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THE ROLE OF A FINANCIAL DIRECTOR IN EFFECTIVE TREASURY MANAGEMENT

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ABSTRACT

Had there been a Manager, Director (a treasurer) in the Garden of Eden, he would have erected a security fence around the tree of knowledge and the history of the world would have been different.

Traditional and modern approaches to the study of organizations and management confirm that organizations are established with aims and objectives. Accomplishment of such goals is actualized by management. Management theorists define management in various ways. Management is a problem solving process of effectively achieving objectives through efficient and effective use of scarce organizational resources in a changing environment. **Chandan (2004:4).**

KEYWORDS: Traditional, Management, Financial Director, Public Sector

INTRODUCTION

Problem solving is the major function of a manager. A manager should be able to solve major problems on unpredictably socio-economic changing environment i.e regulations of resources shortages, (economic meltdown) employees demands among other comparatively routine managerial problems. Private and public organizations are established with objectives. Managers are responsible for effective management to accomplish organizational objectives. Organizational resources; money, human, materials and others are limited in nature. Managers are the trustees and stewards of these resources and should make conscious efforts for effective utilization of these resources. **Afangideh (1989).**

Public organizations (non-for profit) are established by Government for the purpose of providing services and developing citizens. Government provides guidelines and appoints specialized and qualified managers to properly and effectively manage and organize materials, human and financial resources for the success and achievement of organizational goals.

This Paper – “**The Role Of A Financial Director In Effective Treasury Management”** is motivated by the assumption of some people that Local Government – nationwide are performing below expectation.

The paper explains the concept of Treasury Management and Highlights:

- Local Government Objectives
- Sources of Local Government Finance
- Nature of Public Sector Accounting
- Local Government Expenditure
- Duties and Responsibilities of a Treasurer

- Challenges on effective Treasury Management, and
- Useful Recommendations to enhance Effective Treasurer's Performance on Treasury Management.

TREASURY

The New Webster Dictionary defines Treasury as Government building kept for the purpose of public Revenue and Expenditure or a building for income and expenditure of socio-economic organizations. Management Encyclopedia defines a Treasury as any place where the currencies or items of high monetary value are kept. The concept of Treasury was first used in the Classical Management Era to describe buildings erected to accommodate gifts to the gods such as Delhi treasury. In many countries, the Treasury is referred to as Ministry of Finance and the head is known as Finance Minister. Examples include New Zealand, Canada, Malaysia, Singapore, India, Japan and Nigeria.

In Nigerian Local Government system, as the Third Tier of Government, the Treasury is referred to the finance department, solely responsible for receipts of Local Government revenues accruing from the Federation Account, State and internally generated revenue from various sources. Treasury department is responsible for efficient application of the revenue of personnel cost, over head and capital cost, over head and capital cost for justification, accountability and stewardship.

Who is a Financial Director

The financial director is a qualified accounting staff (officer) in the public service, appointed and authorized by the Government to manage Government financial activities (planning, forecasting, organizing, directing, controlling, budgeting and reporting) revenue and expenditure of government. He is a financial manager, the head of Treasury Department. The treasurer is responsible for acquisition and application of Government funds to achieve the expected goals/objectives. In the Local Government Service, the Treasurer is appointed by the Local Government Service Commission to act as a Financial Adviser of the Local Government and also responsible for the administrative control of all receipts and payments in the Council.

What is Treasury Management?

From the meaning of Treasury and Management, "Treasury Management is refereed to Treasury Operations in the Federal, State or Local Government for the purpose of achieving organizational goals and objectives. Treasury or Financial Management according to Renice (2005:1) is concerned with the acquisition and applications of funds, financing and management of Assets of an organization to achieve the set goals.

Treasury Management or Treasury Operations includes Management of an enterprise's revenue and expenditure, books of accounts, units of the Treasury, supervision of finance department duties, controlling, performance evaluation, total quality management, welfare maintenance and general motivation to induce co-operative attitudes and gear up staff spirit towards performance on expected duties (financial and non financial administrative functions).

Financial management concerns cash flow, management of sources and application of funds, recognition and applications of accounting standards. Professor Muhammad (2009) states that Financial management embodies, identification of possible strategies capable of maximizing organization's net value and allocation of resources among the competing opportunities, implementation and monitoring of the chosen strategy to achieve organizational objectives.

LOCAL GOVERNMENT AND ITS OBJECTIVES

Local Government Administration is the third tier of Government legally and constitutionally created, established, financed and controlled by the Federal and State Government to facilitate even administration on socio-economic, cultural and political societies / communities. This conveys the idea that Local Governments are created with aims and objectives. The purpose of creating Local Government as spelt in 1976 Local Government Reforms can be summarized as follows:

- To bring Government nearer to the grass root people, decentralize functions and powers of Government and to ensure that more people participate in the process of Government.
- To facilitate even development – man-power and community development.
- To serve as a unit for equitable sharing of Government amenities.
- To recognize socio-cultural and traditional diversity in Nigerian communities.
- To enlarge political and Leadership development of rural people.
- To facilitate understanding of rural demand through local knowledge and rural interaction.
- To motivate rural people for self development programmes and mobilizing grass root people for community development and services like water, good roads, schools, markets, town halls, electricity, among others.
- The Councils serve as information giving and receiving centers for the rural people.

SOURCES OF LOCAL GOVERNMENT FINANCE

Local Government Councils derive their revenue from Statutory Allocation (from the Federation account), 10% internally generated revenue from State Governments, and Local Government internally generated revenue sources.

Internal Revenue Generated Sources

The sources of internally generated revenue for Local Government Councils include collection of taxes, rates, radio and television licenses, establishment of cemeteries and burial grounds, licensing of bicycles, trucks and canoes; maintenance of markets, motor parks, public conveniences and others.

PUBLIC SECTOR ACCOUNTING

Local Government is a Public Sector. Public sector is “all organizations not privately owned and operated, but are established, run and financed by the Federal, State and Local Government on behalf of the public.” This definition conveys the idea that the public sector consists of organizations where control lies in the hands of the public, as opposed to private owners, and whose objectives involve the provision of services. Performance measurement in the public sector is hindered by the lack of profit motive and intangible services whose benefits are difficult to quantify.

R. A. Adams (2004) in his book “Public Sector Accounting and Finance Made Simple” defines Public Sector Accounting as “a process of recording, communicating, summarizing, analyzing and interpreting Government financial statements and statistics. It is concerned with the receipts, custody, disbursement and stewardship on public funds entrusted.” The above definition shares some features with definition of Financial Accounting. Accounting is universal, whether in private or public organizations. The essential requirement is to record all historical costs and incomes, which become useful sources of information, necessary for future decision making and performance control.

Objectives of the Public Sector Accounting

The purpose of the Public Sector Accounting as identified by Ephraim (2006) are:

- Ascertaining the legitimacy of transactions and their compliance with the establishment norms, regulations, status and standards.
- Providing evidence of stewardship and accountability.
- Assisting in planning and controlling.
- Assisting in objectives and timely reporting.
- Providing the basis for information and decision-making
- Enhancing the appraisal of the efficiency of management.
- Highlighting the various sources of revenues and the expenditure to be incurred.
- Identifying the sources of funding capital projects.
- Evaluating the economy, efficiency and effectiveness, with which public Sector Organizations pursue their goals and objectives.
- Ensuring that costs are matched by at least equivalent benefits.
- Providing details of outstanding, long-term commodities and financial obligations.
- Providing solutions to various bottlenecks and / or problems identified.

BASIS OF PUBLIC SECTOR ACCOUNTING

There are three bases under which the financial statements of a public sector enterprise are compiled. These are:

- The Cash basis
- The actual basis
- The commitment basis

(a) The Cash Basis

It is the basis of accounting under which revenues are recorded only when cash is receipted, and expenditures recorded only when cash is paid, irrespective of the fact that the transactions might have occurred in the previous accounting periods.

(b) Accrual Basis

Under this method, revenues are recorded when earned and expenditures acknowledged as liabilities when known or benefits received, notwithstanding the fact that the receipts or payment of cash have taken place wholly or partly in other accounting years. Accrual basis is practiced in the private sector. The reason is that private sector concerns are profit –oriented. It is therefore necessary to estimate how much profit has been earned in each period.

(c) Commercial Basis

It is a basis or a purchase order as determined by a contract or a purchase order as determined by the administration. In public sector financing, budget and accounting systems are closely related to the commitment basis.

EXPENDITURE IN LOCAL GOVERNMENT

Types of Expenditure Incurred by the Local Government Council

These may be discussed as follows:

- A Local Government Council incurs expenditures on daily, monthly or yearly running of its affairs. Examples are:
- **Personal Cost:** Salaries to staff and politicians
- **Overhead Cost:** Imprest and allowances, out of pocket expenses etc.
- **Capital Cost:** Capital expenditure are incurred on roads construction / maintenance, building / furniture, purchase of vehicles, agriculture, health services, education etc.

DUTIES AND RESPONSIBILITIES OF THE FINANCIAL DIRECTOR

The finance memoranda highlights the duties of a financial director as follows:

- Financial director shall be responsible for financial control on receipts and payments.
- The Financial director is responsible for financial planning (forecasting) budget preparation, supervision and control.
- The Financial director is responsible for effective treasury management and prepares financial report monthly.
- Besides his responsibility as a signatory to cheques, vouchers, accounts and all financial transactions, he must ensure that there is strict compliance with the financial memoranda and other accounting standards relating to Public expenditure.
- The Financial director should keep accurate account of income and expenditure and ensures that proper authorizations are given on payments.
- For the purpose of effective management, the financial director is responsible for daily, weekly or monthly check on cash books / bank reconciliation and other financial records to facilitate accountability.
- He is bound to safeguard assets / properties of Government and provide internal control system for protection against fraud and embezzlement.
- It is the duty of a financial director to ensure that revenue collectors are properly checked weekly or monthly.
- The Financial director should direct for submission of all books of account – vouchers etc for inspection or auditing when required by authorized persons.

- The Financial director should ensure that all financial directives of the Local Government Council, Executive Committee or the Chairman to the Local Government are promptly carried out.

The financial director may delegate any of his duties and responsibilities to his subordinate staff, but such delegation shall not absolve him from responsibility for ensuring that the duties have been properly performed. The financial director and or other Account Officers will be held personally responsible for losses arising from inaccurate according records; failure to take adequate precautions to safeguard cash, stores and receipt, books as the result of unauthorized or incorrect payments; or as the result of carelessness or neglect in the performance of their duties. The financial director must not be the cashier in the Treasury.

CASH OFFICE

It is the duty of the financial director to ensure that all revenue from the Federation account, State Government if any and internally generated are properly receipted and recorded. The financial director should ensure that there is proper maintenance of cash book and other books of original entry to provide information on the financial position of the council at a glance. The financial director provides adequate security in the management of cash office and this includes provision of a cashier's cage and partition to ensure that only staff of that office and other authorized persons can move in and out of the pay office. Effective internal check system is also an important responsibility of the financial director in the operations of the pay office to minimize fraud and loss of funds; up-to-date recording of transactions and regular supervision is required. **(Randy 2008)**

Cheque Summary Register

The Cheque Summary Register serves as a useful record for the balancing of bank transactions in the Cash Book. All cheques issued and all receipts paid into the bank account, all vouchers raised to cover bank / payment (advices), tellers of all payments to the bank and any other bank transactions which are recorded in the Cash Book are to be posted into the Cheque Summary Register. It is to be balanced daily. The balances must agree with the balance on the Cash Book. As an internal check, the person posting the Summary Register should not be the person posting the Cash Book. The financial director should also check the register weekly or monthly. **(Van Home 2002)**

Security and Custody of Security Books / Documents

It is the duty of the financial director to provide security on books of accounts and other related documents. E.g. Cheque Books, Receipts – Treasury Book, Cheque Summary Register, Cash Book, Payment Vouchers, Tellers, cheque confirmations etc.

The security control of cheque books is of utmost importance in the prevention of fraud. Issuing and handling of cheques must be carefully undertaken to ensure that none is removed for fraudulent use.

Preparation of Bank Reconciliation Statement

Every financial director is duty bound to keep a close watch on its bank account to guard against fraud or the infiltration of extraneous elements. This is done through the preparation of bank reconciliation at regular intervals cannot be overemphasized. Failure to do this may not only result in heavy loss of funds but sometimes in embarrassing and unpleasant situations. **(Nteyoho 2007)**

CHALLENGES OF EFFECTIVE FINANCIAL MANAGEMENT

The model, financial memoranda for Local Government chapter one specifies the duties / responsibilities of Council financial directors for effective Financial Management. Accounting bodies such as ICAN (Institute of Chartered Accountants of Nigeria), Financial Analysts and Authors of Financial and Management accounting are supporting organizations to motivate financial directors and other financial managers on effective and efficient management of treasury for justifiable accountability, transparency and stewardship in management of financial resources.

With the assistance of Local Government Service Commission, compulsory training development of council treasurers on financial management is recorded in the Local Government Service but some factors mitigating 100% against success are:

Financial Problems

The federal Government has successfully enlightened the grass root dwellers on the functions and objectives of Local Government, socio-economic responsibility of councils on provision of social infrastructure and economic developments.

This has induced the rural people to continuously request Councils to provide these amenities without considering financial position in the Council.

Staff Problems

The present economic melt down has made it difficult to satisfy total economic needs of staff. Most Councils are facing problems from staff, mostly the junior ones. Poor allocation has made it difficult to continue paying all un-statutory payments / allowances (incentives) such as claims and up-keep which were economic motivation to improve job performance. Inability to continue with such payments has affected not only job performance but successful management of Treasury Department.

The Problem and concept of Son of the Soil sometimes paralyze effective financial management, information leakages and refusal to perform their respective duties and provide the needed accounting information as at when due. These are staff who had spent years in the Council and become a threat to management because of un-ethical working attitudes.

Bank Relationship

Some of the Bank Managers for the purpose of meeting financial targets become desperate and grant loans to some political officers and Council staff with no consideration to their earnings.

Other Factors Contributing to Poor Financial Management are

- Excess control by Federal and State Government
- Corruption and mismanagement of the limited funds.
- Poor organization and political culture
- Un-ethical attitude to work

- Unfavourable court judgment against Councils
- Creditors and fake claims
- Power tussle between the Legislative and the Executive Chairman affects smooth financial management.
- Lack of communication
- Leadership style
- Generalist problems
- Refusal to apply due process
- Revenue problems.

RECOMMENDATIONS TO ENHANCE A FINANCIAL DIRECTOR'S PERFORMANCE AND EFFECTIVE TREASURY MANAGEMENT

Arising from problems facing Financial Directors on effective Financial Management, the following recommendations are given with assurance that they will assist to enhance effective Financial Management in the Local System

- Statutory allocations from Federal and State Government to Council should be improved to enhance successful Financial Management – payment of personnel cost, overhead cost, and embarking on meaningful capital projects that will touch the lives of about 70% of the rural people if not all.
- The State Government should make it known to some Bank Managers that, any financial transaction involving Councils should not remain invalid without signature of the Financial Director and the Head of Personnel.
- Financial Directors should always endeavour to provide qualitative financial information to activate useful decision-making on developments.
- Financial Directors in Public / Private Sectors should understand the principles / objectives of Financial Management and should properly be guided by these principles:
- **Accountability:** Financial Directors at any time should be able to justify their duties on sources and application of financial resources entrusted on them.
- **Stewardship:** Financial Directors are the trustees and should use the resources effectively for the purpose proposed.
- **Transparency:** Financial Directors should prepare accurate, complete and timely financial reports and make them accessible to stakeholders, including internal and external beneficiaries.
- **Integrity:** Financial managers (Treasurers) should operate with honesty and truthfulness by declaring any personal interests that might conflict with their official duties. The integrity of financial reports depends on the accuracy and truthfulness of financial records.

- **Viability:** All expenditure must be kept in balance with incoming funds. Viability is a measure of an organization's financial continuity and security.
- **Accounting Standards:** Financial managers (Treasurers) should apply the acceptable accounting standards by national and in international account ting bodies.
- **Consistency:** The organization's financial policies and accounting systems must be consistent over time. This promotes efficient operations and transparency, especially in financial reporting. While system may need to be adapted to changing needs, unnecessary changes should be avoided. Inconsistent approaches to financial management cant be a symbol of financial malpractice.
- **Communication:** Communication is one of the most importance factors of motivation and employee's job performance. Every managerial function involves communication, planning, organizing, directing, leading, reporting and coordinating involve the process of communication.
- **Motivation:** The importance of motivation is to induce job performance. The treasurer as a leader and the head of Treasury Department should endeavour to motivate staff for productivity. Motivation is not only on financial but non-financial aspect of motivation, encouraging them to aspire, listening to problems and providing fatherly advice among others will induce the spirit of job performance, peace, respect, loyalty and cooperation.
- **Good Working Relations:** The treasurer should utilize his office effectively and maintain smooth working relations with the chairman, Legislative and Executive Council including Heads of Department, the community and Government agencies.
- **Cash Management:** Local Government financial managers and paraprofessionals should understand Treasury management and investment that produces the greatest yield. The treasury management process involves people inside and outside of the organization. This first lesson covers the overall goals of cash management as well as the understanding of the treasury management process from inception to end.
- **Forecasting:** Cash flow is critical for a treasury manager. Without proper cash flow (forecasting), it is impossible for management to decide on what amount can be invested and for what period of time. Disbursement of Government funds must be fully authorized and due process followed.
- **Prompt/Correct Remittance:** Deductions for PAYE, Union Dues, Recovery from Advances, pension and others should promptly be paid as deducted.
- **Staffing and Supervision:** For effective Treasury Management, in Treasurer should ensure that schedule of duties are in line with qualification, training and character, performance should be checked and supervised to ensure efficiency/effectiveness.
- Financial incentive is the traditional reinforcement for job performance. It modifies behavior in work place. Government should therefore link financial incentives to good performance and treasures should always try to fine-tune methods of rewards to employees' performance

- **Leadership Style:** Leadership behavior can enhance organizational conflict and low productivity. However, managers should understand that all styles are useful hence; application of any style is influenced by organizational culture, the environment, behavior of people, and their background and training.
- **Orientation Courses:** Government should always organize orientation seminars for political officers. This will reduce conflicts and misunderstanding arising from struggling for limited economic resources and most importantly on some financial demands, which are not their rights.
- **Organization/Political Culture:** It is observed that some staff, political officers and the communities find it difficult to believe treasurers that councils are over loaded with financial obligations hence, they believe that chairman's approval means immediate payments. Some communities have in mind that council's money belongs to the community hence, continuous applications for marriage financial assistance, burial assistance, assistance for renovation of houses, hospital bills etc.
- Job enrichment is the major strategy for enhancing motivation and performance.
- Government should spell out performance reward for good performing employees.
- Finally, the Local Government Service Commission should organize retreat for Generalists/Professionals specifying the duties and responsibilities of the Generalist on Personnel Matters only. This will enhance professional Treasures to manage treasury effectively as expected by professional bodies and the Government.

CONCLUSIONS

Management of treasury to achieve the set goals requires not only financial knowledge but human resource management. The treasurer as the treasury manager should not only rely on financial management principles but should be able to manage human (staff) in the treasury department effectively. By his status, he can not be intimidated by anybody into unlawful disbursement of Government funds. The treasurer should understand that employees can work positively for organizational goals and at the same time they can negatively work against success of organizations. Effective Treasury Management needs Management of human and financial controls. Since Local Government Financial resources are not sufficient to service the needs, or opportunities, which the Local Government would want to undertake, inadequacy of such resources demands effective management and prudent to ensure optimum benefits not only to the council but communities and Government.

Finally, I appreciate you for listening and believing that the presentation will serve as a springboard on Treasury Management and the Role of Treasurer in the Public Sector. Thank you and God bless.

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