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Treasury Single Account: An Assessment of its Compliance in Ghanaian Covered Entities.

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ABSTRACT

Treasury Single Account (TSA) is an indispensable tool for consolidating and managing government as well as covered entities cash resources, thereby reducing borrowing costs and improving efficiency in treasury management. In countries or covered entities where the banking system is fragmented, some funds may not be accounted for properly within a reporting period. The study population was covered entities which generate internal funds to support their operations and also receive subventions from the government. The population was stratified into five (5) groups and a quasi-random sampling technique was used to select the sample size. The study used chi-square to test the hypothesis and it was found that covered entities in Ghana do not comply with TSA concept in managing their cash resources.

Keywords: Treasury Single Account (TSA), Public Financial Management (PFM), Covered Entities.

INTRODUCTION

Treasury management is essential to the survival of every corporate organization whether for or not for profit making. A good management of the treasury functions such as cash management, liquidity maintenance, availability of funds, deployment of funds, optimum utilization of resources and risk management help improve on the financial health and make organizations resistant and robust against corporate survival crisis (Nomentia, 2022).

One of the essential tools which has been given recommendations (PEFA, 2016 and 2018) and Public Financial Management (PFM) laws for managing modern public sector treasury is Treasury Single Account (TSA). According to Pattanayak and Fainboim (2011), countries or covered entities need to operate TSA to help them manage and control their cash resources. This tool is critical for ensuring that all revenues from exchange and non-exchange transactions are collected and payments are made correctly in a timely manner and balances are optimally managed to reduce borrowing costs or maximize returns on surplus cash.

A unified structure of covered entities’ cash management system through the TSA can improve fiscal and monetary policy coordination thereby facilitating better reconciliation of fiscal information. It should, therefore, be giving priority in PFM reform agenda because its establishment can significantly reduce debt servicing costs (Pattanayak and Fainboim, 2010),

Public Financial Management (PFM) Act 2016, (Act 921) Section 46 reiterates that TSA should be established to serve as a unified structure of accounts to give a consolidated view of cash resources. The 2016 PFM Act (Act 921) also advocates that all monies of covered entities should be deposited into the TSA and all expenditures should be paid from it. The 2016 Public Expenditure and Financial Accountability (PEFA) placed a strong emphasis on the need to establish TSA to help alleviate the problem of cash shortages at the national level so that funds can be made available in the year round to stabilise the budget execution.

Statement of the Problem

In Ghana, there have been several reforms to improve PFM practice through legislations and adoption of International Public Sector Accounting Standards (IPSASs). These reforms intend to bring transparency, good treasury management and minimize corruption (Atulik, 2016).

However, many covered entities keep fragmented systems of handling their receipts and payments through the banking system and these practices lead to many deficiencies such as idle cash balances, perceived cash shortage and unnecessary borrowing (Pattanayak and Fainboim, 2010). There have been instances where some of covered entities leave their bank accounts to become inactive even though such accounts have fat balances in them (Auditor General Report, 2017).

Due to the poor management of cash resources in the covered entities, there is always pressure on the government to provide funds to support their operations. This has always pushed the government to take loans to support their activities.

Kanu (2016) assessed the impact of TSA on liquidity in Nigeria on the central government funds Eme and Chukwurah (2015) analysed the pros and cons of TSA policy in Nigeria. Other researchers like Onyewuchi (2015), Jegede (2015) and Stephen (2016) did their study in Nigeria on the federal government. In all these studies, the analysis were done on the central and federal government funds but not on the covered entities. Also, these studies were done in Nigeria but not in Ghana. The gap that this paper seeks to fill is to find out whether covered entities in Ghana comply with TSA concept in managing their cash resources.

Purpose of this Study

The purpose of this paper is to assess whether or not covered entities comply with the concept of TSA and requirements of PFM Act 2016 (Act 921) on cash resources management.

Research Questions

In modern public sector accounting, World Bank, International Monetary Fund (IMF) and International Donors are interested in how well countries and covered entities manage their cash resources. Therefore the major question that this paper seeks to answer is: How to ascertain whether covered entities comply with the concept of TSA in managing their cash resources?

Hypothesis

Ho: Covered entities do not comply with TSA concept.

Ha: Covered entities comply with TSA concept.

Significance of the Paper

The study provides an assessment of TSA compliance within the provisions of the Ghana PFM law 2016 (Act 921) as far as managing public funds in the country is concerned. The study is therefore useful to PFM practitioners and accountants in the public sector, development partners and donors who are interested in supporting accounting reforms in the public sector and researchers by assessing the success or otherwise of accounting reforms in Ghana.

Findings from the study will stimulate interest in the implementation of TSA activities in the public sector of Ghana for transparency over public funds and thereby reducing the incidence of mismanagement of cash resources.

Policy makers can also use the study to encourage the covered entities to comply with the concept of TSA in order to bring efficiency in the management of cash resources in the country.

LITERATURE

Treasury Single Account Concept

The 2016 Public Expenditure and Financial Accountability (PEFA) assessment recommends the use of Treasury Single Account (TSA). Pattanayak and Fainboim, (2010) adds that a TSA can be defined as a unified structure of government bank accounts enabling consolidation and optimum utilization of government cash resources. It separates transaction-level control from overall cash management.

In other words, a TSA is a bank account or a set of linked bank accounts through which the government or covered entity transacts all its receipts and payments and gets a consolidated view of its cash position. When an institution keeps the TSA, it helps to ensure proper cash management by eliminating idle funds usually left with different commercial banks and in a way to enhance reconciliation of revenue e collection and payment (Bashiru, 2016).

The idea of revenue e-collection introduced by Bank of Ghana where clients of some covered entities do not pay physical cash to any of their offices but pay e-cash through interoperability platform has reduced several man hours spent in queuing to make payment (Alliance for Financial Inclusion, 2018). Such payments directly hit dedicated accounts which ease part of the burden of keeping fragmented balances at different banks which makes consolidation difficult.

Control of the Treasury Single Account

The control and reporting on individual transactions can be achieved through the accounting system, allowing the treasury to delink management of cash from control of individual transactions. To achieve this, Pattanayak and Fainboim, (2010) suggest that for TSA to work effectively, three (3) key conditions should prevail:

- The banking arrangement should be unified, to enable treasury unit have oversight of the government or covered entity’s cash flows and allow complete fungibility of all cash resources.
- No other unit should operate bank accounts outside the oversight of the treasury.
- The TSA should have comprehensive coverage to include cash balances of all departments within the entities, both budgetary and extra budgetary, to ensure full consolidation of entities’ cash resources.

Pattanayak and Fainboim, (2010) argue that TSA is more successful in countries where there are advanced payment and settlement systems with Integrated Financial Management Information System (IFMIS) that has adequate interfaces with the banking systems to provide information in real time where covered entities can update their balances on daily basis.

On the contrary, in Ghana, apart from the tier one (1) banks, there are only a few banks that have adequate infrastructure of information technology (IT) to offer their customers the service of accessing their account balances online through the internet. Due to this, many of the covered entities do not get the daily updates of their accounts.

Design of the Treasury Single Account

In designing the TSA system four (4) things that according to Williams (2010) need to be addressed are: coverage of the TSA; government or entity's bank accounts structure; transaction processing arrangements and associated cash flows; and roles of the central and commercial banks in managing the TSA and provision of the banking services.

TSA should cover all cash flows related to government revenue, expenditure, donor financing, debt issuance and amortization (including those associated with external debt) (Ter-Minassian and Parente, 1995). In other words, no aspect of income streams and expenditure outflows should be left out of the TSA system.

The structure of bank accounts under the TSA system could be as suggested by Pattanayak and Fainboim, (2010);

- Centralized structure – where all transactions pass through this single account are tracked, accounted for, and managed in well accounting system.
- Distributed bank accounts structure where there are several independent bank accounts generally opened with commercial banks operated by line agencies/spending units for their own transactions.
- Mixed system where both centralized and distributed features are practiced.

The design of TSA which is the model is supported by a theory called the Law of Increasing State Activities (Wager and Weber, 1977). This theory states that there are inherent tendencies for units of government (covered entities) to grow in incurring expenses and generating resources in order to expand the economy (Wager and Weber, 1977). They continued that there is therefore the need to harness economic resources together to get a consolidated position and control the expenses so that resources can be released to meet expenditure on time.

Notwithstanding the design of TSA, some of the covered entities lack the structures that support the effective implementation of TSA system. Although there are provisions of PFM Act (Act 921) to promote the implementation of TSA yet some of the covered entities hesitate to comply with the concept.

PFM Law Provisions on TSA

Ghana as a country practises the mixed system where centralised and commercial banking systems are used. All the covered entities are required by the PFM laws to open account with the central bank, Bank of Ghana, to facilitate funds transfer from the central bank. According to Ghana Public Financial Management Regulations 2019 (L.I. 2378)

Section 132 (1) states that the TSA shall have two (2) main components; one at the Bank of Ghana for the central government agencies and the other at commercial bank for the covered entities. In addition, Section 132 (2) describes the nature of items that these two main components should hold which include; revenue transit account for tax and non-tax, revenue holding accounts, operational accounts, donor fund bank accounts, third party deposits and other deposits, foreign missions bank accounts and any other accounts that may be designated by the Controller & Accountant-General (C & A-G).

Section 132 (4) of the 2019 Public Financial Management Regulations (L.I. 2378), prescribes GIFMIS as the core accounting system for managing the TSA. Since the roll out of GIFMIS, it is only the Ministry of Local Government and Rural Development (MLGRD) that has so far adopted the use of the software, the rest are yet to use (Auditor General Report, 2017). Section 133 (1) adds that monthly bank reconciliation should be done in the GIFMIS.

Where a covered entity keeps bank account outside the TSA, the Principal Spending Officer (PSO) should prepare a bank reconciliation statement and submit it to C & A-G within 15 days after the end of the month.

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Many of the PSOs do not supervise the covered entities to ensure that monthly reconciliations are submitted to C & A-G department on time. The C & A-G department only sees and assesses the reconciliations of the covered entities when the time is due for their quarterly confirmation and validation of balances from the covered entities.

In the Ghana PFM Act 2016 (Act 921) Section 52(1), gives a caution that no public owned institution should open and operate a bank account without seeking prior written approval of the C & A-G. The banks in Ghana comply with this provision so they request for account opening approval letter from C & A-G as one of the requirements for opening account of covered entities. All these are some of the control mechanisms to inform the government of the number of banks that each covered entity is using.

On bank account management regulation, Section 51(7) of PFM Act 2016 (Act 921) says (a) The C & A-G shall regulate the operations of the bank account of a covered entity; and (b) may, with the prior written approval of the Minister of Finance, suspend or close a bank account if the C & A-G considers it necessary in the public interest.

On disclosure of financial information from bank account of a covered entity, Section 51 (9) The Bank of Ghana or where applicable, a financial institution shall, on the request of the C & A-G or the Auditor-General (A-G), in writing disclose any financial information regarding the account, within 14 days after the receipt of the request.

At the entity level, management especially the Public Spending Officer (PSO) must know of the total number of accounts his/her entity is using. The reason is that the PSO takes the responsibility for the cash resources of the institution under his/her care and must ensure that proper control systems exist for the custody and management of all the financial assets (PFM Act, 2016, Act 921, Section 52(1)).

The act of giving responsibilities to PSOs to manage the covered entities are in agreement with Public Policy Theory (Premchand, 2009). Public Policy Theory states that managers of PFM or political leaders ruling the economy should design structures and articulate systems with policy guidelines of actions which can be implemented to manage funds to develop the economy (Smith and. Larimer, 2009). Where the policies are not duly followed, economic resources may be misapplied, mismanaged or misappropriated and leaders of the economy should be held accountable (Premchand, 2009).

Empirical Review

According to Onyewuchi (2015) TSA is as a network of subsidiary accounts all linked to a main account such that, transactions are effected in the subsidiary accounts but closing balances on these subsidiary accounts are transferred to the main account, at the end of each business day. Jegede (2015) asserted that the TSA was introduced to block financial leakages and prevent mismanagement of government's revenue. He continued that it unifies all government accounts through a system which prevents revenue loss and improves the efficiency of revenue-generating agencies.

TSA brings all the government expenditure and revenue into a single picture. The consolidation of all government banks into a TSA paves way for the timely capture and payment of all due revenues into government coffers without the intermediation of multiple banking arrangements. (Eme and Chukwurah, 2015). Stephen (2015) stated that the implication of TSA by the federal government will improve management and control of financial resources and facilitate better fiscal and monetary policy coordination as well as better reconciliation of fiscal and banking data, which in turn improves the quality of fiscal information. The establishment of an effective treasury single account significantly reduces the debt servicing cost and eradicates financial mismanagement in the public sector

From the above review, the studies on TSA were done in Nigeria and on the federal government funds. The researchers did not assess whether the government institutions in the form of Ministries, Departments and Agencies (MDAs) which in the case of Ghana are covered entities, comply with the concept of TSA in managing their cash resources and expenses. PEFA (2016 and 2018) have been encouraging Ghana to adopt the TSA concept in managing its cash resources. The study therefore takes therefore the compliance of TSA from the level of the covered entities which has not yet been researched in Ghana.

METHODOLOGY

A cross- sectional survey design was used in the study. The population of the study is made up of covered entities in Ghana. The population was stratified into five (5) Ministries namely: Ministry of Local Government and Rural Development (MLGRD); Ministry of Energy and Petroleum (MoEP); Ministry of Health (MoH); Ministry of Trade and Industry (MoTI) and Ministry of Education (MoE). Each stratum was purposefully considered because of its uniqueness to the study. The major considerations were the Ministries that receive subventions from the government for; compensation of their employees, use of goods and services as well as assets (capital expenditure). Such Ministries also generate internal funds to support their operations. A quasi-random sampling techniques was used to select the sample size of 60 comprising of 12 respondents from each group. After administering the questionnaires, 55 came from the respondents.

Data Collection Instrument

A self-administered structured questionnaire was developed based on the literature and research question to gain insight into whether the covered entities comply with TSA in the Ghanaian PFM practice. The questionnaire provided three options to the questions. The respondents were to selection one of the options as answers to confirm whether their institutions comply with TSA; cannot tell whether or not they comply with TSA; and their institutions do not comply with TSA. The options were; comply with TSA, cannot tell and do not comply with TSA.

Data Analysis

The study tests the null hypothesis H_0: $\mu 1 - \mu 2 = 0$ ($H0$: $\mu 1 = \mu 2$), means the covered entities comply with the TSA. The test of the null hypothesis is against the alternative Ha: $\mu 1 - \mu 2 \neq 0$ (Ha: $\mu 1 \neq \mu 2$) which says that covered entities do not comply with TSA. A Chi-square test of homogeneity was conducted in the study. The formula is given as:

$x^2 = \underline{\text{Sum of (Observed – Expected)}}^2\text{Expected}$

Table 1: Summary and Analysis of Results

Treasury Single Account				
Ministries	**Comply**	**Cannot tell**	**Do not comply**	**Total**
MLGRD	3	4	4	11
MoEP	5	3	3	11
MoH	3	4	3	10
MoTI	4	5	2	11
MoE	6	3	3	12
Total	21	19	15	55

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Results from the field

The degree of freedom is given by (c – 1) (r – 1) where c = number of columns and r = number of rows. Therefore, the degree of freedom equals (3 – 1) (5 – 1) = 2 x 4 = 8.

Finding the expected values for the analysis. The following computations were made.

Observed (Comply)	**Expected**	
3 (MLGRD)	21 X 11	= 4.20
	55	
5 (MoEP)	21 X 11	= 4.20
	55	
3(MoH)	21 X 10	= 3.82
	55	
4 (MoTI)	21 X 11	= 4.20
	55	
6 (MoE)	21 X12	= 4.58
	55	
Observed (Cannot tell)		
4 (MLGRD)	19 X 11	= 3.80
	55	
3 (MoEP)	19 X 11	= 3.80
	55	
4 (MoH)	19 X 10	= 3.45
	55	
5 (MoTI)	19 X 11	= 3.80
	55	
3 (MoE)	19 X 12	= 4.14
	55	
Observed (Do not comply)		
4 (MLGRD)	15 X 11	= 3.00
	55	
3 (MoEP)	15 X 11	= 3.00
	55	
3 (MoH)	15 X 10	= 2.72
	55	
2 (MoTI)	15 X 11	= 3.00
	55	
3 (MoE)	15 X 12	= 3.27
	55	

Table 2: Computation of Chi-square Figure

Observed (θ)	**Expected(e)**	$\theta - e$	$(\theta - e)^2$	$\frac{(\theta - e)^2}{e}$
3	4.20	-1.20	1.4400	0.4800
5	4.20	0.80	0.6400	0.1280
3	3.82	-0.82	0.6724	0.2241
4	4.20	-0.20	0.0400	0.0100
6	4.58	1.42	2.0164	0.3361
4	3.80	0.20	0.0400	0.0100
3	3.80	-0.80	0.6400	0.2133
4	3.45	0.55	0.3025	0.0756
5	3.80	1.20	1.4400	0.2880
3	4.14	-1.14	1.2996	0.4332
4	3.00	1.00	1.0000	0.2500
3	3.00	0.00	0.0000	0.0000
3	2.72	0.28	0.0784	0.0261
2	3.00	-1.00	1.0000	0.5000
3	3.27	-0.27	0.0729	0.0243
				$\chi^2 = 2.9768$

DECISION

At the 0.01, 0.05 and the 0.1 significance levels, the Chi-squares critical values, with 8 degree of freedom equal 20.09, 15.51 and 13.36 respectively. It can be seen that the calculated (2.98) is less than the critical values at all levels. The null hypothesis is retained. Therefore, the covered entities do not comply with the concept of TSA in their cash management practices.

DISCUSSIONS

Some of the covered entities do not follow the provisions of the 2016 PFM Act (Act 921) in managing their cash resources. Apart from MLGRD which uses the GIFMIS, the rest of the covered entities use their own software so it becomes difficult for Audit Service Staff to get access to their live accounting data so that they can monitor from far and give warnings to the entities that do not comply with the TSA (Auditor General Report 2016, 2017).

Some of the covered entities are far away from where the tier one (1) banks are located so they deal with the savings and loans and rural banks. As these tier two (2) and three (3) banks lack the adequate infrastructure of IT to aid their clients to have access to online transactions. Thus applying the concept of TSA becomes difficult.

In addition, the compliance of TSA calls for the use of constant electricity power supply and reliable internet to access balances at the banks. Where the covered entity's does not get constant and regular supply of electricity and reliable internet, it will be difficult to get their net consolidated balances on daily basis from the banks. This supports the view of Onyewuchi, (2015) which reiterated that at the end of each business day, the consolidated cash position should be known.

RECOMMENDATIONS

C & A-G department should organise training programmes for all the covered entities so that their finance staff can use the GIFMIS. This will help the Ghana Audit service worker to play their external scrutiny work better by assessing the performance of all covered entities in the GIFMIS even at a distance so far as TSA is concerned. The use of the GIFMIS will also reduce the high cost of software maintenance that some of the covered entities bear.

The regulator of the banking industry, should make it a requirement for the deposit accepting institutions to beef up their IT infrastructure for all the banking tiers so that covered entities can patronise their services can view the details of their balances via internet.

The government should also provide the necessary logistics to the electricity power generating organisations in order to help them produce electricity power without any interruptions. The government should also enter into agreement with the telecom companies to subsidise the provision of internet for the covered entities to work and do on lines business.

CONCLUSION

Covered entities do not comply with TSA concept in managing their cash resources. Efforts should therefore be made to train the employees of covered entities so that they can appreciate the importance of TSA concept. In addition, there should be constant provision of internet service and electricity power for the covered entities to enable them access all the transactions they do with the banks in order to have a consolidated view of their cash position on daily basis.

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