

## The state's cash management

The audit of the state's cash management evaluated how well cash management handled centrally by the state has succeeded in achieving the objectives that have been set for cash management and the operational efficiency of cash management. The task and objective of the state's cash management is to maintain and ensure liquidity. In addition to key cash management functions the audit looked at special features of the state's cash management - the cash needs of the central government budget economy - and the balancing of the cash position required to maintain liquidity. With regard to maintaining liquidity and managing the cash position and counterparty risk, the audit is secret on the basis of section 24:1 (17) of the Act on the Openness of Government Activities (621/1999).

The selection of the state's cash management as an audit topic was based on the financial significance of cash management and associated risk. Cash, bank receivables and other financial assets and securities totalled 7.6 billion euros in the final central government accounts for 2007. This equals one-sixth of the balance sheet in the report on the final central government accounts. Since the previous audit of the state's cash management was published, in 1997, significant changes have taken place in the cash management operating environment, such as joining the euro zone and the opening of the state's payment traffic to competition. When the audit was conducted, in 2007 and 2008, the operating environment was influenced by uncertainty in financial markets and greater emphasis on counterparty risk.

The audit found that the cash position depended on the cash needs of the central government budget economy and the effects of debt management rather than liquidity. If the cash position depends on other factors besides liquidity, from the viewpoint of cash management this may lead to an inappropriate cash position. The determination of the cash needs of the central government budget econ-

omy is influenced by the handling of borrowing and debt reduction in the budget and budget accounting.

The budget covering requirement has been interpreted in practice as requiring the implementation of borrowing during the execution of the budget in strict accordance with the budget. The authority of the Ministry of Finance and the State Treasury, which takes care of practical debt management tasks under its supervision, to eliminate part of net borrowing on the basis of its assessment of the state's financial needs has been unclear. In the final analysis the question is what Parliament can be considered to have decided in the budget and what limits the budget places on administration's discretion in implementing the budget. In current practice loan withdrawals may have exceeded the need for borrowing necessary for liquidity in order to allow debiting in budget accounting. The audit evaluates the legal bases and dimensions of the obligation to implement the budget as well as the budget principles in the Constitution from the viewpoint of cash management. The audit also evaluates the legal and financial bases of the cash needs of the central government budget economy and the legal nature of the cumulative budget surplus and its relation to the principles and rules concerning budgeting in the Constitution.

The audit concluded that the budget covering requirement laid out in the Constitution does not impose a strict obligation to borrow in excess of what is required to maintain the cash position, nor is borrowing exactly the amount stipulated in the budget an absolutely necessary procedure if Parliament gives a mandate in the budget to borrow less than budgeted. In the opinion of the National Audit Office, the law does not prevent the Ministry of Finance or the State Treasury, within the framework decided by the Ministry of Finance, from being given discretion in implementing the budget on the detailed amount of net borrowing on the basis of the state's liquidity needs within the limits in the budget and loan authorisations granted by Parliament. The National Audit Office considers that this should be expressly spelled out in resolution part of the state budget. In order to increase the economy of cash management and reduce risks associated with cash, the National Audit Office recommends that the resolution part of the state budget should authorise the Ministry of Finance and the State Treasury, within the framework decided by

the Ministry of Finance, to eliminate budgeted loan withdrawals insofar as they are not necessary for state finance.

The audit's main findings and recommendations have to do with removing administrative conditions that result in exceeding of the cash position required for liquidity. The audit presents recommendations that should be considered in reforming the State Budget Act and the State Budget Decree and in developing state borrowing and the use of the cumulative budget surplus to cover budgeting needs.