

## TREASURY MANAGEMENT POLICY AND IMPROVEMENT IN REVENUE BASE IN NIGERIA

\*OGUNDANA Oyebisi; \*NJOGO Bibiana; \*IMEOPARIA Lawrence; \*\*OJUA Michael &  
\*OGUNLEYE Olusogo

\*Department of Accounting, Bells University of Technology, Ota, Ogun State

\*\* Department of Accounting, Covenant University, Ota, Ogun State

### ABSTRACT

Recent decreases experienced in the federal government level of revenue generation have brought about an urgent need to improve the national revenue base through an effective and efficient Treasury Management. This revenue generation decrease at the Federal level would invariably affect the state and local government since certain percentage of their revenue is derived from the federation account. As a result of this decline in government revenue, The Federal Government is compelled to pull funds from the excess crude account and a continuous pull from this account would bring about amongst other consequences a drastic reduction in the country's foreign reserve. To avoid such problems, there is the need for a proper Treasury Management Policy and Practice in the Nigerian System at all levels of Government.

**Keywords:** Management, revenue, policy, treasury.

### 1.0 INTRODUCTION

Available reports have shown that in recent months, there has been a reduction in the monthly allocation from the federation account to the 36 states in Nigeria and the Federal Capital Territory. This has given rise to many complaints regarding the adverse effect this is having on the smooth running of activities at the State and Local Government level, including non-payment of salaries, poor infrastructural facilities, pending pension benefits amongst others (Office of the Accountant General of the Federation, 2014). This of course is not good enough for the country as it is able to stall economic growth and development as well as dent the image of the country at the international level.

Government at the three (3) tiers is established alongside other basic functions and role; to provide social and infrastructural services to the citizens to enable an improvement of overall wellbeing of the populace. To accomplish this primary objective, government must put in place an effective and an efficient Treasury Management policy and practice which would bring about optimal generation of revenue and efficient/judicious utilization of the revenue raised.

The Treasury department is the golden animal that lays egg applied for economic planning and development of the areas in local government structure (Nwosu & Okafor, 2013). The Treasury department is one of such departments which act as the ministry of finance for the council. The Treasury department is responsible for the generation and collection of external and internal revenue due to the local 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.

An efficient Treasury Management Policy and Practice would bring about provision of social amenities, better infrastructural facilities, provision of employment opportunities, improvement of standard of living, better accountability and transparency e.t.c. all of these are what people at the grassroots level requires from local government. Thus, no matter the level of financial resources in the hands of government, if there is no proper treasury management policy and practice in place to ensure that revenue generated are used economically, effectively and efficiently, the desired objectives of such government would not be achieved (Hamid, 2011)

This paper is therefore focused on the Local Government as one of the tiers of the Government of Nigeria. The main objective of this paper is therefore to discuss the role of Treasury Management in improving the revenue base at the Local Government through internally generated revenue.

This paper is divided into four sections. Section one (1) examines the concepts of Treasury and Treasury Management, section two (2) discusses the function of the Treasury department and the Legal Framework guiding the Treasury Management Department, section three (3) states the Research Method, section four (4) centers on Treasury Management and improvement on Revenue Base and ways of enhancing Internally Generated Revenue through the Treasury department, section five (5) is conclusion

## **2.0 LITERATURE REVIEW**

### **2.1 CONCEPTUAL FRAMEWORK**

#### **2.1.1 Concept of Treasury and Treasury Management in Nigeria**

According to Hamid (2011), “The treasury is the unit/department that is charged with the responsibility and management of public funds, creating and safeguarding effective internal control, creating the conditions for prompt and efficient provisions of services and proper maintenance and preservation of necessary records of all financial transactions”.

Treasury Management may be defined as the management of government revenue generated, government cash flows, management of money and capital market transactions, effective and efficient control of risk associated with this activities and the pursuant of optimum performance consistent with these risks (Hamid, 2011).

The treasurer as the head of the Treasury department is the financial director of the local government charged with the responsibility of ensuring proper working of the treasury and the financial requirement of the council.

#### **2.2 Functions of Treasury Management in enhancing revenue in the Public Sector**

According to Hamid (2011), the under listed are some of the functions of Local Government Treasury department:

**2.2.1 Management of Government Bank Account:** 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 (month end) a statement from the Local Government Bank, 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.

**2.2.2 Debt Management:** In order to avoid a situation of uncontrolled indebtedness, the treasurer should be the only one as the finance director, permitted to borrow money on behalf of the Local Government. The money borrowed should either be channeled into projects (project loans) or for financing budget deficit. The Local 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.

**2.2.3 Cash Management:** 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 (Dikwa, 2014). Cash Management involves basically control of cash inflows (that is, revenue collected either by the treasury department or commercial banks 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 mis-management of funds).

**2.2.4 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 thoroughly to scrutiny by the treasury officer. This is to ensure there is no form of mis-appropriation of fund or misplacement of priority.

**2.2.5 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 Local Government holds shares on capital appreciation, share dividend, bonus shares e.t.c.

**2.2.6 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.

**2.2.7 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 (Oshisami, 1994).

**2.2.8 Preparation, Expenditure and Control of Budget:** Here, the Treasury department passes a form across to several heads of department within the confines of the Local 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. 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). 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.

**2.2.9 Risk Management:** One of the most important functions of the Treasury department is management and control of risk associated with treasury activities. Some of this risks are:

Liquidity risk (risk that the Local Government would run out of cash needed to carry out its activities), Interest rate risk (Risk that the Local Government fails to get good value for its cash dealings), Inflation risk (Risk that growth in the authority's investment income does not keep pace with the effect of inflation on its outgoings).

**2.2.10 Books of Account:** The purpose of accounting is to provide relevant and reliable accounting information to users to aid decision making. To enable 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.

**2.2.11 Stores Administration:** For every item needed in the Local 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.

### **2.3 Legal Framework for Public Treasury Management in Nigeria**

Public Sector Treasury Management is governed by the following regulatory framework:

- 2.3.1 **Nigeria Constitution:** The 1999 constitution of the Federal Republic of Nigeria is one of the legal frameworks guiding and regulating the receipts and payments of funds. The constitution provides guideline with respect to financial reporting process in Local Government accounting, budgeting and auditing.
- 2.3.2 **Audit Ordinance of 1956 (act of 1956):** This act regulates and guides Government audit of financial accounts, records and transactions.
- 2.3.3 **The Finance Act of 1958:** The Finance Act of 1958 regulates the accounting system, books of accounts to be kept and the procedure for preparing final accounts and financial statement.
- 2.3.4 **Financial Regulations:** These are the accounting manual of government at all level which provides guidance on accounting and financial matters. They set out the steps to be followed in treating most government transactions.
- 2.3.5 **Gazette:** The Gazette is a periodically published government official newsletter containing government policy statements like appointment of new officers, retirement, financial statement, contract advertisement etc.
- 2.3.6 **Finance/Treasury Circular:** These are administrative tools used to amend the existing provisions of financial regulations. They are periodic communications made or releases issued by the Ministry of Finance. They are specific guides of the operations of public sector financial transactions.
- 2.3.7 **Appropriation Act:** This act states the amount to be spent on each program to be embarked upon by the government based on the approved estimate.

### **3.0 Research Method**

This paper is an Exploratory research based on Library research; hence, it is a theoretical review of various authors work on the subject matter.

### **4.0 Treasury Management and Improvement in Revenue Base**

The local government has three (3) main sources of revenue, they are: External Revenue, Internal Revenue, Loan. This section focuses on examining the various options of Internally Generated Revenue available to the Local Government and how this option can be taken advantage of.

**Internally Generated Revenue:** This refers to those revenue sources that are generated mainly by sub-national entities such as Local Government within the areas of jurisdiction as specified in the 1999 constitution (Oyaghire, 2014). This can be referred to other sources of revenue internally generated (within the country) other than the statutory allocation from the State or Federal Government (Nwosu & Okafor, 2013). According to Nwosu & Okafor (2013), the sources of Internally Generated Revenue at the Local Government level are:

- 4.1.1 **Taxes:** Tax is payable by all citizens of Nigeria. According to Act No. 21 of 1998, the taxes payable to the Local Government amongst others include: Market Taxes, Cattle tax payable etc.
- 4.1.2 **Tenement Rate:** This is one of the most dependable sources of revenue to the Local Government if well harnessed. This involve tax on landed properties, commercial and residential buildings and even right of occupancy fees on land in the rural areas (excluding those collectable by the Federal and State government) etc.
- 4.1.3 **Rent:** This is another type of internally generate revenue that the Local Government can take advantage of. The treasury department must ensure the full harnessing of this area of revenue generation. It includes rent on residential/commercial buildings.
- 4.1.4 **Interest and Dividend:** Local Government at times also take advantage of investing in profitable ventures, the interest and dividend derivable from this investment serves as another source of income to the government. Treasury Department must make sure all interest and dividend are collected duly.
- 4.1.5 **Local License fees and fines:** This includes a long list of different revenues derivable from licenses and fees charged. According to Nwosu and Okafor (2013), this licenses and fees can be sub-divided into eight (8) different headings:
  - a). Fines: Fees accruing from wrong parking charges, Throwing of dirt on the floor,
  - b). General License:, Bicycle license fees, truck, canoe, wheelbarrow license fees
  - c). Food control: Slaughter slab fees
  - Security: Goldsmith and gold sellers license fees
  - Social: Merriment and road closure fees, marriage, radio and Television license fees
  - Health: birth and death registration fees, domestic animal license fees
  - Economic: tenders fees and contractors registration fees
  - Engineering works and survey: hire of plants charges
- 4.1.6 **Miscellaneous fees:** Public convenience, sewage and refuse disposal fees, customary burial ground permit, signboard and advertisement permit fees, on and off liquor fees, domestic animal license, vehicle radio license fees etc.

## **4.2 Ways of Enhancing/Improving Internally Generated Revenue through the Treasury Department**

- a. **Reliable Database:** To ensure a proper assessment of taxes due to the local government and optimum revenue collection process, a reliable and robust database is necessary. The Treasury department should ensure that a comprehensive database is in place.
- b. **Monitoring of delegated authorities:** Agencies having power to collect revenue on behalf of the Local Government must be adequately monitored by the Treasury

Department to ensure that all revenue collected on their behalf are remitted as and when due:

- c. **Enforcement of Sanctions:** There should be appropriate sanctions for revenue diversion, failure to remit collections, delayed remittance, and revenue consumption without appropriation.
- d. **Prosecution of offenders:** Loss of revenue through corruption and other illegal means is responsible for the inability of the Local Government to perform their provision of social services function. Therefore, offenders who indulge in any form of channeling of revenue generated by the Local Government to personal account must be duly prosecuted to serve as deterrence to upcoming fraudsters.
- e. **Training and Development of Staff:** Staff of the Treasury department of the Local Government must be adequately trained in the area of collection of Internally Generated Revenue.
- f. **Appropriate Remuneration and Motivation:** There is the need to reward and motivate the entire treasury staff appropriately in view of the challenges of their function and the delicate nature of revenue collection. This would discourage the treasury staff from stealing part of the money gathered from internally generated revenue
- g. **Deployment of appropriate Technology:** There is the need to acquire and intensify the use of modern technology in matters of revenue collection and management this is because efficient resource management is significantly technology-driven.

## 5.0 CONCLUSION

Local Government must see to it that its harnesses fully the option of Internally Generated Revenue as a medium of generating revenue and increasing its revenue base. The Local Government can achieve this only with the existence of an efficient Treasury Department in place. The Treasury Department must be guided by the Legal framework put in place to perform its role as the live wire of the Local Government.

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