



Cash Management Framework

Ministry of Finance, Planning & Economic Development

P.O Box 8147, Kampala

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FOREWORD

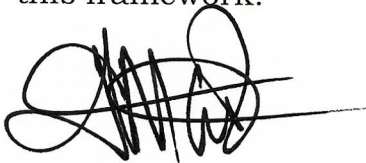
Government of Uganda has implemented Public Financial Management (PFM) reforms with the ultimate objective of improving planning and budgeting, strengthening budget execution, and enhancing efficiency and accountability in the use of public resources. Among the key reforms implemented is the introduction of the Integrated Financial Management System (IFMS) and the Treasury Single Account (TSA), which have strengthened financial management and improved cash management systems.

The Cash Management Framework is intended to improve liquidity management to ensure cash availability when needed to deliver public services and wealth creation effectively and efficiently. The Cash Management Framework highlights the need to accurately forecast and analytically schedule cash flow needs (revenue, expenditure, and financing) in order to meet government expenditure requirements and enhance budget credibility in line with the available resources.

The Cash Management Framework has been informed by a rigorous and extensive consultative process involving a number of stakeholders in the cash management value chain, such as Votes, Autonomous Government Agencies, Development Partners, Commercial Banks.

This Ministry together with all stakeholders will fast-track the implementation of the Cash Management Framework in order to transform cash management practices in Government. The Cash Management Framework is to be used alongside other relevant operational guidelines.

I wish to express my gratitude to all those who worked tirelessly to produce this framework.



Ramathan Ggoobi

Permanent Secretary/Secretary to the Treasury

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LIST OF ACRONYMS AND ABBREVIATIONS

AG	Accountant General
AMD	Assets Management Department
BoU	Bank of Uganda
BPED	Budget Policy & Evaluation Department
CFC	Cash Flow Committee
CFCS	Cash Flow Committee Secretariat
CMTC	Cash Management Technical Committee
CPD	Cash Policy Department
DARC	Development Assistance and Regional Corporation Department
DPID	Debt Policy and Issuance Department
GoU	Government of Uganda
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
LGs	Local governments
MDAs	Ministries, Departments and Agencies
MDA&LGs	Ministries, Departments, Agencies and Local Governments
MEPD	Macroeconomic Policy Department
MoFPED	Ministry of Finance, Planning and Economic Development
MoU	Memorandum of Understanding
NDP	National Development Plan
NPA	National Planning Authority
PBS	Program Budgeting System
PFM	Public Finance Management
PS/ST	Permanent Secretary/ Secretary to Treasury
PSAD	Public Sector Accounts Department
TSA	Treasury Single Account
TPD	Tax Policy Department
TSD	Treasury Services Department
UCF	Uganda Consolidated Fund
URA	Uganda Revenue Authority
WB	World Bank

GLOSSARY

Cash Management	Cash management is defined as having the right amount of money in the right place at the right time to meet government obligations in the most cost-effective way.
Budget Credibility	The ability of Government to meet its expenditure and revenue targets accurately and consistently.
Budget Management	Budget Management is the process of planning and controlling the use of scarce resources.
Cash Flow	Refers to revenues from tax & non-tax sources, expenditure and financing.
Cash Flow Forecasting	Cash flow forecasting is the process of estimating future government cash inflows and outflows, with a view to take action necessary to ensure that sufficient funds are always available to meet government cash requirements.
Cash Rationing	Control of the amounts and timing of budget expenditures to fit available cash.
Cash	Is the cash on hand, cash at the bank, demand deposits, and cash equivalents; where cash equivalents are defined as short-term, highly liquid investments (with maturities of less than three months from the date of purchase) that are readily convertible to known amounts of cash and which are not subject to a significant risk of change in value.
Money markets	Markets for trading short-term financial instruments.

Treasury Single Account (TSA)	A unified structure of government bank accounts, in a single account or a set of linked accounts for all government payments and receipts.
Short-term	A period not exceeding one year.
Treasury Bill (T-Bill)	A short-term Uganda Government debt security with a maturity of one year or less.
Treasury Bond (T-Bond)	A long-term Uganda Government debt security with a maturity of two years or more.
Vote	An entity for which an appropriation is made by an Appropriation Act or Supplementary Appropriation Act or Approval by Parliament.
Financial Investments	Government short term financial assets held for the purpose of earning return.

1. INTRODUCTION

- 1.1 The Uganda Government has progressively implemented cash management reforms to ensure the availability and optimization of cash usage. These reforms included, among others, the rollout of Integrated Financial Management Systems (IFMS) to MDAs&LGs, implementation of the Treasury Single Account (TSA), introduction of Program-Based Budgeting (PBS) tool, deployment of the e-cash platform, and Straight Through Processing of payments. However, the cashflow forecasting and quarterly releases of expenditure limits need to be improved, to align public expenditure to available resources.
- 1.2 The current cash management practices have weaknesses resulting in liquidity management challenges and crises. Expenditure limits issued are regularly not matched with revenue. As a result, the Treasury faces challenges to implement the expenditure limits, and often resorts to undesirable and unsustainable financing methods, including:
 - i. Additional in-year borrowing both domestic and external;
 - ii. Adjustments in actual auction sizes of T-bills and T-bonds compared to planned issuances and using other methods like private placements which send wrong signals to the market and may result into higher borrowing costs;
 - iii. Unplanned credits or advances from Bank of Uganda constraining its monetary policy management; and
 - iv. Accumulating arrears which undermines private sector growth.
- 1.3 The Cash Management Framework aims to address the current weaknesses in the current cash management practices. The

institutional roles of the responsible offices in the cash management process are not clearly articulated. Given the many stakeholders and functions in cash (liquidity) management, there is need to clearly define and streamline institutional roles and relationships in the process.

1.4 Therefore, the purpose of the Cash Management Framework is to ensure efficient liquidity management by matching expenditure to available resources through improving the timing of inflows and outflows, and avoid unplanned additional borrowing. This will ensure availability of liquidity for timely payments, minimize borrowing costs and re-establish fiscal discipline.

1.5 The specific objectives of the Cash Management Framework are to:

- i) Improve liquidity management through the accurate, timely, and comprehensive cashflow forecasts.
- ii) Strengthen coordination by defining clear roles and responsibilities in cash management, and information sharing among stakeholders in the cash management process.
- iii) Strengthen mechanisms for management of temporary cash surplus and shortfalls during the financial year.
- iv) Ensure borrowing is in line with liquidity requirements and prudent fiscal management.
- v) Strengthen banking arrangements for effective cash management.

1.6 The Cash Management Framework is in line with international best practices, which require cash managers to:

- i) Develop and implement a cost-effective cash management framework to enable the Government to meet its obligations in line with the borrowing limits and resource envelope.
- ii) Develop accurate, timely, and realistic forecasts of cash inflows and outflows needs encompassing all payments and aligning expenditure planning with projected cash inflows.
- iii) Effectively coordinate the Government's cash management initiatives with the central bank to avoid adverse implications on fiscal and monetary policies.

2. CURRENT CASH MANAGEMENT PRACTICES AND ISSUES FOR REFORM

2.1. Cash Management Practices

2.1.1 The Cash Flow Committee reviews inflows and outflow forecasts and advises the PS/ST on issuance of expenditure limits. The quarterly Cashflow Committee (CFC) meetings are informed by different departments presenting separate analyses directly to the Committee. Thus, the Office responsible for Economic Affairs, Office responsible for Debt and Cash Policy, Office responsible for Budget and the Accountant General's Office submit their own proposals of the proposed expenditure limits. Consequently, it is hard for the CFC to decide on the expenditure limits.

2.1.2 The tax and non-tax revenues are estimated by the Office responsible for Economic Affairs in close collaboration with the URA. The estimates are based on the macroeconomic framework and presented in the Budget and updated twice in the financial year, in October and May. The total tax and non-tax revenues are forecasted on a monthly basis using the historical pattern for

the previous 3 years. The monthly estimates, aggregated for a quarter, are presented to the CFC on a quarterly basis. The monthly estimates are updated monthly, based on the actuals, i.e. if the actuals were lower than expected for a month, the remaining months will be revised accordingly. However, the expenditure is not always aligned to the revised revenue estimates resulting in additional borrowing. Furthermore, the Office responsible for Economic Affairs, using the macroeconomic framework, forecasts resource inflows (revenues & financing) and produces the macro-fiscal limits on an annual and quarterly basis which are presented to the CFC.

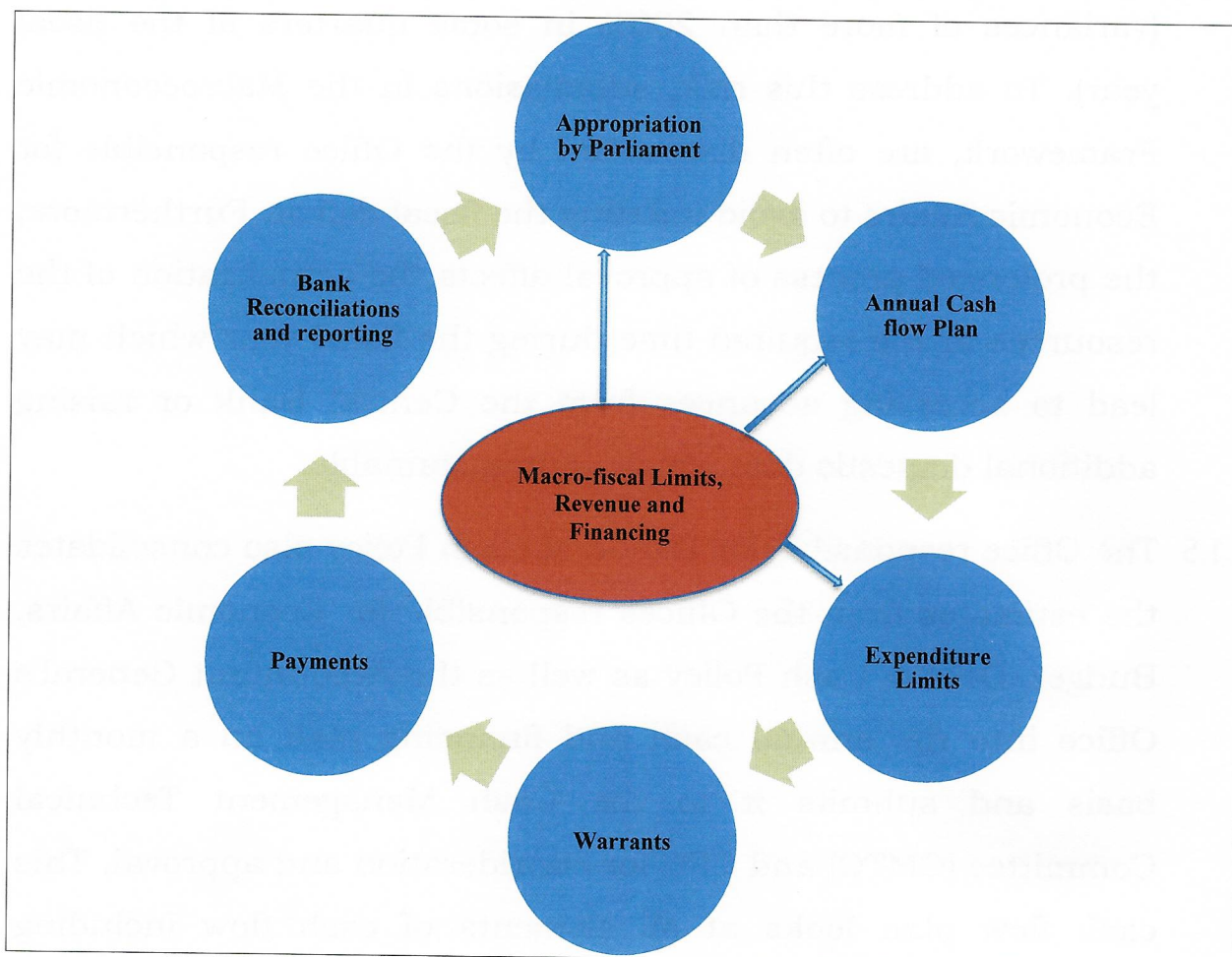
2.1.3 Expenditure limits are based on cash flow plans and procurement plans as approved by Parliament in line with the PFMA 2015. Furthermore, expenditure limits incorporate supplementary expenditure as well as expenditure needs that arise in the middle of the quarter which were not considered in the earlier CFC meeting and contractual obligations that were not considered in the previous quarter due to insufficient resources, especially on development. However, expenditure limits often exceed the available resources due to: expenditure not being revised to take into account the adjustment in resource inflows; and supplementary budgets and statutory revisions that are not matched with the required financing. Therefore, resource inflows and expenditures need to be harmonized in order to a realistic annual cash flow plan.

2.1.4 The Office responsible for Debt and Cash Policy mobilizes domestic financing by issuing T-bills and T-Bonds based on the issuance calendar in consultation with the BOU. In addition, the Office mobilizes external resources in form of loans and grants

which are included in the Budget. Accurately forecasting these resources is always challenging, often leading to significant variances between forecasts and actual disbursements (variances of more than 200% in some quarters of the fiscal year). To address this risk, submissions in the Macroeconomic Framework, are often discounted by the Office responsible for Economic Affairs to avoid inflating the fiscal deficit. Furthermore, the prolonged process of approval affects the actualization of the resources in the required time during the fiscal year which may lead to accessing advances from the Central Bank or raising additional domestic debt which is unsustainable.

2.1.5 The Office responsible for Debt and Cash Policy also consolidates the estimates from the Offices responsible for Economic Affairs, Budget, Debt & Cash Policy as well as the Accountant General's Office into the annual cash and financing plan on a monthly basis and submits it to the Cash Management Technical Committee (CMTC) and CFC for consideration and approval. This cash flow plan looks at all elements of cash flow including revenue, expenditure and financing. The PFMA 2015 on the other hand prescribes the annual cash flow plan which is prepared and issued by the Office responsible for Budget upon approval of the Budget by Parliament. This cash flow plan however does not conform to best practice of the standard format of a cash flow since it only shows the planned Vote expenditures. The cash flow plan issued after approval of the budget needs to conform to the acceptable format with revenues, expenditure and financing.

2.1.6 The process flow chart below demonstrates the interlinkages among various functions in the cash management framework right from the budget approval stage to financial reporting.



- (i) *Budget Approval:* Budget estimates are approved by Parliament, paving the way for budget execution. Budget execution commences after the issuance of the Grant of Credit by the Auditor General and Minister's Warrant. Budget estimates are prepared by the office in charge budget while processing of the grant of Credit and Minister's warrant is handled by the Accountant General.
- (ii) *Annual Cashflow Plan:* The Plan is issued by the Permanent Secretary/Secretary to Treasury (PS/ST) upon budget approval based on individual submissions by MDA&LGs and the resource

envelope. The plan forms the basis for commitments by Accounting Officers.

- (iii) *Expenditure Limits:* Prior to the start of every quarter of the Financial Year, the Cash Flow Committee (CFC) proposes expenditure limits which are issued by the PS/ST to the spending entities based on the available resource envelope and expenditure requirements.
- (iv) *Warrants:* Upon issuance of expenditure limits, Warrants are initiated on IFMS by spending entities and submitted to MoFPED for approval by BPED and the Accountant General's Office.
- (v) *Payment:* The payment requests are submitted to MoFPED by spending entities on an ongoing basis throughout the Financial Year and effected by the Accountant General's Office.
- (vi) *Revenues:* These are collected by Uganda Revenue Authority (URA) and some MDAs&LGs through Commercial Banks and transferred to the Uganda Consolidated Fund (UCF) in Bank of Uganda
- (vii) *Financing (domestic & external):* This is coordinated by DARC for external financing and DPID for domestic financing. The latter consists of inflows from Treasury Securities after deducting redemptions, whereas external financing comprises concessional and non-concessional borrowing and grants.
- (viii) *Bank Reconciliation and reporting:* undertaken by the Accountant General's Office together with BoU on a daily basis.

2.2. Cash Management Reform Issues

2.2.1 The current cash management practices have weaknesses that severely undermine budget execution and credibility. The key cash management weaknesses include the following:

- a) The quarterly expenditure limits do not adhere to the basic principle of balancing inflows and outflows. Thus, expenditure limits are regularly issued above the resource envelope, leading to unplanned borrowing, utilization of advances from BoU and accumulation of domestic arrears.
- b) Over-commitment due to expenditure-led budgeting makes it difficult to ensure that Government has sufficient liquidity to execute its payments in a timely and cost-effective way. Expenditure forecasts/projections based on overcommitted budgets are prone to errors, affecting the overall credibility of cash flow forecasts.
- c) Quite often the expenditure limits are not fully funded. In addition, the quarterly expenditure limits are complemented with additional expenditure limits issued during the quarter, outside of the CFC process, and without a funding source.
- d) Whereas the submissions to the CFC are based on the Macroeconomic Framework which also has input from the Bank of Uganda and policy commitments made by Government, the extra expenditure cash limits are not informed by the Framework often leading to large variances between fiscal and monetary policy commitments and actual performance.
- e) Generally, expenditure forecasts are not accurate, with wide variations during the starting and ending months of the fiscal year. Forecasts for development expenditure are significantly inaccurate compared to the actual, largely due to the difficulty in forecasting

grants and loans disbursements, and inaccurate information from MDAs and LGs. This results in unpredictability of discretionary expenditure especially non-wage recurrent and development expenditure and in turn impacts on the credibility of the budget.

- f) On an aggregate basis, there are significant mismatches between inflows and outflows, including external grants and loans. These mismatches are ultimately funded from additional domestic borrowing, including T-bills and Bonds and advances from Bank of Uganda.
- g) There is no consolidated proposal to enable final decision-making on expenditure limits in the CFC meetings, complicating liquidity management. Different proposals are presented by key stakeholders. Arising from failure to accommodate the proposed expenditure limits within the available resource, a meeting of a small caucus outside the official CFC meeting is held to finalize the proposal before submission to the PS/ST for approval and issuance of the cash limits. This decouples expenditure limits from projected resources.
- h) The roles and responsibilities of key stakeholders in the cash management process need to be clearly defined and the institutional framework streamlined to avoid duplication of roles.

3. CASH MANAGEMENT FRAMEWORK

3.1. Legal and Regulatory Framework

The Cash Management Framework is in line with the 1995 Constitution of the Republic of Uganda, as amended, specifically Chapter Nine which provides for public finance management. The legal basis for implementation of the Cash Management Framework in Uganda is also provided for in the Public Finance Management (PFM)

Act 2015 (as amended), Sections 11 (2h), (2l), 13 (15f), 15(1) (2) (3), 16(1), 21(1), 33(1) (6); 36(5b); 45(4); 46(2d); 57; 58; 59 and Schedule 5 (1a) and (1b), the PFM Regulations 2016 and Treasury Instructions 2017. All these frameworks provide for cash flow planning, commitment, reporting and the framework for conducting banking and cash management in Government. The Charter for Fiscal Responsibility provides for prudent fiscal management.

3.2. Key Operational Principles Underlying the Framework

- i) A comprehensive annual cash flow plan will be prepared and approved by the CFC. The plan shall clearly reflect revenues, expenditures and financing, and be frequently monitored to ensure it addresses the cash flow needs of Government.
- ii) Government cash management must ensure that funds are available in a predictable and smooth manner for government operations to enable effective and efficient service delivery.
- iii) Decisions of the CFC on cash inflows and outflows (including expenditure limits) should be based on the consolidated proposal derived from analysis and compilation of inputs from the stakeholders showing consolidated projections of revenue, expenditure and borrowing. The consolidated proposal should match expenditure and revenue.
- iv) The annual and quarterly macro-fiscal limits provided by the office in charge of Economic Affairs shall provide the aggregate fiscal constraints or ceilings in cash (liquidity) management operations. The CFCS (as the new technical analytical support function for the CFC), will then breakdown the macro-fiscal limits into monthly cashflow forecasts providing a consolidated proposal to the CFC on detailed inflows and outflows, and their

timing to ensure that expenditure proposals match expected revenue taking into account the annual cash flow plan approved by the CFC.

- v) The Accountant General shall be responsible for the day-to-day execution of treasury cash management operations including receiving inflows, making approved payments and other outflows, determining daily cash needs, recording inflows and outflows, and preparation of reports to the CFC.
- vi) The MOFPED will operationalize the cashflow forecasting module to capture monthly cashflows of MDAs & LGs.
- vii) Debt obligations and unfunded warrants shall have the first call on resources of the subsequent quarter within a financial year and should not be carried forward to the new financial year.
- viii) The PS/ST shall have ultimate authority on cash management and overall fiscal policy framework taking into account the decisions of the CFC.

3.3. Institutional Arrangements

Considering the cross-cutting nature of cash management, it is important that there is strong coordination with a clear delineation of roles and responsibilities for the stakeholders involved. The coordination is facilitated through the CFC and supported by the technical analyses and reports of the CFCS.

3.3.1. Cash Flow Committee (CFC)

a. Membership of the CFC

The members of the Cash Flow Committee shall consist of representatives from the cash management value chain appointed by PS/ST. These will include:

- a) Permanent Secretary/Secretary to the Treasury (Chair)

- b) Deputy Secretary to the Treasury
- c) Accountant General's Office
- d) Office responsible for Budget
- e) Office responsible for Economic Affairs
- f) Office responsible for Debt and Cash Policy
- g) Uganda Revenue Authority
- h) Bank of Uganda

The CFC, chaired by the PS/ST, shall make the final decisions on expenditure limits. The secretary of the CFC meetings will be the Office responsible for Budget.

b. Functions of the CFC

- a) Oversee the implementation of the Cash Management Framework.
- b) Review and approve the annual cash flow plan after approval of the Budget by Parliament
- c) Consider and approve reports provided by the CFCS.
- d) Review and approval of the quarterly expenditure limits.
- e) Review and approve additional expenditure limits.
- f) Issue complimentary guidelines, e.g. that the Votes should seek to smooth the monthly payments as much as possible within the quarter
- g) Consider reports on investment and borrowing recommendations based on the net position and its cash flow forecasts.
- h) Review and approval of recommendations for improving cash management practices.

c. Functions of the CFC Secretariat (CFCS)

The CFCS shall be the technical arm of the CFC that shall carry out technical analyses and prepare a consolidated position as a basis for the decisions of the CFC. The CFCS shall be constituted by middle-level technical staff from key responsible offices and Accountant General Office, and will be co-chaired by the Office responsible for Budget, Office responsible for Economic Affairs, and Office responsible for Debt and Cash Policy. The Chairperson of the CFCS shall make the presentation of the consolidated position to the CFC.

The secretariat for the CFCS will be the Office responsible for Debt and Cash Policy.

The functions of the CFCS shall be to:

- a) Prepare the proposed annual and quarterly cash flow plans for approval by the CFC based on the annual and quarterly macro-fiscal targets (limits).
- b) Prepare a consolidated cashflow position for the fiscal quarter broken down on a monthly basis, based on submissions from various stakeholders, namely: Office responsible for Budget, Office responsible for Economic Affairs, Office responsible for Debt and Cash Policy and the Accountant General's Office.
- c) Recommend quarterly expenditure limits for approval by the CFC, as well as necessary complementary guidelines for the MDAs &LGs.
- d) Propose fiscal borrowing requirements for approval by the CFC.
- e) Compile all the information from the relevant MDAs &LGs that is required to prepare the proposed annual, quarterly and monthly cashflow plans.

- f) Update the annual and quarterly cash flow plans on a monthly basis with actuals and new forecasts.
- g) Provide regular reports on the performance of cash flow plans for submission to CFS.
- h) Develop guidelines and operating procedures for efficient cash management.
- i) Consider proposals and framework for short-term investment of temporary surplus cash.
- j) Coordinate capacity-building initiatives to improve the accuracy of cash flow forecasts submitted in MDAs and LGs.
- k) Propose improvements in cash management practices.
- l) Undertake any assignments as directed by the CFC.

The institutional roles and responsibilities of the key stakeholders with respect to the Cash Management Framework shall be as outlined below.

3.3.2. Office Responsible for Budget

The Office responsible for Budget is mandated to coordinate budget preparation and execution. The key roles and responsibilities of BPED with respect to the Cash Management Framework will include:

- a) Receiving and analyzing votes' quarterly expenditure plans.
- b) Submitting annual and quarterly expenditure plans to CFCS in line with estimated revenues and planned borrowing to be consolidated by CFCS.
- c) Capturing expenditure limits on the Programme Budgeting System (PBS).

- d) Consolidate and submit the additional expenditure needs, supplementary requests and statutory revisions to the CFCS for consideration.

3.3.3. Accountant General Office

The key roles and responsibilities of the Office of the Accountant General in liquidity management shall be:

- a) Issuing guidelines for banking, accounting and cash operations.
- b) Configuring the cash management arrangements in the IFMS.
- c) Managing the UCF, TSA, and Treasury Cash Holding Accounts.
- d) Advising on balances available for short-term investment of cash surplus.
- e) Advising on expected daily shortfalls.
- f) Formatting and transmitting payment instructions to BoU for settlement.
- g) Managing sweeping arrangements for main government bank accounts and investigating any exceptions in a timely manner.
- h) Approving and regulating the opening and closure of any bank accounts.
- i) Reconciling the Treasury Cash bank accounts.
- j) Forecasting domestic and external debt servicing in consultation with the Office responsible for Debt and Cash Policy and presenting the forecasts to CFCS.
- k) Processing debt service payments.

3.3.4. Office Responsible for Economic Affairs

- a) Preparing the quarterly and annual macro-fiscal limits.
- b) Preparing the Resource Envelope for the annual budget.

- c) Preparing monthly and quarterly revenue forecasts and updated outturns in line with the fiscal framework and quarterly macro-fiscal limits.
- d) Monitoring revenue collections against targets and advising on measures to meet the targets.

3.3.5. Office Responsible for Debt and Cash Policy

- a) Preparing the annual cash flow and financing plan.
- b) Planning the domestic securities issuance and external financing based on cash flow forecasts as approved by the CFC.
- c) Preparing the annual external resource envelope.
- d) Issuance of Treasury Bills and Bonds in line with liquidity requirements.
- e) Advise on the investment of government temporary cash balances.
- f) Ensuring timely mobilization of domestic and external funds in line with the quarterly cash limits approved by the CFC.
- g) Working with Accountant General (Treasury Services Department), preparing monthly and quarterly forecasts of domestic and external debt service and submit to the CFCS.
- h) Propose improvements in cash management practices.

3.3.6. Internal Auditor General (IAG)

The key roles and responsibilities for IAG with respect to the Cash Management Framework and guidelines will include:

- a) Providing independent, objective assurance and advisory services to the Government designed to add value and improve the risk management and control processes of the cash management systems.

- b) Conducting independent review of the cash management framework.

3.3.7. Uganda Revenue Authority (URA)

The key roles and responsibilities of the URA in cash management will include:

- a) Ensuring regular bank reconciliation of revenue accounts.
- b) Ensure timely transfer of revenue from the collection accounts to the UCF, to facilitate the timing of expenditure releases to revenue.
- c) Report and project revenue collections in collaboration with the Office responsible for Economic Affairs.

3.3.8. Bank of Uganda (BOU)

The roles and responsibilities of BOU in liquidity management will include:

- a) Advising the Treasury on the daily cash balances on the various bank accounts, and Government cash position.
- b) Provide monetary sector assumptions to be used in setting macro-fiscal limits.
- c) Receiving cashflow forecasts from the PS/ST to be incorporated into its overall liquidity management framework.
- d) Issuing Government Securities on the open market on behalf of MoFPED in accordance with the MoU between the BoU and the MoFPED.
- e) Submitting to the CFCS outstanding advances to the Treasury in relation to financing the budget and settlement of public debt obligations.

3.3.9. MDAs and LGs (Votes)

The key roles and responsibilities of votes in cash management include:

- a) Preparing and submitting to the PS/ST, the Vote annual cash flow plans and uploading them on the electronic Cash Management Module of the budgeting system.
- b) Preparing and submitting monthly, quarterly, and annual cash flow projections of expenditure to facilitate cashflow forecasting.
- c) Timely submission of invoices to the Accountant General for payment, in line with quarterly expenditure limits and complementary guidelines approved by the CFC and PS/ST.
- d) Undertaking regular bank reconciliations of Government accounts outside of the TSA and inputting the data into the Cash Management Module of PBS.
- e) Monitoring and accounting for payments effected through the TSA.

4. MONITORING AND EVALUATION

Monitoring and evaluation of the Cash Management Framework implementation shall be carried out by the Cash Flow Committee Secretariat on a regular basis and report to the CFC on a quarterly basis. The Cash Flow Committee Secretariat shall present the verifiable key performance indicators to the CFC for approval. The Cash Management Framework will be reviewed every two and half years or as and when need arises to address emerging issues and challenges.