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Cash Management and Treasury Single Account

1. Introduction

Cash management lies at the heart of all financial management activities since it is the primary indicator of the efficiency of economic management. However, managing cash effectively must be associated with compliance with the relevant rules and practices. The Nigerian government's finance ministry operation has continued to change regarding the cash management function. The promulgation of the Financial Regulation (FR) of 1958 aimed at harmonising the treasury functions of the Nigerian government under one treasury department made provisions regarding the responsibility of the accountant general in the area of cash management and control.

The essence of financial management in public services is to ensure optimal service delivery objectives and Vision 20:2020 goals, which lie in effective service implementation. It is also expected to develop effective competition in production, innovation and technological development. Supposed financial management in low prices certified Accountants' Institute of Certified Public Accountants (1979). Poor financing of industrial organisations in a country is an economic barrier to development. Once again, public finances in Nigeria are having severe crises theoretically and in practice to an extent, the Nigeria system could project cash deficit governments budgeting, the federal as a level of the government would result in supplement borrowing to part of the excess expenditure the desired and dire crude and simple terms this may involve borrowing at low rate of interest outside the country to launch the expected foreign exchange earning, exhibitive solely from the export of the goods and services from this campaign, the economic social and economics reason it is necessitated to ensure the compulsory installment payment of money into the public capitalized account at the close of every working day by all the government offices in Nigeria and the remittance of effects into the particular daily collection account often to as federal government account domiciled with the Central Bank of Nigeria as duty as an affordable price to avoid

the undesirable fundraising at high interest or in suffering the embarrassment of non fulfillment of the exchange commitments to international creditors and donors to use series to their financial dataset of transparence, which is in line with International Public Sector accounting standards (IPSAS). Transfer of such entry shall be made in the approved appropriations recorded in three ledgers cells, namely: continues expenditure, development administration and statutory or internally generated revenue account apparent to the commercial banking system through the presence of the accountant general of the Federation represented by the director of cash management every month a resource monitoring of budget and cash curtailment meeting co-chaired by the accountant – general financial affairs of the ministry of finance.

2. The Importance of Cash Management

Effective cash management is an integral element of an organisation's financial operations. The survival and growth of an organisation heavily rely on its liquidity and the ability to manage cash effectively. Research studies have consistently found that enterprises which lose money and fail do so primarily because of a lack of cash rather than a lack of profitability. From a central bank's perspective, sound control of its overall liquidity is necessary to maintain confidence in the domestic banking and monetary system, contribute to secure economic growth, and protect and maximise national wealth and citizens' interests. The failure of the national banking system and money markets in the 2007-2008 financial crisis has clearly shown the importance of sound liquidity management at the bank and country levels.

Efficient cash management minimises when cash is idle and does not earn revenue or reduce debt. It achieves control over payments and collections, minimising systematic risk, hedging against interest rates, exchange rate variability, commodity prices, and price level inflation. Cash management is a critical function to protect the country's financial system. It should focus on further improvement of the country's liquidity position while managing the impact of liquidity, interest risk, and foreign exchange raised by the country's financial assets and liabilities. In addition, introducing loan funds to a country is a sound investment practice to foster economic development when adequately managed. Loan funds can be used to define the structure of the reserve requirement and make more precise management of the country's liquidity position possible.

3. Key Principles of Cash Management

The principal aim of cash management is to ensure that the government has the funds to support spending plans. At the same time, the government seeks to optimise returns within an acceptable level of risk. To achieve this objective, the authorities must be able to predict the timing and magnitude of the resulting cash inflows and outflows with sufficient accuracy. Thirdly, it is essential to finance unexpected shortfalls at reasonable costs. Finally, governments usually try to reduce financing costs through active cash buffer management, considering opportunity costs and risks. The objectives for cash management can be summarised in liquidity management, risk management, and cost management.

The related principles of efficient cash management can be, therefore, allocated in the following way: liquidity - ensuring that payments can be met when they fall due, under all circumstances; forecasting - having up-to-date and reliable information about future cash flows (inflows and outflows); cost of capital - taking into account the risk aspects, concentrating cash management on relevant targets; efficiency - establishing a centralised system to realise economies of scale. The first three principles depend on the internal conditions of the government and can be determined through its attitude towards risk and the flexibility of the financial markets. All cash management division members must execute their activities to improve safety and worry less about the money available, having good information ready in due time.

3.1. Liquidity Management

Liquidity management is an essential aspect of financial management. The foundations of an economic system are always laid on the principles of liquidity and safety. Suppose sufficient cash or cash-equivalent assets are not available right when they are needed for routine obligations. In that case, it will force the firm into fire-sales of financial assets to meet its obligations. To avoid such a situation, management must ensure adequate funds are available when needed. Public sector organisations tend to exercise higher restrictions on their finances, so they need to manage liquidity with solid measures and control.

The issue with managing liquidity in public sector organisations arises because they are not profit-oriented undertakings and do not have investment targets or assessments. Thus, the whole aim of liquidity management will differ from that of private sector organisations. Prudent planning for the cash needs and maintaining sufficient cash balances, but not so large as to lose income, is necessary. Liquidity management involves all the techniques of managing cash, cash flow and

marketable securities. Though liquidity management aims to ensure sufficient funds to meet obligations, it usually takes a step forward to earn some income from unutilised funds through intelligent and effective investments.

Separate cash management in cash holding, disbursement, and collection should also be matched with sales and production planning to achieve better results. An instrumental goal of the liquidity manager is to increase cash and short-term liabilities' predictability and minimise interest costs. The ease of conversion of an asset into cash is the capability of an asset to be converted into cash quickly and at a close exchange rate value. It is different from profitability due to the immediate cash impact.

3.2. Risk Management

Introducing risk management techniques in cash management has much to do with the broader concept governing modern companies and ensuring their ability to survive and prosper in a constantly changing and increasingly competitive environment. Risk management is generally an organised approach to identifying and assessing potential disruptions and uncertainty causing unfavourable outcomes. Therefore, the central part addresses financial risks from a company's routine operational activities. The type of risks is intrinsically related to the specific characteristics of cash flows associated with those activities: timing, level, and fixed/variable nature of inflows and outflows. One can think of financial risks as a threat to the smooth functioning of overall operations and achievements of long-range objectives, often due to inadequate ability to meet financial obligations when they become due.

From a Treasury perspective, a company's leading financial risks to manage actively are those due to cash inflows and outflows, such as accounts payable management risk, short-term variable payment risks, and liquidity risk.

One possible definition of liquidity risk is "the difficulty of sustaining positive working capital" and meeting financial obligations when they become due without incurring financial losses. Liquidity-inflated insolvency may lead to devaluation or bankruptcy, which is more accessible than the actual economic downturn, even when the underlying business prospects are sound. On the other hand, a company can never have enough liquid resources to satisfy all cash requests, so a trade-off should always be present: how to keep as few illiquid resources as possible, reducing buffer holding costs as much as possible.

3.3. Cost Management

Cost and profit management is integral to cash management in public finance. It allows for continual cost reduction and has a comprehensive impact on minimising the state's financial risk. This is achieved by decreasing credit risk by managing state budget disbursements included in Gateway models.

Cash management involves constraining maintenance costs associated with cash sales, such as sales realisation, deposits, or cash withdrawals (cost of opening, transit, cash services). It also includes the constraint of transport and handling costs in the bank related to making deposits, withdrawals, and money orders by the partner with the bank (costs of delivery of funds, bank services). Cash management also decreases the interest costs on withdrawals in the financial institution's interest.

The cost of money stored in financial institutions is determined by the rates associated with the percentage of sales. Cash management or cash payments decrease the monetary cost of inflation caused by the consumption of time beyond the economic field (time spent in payment of the expenditure transferred) and the administrative expenses in the case of overpayment. The cost of cash management associated with retained savings in banks includes withdrawal costs, interest costs, and additional distribution "to meet the convenience" of employees and students who are detaining or experiencing severe financial pressures. An analysis of this cost reduction has not yet been developed. The SOP also facilitates these reductions in smoothening. Only direct access by the Agency Ministry data transfer Bureau to the bank can reduce the time value of money and, therefore, decrease the amount of retained savings in banks.

4. Cash Forecasting Techniques

Business firms use various techniques and methods to forecast cash flows and make decisions. These are as follows:

Cash flows are essential to a business because they are how business firms pay their bills and expenses. Effective cash forecasting allows firms to predict periods of surplus and deficit and provides the ability to make crucial decisions regarding the direction of resource allocation. The attempt to include the accurate prediction of cash flows into the firm's budget is budgeting. A budget, also known as a cash plan or cash budget, involves forecasting cash receipts from sales and other sources and cash disbursements for raw materials, direct labour, overheads and other costs. The ending cash amount of the budget (income less disbursements)

represents a forecast of cash flows that the firm is expected to realise. Firms can compare the budgeted cash flows to their financial needs to plan working capital finance.

When constructing the budget, it's essential to ensure that certain expenses (e.g., taxes and dividends) are forecasted to cover several periods rather than being recorded as a one-off. Depreciation expenses should be treated as a non-cash item. It should not be included in cash flows based on the assumption that the new asset will be acquired from cash when the plant and equipment are replaced. Statistical models such as moving averages and exponential smoothing applied to the historical cash figures can also reduce the use of the budgeting process. In Australia, empirical studies support the use of a high statistical model. Other methods involve using specific business data for the firm. These can include discount rates, assumption-based analyses, and management opinion. Some of the common assumptions include business distributions and pay rates. Simulation is also a powerful tool involving using random numbers and Monte Carlo analysis to link models within a computer to produce numerous forecasting scenarios. It is often used for more significant business decisions.

5. Cash Collection and Disbursement

Cash Management and Treasury Single Account

Cash Collection

1. The main cash collections come from taxes, dividends and profits, loans, and grants. The revenue is not collected in the Financial Year (FY), leaving scope for better planning to use available funds to minimise interest payments. 2. The Cash Management Officers (CMOs) collect the income; a challan/receipt is used to acknowledge this. The bank provides an Intimation Report and a Summary Statement if the collections are made through a bank (like ATMs or Automated Receipt Convenience centres). CMOs should drop the money in Pay and Account Offices or Treasury and submit the receipt/Intimation Report on the same day. 3. The Central Bank or the Pay and Account Office maintains a real-time database of income receipts. The electronic receipt is automatically recorded in the corporate database, and a given bank of netting will be immediately intimated to the electronic receipt collecting bank, which will credit the Central Transactions log. 4. Income is credited directly to the Reserve Bank of India in specified current receipts account on an end of the day basis. Income can be banked as an exception. 5. Best practices in Collection include a) Same-day collection, b) Electronic

Collection, c) Centralized Collection, d) Reduced Banking Transit time, and e) Collection without banking.

Cash Disbursement

1. Primary cash disbursements include interest payments, salaries, contracts, grants, and other fund flows. Minor disbursements include department expenses, transfers and subsidies, pensions, and benefits. 2. Expenditures are routed from the nodes to the treasury/Pay and Account Office. 3. Payment transactions, which are agreed dues (repayments), contracted dues (interest and debt repayment as per the schedule), or prior settlement contracts (payment mandated by a court or tribunal), should be automated, keeping in view the liquidity/priority accorded. 4. Payment transaction is undertaken based on priority and advised limits through agreement of dues (repayment and contracted dues), a Mechanism of verification of prior settlement contracts: - Payment for orders of a Court/Tribunal is issued by the PAO and recovered via Guarantee Funds after obtaining an authorisation from the Pay and Accounts Office. If the funds are insufficient or otherwise, the courts are informed and followed up for demands and returns.

Best Practices in Disbursement

1. Centralized disbursement, i.e. at least Treasury Management System-wide B. Dealers and dealers within a counter system. C. Traders on an output system. 2. Bulk payment or using correspondent banks at a cheaper rate at the e-payment system, such as Fund Transfer and Electronic Benefits Transfer (including Automated Clearing House). B. Central APEs, which can be identified with more than 2000 transactions or Rs.50 cr. of clearance every month 3. Shorter credit days are recommended for agencies under Rs/15 lacs in collections: a. 1-3 days b. 9.00 H.00 am or equivalent (T+1 for two days and T+2 for three days) recurring monthly Income, such as fee, examination fee, etc. 4. Centralized Operating Accounts f. Cash pooling i. For collection and disbursement separately ii. This is for Repo or Rev. Op or flexible per the systems implemented. 5. Treasury Designated Bank a. Connection (T+0) / 1-hour Credit Criteria. 10,000 transactions of 3 days or lesser old payment of cumulative value of Rs.15 cr. or more or monthly transfers above being received on the Working Day.

6. Cash Pooling

Enhancing cash availability and returns involves managing funds and their cash equivalents more efficiently and inducing more cash flow within a shorter period. Cash and cash equivalents (CCE) refer to money and near-money, short-term

instruments immediately available for spending. Nonetheless, the majority of these are kept as current assets by corporations. Current assets should be considered the most dynamic as substantial unrestricted cash and near-cash investible resources can be derived from these. Corporates have sophisticated, well-designed strategies for 'working' their current assets, specifically their CCE, to enhance their financial deliverables. This is what the earnings-on-cash function has to contend with. That apart, cash management has the following ancillary goals: reduction in systemic wastages, leakage and NPA incidents, being tax efficient, inter-corporate transactions involving interest and discounting discounts, and getting interest supplemented rather than reduced, and goals of deferred inputs and accepted obligations. Concentration of cash and funds.

The strategy is obvious: funds and cash till sums with their subsidiaries for sub-plasm of money and short-term surplus and forward trade position: daily scheduling of external resources, mainly trading funds, and dealing with the central bank; and real-time on-line transfer of funds from the certain bank operating agencies to the national bank. Both strategies could be operational under closed transmission systems. Cash pooling or cash zero balancing: companies pool their cash resources by keeping a minimum sum of cash in a main operating bank account overseas and then pooling the rest at the close of business every day to maximise investible cash held in the bank account. Centralised management of the firm's foreign exchange exposure by a consolidated trading centre. Firm relationships with banks are reduced for cross-border electronic cash transfers and foreign currency transactions. Swift testing refers to a worldwide electronic financial messaging system which provides precisely secure yet well-structured communication between its members and correspondents.

7. Cash Flow Optimization

Cash coming into an organisation, known as inflows, is a 'receivable'. Money going out of an organisation, called outflows or 'payments', is known as a 'payable'. Cash flow optimisation focuses on speeding up the collection of receivables and slowing down the payment of payables while ensuring that the organisation has enough cash to meet its obligations. This is a complex process in larger organisations, particularly those with multiple outlets, several legal entities, and governments and regulatory regimes within which to work. Mechanisms that can assist in reducing or delaying costs include deposit management and disbursement tools like electronic funds transfers, adopting correspondent banking relationships or using letters of credit. An efficient treasury function will enhance an organisation's

ability to use these tools to free money tied into working capital for other purposes. The FiMIPTA guideline suggests that the term 'cash management' issue is essential in a computerised environment and calls for recommendations on tackling the issue using software tools.

There are four things an organisation can do to make its cash flow process more efficient. An organisation can work to make its cash come in faster; it can hold less cash; it can invest its surplus cash in interest-gathering accounts; or it can slow the rate at which money leaves the organisation. Corporates are seen to have three elements to their cash flow processes: working capital, capital structure, and managing the investment of surplus cash. For governments, the management of the level of money in the economy is an additional part. The pool of short-term, highly liquid securities (also highly utilised) that central banks provide is sometimes called a holiday. The Repo system is also widely deployed as a working capital management tool for large financial organisations. These are often very short-term investments and can be sold immediately at a minimal discount to the payment demanded.

8. Treasury Single Account (TSA) Concept

Treasury Single Account Concept

One of the cash management objectives is to ensure sound fiscal, monetary, and debt management while minimising interest and exchange risks. Either the accumulation of cash outside of the consolidated government account or maintaining more than one bank account for the receipt of revenue from overseas destroys the efficiency of government cash management. The availability of such multiple bank accounts often creates the opportunity for commercial banks to arbitrage between the accounts, using, for example, foreign exchange transactions or financial instruments. This amounts to circumventing the established budget limit, which is, in turn, an application of the principle of equilibrium in government financial management. The disbursement of public funds directly from relevant accounts held in various government ministries, departments, and agencies, allowing for spending above the approved budget limit, emanates from non-compliance with budget memoranda, which indicates weak control over government fiscal policy.

§3.1 Rationale for Implementing a Treasury Single Account Governing A TSA is designed to address some aspects of inefficiency and lack of transparency in managing government resources within a multi-bank system. Among the main

reasons and objectives for implementing a TSA in several countries are: (a) to avoid transaction costs associated with multiple bank accounts; (b) to increase transparency and hence comparability and aggregate control of resources in the entire public sector; (c) to improve expenditure control; (d) to strengthen coordination of fiscal operations; (e) to minimise unwarranted borrowing costs by eliminating overdrafts; and (f) to avoid non-performing accounts or violence and confrontation that may arise in the case of a bank failure or merger.

9. Benefits of Implementing a TSA

TSA Implementations

A Treasury Single Account is intended to allow for accurate and predictable cash visibility for a government on a near-real-time basis. It simply amalgamates balances into a single consolidated account or set of accounts, closely invariably with a monetary authority and banks selected to operate the government's accounts. In some cases, where a middle-level account exists, these funds must be transferred from that account into the newly-organized TSA. The setting up such a system has been argued to offer several benefits. It would provide enhanced levels of control over the cash flow of a government and make for savings as a result of reductions in the balances that businesses hold but cannot invest and reductions in borrowing costs.

The implementation of a TSA system is, as a concept, relatively recent. They have been implemented, in one form or another, alongside the consolidation in several countries worldwide. The criticisms of the program have centred on several fronts, including the level of possible savings, the slow rate of implementation of the system, the demands involved in setting up such a system, and the instability and cost during the transition stages. It has been argued that based on the experiences, the potential benefits only exist in theory. Tactical benefits to the government are improved cash control and accountability, decreased borrowing costs, the tight prediction and management of clearing balances, and interest that is generated on the whole of government balances is captured by the government instead of by government banks who compete for government institution balances, the lowering of market interest, and reduced liquidity requirements for both governments and the banking sector. Benefit to the General Industry. There also exists an argument that a TSA could offer significant tactical benefits to the public.

10. Challenges and Risks of TSA Implementation

The consolidation of bank accounts will necessitate more effort to adjust operations in banks and the CBN to manage the new account infrastructure. Problems may arise in the need for banks to cut staff and correspondents in some locations in anticipation of the loss of transaction volumes and fees currently derived from managing the accounts. Although arrangements will be made to compensate banks for loss of revenue through some interim operational fees, these will probably need negotiation. The CBN must consolidate automated internal operational systems and accounts with the new account structure. A lag time may be required to ensure all are ready to transit.

Who the CBN has its existing banking arrangements with may also change. In the long run, banks in the consortium will still hold a proportion of the current account balances to satisfy liquidity demands and provide a backup to the CBN as part of its intraday liquidity insurance functions, but the amount required will diminish. It may be in the interests of the banks to bid to hold the account balances within the single account framework, but it is not in the interests of the CBN to have a Treasury account in an external bank. The CBN would also expect banks to reinforce their liquidity-sufficiency procedures and report on their liquidity positions to increase the safety margin on its intraday credit to the banks. Banks must ensure their financial condition and liquidity management are secure in their interactions with the payment and settlement systems. Banks must enhance their internal liquidity reporting and improve their management information to manage any liquidity obtained from the CBN effectively.

The government has to centralise some treasury functions as part of its financial management strategy. The government and the CBN have to manage risks to allow the process. Issues are technical (e.g., system redesign and banking consolidation) and practical logistics (e.g., executing operational changes). The envisaged operation of consolidated cash management with TSA requires excellent forecasting accuracy, and any failure/divergence is visible. Like tax, any failure or under-attack is political.

11. Case Studies on Successful Cash Management Practices

According to the Cash Management Improvement and Consolidation Plan, cash management entails the banking needs of a disbursing officer, including CBIs and all authorised financial agents and service providers, who are used to receive and disburse funds. Guidelines on fund control serve as a foundation for good cash management. A good record of the service of interest on bonds will aid cash

managers in projecting when existing debt should be refinanced. Agencies with strategies for minimising losses and managing interest costs also reported successful cash management practices in cash flow analysis. The Browns Valley Irrigation District in western Minnesota is one such agency. Investing in technology that improved cash flow accuracy from a 2-3 day projection to a 1-day forecast helped to maximise investment profits and minimise disbursements.

The management style is the final key to successful cash management. With online access to drive-through banking, the treasurer found the same days she commonly called for transfers, but she could do it from her office late in the day while everything was quiet. The treasurer would watch incoming funds and start paying off disbursements as soon as possible to earn the maximum interest during the day. This was especially true during the last few days of the month when the interest other depositors would pay on loan money would help investment profits, as would the extra money waiting for the 1st day of the month when interest was short. The hardware and software could not combine the accounts for the report that gave the current day's bank account balance. A report printed just before the market closed told what was in the treasury to the penny.

12. Conclusion and Future Trends

The initial concept of cash management and its key drivers is aimed at assisting the educated public and private entities, which remain the focus of any monetary operation, in comprehending the determinants regarding the role of a modern TMS and its applications and the expected substantial potential benefits. Due to widespread demilitarisation, technology reliance, universal suffrage, and economic globalisation, the trend towards a lead economy necessitates and justifies the centralisation of the case-made decisions in a single federal management unit.

This essay underscored the importance of an automated approach to decision-making, the seemingly irrefutable economic advantages resulting from the practical application of this, and an outline of potential applications of a TMS linked to a TSA that may result in further benefits. At the same time, this requires proper training of professionals and technical audits and functional assessment of TMS and TSA to adapt them to the productive and technological structure of the fictional federal government, aiming at improving the significant gaps among regions in the sharing of resources from taxed revenue and due to natural limitations in the supply of the BOP. This is in progress and can serve as a further research contribution. Future frontier research and focus regarding cash

management and TSA should generally focus on strengthening endogeneity, approaching more explicitly feasible managerial issues, and combining such proposals with more explicit liability management problems to achieve efficiency and speed in settlement systems.