:**
  The Treasury department has the responsibility of supervising Government bank accounts (including all extra-budgetary funds). All banking arrangement must be negotiated by the Treasury department; this would enable government select the banks with better opportunities and services such as:
    - ✓ Lower interest on borrowings,
    - ✓ Higher interest on savings,
    - ✓ Lower commission on turnover and faster services etc.

  The treasurer is expected to receive regularly (by month-end) a statement from the state Government's Banks. **This statement must be critically analyzed for the purpose of preparing a reconciliation to ensure there is no form of fraud or error that has taken place.**

- **Debt Management:** In order to avoid a situation of uncontrolled indebtedness, the treasurer will be the only one as the finance director, permitted to borrow money on behalf of the state Government. The money borrowed should either be channeled into projects (project loans) or for financing budget deficit. The state Government in fulfillment of its accountability function is expected to disclose to the relevant legislation its level of indebtedness and publish statistics of the government debt.

- **Cash Management:**
  i. Cash Management can be defined as having the right amount of money to fund government expenditure in a timely manner as well as meeting its obligation as they fall due.

  ii. Cash Management involves basically the control of cash inflows (that is, revenue collected either by the treasury department or commercial banks which must be swiftly processed and made available for use), control of cash outflows (this is to ensure the sufficiency of cash until the due date of payment) and control of disbursements (to ensure that all payment made are within the budget and there is no form of miss-management of funds).

  iii. **Management of Foreign Grants and Aid:** All forms of grant (in cash or in kind) must be duly budgeted and expenditures financed using grant must be subjected to thorough scrutiny by the treasury officer. This is to ensure that there is no form of miss-appropriation of fund or misplacement of priority.

iv. **Management of Government Financial Asset:** The treasury department is expected to manage the government shares in companies and to manage loans granted by the government. The treasury department is expected to do this by ensuring the authorization of disbursements and tracking payments. The treasury department gets vivid information of those companies where the state Government holds shares on capital appreciation, share dividend, bonus shares etc.

- **Financial Planning and Forecasting:** Financial planning involves the preparation of budget implementation plan, annual and monthly cash plan and monthly forecast. These various plans must be prepared by the Treasury department to ensure that cash outflows are compatible with cash inflows, and just in case borrowings are needed, to ensure that borrowing plans are in place.

- **Financial Control:** Financial control can be defined as the process which assures that financial resources are obtained economically and used effectively and efficiently for the purpose of actualizing set goals.

- **Preparation, Expenditure and Control of Budget:**

i. Here, the Treasury department passes a form across to several heads of department within the confines of the State Government. This form enables them disclose the information relating to their financial needs and the various persons and things required to aid the fulfillment of those needs.
ii. Once these forms are filled, they are passed back to the Treasury department and this department makes this financial need known to the legislation for approval (and of course this is also subject to prior scrutiny by the Treasurer before he presents it to the legislation).
iii. The Treasury is therefore expected to presents the budget which would now be a compilation of the various financial needs received from the various departments.

- **Risk Management:** One of the most important functions of the Treasury department is management and control of risks associated with treasury activities.

  Some of these risks are:

  a) Liquidity Risk (Risk that the state Government would run out of cash needed to carry out its activities),

b) Interest Rate Risk (Risk that the State Government fails to get good value for its cash dealings),
c) Inflation risk (Risk that growth in the authority's investment income does not keep pace with the effect of inflation on its outgoings).

- **Books of Account**

  The purpose of accounting is to provide relevant and reliable accounting information to users to aid decision making. To unable the provision of this information, the treasury department is therefore expected to keep proper books of accounts, records and forms to enable the documentation of government transactions on a daily basis. The books of account to be kept include: cashbook, ledgers, journals, records of assets and liabilities, stores receipt etc.

- **Stores Administration:** For every item needed in the State Government due approval must be gotten from the Treasurer and his approval is subject to consideration of factors such as: availability of the item within the budget, availability of adequate money to cover such item, necessity/urgency of such item and his level of authority to approve such expenditure.

- **Maintenance of Bank Relationship**. This will involve holding regular meetings with government bankers to discuss and review issues relating to bank charges/fees, forex, overdraft facility, wire transfers and TSA. This will also include periodic evaluation of the performance of government bankers. A unit under the Department of Treasury Operations (DTO) will be created to perform this function/task;

- **Fund Raising.** The Treasury would be strengthened to be in a position to provide advice on:

  a. Short-term financing
  b. Access to capital market for medium to long-term financing.

- **Ensuring treasury control which involves:**

  a. **Fund Control** in terms of management of legislative appropriations to ensure that commitments and expenditure do not exceed appropriations. Notwithstanding, Budget and Economic Planning Directorate, Due Process & Project Monitoring Bureau and indeed, the MDAs, all have critical roles to play in ensuring effective Fund Control in the State's Financial Management processes.

  b. **Budget Expenditure Control** relating to Vote Control i.e., in terms of monitoring of budgeted versus actual flows for receipts and payments.

c. **Regular bank reconciliation.**

d. **Bank Accounts Oversight** and consolidation of balances to identify idle cash and debit balances.

e. **Internal Auditing** to ensure compliance and fidelity of expenditure.

f. **Commitments Control** in order to have an overview and keep commitments within tolerable limits.

The Treasury, through its various Departments and Units, would ensure that these key treasury functions are effectively discharge on a continuous basis.

- **Payments:** The efficiency in making payments to beneficiaries will be significantly improved by deploying effective payment methods (pay direct, end-to-end and other recognized e-payment methods). In addition, the period of processing payment will be reviewed and significantly reduced taking maximum advantage offered by existing technologies.

5 SECTION FIVE: OVERVIEW OF CASH MANAGEMENT STRATEGY

As part of the PFM reform agenda, BSG is putting in place a Cash Management Strategy with a view to reposition the Treasury to take full control of the overall State's Financial Management process as to instill economy, efficiency and effectiveness in the process and to play a leading role in the budget execution process

5.1 The Benefits of Efficient Cash Management

The benefits of a government operating a Treasury Single Account (TSA) are that it:

i. Allows complete and timely information on government cash resources
ii. Improves appropriation
iii. Improves operational control during budget execution
iv. Enables efficient cash management
v. Reduces bank fees and transaction costs
vi. Facilitates efficient payment mechanisms
vii. Improves bank reconciliation and quality of fiscal data
viii. Lowers liquidity reserve needs.

Other benefits include:

- TSA is a tool to combat corrupt practices.
- Eliminate indiscipline in public finance.

- Ensure adequate fund flow for economy development.

- Blocking of Leakages that have stunted the growth of the economy as government would have funds to invest in capital projects thereby stimulating various sectors of the economy.
- Ensuring accountability of government receipts and expenditure: the implementation of TSA is a critical step towards curbing corruption in public finance.
- Promotion of transparency, reduction of corruption and diversion of public funds, elimination of idle funds left in numerous accounts in commercial banks usually used to bear interest for corrupt entities and easier reconciliation of revenue collections and payments.

The linkage of government accounts (so that balances are netted through a single account at the central bank), not only reduces gross balances, it **improves visibility** of flows – opening up the opportunities for active management – and **reduces risk**, whether in terms of exposure to the banking system or to financial market movements.

Accordingly, the cash management system will be strengthened in a way that will enable the Treasury to deliver its mandate. A key target of the strategy is to align cash availability with the spending plan of MDAs so as to guarantee predictable flow of financial resources in order to facilitate the delivery of services to the citizens of the state. Another target is to improve the receipts and payments system by introducing the TSA.

The overall aim of the Strategy is putting in place a pro-active cash management that supports efficient budget release system to ensure predictable flow of funds to MDAs in line with their spending plans. This will facilitate the execution of the budget as planned and attain the highest degree of budget delivery. This is in addition to improving the efficiency of receipt and payment systems.

A key objective of the Strategy is therefore to enhance the credibility of the budget as the medium through which government implements its policies and plans to achieve its socioeconomic development objectives its policy priorities. For this purpose, one plan of the strategy is to strengthen the cash planning process in line with the provision of the Fiscal Responsibility Law (FRL), this will involve the profiling of revenue and expenditure as per the approved budget to determine cash availability and underpin spending accordingly.

At the beginning of the financial year, the Treasury will forecast monthly cash availability based on the approved revenue estimates. A robust tool will be used in order to enhance the accuracy of forecasting result. Under the guidance and coordination of the Ministry of Economic Development, the MDAs will prepare expenditure profiles (work or spending plans) indicating their cash requirement for meeting their needs to execute the budget.

The revenue and expenditure profiles will thereafter be integrated to produce the annual cash plan which aligns the cash inflow with the cash outflow. Once approved by the Governor/EXCO, the annual cash plan forms the basis for budget releases.

Predictability of availability of funds is a very important aspect of effective budget execution. Under the new system, this will be enhanced by sharing timely and reliable information with MDAs regarding when and how much will be released during the financial year. The new system entails a more comprehensive and inclusive cash planning arrangement as against the monthly cash flow schedule solely prepared by the Treasury irrespective of the situation at the MDAs level.

Being a sort of bottom-top approach with inputs derived from the MDAs, this allows alignment with timings of cash requirements in budge execution in accordance with budget priorities. Even as the Treasury makes its cash-flow forecasts, it takes into consideration the MDA budget implementation profiles. Predictability of cash flow thus becomes more assured than it used to be with greater improvements in budget execution in accordance with its priorities.

Moreover, the new system will enable the Treasury to monitor cash flow fluctuations, identify periods of surplus and shortfall and be in a better position to manage them. Another important aspect of the Strategy is the creation of efficient receipt and payment environment through a system of centralization of IGR collection and expenditure payment leveraging of technology and emerging financial management practices.

Another advantage of the Strategy is that the Treasury will be in a better position to establish and maintain a sustainable liquidity position by ensuring availability of cash sufficient enough to meet government obligations and maintain optimum service level. The minimum is for the government to be in a position to pay salaries and pensions, interests and debt and meet minimum level of essential services including honouring its certified financial obligations.

One of the outcomes of the Cash Management Strategy is to raise the level of confidence in the budget system of the state among all stakeholders (civil servants, contractors and taxpayers) that do business with the government as well as meet the expectations of the general public.

The second main plan of the strategy will be the pursuit of the **Treasury Single Account (TSA)** policy in order to control bank related transactions and safeguard government funds. The plan is for all receipts and payments to pass through the TSA system.

Implementation of the TSA will provide the means for the Treasury to have a total overview of Government financial position and enable it have full control of the financial resources of the state.

Other aspects of the strategy include lowering financial transaction costs, use of modern IT platforms to improve the efficiency of receipts and payments.

All these will entail the review of existing procedures and processes in order to adapt them to suit the needs of the changes to be introduced. It will also entail the acquisition of appropriate equipment together with commensurate skills through staff training and redeployments.

A key component of this will also include leveraging on technology for the Treasury to instituting a system that allows it to have real-time information on cash balances across its central accounts and across MDAs (including special project accounts by whosoever maintained).

The strategy aims at improving the cash management system to meet the requirement of modern treasury management.

Key aspects of the strategy include:

1. Adopting full TSA with a single account and other subsidiary accounts including the central revenue accounts that are swept on a timely basis.

2. Introduction of cash forecasting and preparation of annual cash plan including budget profiling.

3. IT enhancement support through the upgrade of the existing IFMIS.
4. Changes in organizational structure to suit the new cash management system.
5. Updating the legal set-up and making amendments where appropriate.
6. Review of procedures and processes.
7. Human resource development in the form of staff deployment and training.

5.2 Information and Communication Technology (ICT) for Cash Management

The importance of Information and Communication Technology for cash management cannot be over-emphasized, especially since government financial transactions are sometimes in high volume and require high computability on the part of the Government, not only to monitor transactions with vendors but also manage relationship with financial institutions.

Recently, countries and states have been encouraged to implement an Integrated Financial Information System (IFMIS), which will help governments to cope with high volumes of electronic revenue and expenditure transactions across large geographical regions.

Furthermore, zero-balancing of all government accounts can be undertaken daily while committed amounts for future payments can be automatically included within cash plans and spreadsheet analysis of actual cash inflow and outflow versus forecasts can be performed for thousands of line items seamlessly.

The recording of transactions for seamless monitoring and reporting can also be achieved.

There are different ways of configuring cash planning module in a standardized IFMIS: bottom-up to enter cash flow plans, validate them against macro-economic indicators, and check consistency with procurement plans at the spending units, OR top-down to consolidate and analyse cash-flow plans submitted by spending units, and interface with debt and investment databases at the cash management unit.

The following modules can be configured as an integrated component of the overall IFMIS solution with the following features, among others:

i. Expenditure controls;
ii. Forecasting;
iii. Interface with external systems to retrieve information on large taxpayer transactions;
iv. Debt management;
v. Automated procurement procedures;
vi. Automatic reconciliation of bank transactions with systems transactions;
vii. Retrieval of information on cash inflows;
viii. Retrieval of information on cash outflows;
ix. Debt servicing transactions;
x. Local government balances; and data entry and validation at the source, ensuring the quality of budget execution data used for cash management;
xi. Data entry and validation at the source, ensuring the quality of budget execution data used for cash management.

While IFMIS enhances the quality and timeliness of data required for cash management, the other advantages include:

i. Availability of comprehensive databases of historical revenues and expenditures;

ii. Beginning-to-end data processing that enables automatic access to bottom-up cash flow projections which can be used to investigate variances from the cash plan; and
iii. Seamless automation of payment data through the possibility of interfacing IFMIS systems with banks and with systems operating in spending units.

5.3 Application of Cash Management Strategy

A Technical Note by the International Monetary Fund (IMF) on cash management suggests that the speed at which cash management can be improved depends on:

i. The starting point, especially the extent to which the basic conditions for effective cash management are in place;
ii. The willingness of authorities to move ahead, including confronting resistance to reforms that provide full treasury oversight of all government bank accounts, as well as enhancing the transparency of all government operations at the transaction level;
iii. The infrastructure available for rapid transfer of funds by electronic means;
iv. The degree to which financial markets have developed, including end-of-day bank account "sweeping" and financial market instruments available for daily cash management; and
v. Human capacity and organizational arrangements.

The fundamental features of cash management considered as preconditions for developing effective modern cash management are:

i. Centralization of government cash balances and establishment of a TSA structure;
ii. A clear understanding of the coverage of the cash planning framework;
iii. The ability to make accurate projections of short-term cash inflows and outflows;
iv. And adequate transaction processing and accounting framework;
v. Timely information sharing between the central Treasury, revenue-collecting agencies, spending ministries and Treasury branch offices; and
vi. Appropriate institutional arrangements and responsibilities.

6 SECTION SIX: LEGAL, INSTITUTIONAL AND REGULATORY FRAMEWORK FOR CASH MANAGEMENT IN BAUCHI STATE

6.1 Legal and Regulatory Framework for Bauchi State's Cash Management

The fundamental law governing the Cash Management Strategy in Bauchi State is the 1999 constitution as amended. Section 120 and 121 of the Constitution provides for a consolidated revenue fund for states of the federation into which all revenues or money raised or received by a state are to be paid and appropriated in accordance with a law of the State House of Assembly (SHoA).

It provides that no money shall be withdrawn from the Consolidated Revenue Fund of the State except to meet expenditure that is charged upon by the Constitution or where the issue of that money has been authorized by an Appropriation Law, Supplementary Appropriation Law or Law passed in pursuance of section 121. The constitution provides clearly that the Appropriation Law shall authorize the Executive arm of government to withdraw and spend amounts specified from the CRF.

Other than the Nigerian Constitution, the following are some of the laws and regulations that also govern Bauchi State Cash Management Strategy:

a. Bauchi State Fiscal Responsibility Law.
b. Bauchi State Bureau for Public Procurement Law.
c. Bauchi State Revenue Integration and Consolidation Law 2019.
d. Bauchi State Financial Regulations.
e. Occasional Treasury Circulars issued by the Office of the Accountant General of Bauchi State for additional rules and guidelines in respect of accounting processes and cash handling.

6.2 Institutional Framework for Cash Management in Bauchi State

6.2.1 Executive Governor

The Constitution vests the executive powers of the State in the hands of the Governor. Sections 121(1) provides that the Governor shall cause to be prepared and laid before the House of Assembly at any time before the commencement of each financial year estimates of the revenues and expenditure of the State for the following financial year.

The Governor of Bauchi State exercises these executive powers directly or through his designates such as the Deputy Governor, the Commissioners, Special Advisers, Permanent Secretaries, Accountant-General and other officers in the public service of Bauchi State.

6.2.2 Institutional Arrangements

Bauchi State Cash Management Strategy is implemented through the following institutions:

a. Bauchi State Executive Council formulates the priorities of the State Government and recommends State Budget to the State House of Assembly.
b. Bauchi State House of Assembly analyses, reviews, and passes the appropriation bill which, upon the Governor's accent, becomes Law.
c. The Ministry of Finance is the main organ of the Bauchi State Government Executive Council for the execution of its fiscal policy.

d. The Office of the Accountant-General (OAG) maintains accounting policies and procedures, supervises and inspects the accounting operations of all MDAs, inspects and monitors all revenue collectors, thereby accounting for the State Government's revenue and expenditure, and safe custody of all revenue records, including soft and hard copies of financial documents.

e. The OAG is responsible for fund management, expenditure controls of all MDAs, investment of surplus short-term funds, a compilation of monthly and annual financial statements of accounts, treasury operations, and maintenance of all bank accounts. The OAG shall deploy account staff to all MDAs. It is, therefore, an important and crucial institution for the management of Bauchi State Cash Management Strategy.

f. Bauchi State Board of Internal Revenue is the sole institution responsible for the collection of all internally generated revenue accruing to the State from all sources. It executes the State policies on taxation, stamp duties, motor vehicles licensing, fees and all forms of levies.

g. Bauchi State Ministry of Budget and Economic Planning co-ordinates the preparation of the State's Annual Estimates in line with the State Development Plan (long and medium). The Ministry leads in the formulation of tools and tracking of the implementation of plans and budget.

h. Bauchi State Bureau of Statistics provides critical data necessary to drive development plan, review its implementation and monitor the impact of government activities on the citizens. This institution provides critical data needed for planning and reviews of the outcome of government programmes which are critical for determining usage and deployment of scarce government resources.

i. Debt management Office is responsible for executing transactions in financial markets, including the management of auctions and other forms of borrowing. It is responsible for external debt negotiations, other forms of negotiations, and all other funding operations. It is also responsible for keeping track of all government local and foreign debts.

7 SECTION SEVEN: CASH MANAGEMENT POLICY

7.1 Cash Planning/Forecasting

As earlier hinted, comprehensive forecast cash with an elaborate annual cash plan that provides strong basis for cash releases to execute the budget by the Treasury was not part of the norm of the Treasury management practices.

The custom was largely limited to the preparation of monthly schedule of cash release for Governor's approval which is done immediately after the receipts of funds from the Federation Account (FAAC) being the main source of revenue. With the new Cash Management Strategy, there will be a departure from this tradition to a more pro-active and comprehensive cash forecasting system.

This involves the profiling of budgeted revenues and expenditures by preparing forecasts of monthly cash inflows and outflows for the fiscal year. Bauchi State has also established three Committees to drive the realization of its Cash Management Strategy.

The Committees shall be responsible for profiling the revenue and expenditure of the State and providing critical inputs toward the attainment of the Cash Management Strategy objectives earlier listed. The terms of reference and composition of the Committees are provided in the annex to this document. The Committees are:

7.1.1 Revenue Profile

This will be done by revenue profiling committee. Revenue Profiling Committee, chaired by the Accountant General, is responsible for collaborating and working with the Board of Internal Revenue to prepare the State revenue profiles

This entails cash forecasting to prepare revenue profile that shows the monthly inflow of revenues (mainly recurrent revenues) based on budgeted revenue figures and statistical/historical trends. As for capital receipts, the forecast will depend on the terms or conditions of loans or grants.

The Treasury will perform this function through the application of a forecasting tool capable of producing robust and accurate forecasts.

As part of the process the Treasury will also be tracking performance by comparing forecasts against actual revenue inflows. This will provide the basis for in-year review and re-forecast.

7.1.2 Expenditure Profile

This will be done by expenditure profiling committee. Expenditure Profiling Committee, chaired by the Honorable Commissioner for Budget and Economic Planning, is responsible for working with the MDAs to prepare the expenditure profiles for recurrent and capital expenditure.

The expenditure profile shows the outflow of cash for recurrent and capital expenditure on a monthly basis for the budgeted expenditure, based on prior trend of expenditure for recurrent, and based on capital project work-plans for capital expenditure. The expenditure profile is a decentralized function performed by the MDAs but consolidated centrally by the Ministry of Budget and Economic Planning.

7.1.3 Cash Plan

This will be done by cash planning Cash Planning Committee, chaired by the Honorable Commissioner of Finance. The responsibility of this committee is to align the expenditure and revenue profiles together to create annual Cash Plan. The two profiles for revenue and expenditure will be integrated to form the annual cash plan.

This process will enable the Treasury to identify in advance periods of cash shortfall and surplus. Armed with this the Treasury will be in a better position to manage the fluctuations by way of putting appropriate remedial measures (such as borrowing, investing or saving, shifting of expenditure as the case may be).

7.2 In-Year Performance Assessment and Re-forecast

The forecasting model/tool to be used by the Treasury will have capability to assess in-year performance and adjust the cash-flow forecast at the appropriate time. The model is also capable of making “re-forecast” based on the current cumulative performance level. Committee, chaired by PS Budget and Planning, is responsible for working with MDA's to prepare the expenditure profiles for both recurrent and capital expenditure.

7.3 Cash Disbursement

Cash disbursement depends on the receipt of statutory allocations and VAT from the FAAC as well as IGR collection. Considered as the first charge, the State prioritizes the payment of monthly salaries and pensions which are released before anything else after the receipt of the FAAC allocations.

These are followed by special releases or standing orders for overhead costs remitted to Government Agencies and for non-routine expenditures such as institutional feeding and payment for utilities.

Payments for certified capital expenditure would largely depend on recurrent revenue surplus after meeting monthly recurrent expenditure. These are based on Payment Vouchers from the implementing agencies prepared on the basis of Due Process Payment Certificates.

Outstanding Capital Expenditure payments are normally included in the monthly cash statements approved by the Governor prior to execution of payments. With effective cash management strategy, payments and or disbursement would largely be based on the plan, with less subjectivity and generally directed towards achieving the strategic development objectives of Government as contained in the approved budget.

All disbursement of funds will be generally guided by the annual cash plan approved by the State Executive Council. Having provided inputs into the budget profiles developed by the Directorate of Budget and Economic Planning, MDAs will also be guided by it in making periodic requests for non-routine expenditures such as payment for examination fees already factored into the Cash Plan based on the timing of the budget profiles. This requires circulation of the annual cash plan to all MDAs so that they are guided by it in budget implementation.

7.4 Revenue Management

There are two major sources of recurrent revenues – the monthly allocations received from FAAC and the IGR. There are also financing items such as LGAs contributions for joint-funded expenditures and other earmarked funds for the execution of projects and program i.e., loans and grants. In line with the constitutional provision there exists a consolidated revenue fund account into which all FAAC receipts and IGR collections are deposited.

In order to minimize leakages and have effective control over IGR, revenue payments are made directly into the State revenue accounts. While payments could be made in any bank branch, this directly goes into the single State Revenue Bank Account. While responsible MDAs could also collect revenues under their jurisdictions, all collections have to be deposited into that same central revenue account.

Cash payments for IGR are no longer permitted. While there would be mechanisms for return of revenues to self-financing MDAs (parastatals), this would be subject to periodic guidelines as approved by the Treasury and based on the approved budgetary provisions.

7.5 Commitment Control

While the ongoing SIFMIS project will ultimately replace the existing manual commitment controls whereby the system will record all matured payments and provide required information on contractor liability and other outstanding obligations as and when due, the Cash Management Strategy will still try strengthen the existing system.

The DTO will be preparing periodic report (monthly) on the status of outstanding commitments particularly contractor liability. The current stock of commitments will be reviewed and continuously updated to support both the monthly annual cash plans and monthly cash flows.

8 SECTION EIGHT: OPERATIONAL STRUCTURE FOR CASH MANAGEMENT IN BAUCHI STATE

In Managing Cash in Bauchi State, Cash is considered in terms of inflows and outflows.

8.1 Operational Structure for Cash Inflows

The Cash Inflows for the State include:

1. Statutory Allocations
2. Internally Generated Revenue
3. Grants and Donations and
4. Loans and Advances (what we call Below the Line Accounts).

The key elements of the Cash Inflow procedure are:

1. No cash collection is allowed under any guise.
2. All revenue must be paid through the central revenue account.
3. All revenue collections accounts shall be linked to the Treasury Single Account.

4. Cash balances position shall be consolidated across all banks daily.
5. All cash balances in the revenue collection account in the commercial banks shall be swept into the Treasury Single Account on a monthly basis.
6. The use of POS and other electronic channels of collecting revenue is deployed and shall continue to be enhanced across all revenue collecting agencies.

8.2 Operational Structure for Cash Outflows

The anchor of the State Cash outflow strategy is the full adoption of the Treasury Single Account, which encompasses all processes geared toward efficiency in the use of government cash resources.

As part of the broader strategy, the following are the key strategies of the Government to drive in cash outflows:

1. Centralized disbursements of personnel emoluments and pensions
   Under this strategy, the State ensures an end-to-end payment of salaries, allowances, pensions, gratuities and all disbursements relating to employee benefits.

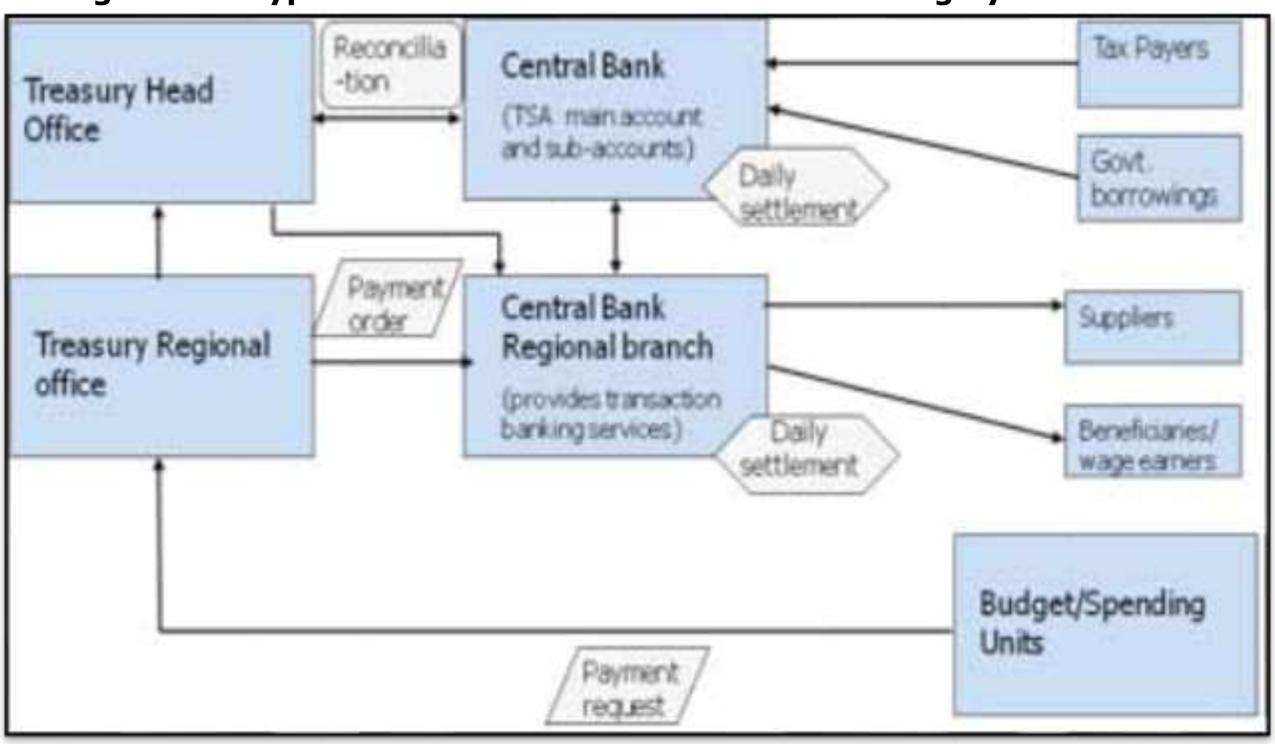
   Although the entire State personnel budget is decentralised by ministries and departments of Government, the release of cash to beneficiaries is centrally done. While all government departments and ministries are responsible for ensuring efficient deployment of human resources in the State, they are responsible for their own share of the personal budget. The settlement of all these expenditures is centrally done.
2. Print-outs are forwarded to MDAs to check and ensure they are complete and accurate. Where discrepancies of any nature exist, they should be reported within seven days for necessary corrections. All variations involving promotions, removal from payroll, and new appointments are to reach the Office of the Accountant General on or before the 10th day of each month. This is to ensure that MDAs take ownership of payroll to ensure that salaries are paid correctly and promptly.
3. This strategy seeks to endure that establishment circulars are adhered to regarding rates of allowances such as hardship, shifting, estacodes etc.
4. Gratuities and Pensions for a deceased pensioner are payable in court only.
5. No government bank account may be overdrawn, or any temporary advance obtained from a bank without the prior permission of the Accountant General and DMO.
6. A public officer who authorizes the payment of public fund to ghost-worker and knowingly processes such payment shall be charged for misconduct.
7. Central Disbursement to all Contractors:

Under this strategy, all payments to contractors in the State shall be managed centrally by the State treasury. Whereas MDAs are responsible for incurring expenditure based on the annual approved budget of the State, payment to all the engaged contractors shall be centrally made directly from the State's Treasury Single Account.

8. Use of Cash Allocation System to Manage Overhead at MDA Levels:
   Overheads relating to day-to-day management of the Ministries and Departments shall be released from Treasury using the approved budget as guide. Cash allocations shall be subject to retirement by various MDAs with the appropriate sanction of stopping further releases where a cash allocation is not retired within a reasonable time as may be defined by the State Accountant General.

9. Prompt Remittance of all Deductions Made at Source:
   All taxes deducted at source when making payments shall be remitted to the relevant tax authorities at the time of making the main payment to the beneficiaries. This is to prevent the accumulation of tax arrears and demonstrate from discipline.

Figure I. A Typical Centralized Transaction Processing System



9 SECTION NINE: RISK MANAGEMENT

9.1 Introduction

There are many **risks** associated with **cash** management. Risk management is, therefore, concerned with developing strategies to mitigate the risks and ensure the attainment of the State Goals and Developments Objectives. Risk in this context is the potential of losing something of value or diminishing the opportunities for gain as a result of a given action or inaction, which may negatively affect the achievement of government goals.

Thus, according to this definition, Risk is not only about the likelihood of a future loss, but it also addresses the potential of failure in making use of and missing an opportunity or gain. For this reason, Bauchi State intends to maintain a high-risk management efficiency to be able to maintain the course of her success, growth, and goal achievement.

9.2 Risks Elements in Cash Management

- **Cash Planning:** This involves forecasting of Cash Inflows and Outflows of Governments and MDAs.
- **Cash Flow Management:** This involves all process engaged for the collection and disbursements of cash.
- **Cost Control**: This consist of processes such as trend analysis, pricing intelligence and competitive bidding to identifying and minimize them while deriving optimum benefits.
- **Budget Carryovers:** This refers to the right to use any unspent appropriation beyond the period it was originally granted. This means that a spending agency can use some or all of what has not been spent on the previous year’s appropriation in addition to the current year’s budget allocation.

- **Cash Handling:** Cash Handling is the process used by the Treasury and MDAs to manage available cash in their custody.
- **Cash Balance Management:** Cash Balance Management involves strict monitoring of cash movement to ascertain the accuracy of reported cash balances across all accounts and financial reports.

9.3 Types of Risks and Mitigants

9.3.1 Operational Risks

Operational risks are the prospect of loss resulting from inadequate or failed procedures, systems or policies.

Common Risks in Cash Management include:

a. Misappropriation of advanced disbursements.

b. Cash may be lost, misused or diverted as a result of overstatement of expenditures or under-reporting of revenue.

c. Duplicate payments due to negligence or fraudulent intent.

d. The omission of critical transactions by employees.

e. Failures of Internet technology systems.

9.3.2 Credit Risks

This is that a financial loss will be encountered if a counterparty to a transaction does not fulfill its financial obligation in a timely manner. Credit risk is both short-term and long-term in nature. The Government will seek to maintain her credit ratings by ensuring that it meets her obligation through appropriate planning and deployment of cash management instruments.

9.3.3 Market Risks

This 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. The market is also known as systematic risk can be hedged against. The

State shall deploy appropriate mechanism toward the overall mitigation of this risk through interest swap, re-pricing/re-fixing of financial instruments.

9.3.4 Liquidity Risks

This is a risk that a Government may be unable to meet her short-term financial obligation as they become due. Liquidity is like fuel to a vehicle. Without liquidity, government activities will be stalled, and the ability to carry out basic responsibilities will be stalled, and the ability to carry out basic responsibilities will be stalled. A minimum criterion of liquidity is the ability of the State to meet commitments when due to undertake transactions on a timely basis.

9.4 Merits of Managing Cash Management Risks

a) Better utlisation of cash resources.
b) Minimise losses and maximise opportunities.
c) Improved efficiency in cash management.
d) Minimum disruptions in treasury management.
e) Proper safeguard of cash assets.
f) Avoid all forms of irrelevant costs.
g) Creates moral deterrent from committing fraud and theft.

9.5 General Risk Mitigation Measures

There are critical measures that must be employed to mitigate the risk of cash management. Bauchi State intends to engage the following:

a. Maintain regular, multiple and adequate backup of IT infrastructure, including developing a disaster recovery mechanism.

b. Regular Bank Reconciliation of all Government accounts.

c. Endorsement of all payment vouchers by the Internal Auditors before being sent to the Treasury for payment.

d. Training of all finance staff in cash handling and proper source documents maintenance.

e. Use of automated platform for all revenue collections, thereby avoiding the risk associated with cash collections.

f. Centralized disbursements of personnel emoluments, pensions and gratuities using an end-to-end payment platform.

g. Segregating duties for handling and managing collections.

9.6 Administration of Cash outside the Treasury

Cash held outside the Treasury simply refers to that which is maintained in Imprest Funds, Cash – in transit and below the line account (revolving fund) or negotiate instruments. Bauchi State Cash Management discourages the administration of fund outside Treasury account balance will only be possible if all accounts are administered by the TSA policies.

9.6.1 Guidelines for Handling Cash

Cash handling shall be done in accordance with Bauchi State Financial Regulations and other relevant guidelines for internal checks and controls. The Financial Regulation stipulates all documents and processes that must be complied with in cash handling.

The guidelines here include:

a. Proper documentation.

b. Compliance with approval work-flows mechanism.

c. Reconciliation of Deposit Withdrawals.

d. Online Payments through the electronic billing system, pay mode, or automated bill, etc.

e. Inventory control over receipt books.

9.6.1 Security in Cash Handling

The risk of losing cash can be mitigated by ensuring that cash is appropriately secured from misuse. The major approach of Bauchi State is to discourage the use of physical cash in her transactions and ensure that majority of her financial transactions are done through electronic or end to end payment system that ensures that funds reach intended destinations. However, Cash in respect of Imprest for small operational expenditure shall also be properly secured through:

a. Ensuring the Cashier Office is secured and safeguarded against fire outbreak;

b. Unused cash drawers shall remain in the vault storage during the day;

c. Keeping cash levels very low such that any amount above the defined threshold of Petty Cash shall not be kept but be deposited in the bank;

d. Maintenance of regular physical cash verification processes by the internal auditor;

e. Ensure access restriction to the vault storage;

f. 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 office;

g. Installing security cameras that can monitor all areas where cash is collected or handled, providing additional safeguard and moral deterrent toward cash mismanagement and other associated risks of cash handling.

9.7 Management of Idle Cash Balances

Investopedia defined idle funds as any cash that you haven't investment in an interest-bearing account or in the financial markets. When inflation is rising, the idle funds are in effect losing value as they are not even growing at the pace of rising costs. One of the goals of Bauchi State Cash Management Strategy is to minimize Idle Cash as much as possible.

With the adoption of the TSA model, the State will have unfettered and unified access to all her bank account balances, while easily monitoring movements and trends needed to identify cash balances that have become idle. In addition to the TSA model, the Revenue and Expenditure profiling coupled with the preparation of Cash Plan will enable the Government to forecast cash surplus and then decide on its investment over the period that the fund becomes idle.

Idle Cash Balances shall be utilized as follows:

- Deposit of the idle cash in an interest-bearing account or in the financial markets.
- Pay down debts and cut interest expense.
- Set up a sinking fund which is a reserve, to retire debts on annual installments.

10 SECTION TEN: THE STRUCTURE OF CASH PLANNING

Improved cash management in BSG is a critical step in assuring effective and efficient use of resources. Improved Cash Management can be achieved through the employment of expenditure profiling and revenue profiling.

Expenditure Profiling refers to scientific analysis by MDAs of their annual approved budget allocation and strategically apportion it on monthly demands. While on the other hand, Revenue Profiling refers to the analysis of revenue forecast for a given period (monthly).

Bringing the Expenditure Profile and the Revenue Profile together, analyzing issues (cash short-falls or surpluses) and proposing remedies constitutes Cash Planning and should result in a Budget Disbursement Schedule.

The desired result is to ensure optimum utilization of public funds among the equally important demands for public expenditure.

The structure of Cash Planning in BSG is as follows:

- Expenditure Profiling Committee, chaired by Director, State Budget Office, responsible for working with MDA's to prepare the expenditure profiles;

- Revenue Profiling Committee, chaired by Accountant-General, responsible for preparing the Revenue Profile;

- Expenditure Profiling and Revenue Profiling Committees report to the Cash Planning Committee, chaired by the Honourable Commissioner, Ministry of Finance, who bring the expenditure and revenue profiles together to create a Cash Plan; and

- Cash Planning Committee reports to Executive Council (ExCo).

10.1 Specific Responsibilities and Deadlines

The Cash Planning process should commence at the point where the draft budget is presented to the State House of Assembly (SHoA). The long-term target should be for all profiling and cash planning to be completed prior to the start of the budget implementation (i.e., prior to 1st of January). It is important that any changes to budget post SHoA approval must be retrospectively adjusted in the profiling templates/model.

10.2 Annex 1: Revenue Profiling Committee

1. Chairman	Accountant-General
2. Committee Member	Chairman IRS
3. Committee Member	Director Debt Management, Ministry of Finance
4. Committee Member	Director Final Accounts, Ministry of Finance
5. Committee Member	Director Revenue Mobilization, Ministry of Finance
6. Committee Member	Director Treasury Operations, Ministry of Finance
7. Committee Member	State Director of Economic Planning (MED)
Reports To	Cash Planning Committee

All Revenue Profiling Committee Members should ensure they are familiar with the Revenue Profiling Template.

In accordance with the above structure, a possible set of activities of Revenue Profiling Committee is presented below:

- Revenue Profiling Model populated with current budget data and historic data for 2013 to 2019 – by end of week 1 of budget approval.
- Revenue Profile Finalised – by end of week 2 of budget approval.
- It is also envisaged that the Revenue Profiling Committee should prepare a

brief report at the end of the process to highlight any issues/challenges that they have encountered and recommendations for future improvements to any aspects of the process, so as to improve and streamline the process for subsequent profiling exercises. This should be presented to the Cash Planning Committee by the end of week 3 of budget approval.

If at any point during the Revenue Profiling Process, significant issues or risks are identified that jeopardize the ability of the committee to complete its tasks on time, an Exception Report should be prepared and submitted to the Cash Planning Committee immediately.

10.3 Annex 2: Expenditure Profiling Committee

1. Chairman	Director, State Budget Office
2. Committee Member	Chairman IRS
3. Committee Member	Director, Debt Management Agency, Ministry of Finance
4. Committee Member	Director Final Accounts, Ministry of Finance
5. Committee Member	Director Revenue Mobilization, Ministry of Finance
6. Committee Member	Director Treasury Operations, Ministry of Finance
7. Committee Member	State Director of Economic Planning (MED)
Reports To	Cash Planning Committee

10.4 Annex 3: Cash Planning Committee

1. Chairman	Accountant-General
2. Committee Member	Chairman IRS
3. Committee Member	Director, Debt Management Agency, Ministry of Finance
4. Committee Member	Director, Final Accounts, Ministry of Finance
5. Committee Member	Director, Revenue Mobilization, Ministry of Finance
6. Committee Member	Director, Treasury Operations, Ministry of Finance
7. Committee Member	State Director of Economic Planning (MED)
Reports To	Cash Planning Committee

All Expenditure Profiling Committee Members should ensure that they are familiar with the Expenditure Profiling Template.

In accordance with the above structure, a possible set of activities is presented below for the **Expenditure Profiling Committee**:

- Prepare a set of instructions to be issued to MDAs prior to the expenditure profiling process – By the end of Week 2 after budget presentation.
- Prepare timetable for MDAs to visit the Expenditure Profiling Committee.
- By the end of Week Three, after budget presentation: Prepare and deliver Sensitization workshops to all MDAs on Expenditure profiling – by end of week

4 after budget presentation.

- Expenditure Profiling Committee should work with all MDAs to complete profiling in the provided template – weeks 4-5 after budget presentation.
- Consolidated Expenditure Profile prepared and Submitted to Cash Planning Committee - by end of week 5 after budget presentation.

It is also envisaged that the Expenditure Profiling Committee should prepare a brief report at the end of the process to highlight any issues/challenges that they have encountered and recommendations for future improvements to any aspects of the process, so as to improve and streamline the process for subsequent profiling exercises. This should be presented to the Cash Planning Committee by the end of week 6 after budget presentation.

If at any point during the Expenditure Profiling Process, significant issues or risks are identified that jeopardize the ability of the committee to complete its tasks on time, an Exception Report should be prepared and submitted to the Cash Planning Committee immediately.

10.4 Summary and Conclusion

In summary, Bauchi State intends to drive her development agenda through the full implementation of this Cash Management Strategy. The following are, therefore, the outcome of employing this Strategy:

1. All Government banking arrangement shall be unified with the Ministry of Finance having the full oversight of all Government cashflows across bank accounts using the Treasury Single Account Model.
2. Central disbursements of all Personnel costs such as salaries, allowances, pensions, gratuities, through an end-to-end electronic payment system.
3. Central disbursements of all payments to contractors through the State Treasury, regardless of the MDA or location of execution or engagement.
4. There shall be proper revenue and expenditure profiling toward the attainment of efficient cash plan which shall be subject to in-year performance review.
5. All cash balances in revenue collection accounts or TSA sub-accounts in all commercial banks shall be swept to the Treasury Single Account on a monthly basis.
6. No cash collection is allowed under any guise.
7. The temporary surplus in the TSA shall be invested in interest-bearing instruments with minimized idle balances.
8. Cash management risks shall be mitigated through continuous staff training, regular reviews or appraisal of performance, appropriate use of technology, planning, internal checks, audit and controls.
9. Use of cash is discouraged, and MDAs shall not keep cash above threshold as this will be communicated through circulars from the Office of the Accountant General of the State from time to time.