



Revenue & Treasury Management Conference – Mombasa

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Thursday, 27th February 2020

PRESENTATION OUTLINE



- ❖ Introduction and Overview
- ❖ Roles of Government Treasuries
- ❖ Cashflow forecasting & policy interaction
- ❖ Financial Management Cycle
- ❖ Government Fiscal Management Architecture
- ❖ Financial Accounting and Reporting
- ❖ The Audit Function
- ❖ Recommendations by IFAC
- ❖ Challenges facing government Treasuries
- ❖ Interaction Session

Introduction and Overview



- Treasury management is one of the most challenging and exciting disciplines within public sector financial management.
- This specialist area can often appear daunting due to the technicalities and size of the resources involved.
- Treasury management is defined as 'the corporate handling of all financial matters, the generation of external and internal funds for business, the management of currencies and cash flows and the complex strategies, policies and procedures of corporate finance.'
- Tight money, escalating interest rates and economic volatility have called for a specialized skills called 'treasury management.'

What is Treasury ?



- ❖ Treasury Management can be understood as the planning, organizing and controlling holding, funds and working capital of organization in order to make the best possible use of the funds, maintain organization`s liquidity, reduce the overall cost of funds, and mitigate operational and financial risk.
- ❖ Treasury management in public sector can be an autonomous MDA or a department within the Ministry of Finance with defined mandate.

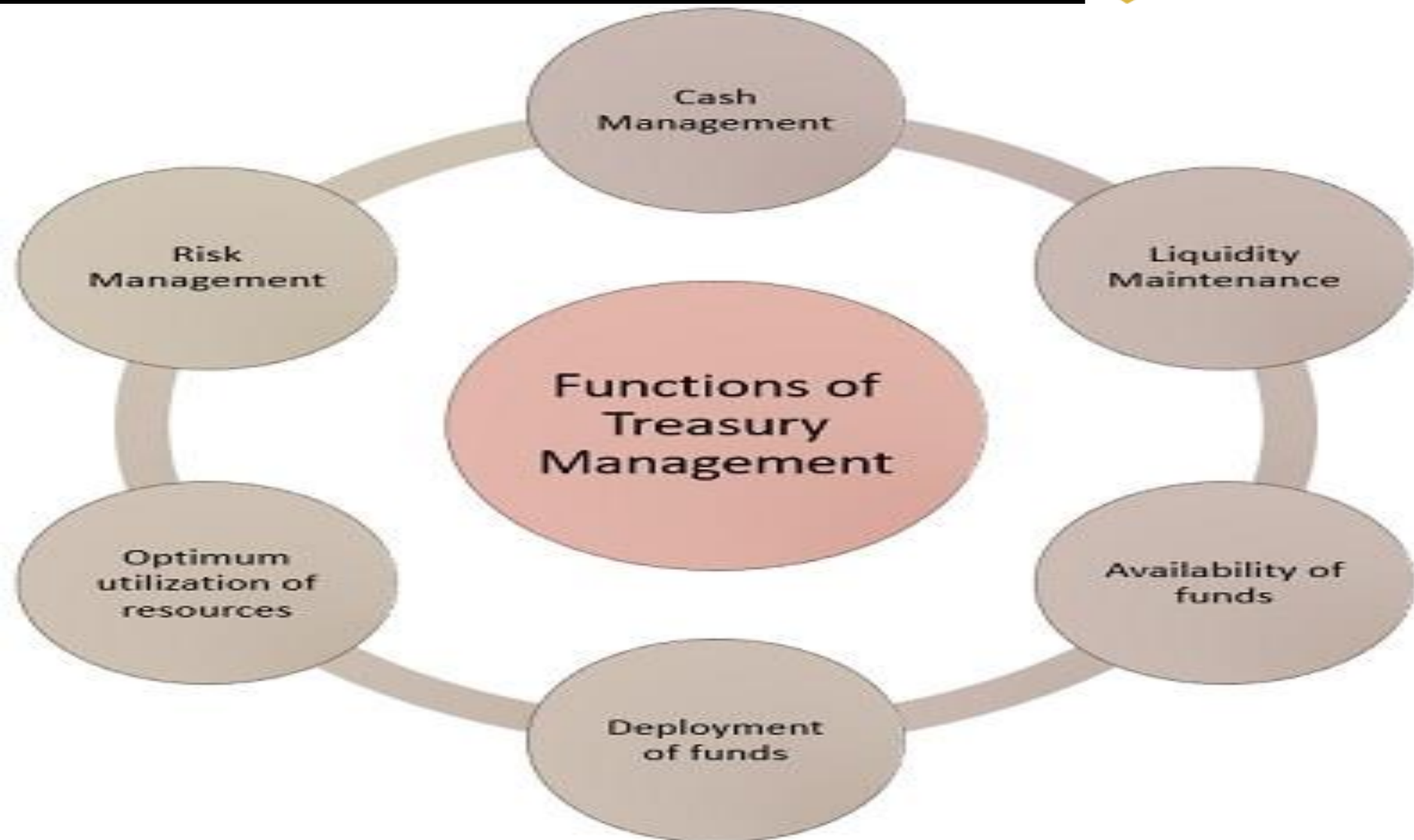
Roles of Government Treasury



The following are the key roles of government treasuries;

- ✓ Formulate, implement and monitor macro-economic policies involving expenditure and revenue;
- ✓ Formulate, evaluate and promote economic and financial;
- ✓ Mobilize domestic and external resources for financing national and county government budgetary requirements;
- ✓ Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting.
- ✓ In consultation with the Accounting Standards Board, ensure that uniform accounting standards are applied by the national government and its entities;
- ✓ Develop policy for the establishment, management, operation and winding up of public funds;
- ✓ Strengthen financial and fiscal relations between the levels of government
- ✓ Develop capacity for public servants in all levels of government for efficient, effective and transparent financial management.

Overall Functions of Treasuries



Traditional Roles



- ❖ Payment processing for staff and suppliers
- ❖ Revenue collection and recording Maintaining public bank account(s) - the Treasury Single A/c
- ❖ Some treasuries perform a pre-audit concept as its core function. They view preaudit *as simple as appropriation control or also involved review of whether payments represented the proper use of public money.*
- ❖ *Do you think pre-audit is good idea ?*

Evolving roles of Treasuries



- ❖ Automated accounting systems have made many of the traditional activities redundant
- ❖ Electronic payments and collection of revenues often real time (E-citizen in Kenya)
- ❖ Replacement of the pre-audit function with system based controls in accounting systems
- ❖ The traditional paymaster (processing) function largely no longer required we apply IPPD
- ❖ Much of the traditional role of the Treasury has either been devolved to MDAs or automated

Roles of Government Treasury



- ❖ Provision of a modern IFMIS or central accounting system - This brings with it the need for an effective CoA supplemented with clear accounting policies
- ❖ Shift from passive to active cash management
- ❖ Decentralized controls is a feature of many modern Treasury systems
- ❖ An enhanced financial reporting and accounting function;
- ❖ Greater emphasis on compliance with accounting standards and competent fiscal and statistical reporting such as Government Financial Statistics (GFSM & IFAC)
- ❖ Working in collaboration with the independent Public Sector Accounting Standards Board in development and implementation of standards.

Other Key Functions



Cash Flow Forecasting

- ✓ Forecasts of future cash flows are essential for more active cash management.
- ✓ The separation between the permission to spend and making actual cash payments means that flows through the TSA must be the focus of the forecast.
- ✓ Ideally, forecasts of daily cash flows across the TSA should be available for at least three months ahead.
- ✓ This must be coupled with an ability to monitor actual changes in the aggregate balance of the TSA top account, certainly the following morning if not closer to real time.

Note that good forecasting is a challenge in many countries.

Roles of Government Treasury – CNT`

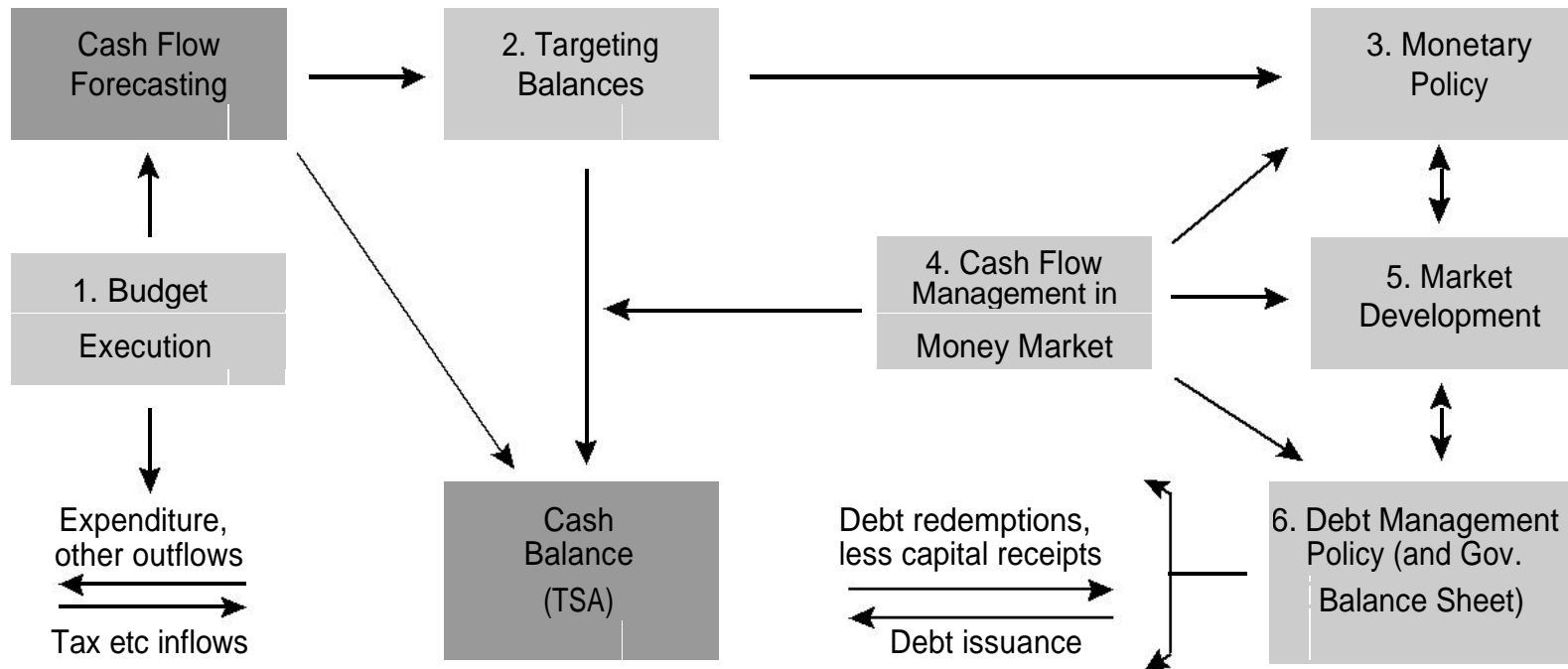


Policy Interaction

- ✓ The TSA is the focal point of cash management policy. How cash managers interact with other functions has important implications for a range of wider financial policies
- ✓ The TSA fluctuates with cash inflows and outflows generated by taxes and expenditures and debt and other capital transactions.
- ✓ The first policy choice is how budget execution and payment processes interact with expenditure flows (i.e., the arrangements for expenditure approval and how that relates to the timing of expenditures).
- ✓ The second relates to how far the level of cash balances is a policy target.

Cash flow Forecasting & policy Interaction

. Cash Management and its Interaction with other Policy Areas



Source: Williams (2009).

FINANCIAL MANAGEMENT

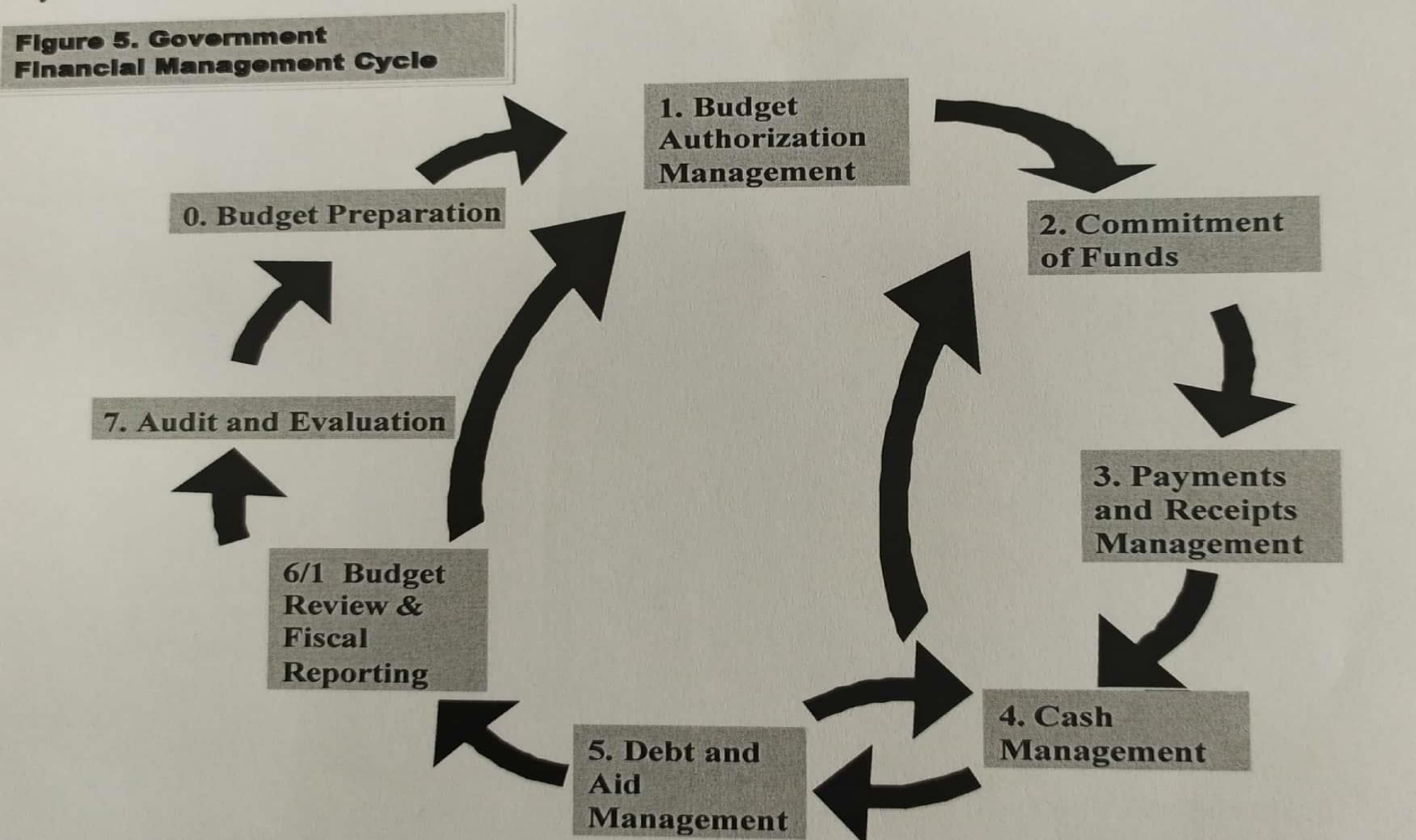


❖ Financial management process involves a series of cycles from Budget authorization to reporting and auditing.

The following are key steps;

- ✓ Budget Authorization and management
- ✓ Commitment of Funds
- ✓ Receipt and payment
- ✓ Debt and Resource mobilization Management
- ✓ Budget Review & Fiscal Reporting
- ✓ Financial reporting and Auditing
- ✓ Budget preparation

Financial Management Cycle



INFORMATION SYSTEMS ARCHITECTURE FOR GOVERNMENT FISCAL MANAGEMENT (GFM)



- ❖ The information systems architecture for Government fiscal management is a framework that shows, the different information systems modules that are required to support GFM functional processes, the scope, scale, and type of a particular systems component, and the major information flows between the various modules.
- ❖ This framework is developed by analyzing the basic functional processes associated with GFM, their information requirements, functional responsibilities of agencies commonly responsible for the processes, information flows between the processes, the nature, volume, and frequency of these flows, and the data characteristics of the information used and created by the processes. The overall architecture for GFM enables integration of the various component modules.

KEY COMPONENTS FOR GOVERNMENT FISCAL MANAGEMENT (GFM)



- ❖ The main elements of the Systems Architecture required to support GFM and the information flows between these elements are ;
- 1) Information Systems to support Macro Economic Forecasting
 - 2) Information Systems to assist in Budget Preparation and Approval
 - 3) Information Systems for Budget Execution, Accounting and Fiscal Reporting
 - 4) The Cash Management System
 - 5) Debt Management System.
 - 6) Revenue Administration Systems
 - 7) Systems to Assist in Fiscal Aspects of Personnel Management
 - 8) Systems to Support Auditing

ARCHITECTURE FOR GOVERNMENT FISCAL MANAGEMENT (GFM)

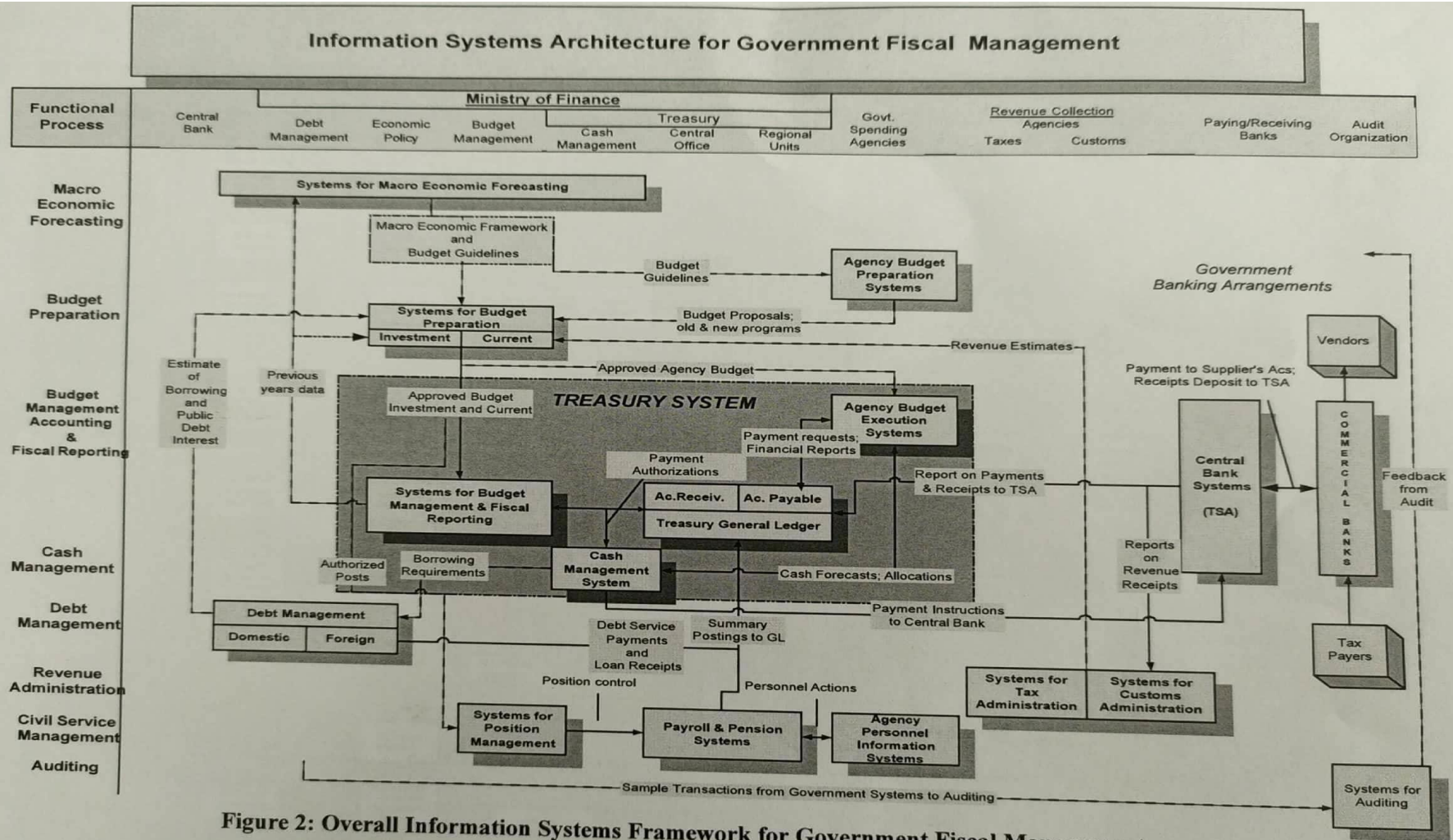


Figure 2: Overall Information Systems Framework for Government Fiscal Management

FINANCIAL ACCOUNTING AND REPORTING

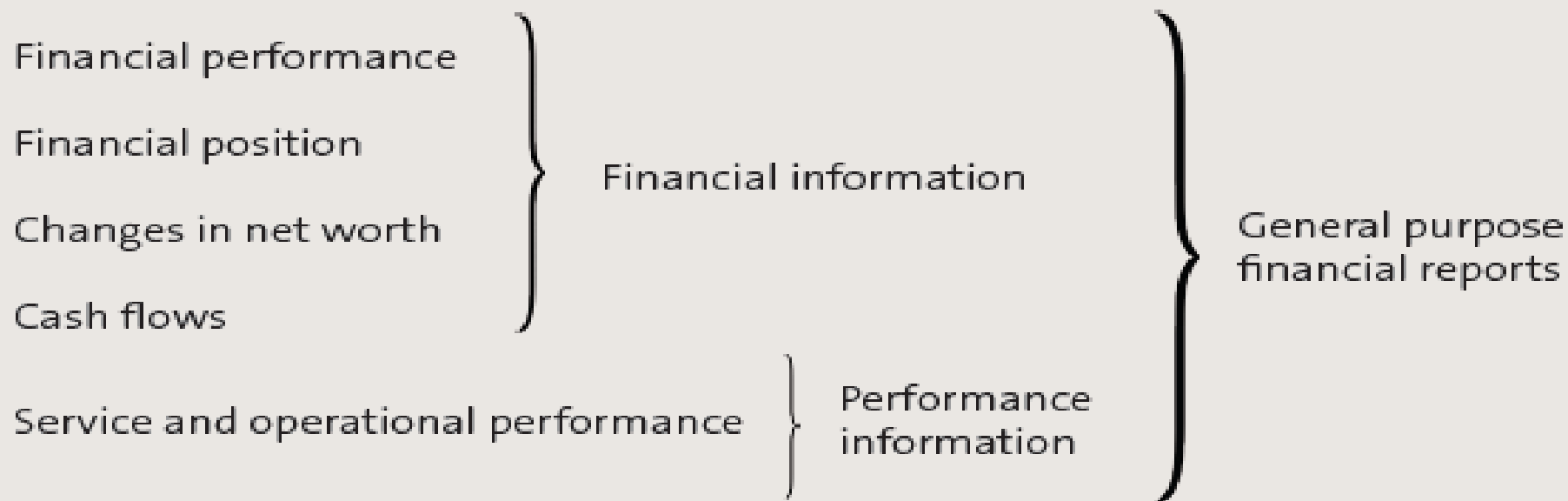


- ✓ Financial reporting is how public entities account for their stewardship that is, the care they take with public money and other assets.
- ✓ Decision-making and in increasing accountability, openness, and transparency.
- ✓ It also helps to improve the performance of, and trust in, the public sector.
- ✓ *Governance and accountability*, reflects the importance of public entities operating and accounting for their performance in the way that Parliament intended.
- ✓ Information to taxpayers and other stakeholders
- ✓ Public entities are accountable to the providers of money and to the recipients of the goods and services the entity delivers.
- ✓ The primary objective of most public entities is to deliver services to the public rather than to generate a commercial return for investors.
- ✓ Financial reporting will assist Governments in comparisons with other jurisdictions
- ✓ Financial reporting will assist assessment of economic growth for both analysts and political class.

INFORMATION PROVIDED IN GENERAL PURPOSE FINANCIAL REPORTS



The following shows the bear minimum in public sector financial reporting;



An entity's annual report includes general purpose financial reports and other information provided by the entity, such as an overview by those charged with governance.

AUDITING FUNCTION



- ❖ An audit is an assessment of an organisation's financial information. An auditor's aim is to assure that the financial statements issued by an organisation are free from mistakes and errors.
- ❖ Auditing a public organisation may also go further to assess whether the public organisation is meeting its mission or objectives.
- ❖ ***There are two types of Audits functions ;***
 - ✓ **External Audit** – These audits are done by independent offices as defined by public audit laws.
 - ✓ **Internal Audit** – This normally done by employees of the institution. Their roles are defined by the public financial management Acts.

RECOMMENDATIONS BY IFAC



- ❖ The accounting profession's public interest mandate is nowhere more apparent than in the public sector, where high-quality reporting and budgeting is a prerequisite for government transparency and effective delivery of public services,' said Kevin Dancey, CEO of the International Federation of Accountants (IFAC).
- ❖ He further commends Accountants playing part in migrating Public Sector from Cash to Accrual basis

RECOMMENDATIONS BY IFAC – CNT`



This report recommends that governments implementing accruals should be:

- ✓ Directing independent fiscal policy institutions to assess contingent liabilities and produce recurring fiscal risk reports.
- ✓ Implementing accrual budgeting to put finance at the heart of decision-making, while embedding performance management across government. Prepare general government consolidated balance financial statements.
- ✓ Building political challenges into the implementation roadmap.
- ✓ Including other stakeholders that provide a constructive challenge function to the reform, such as auditors and legislative committees such as PAC & PIC.
- ✓ Deploying experts centrally to control consulting costs and support implementation across government.

CHALLENGES FACING GOVERNMENT TREASURIES



- ✓ Expenditure prioritization
- ✓ Cash Management policies
- ✓ Multiple Taxes
- ✓ Political Interferences
- ✓ Complex legal framework
- ✓ Internet Tax Issues
- ✓ Changes in economy
- ✓ Effects of black market
- ✓ Effects of natural calamities
- ✓ Wrong budgeting framework
- ✓ Complex financial Reporting frameworks & standards.

Interactive Session



QUOTE OF THE DAY



“A body of men holding themselves accountable to nobody ought not to be trusted by anybody.”

Thomas Paine

“ I believe....we all pay taxes. I’m happy to pay it, but I hate to have it abused, money wasted, no accountability. That’s going to bother you”

Lou Holtz

FINALLY;



“The best way to find yourself is to lose yourself in the service of others.”

– Mahatma Gandhi

