

## Treasury Single Account And It Challenges In Public Sector

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### ABSTRACT

This paper examines the impact of Treasury Single Account (TSA) and the challenges in government parastatals. The introduction of a Treasury Single Account (TSA) by the federal governments is a measure to block leakages in the financial System. This however has led to introduction of Government Integrated Financial Management Information System (GIFMIS) and IPPIS where salaries of the federal public servant are paid. The researchers conducted an oral interview with the bursary departments and the chief executives of some states and federal government establishments in Lagos, Oyo and Ogun State. Investigations revealed that though TSA is a good system of controlling and blocking leakages of government fund. However, it slows down the effectiveness of government performance where approvals need to be taken before funds are released to the MDAs. This however, is a leads to a situation where MDAs looks for another means of diverting government's funds into a specialized account to meet their daily or monthly expenses. The researchers concludes that though TSA is good with regards to its benefit nevertheless, some parastatal should be exempted or autonomy given to them because of the delay in government approvals. Lastly, it is hereby recommended that effectives check and balances and functional executives oversight functions should be put in place to monitor and control government fund.

**Keywords:** Treasury Single Account (TSA), Leakages, Oversight functions, Ministries Department Agency (MDAs) , GIFMIS, IPPIS.

### 1. INTRODUCTION

**Treasury Single Account (TSA)** is a financial policy in use in several countries all over the world. It was proposed and partially implemented by the federal government of Nigeria in 2012 under the Jonathan Administration - and fully implemented during the present administration of the General Mohammed Buhari to consolidate all inflows from all agencies of government into a single account at the apex Bank in Nigeria known as Central Bank. Sailendra and Israel (2001) opined that 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. To my own understanding, treasury single account can be seen as a public accounting system under which all government revenue or income is collected into one single account called the treasury account (Treasury Single Account). Treasury Single Account can also be said to be an accounting system in which all government revenue (income) and payments (expenses) are done through a single account. Efficient management and control of government's cash resources rely on government banking arrangements. Nigeria, like many low income countries, employed fragmented systems in handling government receipts and payments. Establishing a unified structure as recommended by the IMF, where all government funds are collected in one account would reduce borrowing costs, extend credit and improve government's fiscal policy among other benefits to government.

The IMF also recommends the establishment of a legal basis to ensure its robustness and stability. The introduction of the Treasury Single Account policy therefore was vital in reducing the proliferation of bank accounts operated by ministries, departments and agencies (MDAs) towards promoting financial accountability among governmental organs. The compliance of the policy in Nigeria created challenges for majority of the MDAs Commercial banks in Nigeria remitted over 2 trillion Naira worth of idle and active governments deposits with full implementation of this policy in 2016. Meanwhile, the bankers committee of the country has declared their support for the policy. Through Remita, the integrated electronic payments and collections platform developed by a company called, the TSA initiative has enabled the Federal Government of Nigeria to take full control of over 3 trillion Naira (\$15 billion) of its cash assets as at the end of the first quarter of 2016. The objectives of this paper is to examines the challenges of Treasury single account in the public sector, while statements of the problem is how effective is the concept towards service delivery where the TSA is fully adopted and the implemented . Methodology adopted are primary and secondary sources. The former is an oral interview and while the latter is relatives literatures whose views are presented.

## **2. LITERATURE REVIEW**

### **2.1 Concepts of TSA**

Okechukwu,Chukwurah, Daniel, and Iheanacho, 2015; Obinna, (2015.) opined that beyond transparency and accountability, the TSA will introduce ‘**efficiency**’into overall management of public finances and this will in the long run lead to effectiveness of government spending since it places government in a better position to realize overall policy goals. Also, Section 80 (1) of the 1999 Constitution as amended state that All revenues, or other moneys raised or received by the Federation (not being revenues or other moneys payable under this Constitution or any Act of the National Assembly into any other public fund of the Federation established for a specific purpose) shall be paid into and form one Consolidated Revenue Fund of the Federation. Successive governments have continued to operate multiple accounts for the collection and spending of government revenue in flagrant disregard to the provision of the constitution which requires that all government revenues be remitted into a single account (Udoma 2015). As cited by Igbekoyi and Agbaje (2017)

### **2.2 Theoretical framework**

Oyedokun (2016) stated in his paper some theory of TSA such as incremental theory of public policy making is premised on the way and manner policy makers thinks when there is a need for to take decision as affecting generality. These decisions are taking in a condition not too conducive for more deliberation and testing of such proposed policy. Vahyala, Pwafeyeno, and Minnessi (2016) opined that in public policy making and analysis, Incremental theory is a collective effort of various scholars who are referred to as the incremental thinkers such as Herbert Simon (1957), Landau (1960), Braybrook (1963), Dahl (1967), and Lindblom (1968) also contributed to this assertion. Dlakwa (2014) postulated that due to lack of time, scarce resources, intellectual ability and cost implication, policy makers are likely to face in generating every person’s view on every given matter, nor are they policy maker 6 not opportune to identify all available alternative ways of solving problems before they could choose the best way out. Ikelegbe (1995) also suggested that, policy makers using Incremental theory do not review in all societal values and problems and all policy alternatives and their resultant consequences. They also do not seek to create optimal policy because of lack of time, data, human and material resources. Incrementalism trusts upon a relatively stable policy contextual, rather than situations, where significant new data and problem identification are required (Howlett and Ramesh, 2003).

Vahyala, Pwafeyeno, and Minnessi (2016) also view the directive to adopt TSA in Nigeria as a policy suffering from the incremental model of urgency, though it was partially built on the prevailing experimental policy by former administration of Goodluck Ebele Jonahtan and translates it into a full-fledged policy without any in-depth study or background checks. This may also be traced to the opinion of Dlakwa (2014) where he indicates that due to constraint in time, limited intellectual ability and cost implication, decision makers are unable to sample people's view on every given issue, nor are they in a position to identify all alternative ways of resolving problems before they could choose the best alternative. In line with this philosophy, five distinct characteristics of Incremental theory were proposed by Vahyala, Pwafeyeno, and Minnessi, 2016:

**“First**, it is incremental in the sense that only small steps are taken at a time in other to achieve specific objectives. **Second**, it is non-comprehensive because of the limitation imposed on policymakers by lack of resources to go into sufficient detail of problems before taking remedial actions. **Third**, policy decision involves “successive comparisons because policy is never made once. **Fourth**, in practice, decision making “suffices rather than maximizes from among the available options. This means that the policy maker can only solve a tiny bit of the problem and there could be a lot of errors committed by him in making such policy choice. The **Fifth** is plurality in choice. This is based on the fact that government decision making rest on a pluralist conception of the public sector in which many contending interest groups compete for influence on our policy issues, continually forcing the administrator, as a person in the middle, to secure agreement from among the competing parties (Stillman 1980 in Dlakwa, 2014). The following four (4) assumptions can be inferred from the above submission in relation to newly introduced TSA policy in Nigeria vis-a-vis Incremental theory as asserted by Vahyala, Pwafeyeno, and Minnessi (2016): 7

- a) Human beings and their values are fragile, volatile and unpredictable in nature. Therefore, the policy maker who wastes too much time in trying to understand all values surrounding a problem before taking a remedial measure would only end up in becoming more confused by the time he completes his in-depth analysis.
- b) Policymakers lack the sufficient knowledge required to study and understand all the fact surrounding every issues they come across. Moreover, the available resources of the policymaker are always insufficient which have effort on the analysis.
- c) The dynamism of the environment in which the policy maker operates is in continuous flux.
- d) It promotes short - sighted decision making that may have adverse long term consequences. Scott (2010) in Eme et al. (2015) uses incremental policy making to explain the unfortunate decision made in Vietnam, Afghanistan and Iraq.

### **2.3 Reasons for the Adoption of Treasury Single Account in Public Sector.**

Until the introduction of the TSA, the country faced numerous challenges with management of Public Finances that affect government efficiency and effectiveness in service delivery, transparency and accountability. Some of these challenges were:

- (i) **Loss of Control on the Number of government Bank Accounts:** MDAs are required under FR 701 to get the approval of the Accountant-General of the Federation (AGF) for all their banking relationship. In addition, each MDA is required by regulation to maintain four bank accounts, one each for revenue, personnel costs, overhead costs and capital. However, many MDAs failed to comply, hence the number of bank accounts became over bloated and monitoring the accounts became a herculean task for the OAGF. A survey of the number of such accounts with both the Central Bank of Nigeria (CBN) and Deposit Money Banks (DMBs) carried out by the OAGF in 2010 puts the number of accounts at over 10,000 With such a large number, government could not

have timely consolidated information of cash position necessary for efficient cash management in the country. Idle Cash in MDAs' Accounts While the CRF Account is perpetually overdrawn: Prior to the reforms, government financed its personnel and overhead costs monthly in advance while capital projects were funded quarterly in advance but often the funds remained underutilized for the periods. This leaves the Consolidated Revenue Fund (CRF) Account from which MDAs Accounts were funded perpetually overdrawn as Ways and Means Advance granted by CBN in line with S.38 (2) of their Act. Accordingly, government incurs cost of borrowing on the overdrawn balance while the DMBs that are keeping the MDAs' idle funds do not remunerate them but buy government treasury bills and bonds to earn interest income. The level of ways and means granted by CBN to meet cash flow shortfalls has grown over the years reaching N342 billion in 2014. Maintenance of Several Extra Budgetary Funds: There exist a number of funds (dedicated accounts) outside the Consolidated Revenue Fund (CRF) with huge balances while government suffers charges on the CRF overdrawn balance with the CBN. If the extra budgetary funds were linked to the CRF, it would have eliminated the ways and means charges, as the net position would have been positive. Besides, the extra budgetary funds would have been an easy source for short-term borrowing instead of treasury bills/certificates. Reasons for the Adoption of Treasury Single Account in Public Sector Before TSA was the introduced, there were the problem of efficiency and effectiveness in service delivery in management of government finances where transparency and accountability were difficult to maintain . However, Some of these challenges were (i) the Loss of Control on the Number of government Bank Accounts: MDAs are required under FR 701 to get the approval of the Accountant-General of the Federation (AGF) for all their banking relationship. Also, each MDA is required by regulation to maintain four bank accounts, one each for revenue, personnel costs, overhead costs and capital. However, many MDAs failed to comply, hence the number of bank accounts became over bloated and monitoring the accounts became a herculean task for the OAGF. A survey of the number of such accounts with both the Central Bank of Nigeria (CBN) and Deposit Money Banks (DMBs) carried out by the OAGF in 2010 puts the number of accounts at over 10,000 With such a large number, government could not have timely consolidated information of cash position necessary for efficient cash management in the country. Idle Cash in MDAs' Accounts While the CRF Account is perpetually overdrawn: (ii) before the reforms, government financed its personnel and overhead costs monthly in advance while capital projects were funded quarterly in advance but often the funds remained underutilized for the periods. This leaves the Consolidated Revenue Fund (CRF) Account from which MDAs Accounts were funded perpetually overdrawn as Ways and Means Advance granted by CBN in line with S.38 (2) of their Act. Accordingly, government incurs cost of borrowing on the overdrawn balance while the DMBs that are keeping the MDAs' idle funds do not remunerate them but buy government treasury bills and bonds to earn interest income. The level of ways and means granted by CBN to meet cash flow shortfalls has grown over the years reaching N342 billion in 2014. Maintenance of Several Extra Budgetary Funds: There exist a number of funds (dedicated accounts) outside the Consolidated Revenue Fund (CRF) with huge balances while government suffers charges on the CRF overdrawn balance with the CBN. If the extra budgetary funds were linked to the CRF, it would have eliminated the ways and means charges, as the net position would have been positive. Besides, the extra budgetary funds would have been an easy source for short-term borrowing instead of treasury bills/certificates (Igbekoyi and Agbaje 2017)

### **3. REACTIONS TO THE IMPLEMENTATION OF TSA IN PUBLIC SECTORS**

The operation of the Treasury Single Account in Nigeria has not been without controversies. On Tuesday, 10 November 2015, Dino Melaye, a Nigerian senator representing Kogi West, raised a motion that the operation of the treasury single account (TSA) be investigated for possible corruption. He claimed that "the appointment of REMITA, an e-collection agent, is a gross violation of section 162 (1) of the Nigerian Constitution and the banks and other Financial Institutions Act." He claimed the constitution only recognized a banking institution to be the collector of government funds, that Remita was not a bank. The provision of the Constitution cited by Melaye states, "the federation shall maintain a special account to be called the federation account into which all revenues collected by the government of the federation except the proceeds from the personal income tax of the personnel of the Armed Forces of the Federation, the Nigeria Police Force, the ministry or department of government charged with foreign affairs and the residents of the FCT, Abuja." According to Melaye, the total inflow of 1% commission charged and received by SystemSpecs for all revenue collected on behalf of the government from the various ministries, departments and agencies to be 25 billion Naira as of November, 2015 was fraud and must be returned to the account of the Central Bank of Nigeria. The senate consequently ordered its committee on finance and public accounts to "commence an investigation into the use of Remita (which it erroneously described as an e-collection agent) since the inception of the TSA policy.

Ayo Fayose, Governor of Ekiti State, introduced a political angle to the controversy when he alleged that the funds collected through of TSA were used to finance governorship elections in Bayelsa and Kogi States by the All Progressives Congress, apart from enriching "a single company in one month 25 billion Naira is the negotiated commission of one per cent of 2.5 trillion Naira - total amount of monies collected by Remita for the Federal Government of Nigeria. However, the Federal Government of Nigeria through the office of The Minister of Information and Culture Lai Mohammed debunked the opinion that the TSA policy was not intended to loot the Nigeria treasury The minister in his statement attempted to absolve the administration of President Muhammadu Buhari when he claimed that the TSA contract was signed during the administration of President Goodluck Jonathan The CBN in an attempt to justify their position released a letter to the press titled "Commencement of Federal Government independent revenue collection under the Treasury Single Account (TSA) initiative". In the letter, the CBN debunked all the allegations made by Melaye as being misleading. At the height of the controversy, the Central Bank of Nigeria (CBN), instructed SystemSpecs to return of all the revenues made so far on the contract, a directive, which System Specs obeyed without delay as a "business decision"

In a letter reportedly written to President Muhammadu Buhari by John Obaro, Founder and Managing Director of SystemSpecs, developers of the Remita application, the allegation that SystemSpecs pocketed 25 billion Naira was refuted. Obaro explained that the one per cent commission was negotiated prior to the signing of the contract; and the one per cent commission was shared by SystemSpecs, participating commercial banks and the Central Bank of Nigeria in the ratio of 50:40:10 respectively. According to findings by PremiumTimes, 'Remita' is not "an agency" but an application/software for executing payment instructions and collection of government revenue. The software facilitates the payment of government revenue from financial institutions to a TSA in the CBN. The report cited holes in Melaye's accusations and termed them "misleading." The Joint Senate investigative committee absolved SystemSpecs of any wrongdoing as "the committee could not ascertain the deduction/collection of twenty-five billion Naira (N25 billion) by SystemSpecs as 1% fee charged for the use of its Remita platform within the period under investigation." This was contained in section 6.1.16 on pages 16 and 17 of the committee's report.

#### **4. IMPACT OF TREASURY SINGLE ACCOUNT IN PUBLIC SECTORS**

**(i). Allows complete and timely information on government cash resources:** In countries with advanced payment and settlement systems and a Government Integrated Financial Management Information System (GIFMIS) with adequate interfaces with the banking system, this information will be available in real time. As a minimum, complete updated balances should be available daily.

**(ii). Improves appropriation control:** The TSA ensures that the full control over budget allocations, and strengthens the authority of the budget appropriation. When separate bank accounts are maintained, the result is often a fragmented system, where funds provided for budgetary appropriations are augmented by additional cash resources that become available through various creative, often extra-budgetary, measures.

**(iii). Improves operational control during budget execution:** When the treasury has full information about cash resources, it can plan and implement budget execution in an efficient, transparent, and reliable manner. The existence of uncertainty regarding whether the treasury will have sufficient funds to finance programmed expenditures may lead to sub-optimal behavior by budget entities, such as exaggerating their estimates for cash needs or channeling

**(iv). Enables efficient cash management:** A TSA facilitates regular monitoring of government cash balances. It also enables higher quality cash out-turn analysis to be undertaken (e.g., identifying causal factors of variances and distinguishing causal factors from random variations in cash balances).

**(v). Reduces bank fees and transaction costs:** Reducing the number of bank accounts results in lower administrative cost for the government for maintaining these accounts, including the cost associated with bank reconciliation, and reduced banking fees.

**(vi). Facilitates efficient payment mechanisms:** A TSA ensures that there is no ambiguity regarding the volume or the location of the government funds, and makes it possible to monitor payment mechanisms precisely. It can result in substantially lower transaction costs because of economies of scale in processing payments. The establishment of a TSA is usually combined with elimination of the “float” in the banking and the payment systems, and the introduction of transparent fee and penalty structures for payment services. Many governments have achieved substantial reductions in their real cost of banking services by introducing a TSA.

**(vii) Improves bank reconciliation and quality of fiscal data:** A TSA allows for effective reconciliation between the government accounting systems and cash flow statements from the banking system. This reduces the risk of errors in reconciliation processes, and improves the timeliness and quality of the fiscal accounts.

**(viii). Lowers liquidity reserve needs:** A TSA reduces the volatility of cash flows through the treasury, thus allowing it to maintain a lower cash reserve/buffer to meet unexpected fiscal volatility. Other benefits include the blocking of leakages that have stunted the growth of the economy, ensuring of accountability of government receipts and expenditure, 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 collection and payments.

#### **4.1 Disadvantages of Treasury Single Account**

Oyedokun (2016) Though, TSA allows government banking and fund to be unified, to enable the relevant stakeholders, such as the Ministry of Finance and Accountant General of the Federation to have full oversight of all cash flows across different bank accounts (Udo, 2016). This notwithstanding has not removed the bottleneck and other challenges of TSA. According to Yusufon, (2015), as cited by Oyedokun (2016) laudable as the TSA policy seems, not a few believe that it has its downsides. To operators in the banking sector, it is feared that the sector would be losing about N2 trillion deposits to the CBN, with the implementation of the TSA. The report on accounts of banks with CBN shows that as at beginning of this current quarter, banks' total public sector deposits was N1.3 trillion but additional net flows from Federation Accounts Allocation Committee, FACC, as at end of last month (about N240 billion) as well as expected inflows by end of this month may push the figure close to N2.2 trillion by the time the pullout begins next month.

TSA has an impact on liquidity level in the banking system, resulting in a surge in money market rates during the period as banks scrambled for funds to cover their liquidity positions. With the TSA implementation extended to all federal MDAs, the Nigerian banking industry, on an aggregate basis, would be affected in terms of deposits and funding cost structure.” With the benefit of hindsight, the adverse implication of the TSA is already unfolding as some of the banks, can no longer afford to keep their staff, as ministries and agencies of government have commenced withdrawal of their deposits in commercial banks, in compliance with the federal government directive. The TSA policy, although designed to ensure accountability and transparency, it is equally going to ground a lot of the commercial banks. This may eventually lead to retrenchment in banking sector (Yusufon, 2015).

#### **5. SUMMARY, CONCLUSION AND RECOMMENDATION**

In summary, I think the implementation of this treasury single account system in Nigeria has a great positive effect on the economy of the country as it affects the public sectors, as other benefits include the blocking of leakages that have stunted the growth of the economy, ensuring of accountability of government receipts and expenditure, 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 collection and payments.. Findings on the oral interview conducted shows that TSA is significant financial leakages within the Public Sectors, it also promotes transparency in administration of public funds; and financial misappropriation in the public sector. It should be noted that it enhances the preparation of budgetary control in the organization. Therefore, it is hereby concluded, that the adoption of TSA in the public sector is justifiable and has ability to achieve the main objective of implementing the existing law of maintaining a single account

as opposed to the multiple accounts system adopted by government in the past. But nevertheless, it slows down the work of the management as approval need to be received from the Accountant general before funds could be spent. The followings recommendations are made: (i) Effective government oversight function should be put in place to monitor the spending and make regulations appropriate implementation for effective operation of TSA.(ii) Also, autonomous or express approval should be given to some ministries whose duties at times relate to emergencies such as health Sectors Security and power to spend funds pending approval from the AGF a. Government should make effort to develop a sustainable budgetary control mechanism for performance measurement in the public sector.

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