

**TREASURY MANAGEMENT PRACTICES AT
UNIVERSITI UTARA MALAYSIA**

**A Thesis Submitted to the Faculty of Finance and Banking
in Fulfilment of the Requirement for the
Degree Master of Science (Finance)
Universiti Utara Malaysia**

By

**Wan Mustaffa bin Wan Yusoff
December, 2006**

Copyright © Wan Mustaffa bin Wan Yusoff 2006

PERMISSION TO USE

In submission of this project paper as part of the requirement of my masters degree programme. I hereby agree to permit the Library of Universiti Utara Malaysia (UUM) to use this project paper as reference purposes, duplication or extraction for academic usage. All the above mentioned condition can be executed by getting approval from my supervisor or The Dean of Faculty Finance and Banking, UUM. Any duplication, publication or extraction for profitable purposes is highly restricted.

An appreciation should be given to the UUM due to the permission to use all the resources for the project paper. An application letter to use it can be addressed to the:

**The Dean of Faculty Finance and Banking
Universiti Utara Malaysia
06010 Sintok
Kedah Darul Aman.**

ABSTRAK

Kajian ini bertujuan untuk menilai keberkesanan amalan-amalan pengurusan perbendaharaan di Universiti Utara Malaysia (UUM). Responden kajian terdiri daripada Bendahari dan seorang pegawai kanan di Jabatan Bendahari UUM. Kajian ini adalah satu kajian perbandingan dan instrumen kajian yang digunakan adalah soal selidik dan temu bual bagi pengumpulan maklumat. Kaedah diskriptif telah digunakan untuk menganalisa data. Data yang dikumpul telah dibandingkan dengan kod amalan yang diterbitkan oleh The Chartered Institute of Public Finance and Accountancy (CIPFA), yang menjadi amalan di University of Oxford, United Kingdom. Dapatan kajian menunjukkan bahawa Jabatan Bendahari UUM tidak mengamalkan sepenuhnya amalan-amalan pengurusan perbendaharaan seperti mana kod amalan yang diterbitkan oleh The Chartered Institute of Public Finance and Accountancy (CIPFA). Ia hanya merangkumi sebahagian daripada amalan-amalan pengurusan perbendaharaan yang terdiri daripada unjuran aliran tunai, pelaburan, latihan staf, laporan, penilaian prestasi serta bajet, perakaunan dan pengauditan. Kajian ini memberi kesedaran dan kefahaman akan kepentingan dan fungsi pengurusan perbendaharaan. Sebenarnya, amalan pengurusan perbendaharaan di UUM menjadi lebih relevan berasaskan kepada tindakan kerajaan Malaysia yang berkemungkinan untuk mengurangkan bantuan kewangan di masa hadapan. Tambahan pula, UUM pernah mengalami masalah pengurangan sumber kewangan daripada pihak kerajaan. Oleh itu, bagi memastikan amalan pengurusan perbendaharaan yang optimum, satu rangka kerja pengurusan perbendaharaan telah dibina sebagai satu panduan. Akhir sekali, satu kajian lanjut boleh dibuat ke atas institusi pengajian tinggi tempatan yang lain dan penyelarasannya dengan pihak Kementerian Pengajian Tinggi untuk memperkenalkan satu polisi pengurusan perbendaharaan yang seragam untuk semua institusi pengajian tinggi tempatan di Malaysia menjadi satu kenyataan.

ABSTRACT

The purpose of the study is to evaluate the effectiveness of treasury management practices at Universiti Utara Malaysia (UUM). Respondents of the research are the Bursar and a senior officer of the UUM'S Bursar Department. The type of research is a comparative study and the instruments of information collection used were through questionnaires and interviews. Descriptive method was employed in analyzing the data. The gathered information was compared with the Code of Practice on Treasury management by The Chartered Institute of Public Finance and Accountancy (CIPFA), which is being adopted by University of Oxford, United Kingdom. Result of the research shows that the UUM'S Bursar Department does not fully adopted all the Code of Practice on Treasury management by The Chartered Institute of Public Finance and Accountancy (CIPFA). However, UUM has partially adopted the treasury management practices such as in cash flow forecasting, investment, money laundering, staff training, reporting, performance measurement, and budgeting, accounting and auditing. This study is able to create awareness in understanding the importance and the function of treasury management. In reality, treasury management practice becomes more relevant to UUM in view that its stakeholder, the Government of Malaysia, might reduce future financial assistance. Moreover, UUM is already experiencing reduction of financial resources from government. Therefore, to ensure the optimal practice of treasury management, a framework on treasury management has been established to act as a guidance for the Bursar Department of UUM. Lastly, further research need to be done involving other public higher education institutions, so that a standard policy on treasury management practices for the whole public higher education institutions in Malaysia can be made a reality.

ACKNOWLEDGEMENTS

First and foremost, the highest gratitude to Allah S.W.T and His Prophet Muhammad S.A.W for giving me the strength to completing this project paper.

Thousands of gratitude to my supervisor, Mr Abmalek F. Abubakar for the academic guidance and support, the Bursar of UUM and his senior assistant, Dato' Haji Maidin Bin Syed Ali and Mr Shafie Bin Saad respectively for the co-operation in this research.

Special thanks to my family for all the support and patience, especially my beloved wife and my seven children.

My sincere thanks also goes to all other persons who may be involved directly or indirectly in helping me to complete this project paper.

Thank you.

TABLE OF CONTENTS

CHAPTER	ITEM	PAGE
	CERTIFICATION OF THESES WORK	
	PERMISSION TO USE	ii
	ABSTRAK	iii
	ABSTRACT	iv
	ACKNOWLEDGEMENTS	v
	TABLE OF CONTENTS	vi
	LIST OF TABLES	x
	LIST OF FIGURES	xi
	LIST OF ABBREVIATIONS	xii
CHAPTER 1	INTRODUCTION	
	1.1 Treasury Management	3
	1.2 Background of Study	6
	1.3 Problem Statement	11
	1.4 Objectives	13
	1.5 Hypotheses	16
	1.6 Significance of Study	16
	1.7 Scope of Study	16
	1.8 Limitation	17
	1.9 Operational Definition	18

CHAPTER 2 LITERATURE REVIEW

2.1	Definition of Treasury Management	20
2.2	Role of Treasury Management	22
2.3	The Need for Treasury Management	23
2.4	Activities of Treasury Management	24
2.5	Tools Required to Manage Treasury	25
	2.5.1 Liquidity, Cash Management and Funding	25
	2.5.2 Risk Management	26
	2.5.3 Treasury Performance Management	28
2.6	The Difference Between Treasury Management in Private Sector and Government Agencies	29
2.7	Treasury Management at Top World Universities	30

CHAPTER 3 METHODOLOGY

3.1	Introduction	32
3.2	Sample	32
3.3	Instrumentation	32
	3.3.1 Part 1	33
	3.3.2 Part 2	33
3.4	Data Collection	33
	3.4.1 Preliminary Study	34
	3.4.2 Documents Preparation	34
	3.4.3 Collecting Data	34
3.5	Data Analysis	35

CHAPTER 4 RESULTS AND DATA ANALYSIS

4.1	Treasury Structure	36
4.1.1	Treasury Activity	36
4.1.2	Segregation of Duties	39
4.1.3	Outsourcing	40
4.1.4	Treasury Management System	40
4.1.5	Training	41
4.2	Governance and Management Information	42
4.2.1	Top Management Reporting	42
4.2.2	Treasury Policy and Procedures	43
4.2.3	Performance Measurement	44
4.2.4	Decision Making	45
4.2.5	Budgeting, Accounting And Auditing	45
4.3	Risk Management	46
4.3.1	Risk Management Function	46
4.3.2	Risk Control Committee	47
4.3.3	Exposure Analysis	48
4.4	Cash Management and Investments	49
4.4.1	Cash Flow Forecasting	49
4.4.2	Money Laundering	50
4.4.3	Investments	51
4.5	Current and Expected Direction	52
4.6	Conclusion	55

CHAPTER 5 DISCUSSION, SUMMARY AND RECOMMENDATION

5.1	Discussion	56
5.1.1	To study to what extent UUM manages its treasury operation	56
5.1.2	To evaluate whether UUM treasury management practices comply with the standard set by the CIPFA for other international higher education treasury management	57
5.1.3	To investigate how UUM manages its funding requirements and how it uses the funds in meeting organizational objectives	58
5.1.4	To find out how UUM strategize itself in view of the possibility of reduction in government funding assistance	58
5.1.5	To propose a treasury management framework that can be used as a guide and adopted by other higher educational institutions in Malaysia	59
5.2	Summary	61
5.3	Recommendation	62

REFERENCES	63
-------------------	----

APPENDIXES	66
-------------------	----

LIST OF TABLES

NUMBER OF TABLE	TITLE	PAGE
1	Key Areas in Treasury Management	4
2	Treasury Management Practices Adopted by University of Oxford	5
3	UUM'S Bursar Department-Units and Functions	9
4	Allocation of Operations Fund from 2002-2005	11
5	The Education Operating and Development Expenditure (2002 – 2006)	11
6	Local Public Institution of Higher Learning, 2000 and 2005	12
7	Development Allocation for Education, 7MP, 8MP and 9MP(RM million)	14
8	The Units under Bursar's Department at Six Public Higher Education Institutions	15
9	Divisions of Finance Department at Four International Universities	31
10	Classification of UUM'S Bursar Department Activities	37
11	The Classification of Treasury Management Activity	38
12	Type of Report to the Board of Directors	42
13	Budgeting, Accounting and Auditing Activities	46
14	Risk Management Function by Level of Important	47
15	Focus on Exposure Analysis	49
16	Cumulative Cash from 2001-2005	50
17	Investment Policy	52

LIST OF FIGURES

NUMBER OF FIGURE	TITLE	PAGE
1	Ninth Malaysia Plan Development Allocation	1
2	Universiti Utara Malaysia Orgainzation Chart	8

LIST OF ABBREVIATIONS

PN4	Practice Note No.4/2001
HEFCE	Higher Education Funding Council for England
CIPFA	Chartered Institute of Public Finance and Accountancy
TMP	Treasury Management Practices
UUM	Universiti Utara Malaysia
MP	Malaysia Plan
EFT	Electronic Funds Transfer
EBT	Electronic Benefit Transfer
UK	United Kingdom
MNCs	Multinational Corporations
SARB	South African Reserve Bank
US	United State of America
CHEMS	Commonwealth Higher Education Management Service
ACT	Association of Corporate Treasurers
MoHE	Ministry of Higher Education
REPO	Repurchase Order Agreement
IFAS	Integrated Financial Accounting System
IPTS	Private Higher Education Institutions

CHAPTER 1

INTRODUCTION

Human capital with “First Class Mentality” is the main agenda mentioned by the Prime Minister, YAB Dato’ Seri Abdullah Ahmad Badawi when tabling the motion on the Ninth Malaysia Plan (9MP), 2006-2010 at the Dewan Rakyat early 2006. It means that the government emphasizes the development of knowledge, skills, intellectual capital in fields such as science, technology, and entrepreneurship. Due to the most precious manners, the government allocates the biggest percentage for education and training at 20.6 percent (refer to Figure 1).

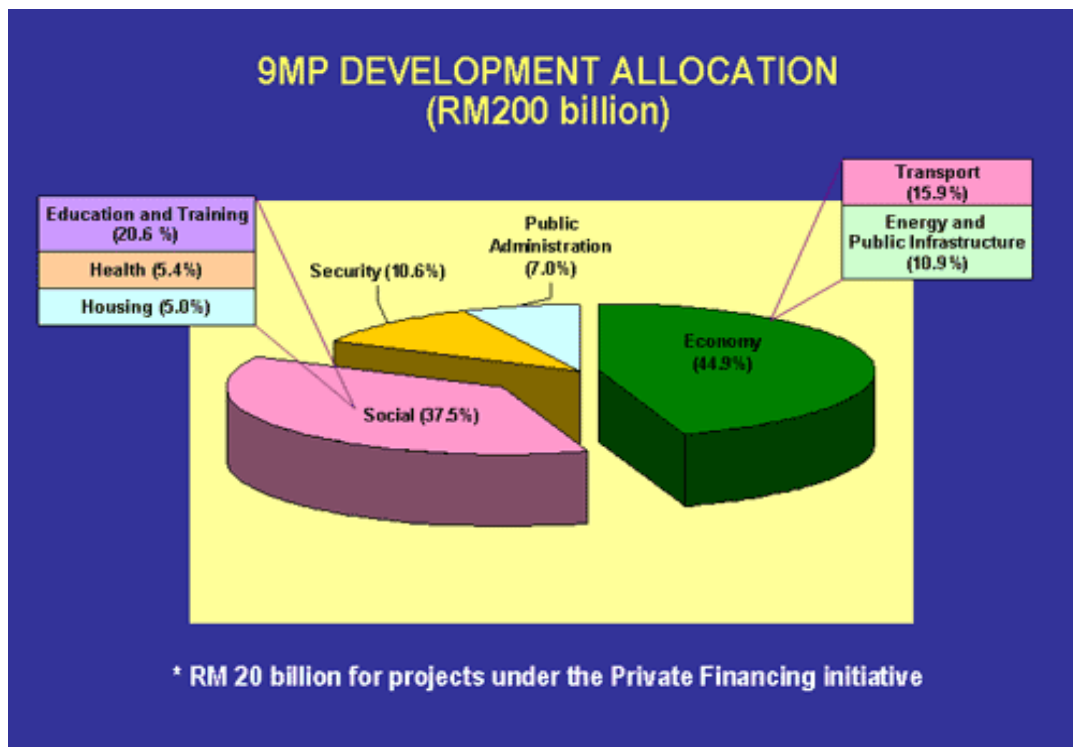


Figure 1: Ninth Malaysia Plan Development Allocation
Source: BERNAMA 2006

The contents of
the thesis is for
internal user
only

REFERENCES

- Andrade, G., Kaplan, S.N., (1998). How costly is financial (not economic) distress? Evidence from highly leveraged transactions that became distressed. *Journal of Finance* 53, pp. 1443–1493.
- Austin Jennings Head of Corporate Treasury Business, Bank of Ireland Group Treasury.
- Blazek, J. (1996). *Financial Planning for Non-Profit Organizations*. Canada: John Wiley & Sons, Inc.
- Brigham, E. F. (1995). *Fundamentals of Financial Management, Seventh Edition*. USA: The Dryden Press, Harcourt Brace College Publishers, pp. 4 & 12-13.
- CHEMS, (2000). *The Management of Higher Education: an Annotated Bibliography*, London.
- CIPFA, (1995). *Treasury Management in Higher Education: A Statement of Best Practice & Guide* (2 volumes), London.
- Dato' Seri Abdullah Ahmad Badawi, (2006). *Speech by The Prime Minister at the Tabling of the Motion on the Ninth Malaysia Plan, 2006-2010*, Dewan Rakyat, Kuala Lumpur.
- Executive Office of the President, Office of Management and Budget, 2002. *The President's Management Agenda*.
- Froot, K.A. Scharfstein, D.S. and Stein, J.C. (1993). Risk management: Coordinating investment and Financing Policies. *Journal of Finance*, vol 48 No. 5, pp. 1629-58.
- Foster Back, P. (1997). *Corporate Cash Management: Strategy and Practice*. England: Woodhead Publishing Ltd, pp.145.
- Greifer, N. and Viecceli, J.(2000). *Best Practices in Treasury management*. *Government Finance Review*, pp. 19-22.
- Griesel, B., Lucyshyn, W., (2004). Cisco systems, Inc.: The building blocks for a world-class financial management system. In: Gansler, J.S., Luby, R.E. (Eds.), *Transforming Government Supply Chain Management*. Rowman & Littlefield, Lanham, MD.

- Harvard University, <http://vpf-web.harvard.edu/otm>
- Hashim and Allan, (2001). Treasury Reference Model . World Bank Study Series.
- Helliar, C. and Dunne, T (2004). Control of the Treasury Function. Corporate Governance; Vol 4,No 2; ABI/INFORM Global, pp. 34-43.
- Horcher, K. A. (2005), Essentials of Managing Treasury, John Wiley & Sons, Inc., Hoboken, New Jersey.
- Leigh Marjana, (2005). How to Become a Top Banana: Best Practices in Treasury Management. AFP Exchange, ABI/INFORM Global, pp. 52-53.
- L.Philips, A. (1997). Treasury Management: Job Responsibilities, Curricular Development, and Research Opportunities. Financial Management, 26,3;ABI/INFORM Global, pp. 69-81.
- Malaysia, (2004). Bajet Tahun 2005, Kuala Lumpur, Ministry of Finance.
- Malaysia, (2005). Bajet Tahun 2006, Kuala Lumpur, Ministry of Finance.
- Malaysia, (2001). The Eight Malaysia Plan, 2001-2005, Kuala Lumpur, Percetakan Nasional.
- Malaysia, (2006). The Ninth Malaysia Plan, 2006-2010, Kuala Lumpur, Percetakan Nasional.
- Malayan Banking Berhad. Annual Report, 2005.
- Maphiri, D. (2001). Treasury's Role in Promoting Efficient Cash Management: Evidence from South Africa. The South African Journal of Economics. Vol. 69: 3, pp. 385-404.
- M. Bodnar, G. and Gebhardt, G. (1999). Derivatives Usage in Risk Management by US and German Non-Financial Firms: A Comparative Survey. Journal of International Financial Management and Accounting,10:3.
- Milligan, E. (2001). Treasury Management Organization: An Examination of Centralised versus Decentralised Approaches. Irish Journal of Management 22,1;ABI/INFORM Global, pp.7.
- Mike Gallanis and Terri Mimms, (2005). www.treasuryinstitute.org.
- Murphy, A. (2005). Performance Measurement and Internal Treasury Reporting, The Treasurer's Conference, 11-13 May 2005.

Pike, T. and Savage, D. (1998). Forecasting the Public Finances in the treasury. Fiscal Studies, vol. 19, no. 1, pp. 49-62.

Press cutting from Berita Harian, Utusan Malaysia and Star.

Ricci & Vito,(2000). International Working Capital Practices in the UK. European Financial Management, 6, 1, pp. 69-84.

Riehl, Heinz and Rodriguez, Rita M. (1983). Foreign Exchange and Money Markets;Managing Domestic and Foreign Currency Operations. McGraw-Hill, New York.

Ross, D (1990). International Treasury Management, Second Edition. Woodhead-Faulkner, New York.

Stanford University, <http://med.stanford.edu/irt/index.html>

Theresa, P.(1994) Unique treasury management applications in government. TMA Journal. Atlanta 14, 2, pp. 50-54.

Treasury Management Association, (1995). The Treasurer's Handbook of Financial Management Applying the Theories, Concepts and Quantitative Methods of Corporate Finance.

Trivedi and S.M. Hasan (2000). Treasury Operations and Risk management. Genesis Publishers, Mumbai.

University of Cambridge, <http://www.admin.cam.ac.uk/offices/finance/intro.html>

University of Oxford, <http://www.ox.ac.uk/webmaster.html>

UUM: Annual Report 2005.

UUM: Financial and Accounting Guideline.

Wikipedia organization (2006), [http:// en.wikipedia.org](http://en.wikipedia.org).