



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Chief Financial Officers Handbook for Departments

**National Treasury
(1st Edition)**

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Part I:

Introduction to government and the CFO

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1. Overview

The Public Finance Management Act, Act 1 of 1999 (PFMA) provides a framework for the functions, roles and responsibilities of the Accounting Officer (AO) however there appears to be a gap between what the Act prescribes for AOs and the actual implementation thereof. This limits the effectiveness of the Act in bringing about improvements in public finance management.

1.1 Purpose of the CFO Handbook

The CFO Handbook has been developed to provide a comprehensive outline of the roles and responsibilities of the CFO with the aim of further advancing implementation of the PFMA in departments.

The Handbook serves to guide CFOs by interpreting the legislative requirements and explaining what the CFO is required to deliver, the relevance of the outputs and the timing thereof. The execution or “how to” compile the outputs is at the discretion of the CFO and his/her team of finance professionals.

It must be noted that the content of the CFO Handbook is characteristic of an ideal departmental environment where the department is operating optimally. Given that departments, depending on capacity and other constraints, may be at varying levels of performance or competence, the CFO Handbook serves to guide CFOs on what they should aspire to achieve within their departments.

Furthermore, the CFO Handbook should be regarded as a “living” document that will evolve over time to accommodate changes that may arise in the national and provincial spheres of government.

1.2 Design Principles

The CFO Handbook is divided into three parts comprising the functional areas of the CFO's financial management responsibilities. The functional areas are derived from the CFO's job description which is in accordance with the role and responsibilities of the AO as prescribed by the PFMA.

It is noted that CFOs may be operating at different levels of competency and capacity however the CFO Handbook serves to remind CFOs of the legislative requirements applicable to all government departments regardless of constraints that prevail.

2. Legislative Framework

The legislation relevant to budgeting, accounting, financial reporting and governance are the Constitution of South Africa, PFMA, Treasury Regulations, the Division of Revenue Act and subsequent legislation or regulations issued in terms thereof.

The implementation of the PFMA, was to modernise financial management, enhance accountability and thereby reduce fraud, corruption and waste among government departments.

A basic principle of the PFMA was to give managers the flexibility to manage within a framework that satisfies the constitutional requirements of transparency and accountability. The purpose was to provide a framework of best practices to assist managers to achieve efficient and effective service delivery.

The PFMA gives effect to the following sections of the Constitution of the Republic of South Africa, Act No. 108 of 1996:

Chapter 13: Finance, Section 216 (1): requires national legislation to *establish a national treasury and prescribes measures to ensure transparency and expenditure control in each sphere of government, by introducing:*

- a. *generally recognised accounting practice;*
- b. *uniform expenditure classifications; and*
- c. *uniform treasury norms and standards.*

Section 213 limits exclusions and withdrawals from the National Revenue Fund through an Act of Parliament;

Section 215 which notes that budgets and the budgetary process *"must promote transparency, accountability and the effective financial management of the economy, debt and the public sector"* and for national legislation to *"prescribe"* budget formats for all the spheres of government;

Section 217 on procurement to be *"in accordance with a system which is fair, equitable, transparent, competitive and cost-effective"*

Section 218 on the conditions for the issue of guarantees by a government in any sphere; and

Section 226 limits an exclusion from a provincial revenue fund through an Act of Parliament.

Also relevant are **Chapter 5, Section 100 and Chapter 13, section 216** on intervention by the national government when an organ of state fails to perform an executive function related to financial management, and circumstances under which funds may be withheld.

The Division of Revenue Act, (*DoRA*) sets out the disclosure requirements for transfers made; allocations received as well as reporting requirements for conditional grants.

The PFMA, at the time of its adoption, aspired to build a public sector with the following characteristics:

- sound financial management systems and processes, capable of generating the necessary information to managers;
- transparent multi-year budgeting processes;
- effective management of revenue, expenditure, assets and liabilities; and
- unqualified consolidated financial statements, prepared on the accrual basis of accounting.

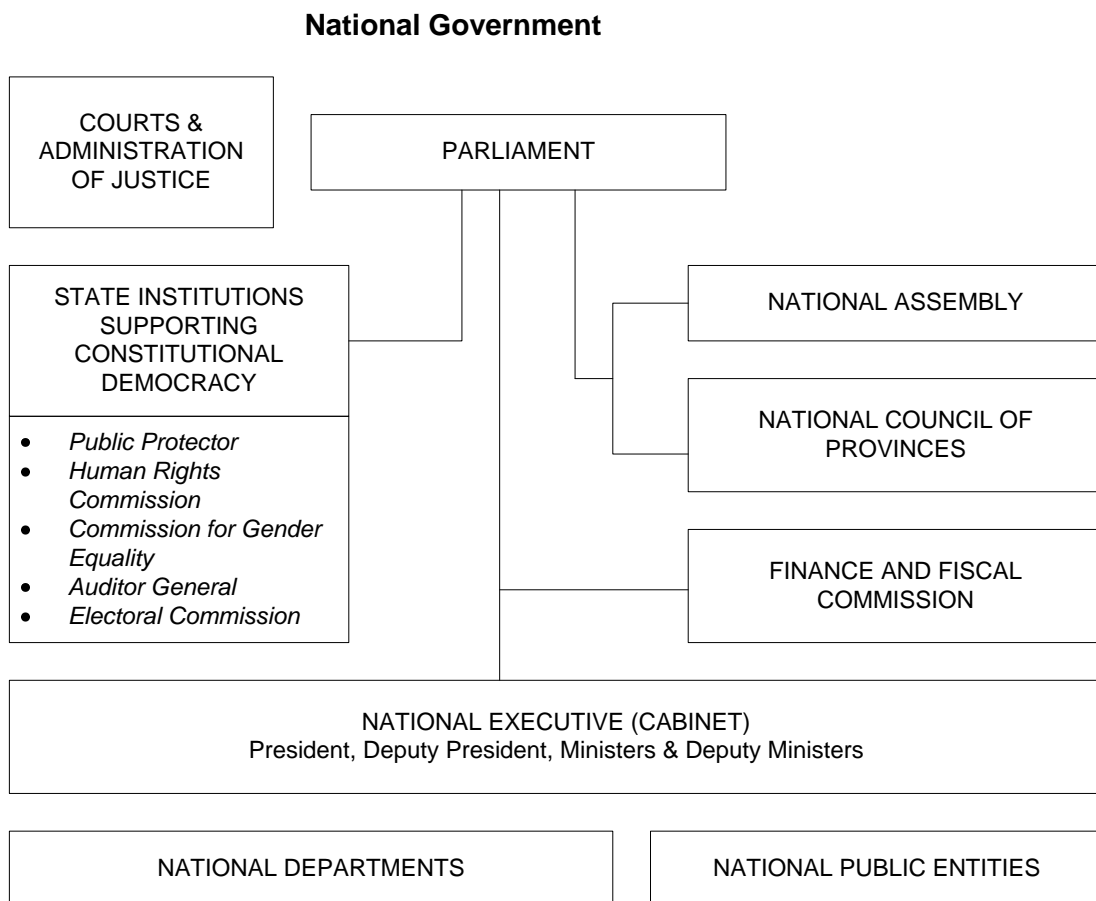
The PFMA is supported by the Treasury Regulations, issued in terms of the PFMA and applicable to departments, constitutional institutions and public entities.

3. National and Provincial Government Structures

The underlying principles of sound governance are accountability and responsibility. Accountability is about allowing managers to make their own decisions within the prescribed financial management framework and holding them accountable for those decisions; and responsibility is about managers leading the department with sound financial management practices and taking corrective action when required.

The PFMA and Treasury Regulations provides for governance and controls as part of an integrated framework for financial planning, management and reporting.

The diagrams below illustrate national and provincial government structures in terms of the Constitution:



The Constitution sets a single, sovereign democratic state where governance is effected through Parliament, the Executive and the Judiciary. In the Republic the legislative authority is vested in Parliament, the executive authority is vested in the President, and the judicial authority is vested in the Courts.

Parliament

The legislature in the national sphere of government is referred to as Parliament, and it consists of two "houses", namely the National Assembly and the National Council of Provinces (NCOP).

Parliament's role and ultimate outcome is to represent the people and ensure government by the people under the Constitution, as well as represent the provinces in the national sphere of government.

In terms of the provisions of the Constitution and the Joint Rules, Parliament has the power to conduct oversight of all organs of state, including those at provincial and local government level.

Parliament oversees the effective management of government resources in pursuit of consistently improved service delivery to achieve a better quality of life for all citizens. The oversight function is conducted through parliamentary committees who consider annual reports of organs of state and the Auditor-General's reports. Another role of Parliament is to approve the government's budget for providing services to the people of South Africa.

National Assembly

The National Assembly comprises a minimum of 350 delegates and a maximum of 400 representing the political parties. The National Assembly is responsible for passing laws, ensuring that the members of the executive perform their work properly and providing a forum where the representatives of the people can publicly debate issues.

The functions of the National Assembly is usually performed by smaller groups or committees however, final decisions are taken by the House which has the final authority.

The National Assembly is the primary legislative chamber.

National Council of Provinces (NCOP)

The Constitution introduced the concept of "*cooperative government*" whereby consultation, coordination and communication between the different levels of government and all organs of state is prioritised.

The National Council of Provinces provides provinces with a forum whereby they can engage the national government on matters concerning areas of shared national and provincial legislative powers thereby facilitating cooperative government.

The National Council of Provinces comprises a single delegation from each of the provinces; each delegation consists of ten provincial delegates of which six are permanent.

National Executive and Cabinet

The National Executive is the chief executive organ of South Africa's ruling party. It comprises the president and cabinet. The Cabinet consists of the President as head of Cabinet, a Deputy President and Ministers. The President selects his/her Deputy and other Ministers from members of the National Assembly

Courts and administration of justice

The judiciary is an independent branch of government subject to the Constitution and the laws of the country. The structure of South Africa's judicial system is defined in Chapter 8 of the Constitution. Courts are required to act independently, impartially, with dignity and to be accessible and effective.

Constitutional Bodies

To ensure that the Constitutional principles are acknowledged in actions performed by political office bearers, public officials and private citizens, a number of Constitutional Institutions have been established. These institutions play an oversight role with respect to the functioning of government institutions and are thus directly accountable to Parliament. The composition, functions and powers of these institutions are briefly described below:

Public Protector

The Public Protector's main responsibility is to ensure that public institutions serve private citizens and institutions in a fair and equitable manner. The Public Protector has to ensure that private citizens have an avenue to raise concerns regarding the state and its machinery. Some of the responsibilities of this office are to investigate any improper conduct by public officials or public institutions, to take appropriate action to rectify actions or decisions that were found to be unacceptable and to report its investigations to Parliament.

Human Rights Commission

The Human Rights Commission was formed with an aim to promote a culture of human rights characterised by the respect, protection, of such rights as enshrined in the Bill of Rights. The Commission monitors and from time to time assesses the extent to which human rights are observed in South Africa. To do that the Commission has to obtain information from government departments and other public institutions on the measures they have taken in respect of human rights in areas such as housing, health care, food, water, social security, education and the environment. In cases the rights of individuals and communities have been violated, the Commission has the power to secure appropriate corrective measures.

Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities

Government established the Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities. Its functions include among others to promote respect by individuals and communities of the rights of other cultural, religious and linguistic communities; and to promote and develop peace, friendship, humanity, tolerance and national unity amongst the different cultural, religious and linguistic communities.

Commission on Gender Equality

The Commission was established to promote respect for gender equality and the protection, development and attainment of gender equality. To achieve this, the Commission has to constantly monitor, investigate, research, educate, lobby, advise and report on issues concerning gender equality.

Auditor-General

The Auditor-General's role is to audit the accounts and financial statements of national and provincial departments as well as municipalities and any other institution or accounting entity. In addition, the Auditor-General may report on the accounts, financial statements and financial management of any institution funded from the National Revenue Fund, a provincial revenue fund or by a municipality. The Auditor-General is also authorized to audit the financial affairs of any institution that may, in terms of law, receive money for public purposes.

Electoral Commission

The Electoral Commission was established in South Africa to manage and report on national, provincial and municipal elections and ensure that they are free and fair.

Independent Communications Authority of South Africa

Independent Communications Authority was established to regulate broadcasting. The Independent Authority has to ensure fairness and diversity of views broadly representing South African society.

Financial and Fiscal Commission

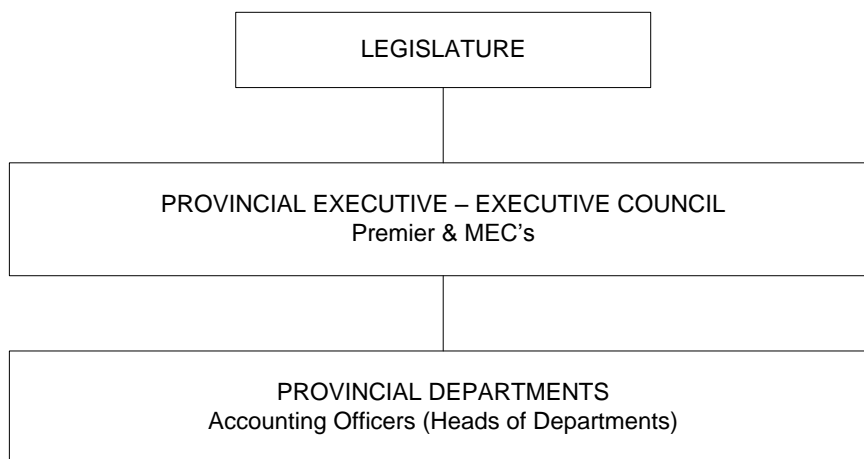
The Financial and Fiscal Commission has been created to make recommendations regarding matters as prescribed in the Constitution relating to the three spheres of government.

Of particular relevance to this Handbook are the annual recommendations that the FFC makes on the DoRA and other legislation in terms of section 220 of the Constitution; it is a key institution in relation to the development of the national budget.

South African Reserve Bank

The primary objective of the South African Reserve Bank is to protect the value of the currency in the interest of balanced and economic growth in South Africa. The Bank is required to perform its functions independently and without fear, favour or prejudice. Regular consultation has to take place between the Bank and the Minister of Finance.

Provincial Government



Legislature

The Legislature is the legislative branch of the government of the province. In terms of the Constitution the Legislature has the power to pass legislation on matters pertaining to health, education (*excluding universities*), agriculture, housing, environmental protection, and development planning.

The provincial legislature may recommend legislation to the National Assembly if the matter is outside its legislative power.

Provincial executive

The provincial executive functions in a manner analogous to the *cabinet* however, at a provincial level. It comprises the premier and the MECs of the provincial departments. The members of the provincial executive are accountable to the Legislature.

4. Roles and Responsibilities

The PFMA clarifies the division of responsibilities between the head of department, the “*accounting officer*” and the political head referred to as the “*executive authority*”.

The executive authority is responsible for policy choices and outcomes, while the accounting officer implements the policy and achieves the outcomes by taking responsibility for delivering the outputs defined in the departmental budget. In this way, the Act empowers accounting officers by unambiguously conferring on them a clear set of responsibilities.

The roles and responsibilities are discussed in greater detail below.

4.1 Executive authority

The PFMA defines the executive authority in relation to a national department as the cabinet member accountable to Parliament for that department i.e. the minister; in relation to a provincial department the executive authority is the member of the executive council (MEC) of the province who is accountable to the Legislature.

In the case of a national public entity the executive authority is the cabinet member in whose portfolio the entity is included and similarly in the case of a provincial public entity it is the provincial MEC.

Note that this handbook is applicable to both national and provincial departments hence reference is made to the “executive authority” and applies to both.

The PFMA, section 64 requires that *any directive by an executive authority of a department to the accounting officer of the department having financial implications for the department must be in writing.*

4.2 Accounting officer

In the case of provincial and national departments the PFMA prescribes that the Head of Department must be the accounting officer.

The accounting officer is broadly responsible for effective, efficient, economical and transparent use of departmental resources i.e. the accounting officer must ensure that effective, efficient and transparent systems of financial and risk management and internal controls are in place.

The accounting officer is responsible for:

- exercising effective budgetary control; this requires monitoring systems that warn of impending overspending of a vote or main division and of any impending under collection of revenue or shortfall in budgeted revenue (*which is to be reported to the executive authority*); and
- submission of all reports, returns, notices and other information as required by the executive authority, Legislature, the relevant treasury or the Auditor-General.

The Treasury Regulations specifies the minimum requirements and best practices to guide accounting officers to manage their budgets and achieve the predetermined outputs of the vote.

The accounting officer's performance contract should be consistent with the outputs defined in the strategic plan. The employment contract must be in writing and inclusive of performance standards of what the department is required to deliver. These performance standards must be aligned to, and consistent with the measurable objectives in the budget and related operational plan. The accounting officer's performance contract must specify the responsibilities for budgetary control, reporting and the general responsibilities.

The PFMA, Chapter 5, Part 2, discusses the "*Responsibilities of Accounting Officers*"; the following sections of the Act apply:

Section 38: General responsibilities of accounting officers;

Section 39: Accounting officers' responsibilities relating to budgetary control;

Section 40: Accounting officers' reporting responsibilities;

Section 41: Information to be submitted by accounting officers;

Section 42: Accounting officers' responsibilities when assets and liabilities are transferred; and

Section 43: Virements between main divisions within votes.

Delegation by accounting officers

While the PFMA assigns these responsibilities to accounting officers, the accounting officer may delegate to a suitably competent CFO; "*assignment of powers and duties by accounting officers*" is explained in Part 3 of Chapter 5 of the PFMA.

The delegation of power or duty does not divest the accounting officer of the responsibility for exercising the delegated power or duty – the "*delegator*" must ensure that systems and processes are adequate to document, monitor and review the exercising of those powers or assigned duties.

In addition to the duties delegated by the accounting officer to the CFO and/or line managers in the department, section 45 of the PFMA lists the responsibilities of "*other*" departmental officials.

The accounting officer should appoint, at a senior management level and on a performance-based contract, a CFO with relevant experience and a demonstrated capacity to interpret, analyse and present complex information. While the size and nature of the department will determine the specific qualities required, it is likely that the CFO is a high-calibre individual with:

- credibility with all the senior managers in the department;
- the capacity to bring independent and impartial advice into departmental decision-making;
- membership of a professional body; and
- direct access to the accounting officer.

Staffing

The accounting officer should, at the highest level, manage the change process/es, establish appropriate objectives for senior staff, key milestones, timeframes and responsibilities whilst managing those outputs effectively and regularly reporting back to the executive authority on progress.

It is recommended that a skilled and well-rounded senior management team, complemented with general financial management knowledge, is appointed. The senior management team's roles and responsibilities, depending on the extent of delegations by the accounting officer, will greatly support the expeditious implementation of good financial management practices and governance.

It is also appropriate to have the chief financial officer regularly update senior management on finance-related policies and areas of relevance.

4.3 Chief financial officer

The Treasury Regulations issued in terms of the PFMA makes provision for departments to appoint a suitably qualified CFO to serve on the department's senior management team. The CFO is directly accountable to the accounting officer and the Treasury Regulations further specifies that the role of the CFO is to *“assist the accounting officer in discharging the duties prescribed in Part 2 of Chapter 5 of the Act and the annual Division of Revenue Act”*

The CFO has an essential function in assisting the accounting officer to carry out his or her financial management responsibilities (*see delegations above*), in areas ranging from budget preparation to financial reporting and the development and maintenance of internal control policies and procedures.

The CFO plays an integral role in implementing the financial reforms at the direction of the accounting officer with the assistance of appropriately skilled finance staff.

4.3.1 The role of the CFO

The CFO is an important member of the department's leadership team because he/she participates in the development and implementation of the department's strategy and the resourcing of the strategic objectives in a sustainable manner.

The CFO must be actively involved in all material business decisions to ensure that the immediate and longer term implications, opportunities and risks are fully considered. Lastly, the CFO must develop and promote a system of good financial management so that public money is safeguarded at all times and is used appropriately, economically, efficiently and effectively.

The CFO is required to do the following, as a minimum, so that the above requirements in terms of the PFMA are achieved:

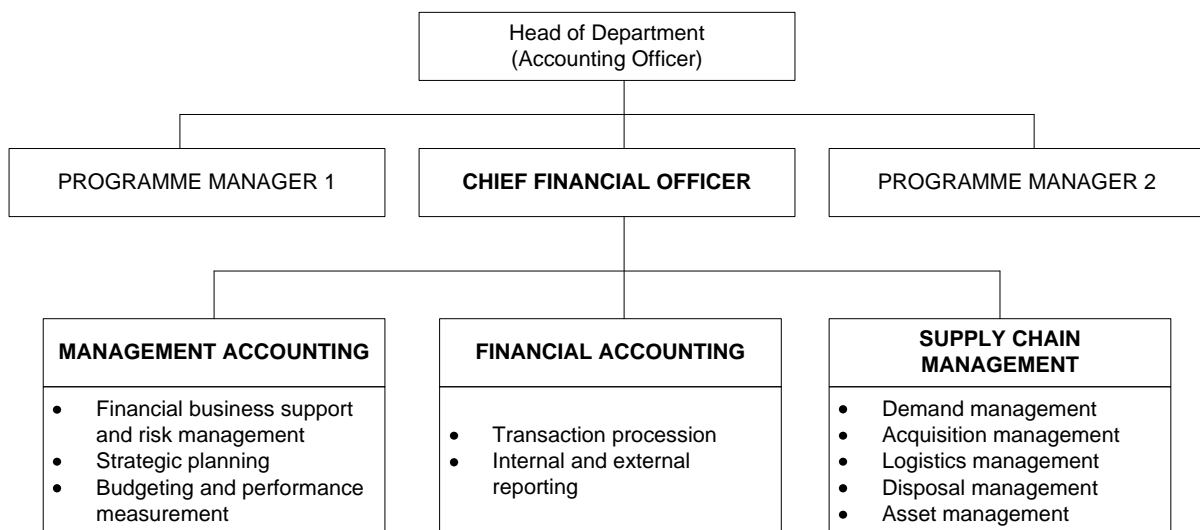
- maintain a close liaison with the accounting officer and the management team

- respond to changing needs for financial information and advice
- make a contribution to the financial aspects of the strategic planning process
- ensure that internal financial targets and budgets are fully consistent with the strategic plan and relevant agreements with government
- manage working capital, assets and liabilities
- manage the accounting and finance staff
- expenditure management
- revenue management (*where applicable*)
- meet reporting requirements as required in terms of financial management legislation such as PFMA, Treasury Regulations and DoRA
- maintain systems of internal control, which comply with internal audit requirements
- undertake product and service costing tasks

4.3.2 Recommended structure of the office of the CFO

The recommended structure for the office of the CFO and related duties serves as a guideline; it is merely a recommendation of how the office can be organised so that all the relevant functions assigned to the CFO can be accommodated in the structure. Organograms for the office of the CFO will differ across departments and provinces depending on their capacity and funds available.

The recommended organogram is for the document, Normative Measures for Financial Management (Phase 1: Perfecting the Basics), issued by the National Treasury and available at www.treasury.gov.za.



4.3.3 The relationship between the CFO and clients

The CFO does not work in isolation or function independently from the department's management team. Effective financial management is achieved by a collective and conscientious effort from departmental staff as guided by a technically trained and proficient CFO who performs the required duties diligently and objectively. The CFO offers financial management advice and guides officials; the CFO acts with integrity, objectivity, reliability, relevance and professionalism. The CFO must have effective working relationships with the following clients:

- Accounting officer;
- Programme managers;
- Internal audit and the audit committee;
- Budget committee;
- The relevant Treasury;
- Auditor-General;
- Portfolio Committee; and
- Standing Committee on Public Accounts (SCOPA)

4.3.4 Profile of the CFO

The CFO must be a professional with strong management and leadership skills; the CFO must provide leadership for the department's strategic planning and budget process; this requires skills in addition to accounting.

Competencies of the CFO: Given the scope of financial management in the public sector it is recognised that the CFO must be technically trained and proficient in at least the following subject areas listed below¹.

- Strategic management
- Business planning and design
- Performance measurement
- Financial accounting (including principles of GAAP /GRAP)
- Management accounting
- Internal control
- Internal and external audit
- Information systems
- Economy
- Negotiation skills
- Communication skills
- Analytical skills

¹ Normative Measures for Financial Management (Phase 1: Perfecting the Basics), *National Treasury*

Key Focus Performance Areas	Performance Indicator
<ul style="list-style-type: none"> Financial management system 	Implement and effective financial management system inclusive of, but not limited to: <ul style="list-style-type: none"> Implementation of financial management policies and procedures; Implementation of an effective Supply Chain Management System; Implementation of internal control mechanisms and anti-corruption measures; Implementation of approved and signed delegations of authority; and Ensure compliance to the financial management legislative framework (Constitution, PFMA, Treasury Regulations , DoRA)
<ul style="list-style-type: none"> Financial management support 	<ul style="list-style-type: none"> Provide timely and relevant financial management reports to all stakeholders; and Provide sound financial management advice to the accounting officer and senior line managers in terms of their financial management responsibility and delegated authority.
<ul style="list-style-type: none"> Medium Term Expenditure Framework (MTEF) 	Implementation of effective processes, support and co-ordination for the compilation of the MTEF.
<ul style="list-style-type: none"> Finance & performance monitoring & reporting 	Compilation and timely submission of accurate information in accordance with prescribed standards and formats.
<ul style="list-style-type: none"> Manage resources 	<ul style="list-style-type: none"> Effective, efficient and economical use of financial and other resources; Prevention of unauthorised, irregular and fruitless and wasteful expenditure; Internal controls and processes to manage transfer of funds, conditional grants Safeguarding assets; and Effective management of liabilities.
<ul style="list-style-type: none"> Performance Management 	<ul style="list-style-type: none"> Manage staff and administer the performance management system for all direct reports to the CFO; and Responsibility for the execution and timely delivery for outputs in the CFO's signed performance contract; accountability to the accounting officer.
<ul style="list-style-type: none"> Risk management 	<ul style="list-style-type: none"> Undertake a risk assessment and implement and maintain an effective risk management strategy; and Strategically engage with auditors and provide appropriate and timely responses to audit queries.
<p>Additional requirements:</p> <ul style="list-style-type: none"> The CFO as a member of the department's senior management team may be assigned additional responsibilities over and above the core requirements of the CFO's job description. The CFO may, from time to time, be requested to "act" on behalf of the accounting officer or other senior manager when they are unable to fulfil their responsibilities due to absence as a result of illness, suspension, termination or resignation. Such "acting" responsibilities should not be for unreasonable time periods and should not interfere with the CFO's financial management responsibilities. Similarly, when the CFO is unable to fulfil his/her responsibilities the accounting officer may designate another senior manager to temporarily "act" as CFO. The CFO should ensure adequate leave planning so that neither, the CFO or key finance staff from the finance team are on annual leave at critical times during the budget cycle. 	

The CFO profile described above is the minimum requirements for the role and this may differ nationally across departments.

5. Oversight and Governance

The CFO is required to provide good governance, effective oversight and to address operational matters that constitute sound financial management.

The King report identifies the following primary characteristics of good governance:

<ul style="list-style-type: none"> • Discipline 	Management commitment to accepting standards of correct proper behaviour.
<ul style="list-style-type: none"> • Transparency 	The ease with which outsiders can meaningfully analyse the organisation's actions and performance.
<ul style="list-style-type: none"> • Independence 	The extent to which conflicts of interest are avoided, such that the organisation's best interests prevail at all times.
<ul style="list-style-type: none"> • Accountability 	Addressing the shareholders' rights to receive information relating to the organisation's performance.
<ul style="list-style-type: none"> • Responsibility 	Acceptance of all the consequences of the organisation's behaviour and actions including commitment to improvement
<ul style="list-style-type: none"> • Fairness 	Acknowledgement of, respect for and balance between the rights and interests of the various stakeholders.
<ul style="list-style-type: none"> • Social responsibility 	The organisation's demonstrable commitment to ethical standards and its appreciation of the social, economical and environmental impact of its activities on the communities in which it operates.

Oversight and governance necessary for sound financial management is further discussed in Part 2: CFO Core Responsibilities.

4.1 Professional ethics and organisational standards

The CFO's role is inclusive of creating and sustaining integrity and honesty in their profession. The legislative framework includes guidance on how to achieve professional ethics and organisational standards. These are summarised below:

Ethics

The ethics applicable to departmental officials is no different from the ethics that we apply in our daily lives as regular persons living in a moral society. It is however common practice for certain professions to have a specific code of ethics applicable to the profession.

In the public service issues of transparency, equity, anti-corruption and the like are often referred to and while these may be addressed in the relevant Code of Conduct the issue of ethics may not be referred to.

It should go without saying that professional ethics is a given in the role of a departmental official however there are those who do not act ethically when executing their official roles and responsibilities.

The English dictionary definition of ethics is “ *...dealing with values relating to human conduct, with respect to the rightness and wrongness of certain actions and to the goodness and badness of the motives and ends of such actions...*”

The definition assumes that everyone has a sense of right and wrong and that regular persons living in a moral society are automatically guided by right and wrong and therefore will act accordingly. Unfortunately, the world we live in is not an ideal place and it is a known fact that crime, corruption and similar wrong doings are rife in all walks of life and several regions in the world today.

Departmental officials are reminded to act ethically when they conduct themselves in the workplace in executing their duties and making decisions. The PFMA refers to committing wrongful acts “*...wilfully or negligently...*” The consequences are facing disciplinary action, suspension, dismissal, having to pay back monies in the event of an official misappropriating departmental funds and criminal proceedings.

Departmental officials are required to act responsibly and to exercise good judgement when executing their duties.

Chapter 10 of The Constitution, section 195, describes the democratic values and principles applicable to all spheres of government, organs of state and public enterprises. These are:

1. A high standard of professional ethics must be promoted and maintained.
2. Efficient, economic and effective use of resources must be promoted.
3. Public administration must be development-oriented.
4. Services must be provided impartially, fairly, equitably and without bias.
5. People's needs must be responded to, and the public must be encouraged to participate in policy-making.
6. Public administration must be accountable.
7. Transparency must be fostered by providing the public with timely, accessible and accurate information.
8. Good human-resource management and career-development practices, to maximise human potential, must be cultivated.
9. Public administration must be broadly representative of the South African people, with employment and personnel management practices based on ability, objectivity, fairness, and the need to redress the imbalances of the past to achieve broad representation.

The CFO must uphold the principles of the Constitution when performing the required financial management responsibilities within the span of his/her control.

Chapter 4: Senior Management Service (SMS), Part VII of the Public Service Regulations, speaks of *Ethics and Conduct*; it states that:

Members of the SMS shall,

- a) display the highest possible standards of ethical conduct;
- b) set an example to their subordinates and maintain high levels of professionalism and integrity in their interaction with political office-bearers and the public; and
- c) ensure that they minimise conflicts of interest and that they put the public interest first in the performance of their functions.

Code of conduct

The Public Service Regulations, Chapter 2: Code of Conduct for the Public Service, acts as a guideline to employees as to what is expected of them from an ethical point of view, both in their individual conduct and in their relationship with others; it is applicable to all employees. Compliance with the code of conduct is necessary to enhance professionalism thereby ensuring confidence in the public service.

The Code of Conduct specifically deals with the following:

- a) An employee's relationship with the legislature and the executive;
- b) An employee's relationship with the public;
- c) Relationships among employees;
- d) Performance of duties; and
- e) Personal conduct and private interests

Items (d) and (e) above are of relevance for the purpose of this discussion about the role of the CFO.

Performance of duties

The following is specified in the code of conduct, the CFO must:

- strive to achieve the departmental objectives cost-effectively and in the public's interest;
- think creatively in the execution of duties and seek innovative ways to solve problems and enhances effectiveness and efficiency within the context of the law;
- execute his/her duties in a professional and competent manner;
- not engage in any transaction or action that is in conflict with or infringes on the execution of his/her official duties;

- recuse himself/herself from any official action or decision-making process which may result in improper personal gain, and this should be properly declared by the CFO;
- accept responsibility to avail himself/herself of ongoing training and self development throughout her or his career;
- be honest and accountable in dealing with public funds and uses the public service's property and other resources effectively, efficiently, and only for authorised official purposes;
- promote sound, efficient, effective, transparent and accountable administration in the course of his/her official duties, shall report to the appropriate authorities, fraud, corruption, nepotism, maladministration and any other act which constitutes an offence, or which is prejudicial to the public interest;
- give honest and impartial advice, based on all available relevant information, to higher authority when asked for assistance of this kind; and
- honour the confidentiality of matters, documents and discussions, classified or implied as being confidential or secret.

Professional conduct and private interests

In addition to other issues addressed in terms of *professional conduct and private interest* the issues below are relevant to the CFO in terms of the financial management functions.

- The CFO *must NOT* use his/her official position to obtain private gifts or benefits for himself/herself during the performance of his/her official duties nor does he/she accept any gifts or benefits when offered as these may be construed as bribes;
- The CFO *must NOT* use or disclose any official information for personal gain or the gain of others; and
- The CFO *must NOT* misuse the privileges of the position in the department i.e. the CFO must act in a manner in which he/she or his/her partner or other departmental officials or their partners may improperly benefit from decisions taken in respect of the department's business.

In terms of the aforementioned rules, reward, gifts and favours are not permitted i.e. the CFO may not request, solicit or accept gifts or favours in return for breaching his/her duties and responsibilities to the department.

Where the CFO is approached or the CFO is aware that other departmental officials have been approached in terms of rewards, gifts and favours, such incidents must immediately be reported to the accounting officer; if it is the accounting officer that has been approached it must be reported to the executive authority.

In relation to rewards, gifts and favours circumstances may arise, when the department employs the services of an external service provider, senior officials may be tempted to make requests for

“favours” or “special consideration” because such service provider has been awarded a contract of considerable monetary value; such requests may be for the service provider to “sponsor” a golf day for departmental officials or to provide tickets to major sports events or to finance new uniforms for the staff soccer team. Government officials are expected to act with integrity.

The CFO must uphold the principles of Batho Pele and outside vendors must not be made to feel that they have an advantage if they should voluntarily offer sponsorships to the department.

Inherent in the CFO's role in financial management and as a member of the senior management team is the need for confidentiality and discretion. The CFO may not disclose departmental information to any unauthorised parties.

Batho Pele

All public service officials are required to uphold the principles of Batho Pele when executing their responsibilities in the workplace. The CFO is required to uphold these principles by applying them when executing financial management responsibilities. The Batho Pele principles are aligned with the ideals expressed in the Constitution; the principles, with reference to the CFO, are explained below.

- The CFO must promote and maintain high standards of professional ethics when executing his/her duties;
- The CFO must provide services impartially, fairly, equitably and without bias;
- The CFO must utilise ALL resources, not just money, efficiently and effectively;
- The CFO must respond to people's needs, externally and in the workplace, i.e. to recipients of the financial management and other services provided by the CFO; and
- The CFO must provide an accountable, transparent, and development-oriented administration of financial management services to all relevant stakeholders.

The eight Batho Pele principles² are summarised below:

1. Consultation

There are many ways to consult users of services including conducting customer surveys, interviews with individual users, consultation with groups, and holding meetings with consumer representative bodies, NGOs and CBOs. Often, more than one method of consultation will be necessary to ensure comprehensiveness and representativeness. Consultation is a powerful tool that enriches and shapes government policies.

² www.dpsa.gov.za

2. Setting service standards

This principle reinforces the need for benchmarks to constantly measure the extent to which citizens are satisfied with the service or products they receive from departments. Required are standards that are precise and measurable so that users can judge for themselves whether or not they are receiving what was promised. Some standards will cover processes, such as the length of time taken to authorise a housing claim, to issue a passport or identity document, or even to respond to letters.

To achieve the goal of making South Africa globally competitive, standards should be benchmarked (where applicable) against those used internationally, taking into account South Africa's current level of development.

3. Increasing access

Increasing access is about delivering public services to the many South Africans who do not have access to them. This principle aims to address past inequalities in the distribution of basic services.

Access to information and services empowers citizens and creates value for money, quality services. It reduces unnecessary expenditure for the citizens.

4. Ensuring courtesy

Ensuring courtesy requires service providers to empathise with the citizens and treat them with as much consideration and respect, as they would like to be treated with; this goes beyond a polite smile, “please” and “thank you”.

The public service is committed to continuous, honest and transparent communication with citizens. Ensuring courtesy by adequately communicating relevant information about products and services, if correctly applied, should help to demystify the general negative perceptions that the citizens have about the *attitude* of the public servants.

5. Providing information

Providing information is about making information about services available at the point of delivery. It is also necessary for managers and employees to make information about the organisation, and all other service delivery related matters available to public service officials.

6. Openness and transparency

Openness and transparency means that the public should know more about the way national, provincial and local government institutions operate, how well they utilise the resources they consume, and who is in charge. It is anticipated that the public will engage with government if they are better informed.

7. Redress

Redress is about acting quickly and efficiently to rectify shortcomings in meeting service delivery promises when identified. This should be done at the individual transactional level with the public, as well as at the organisational level, in relation to the entire service delivery programme. Public service officials are encouraged to welcome complaints as an opportunity to improve service delivery.

8. Value for money

Value for money can be explained in more than one way but the end result is the same i.e. saving money. Examples: Doing the job correctly the first time as having to repeat the task takes time and costs money; failure to give a member of the public a simple, satisfactory explanation to an enquiry may for example, may result in an incorrectly completed application form, which will cost time to rectify and assessing quotations to decide on the best price to pay.

4.2 Financial misconduct

Government officials are expected to operate in an accountable and transparent manner. Chapter 10 of the PFMA, *Part 1: Disciplinary Proceedings* distinguishes between financial misconduct in the case of the accounting officer, an official and treasury officials. The words, “*wilfully or negligently*” are used when describing the financial misconduct.

In terms of the PFMA, section 85(1), the accounting officer must initiate the investigation into the alleged financial misconduct and take the appropriate action if necessary. When the accounting officer is guilty of financial misconduct it is the executive authority that leads the investigation and disciplinary action. The Treasury Regulations, section 4.1 provides further guidance on investigating alleged financial misconduct.

It is considered financial misconduct when the relevant official fails to comply with the specified legislative requirements. The procedures for reporting and investigating alleged financial misconduct is prescribed in section 85 of the PFMA.

Chapter 10, *Part 2: Criminal Proceedings* offers guidance on criminal proceedings when financial misconduct has been wilfully or negligently committed. The outcome of such criminal proceedings can be either a fine or imprisonment for a maximum period of five years.

Mismanagement of resources

Further to financial misconduct there is ***mismanagement of resources***, financial and other.

Mismanagement of financial resources

Departmental officials must be mindful of mismanagement when exercising their duties. Financial mismanagement is what happens when officials use departmental funds inefficiently, carelessly, badly

whether or not such actions are committed *wilfully or negligently*. When departmental funds are misdirected it negatively impacts service delivery as the funds do not reach the intended recipients.

Mismanagement of other resources

Other resources for the purpose of this discussion, refers to assets, inventory or people. When officials use departmental assets or inventory, *wilfully or negligently*, for purposes other than departmental business or services they are impeding service delivery as the intended recipients will not get the benefit thereof.

When the department employs inappropriate or unsuitable candidates who are not competent to perform the functional responsibilities of the post it equates to inefficiency in respect of human resource management and poor service delivery; when the official's behaviour is deemed incompetent it reflects negatively upon the reputation of the department.

Fraud and corruption

In the context of public service corruption includes embezzlement of public funds, theft, bribery or any attempt to steal or unlawfully obtain or misuse any asset or power. Corruption is what happens when the right or correct manner of doing things is forsaken for the improper manner and this negative choice is usually motivated by internal or external influences that involve a third party and bribery.

While the concepts of "*fraud*" and "*corruption*" are often used interchangeably, they must be distinguished and understood. Simply explained, corruption is mainly associated with the public service; it arises when public service officials misuse their positions.³

Fraud is committed by employees or by persons external to the public service environment; it lacks third party involvement and it is harder to detect than corruption. In the case of fraud the public service official or external person acts of their own accord.

When departmental resources are misdirected or not appropriately allocated because of mismanagement due to incompetence amongst other reasons, the consequences are that service delivery is impeded and the department is labelled as being inefficient.

The Public Service Regulations and the Batho Pele principles are rules that guide government officials to act appropriately and appeals to their moral and social conscience so that they do not abuse their positions in the public service or misuse public resources, financial and other, when executing their duties.

³ Combating Corruption in Africa: The Role of Whistle Blowers, *Karibu Dandago Isa, Associate Professor: Department of Accounting, University Kano-Nigeria*

6. Reference Material

Applicable legislation

1. The Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999)
2. Treasury Regulations Treasury Regulations issued in terms of the Public Finance Management Act, 1999 (*April 2001*)
3. Public Service Regulations, *January 2001*

Other

4. Guide for Accounting Officers, Public Finance Management Act, *October 2000*
5. Oversight and Accountability Model, *Parliament*
6. Guideline for Municipal Competency Levels, Chief Financial Officers issued in terms of the Local Government MFMA, 2003 (*1 July 2007*)
7. Normative Measures for Financial Management (Phase 1: Perfecting the Basics), *National Treasury*
8. *The Machinery of Government, May 2003, DPSA*
9. Combating Corruption in Africa: The Role of Whistle Blowers, *Kabiru Dandago Isa, Associate Professor: Department of Accounting, University Kano-Nigeria*
10. www.treasury.gov.za
11. www.dpsa.gov.za
12. www.parliament.gov.za

Part II:

The Role of the CFO

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1 Overview

In Part One of the CFO Handbook the national and provincial structure, roles and responsibilities and oversight and governance were addressed. The role of the CFO was described in terms of the job profile and attributes of a CFO.

Part Two further examines the role of the CFO with reference to the CFO's core responsibilities described in the Public Finance Management Act, Act 1 of 1999 as amended (PFMA) and Treasury Regulations, and functional responsibility inherent in the role.

Certain sections of Part Two include a “*checklist*” that serves as a tool to guide the CFO with achieving the minimum requirements of the relevant functions.

It must be noted that the content of the CFO Handbook is characteristic of an ideal working environment where the department is operating optimally. Given that departments do experience capacity and other constraints from time to time, it is recognised that a department's financial management function may not be operating optimally at all times.

The CFO Handbook should be considered a “*living*” document that will evolve over time to accommodate changes that may arise in the financial management environment.

2 CFO Core Responsibilities

The Treasury Regulations issued in terms of the PFMA, section 2.1.3, describes the CFO's general responsibility as “*to assist the accounting officer in discharging the duties prescribed in Part 2 of Chapter 5 of the Act and the annual Division of Revenue Act*”. It goes on to say that such duties relate to “*effective financial management of the institution including sound budgeting and budgetary control practices; the operation of internal controls and timely production of financial reports*”.

The CFO's core responsibilities are derived from the following sections of the PFMA that relates to the responsibilities of the accounting officer:

Section 38: General responsibilities of accounting officers

Section 39: Accounting officers' responsibilities relating to budgetary control

Section 40: Accounting officers' reporting responsibilities

Section 41: Information to be submitted by the accounting officer

Section 42: Accounting officer's responsibilities when assets and liabilities are transferred

Section 43: Virement between main divisions within votes

The applicable sections of the PFMA and the Treasury Regulations that comprise the core areas of the CFO's responsibilities are categorised and explained below.

Note that the accountability cycle and related responsibilities of the CFO are discussed in Part 3 of the CFO Handbook.

2.1 Budget planning

The budget planning process is described in detail in Part Three of the CFO Handbook. The role of the CFO is to assist the accounting officer with budget preparation and budget implementation amongst other financial management duties in terms of PFMA and Treasury Regulations.

The CFO, in terms of the written delegations from the accounting officer, is accountable to the accounting officer for ensuring that the department complies with the budget preparation, budget compilation, including the required consultation processes and budget implementation requirements of the PFMA.

The CFO must ensure that the timelines and deliverables in respect of the annual budget schedule as noted in the most recent guidelines published by the National/Provincial Treasury. The CFO will have to ensure that the necessary systems, processes and policies are in place to assist senior managers with their contributions to the budget compilation process.

The CFO must ensure that he/she has complete knowledge of the legislative requirements and supporting regulations, guidelines and budget formats so that he/she can compile an accurate and credible budget within the legislative timeframes.

Checklist: Budgeting

	Description	YES	NO	Action Required
1.	Has the budget process been formalised in your department?			
2.	Is the budget preparation in alignment with the schedule published by the National/Provincial Treasury?			
3.	Does a formal budgeting template exist?			
4.	Are all budgets linked to activities?			
5.	Are budgets linked to strategic plans?			
6.	Is the Early Warning System (EWS) report completed and submitted to National/Provincial Treasury on a monthly basis?			
7.	Is the budget monitoring function in place?			
8.	Do you adhere to the interim budget review system through the adjustment estimates process?			
9.	Are budget shifts and virements captured on a timely basis?			
10.	Does your department approve changes (IT10) (additions, terminations and transfers) to user access rights on the system and do the process owners scan the user access listings to identify excessive and unauthorised access rights?			
11.	Is there a clear audit trail of changes to plans and budgets?			

2.2 Expenditure management

Treasury Regulation 8.1.1 states that the accounting officer must ensure that the necessary internal controls are in place to provide reasonable assurance that departmental expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.

The following general principles apply to expenditure management practices in departments:

- staff responsible for financial management duties must be technically competent and proficient;
- when decisions are made to spend public funds the financial impact must be carefully and objectively considered and every effort must be made to achieve value for money;
- financial resources must be optimally planned and allocated between required outputs;
- the optimal investment in total assets required to support specified departmental outputs must be quantified and economically funded;
- the use of financial resources to achieve specified outputs must be monitored and controlled against the strategic and operational plans of the department by means of quantitative and qualitative data;
- internal controls for expenditure management must be designed, implemented and maintained to ensure that:
 - transactions are executed in accordance with management's general or specific authorisation;
 - all transactions are promptly recorded at the correct amount, in the appropriate account, in the correct accounting period to which it relates and in accordance with the department's accounting policies and procedures;
 - commitment registers are maintained and updated on a regular basis;
 - access to assets is permitted only in accordance with management's authorisation;
 - asset registers are updated timeously and reconciled to physical asset counts at regular intervals; and
 - programme managers must be held accountable to expenditure management in their areas of responsibility.

The PFMA [section 38(1)(g)] specifically requires the CFO, in terms of the accounting officer's delegation of authority, to exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure. He/she must implement effective, efficient and transparent processes of financial and risk management, and track expenditure and expenditure commitments against the vote. In addition, monthly and annual reporting requirements are stipulated, and disciplinary sanctions prescribed should these provisions not be satisfied.

Unauthorised expenditure

The PFMA defines unauthorised expenditure as either overspending of a vote or a main division within a vote, or expenditure that is not in accordance with the purpose of a vote or main division.

Checklist: Unauthorised expenditure

	Description	YES	NO	Action Required
1.	Are IYM reports monitored to detect and prevent unauthorised expenditure?			
2.	Does the department have an unauthorised expenditure register?			
3.	Is all alleged and valid unauthorised expenditure recorded in the register?			
4.	Is there an established process for the investigation of alleged unauthorised expenditure?			
5.	Is the unauthorised expenditure register updated throughout the investigation?			
6.	Does the department timeously report its unauthorised expenditure to the accounting officer and the relevant treasury?			
7.	Is all valid unauthorised expenditure reported in the annual financial statements of the department?			
8.	Are any losses suffered by the department recovered from the responsible official?			
9.	Are the Legislatures recommendations implemented as directed (i.e. written off with or without funding)?			

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure made in vain, which could have been avoided had reasonable care been exercised. This, for example, may relate to the printing of excessive numbers of annual reports.

Checklist: fruitless and wasteful expenditure

	Description	YES	NO	Action Required
1.	Is there a process to prevent and detect fruitless and wasteful expenditure?			
2.	Does the department have an fruitless and wasteful expenditure register?			
3.	Is all alleged and valid fruitless and wasteful expenditure recorded in the register?			
4.	Is there an established process for the investigation of alleged fruitless and wasteful expenditure?			
5.	Is the fruitless and wasteful expenditure register updated throughout the investigation?			
6.	Does the department timeously report its fruitless and wasteful expenditure to the accounting officer?			

	Description	YES	NO	Action Required
7.	Is all valid fruitless and wasteful expenditure reported in the annual financial statements of the department?			
8.	Are any losses suffered by the department recovered from the responsible official?			

Irregular expenditure

Irregular expenditure refers to expenditure, other than unauthorised expenditure, incurred in contravention of or not in accordance with a legislative requirement, including the PFMA, or legislation relating to supply chain management practices.

Checklist: irregular expenditure

	Description	YES	NO	Action Required
9.	Is there a process to prevent and detect irregular expenditure?			
10.	Does the department have a irregular expenditure register?			
11.	Is all alleged and valid irregular expenditure recorded in the register?			
12.	Is there an established process for the investigation of alleged irregular expenditure?			
13.	Is the irregular expenditure register updated throughout the investigation?			
14.	Does the department timeously report its irregular expenditure to the accounting officer?			
15.	Is all valid irregular expenditure reported in the annual financial statements of the department?			
16.	Are any losses suffered by the department recovered from the responsible official?			

Checklist: Expenditure management

Purpose: To ensure that programme managers are accountable for managing their spending against budget estimates

	Description	YES	NO	Action Required
1.	Are programme managers aware of their expenditure management responsibilities in terms of the PFMA?			
2.	Are expenditure management responsibilities in accordance with the annual performance plan aligned and linked to performance contracts of the programme managers?			
3.	Are delegations in respect of expenditure management responsibilities signed and in place?			
4.	Are programme managers notified of their approved budgets estimates prior to the start of the financial year?			
5.	Do programme managers comply with Treasury Regulations			

	Description	YES	NO	Action Required
	when excising their authority to spend budgeted funds?			
6.	Do programme managers analyse their monthly expenditure reports and update expenditure projections for the months ahead?			
7.	Are programme managers held accountable for variances and deviations between actual and budgeted expenditure?			
8.	Does the department have a process in place to ensure that suppliers are paid on time i.e. within thirty days from receipt of an invoice?			
9.	Does the department submit financial reports to the relevant treasury on time?			
10.	Does the department have a process in place to pay transfers and subsidies due to entities where applicable?			
11.	Does the department have a process in place to manage Suspense accounts?			

2.3 Revenue management

Departments receive money from the relevant revenue fund and this often makes revenue management a low priority within departments, even in the case departments such as Health and Transport that levy substantial amounts of user charges each year.

Departments must be aware of the PFMA's stipulation whereby under collection of expected income may result in a reduction in the department's approved budget.

Sources of revenue

Accounting officers must continuously examine their department's operations to identify potential or actual sources of revenue. The minimum requirement is to conduct a review during the budget preparation process and this forms part of the initial submission to the relevant treasury.

Accounting officers should identify limits to the revenue base of their departments, such as policies affecting particular sections of the community, the need for government services to reflect value for money, community expectations and the rate of inflation.

The tariff policy must be included in the annual report and should include details of any free services rendered but not taken into account in the budget, which could have yielded significant revenue.

The CFO is required to collect the relevant data necessary to identify potential sources of revenue as well as to analyse revenue collection trends that will inform recommendations for increases in tariffs and fee structures where relevant.

Revenue management processes

Adequate separation of duties is an integral part of departmental revenue management's internal control processes. Effective separation of duties will ensure that activities relating to the collection, recoding and banking of revenue are undertaken by different individuals.

The cash collection environment must ensure that the authorisation of exceptions, end-of-day cash collection procedures are documented, understood and complied with by the various officials performing the activities.

The reconciliation of revenue information must be done daily to determine if cash collected reconciles to the receipts issued and the cash banked; reconciliation of the cash banked to the bank statement and the department's financial management system to determine if cash collected and processed on the department's financial system reconciles to the cash processed in the bank account; the department may put reconciling processes in place and assign responsibility to for them as may be required.

Checklist: Revenue management

Purpose: To ensure that programme managers are accountable for managing their revenue management responsibilities where applicable

	Description	YES	NO	Action Required
1.	Does the department have a process in place to annually review tariffs and fee structures where applicable?			
2.	Are internal controls in the revenue collection processes complied with?			
3.	Does the department have segregation of duties in place that are reviewed at regular intervals?			
4.	Does the department have reconciliation processes in place to ensure that revenue collected is banked?			

2.4 In-year monitoring and reporting

In-year monitoring and reporting is described in detail in Part Three of the CFO Handbook. The CFO must ensure that financial reporting is done as legislatively required. The CFO is accountable to the accounting officer for ensuring that the department complies with the in-year monitoring and reporting requirements of the PFMA.

The CFO must therefore put the necessary systems, processes and policies in place to ensure that senior managers are adequately equipped to execute their delegated duties and financial management responsibilities so that in-year financial management can be undertaken in an informed and systematic manner.

Furthermore, a robust reporting system will also ensure that the accounting officer of the department is in a position to compile and submit monthly expenditure reports as contemplated in sections 32 and 40 of the PFMA.

The CFO is responsible for consolidating the relevant financial and performance information required by the PFMA and ensuring the accuracy and correctness thereof before presenting it to the Accounting Officer.

It must be noted that the line managers are accountable for the achievement of KPIs and they are required to submit the necessary progress reports. The CFO's responsibility is to consolidate the reports received from the line managers for presentation to the accounting officer.

The CFO's responsibility is to ensure that in-year monitoring and reporting is of a high quality and submitted to the executive authority and National Treasury on a timely basis.

Checklist: In-Year monitoring and reporting

Purpose: To ensure that budget spending and spending projections provide an "early warning" and inform sound budget management practices

	Description	YES	NO	Action Required
1.	Do line managers monitor their budgets regularly i.e. at least monthly?			
2.	Does expenditure monitoring and forecasting take into account commitments?			
3.	Are budget monitoring and forecasting reports accurate and reliable?			
4.	Are budget monitoring and forecasting in respect of capital projects capital accurate and reliable?			
5.	Is the department complying with the prescribed formats and legislative reporting requirements?			
6.	Are the department's in-year monitoring reports accurate, timely, consistent, understandable and submitted to the relevant parties as required?			
7.	Is the monitoring: <ul style="list-style-type: none"> a) predictive rather than backward looking? b) focused on large, high risk or volatile budgets? c) related to operational activity indicators that are lead indicators of spend? d) informed by a risk assessment? 			
8.	Are reported variances analysed and used as a basis for taking corrective action?			
9.	Are action plans implemented effectively and monitored and reported?			
10.	Do reports link financial and non-financial performance information to give an overall picture of the department's performance?			

2.5 Risk management

Risk management acknowledges that all the activities of an organisation involve some element of risk. Management must decide on an acceptable level of risk (*given the cost and other social factors*) by objectively assessing the risk factors that may prevent a particular activity from meeting its objective; e.g. the risk of delay the construction of a new clinic may be offset or managed by ensuring that the stock level of building material is adequately monitored; or, the risk of an asset such as a photocopier breaking down will be reduced by ensuring that it not misused.

The elements of risk management include:

- assessing the nature and extent of the risks associated with the department's operations;
- deciding on an acceptable level of loss or degree of failure;
- deciding how to manage or minimise the risk; and
- monitoring, reporting and, from time to time, reassessing the level and implications of the risk exposure

National Treasury's Public Sector Risk Management Framework serves to guide the public sector on risk management practices. The objective of the Framework is to ensure that public sector institutions share a common approach to risk management whilst providing sufficient scope for institutions to adapt certain aspects to suit their unique institutional requirements.

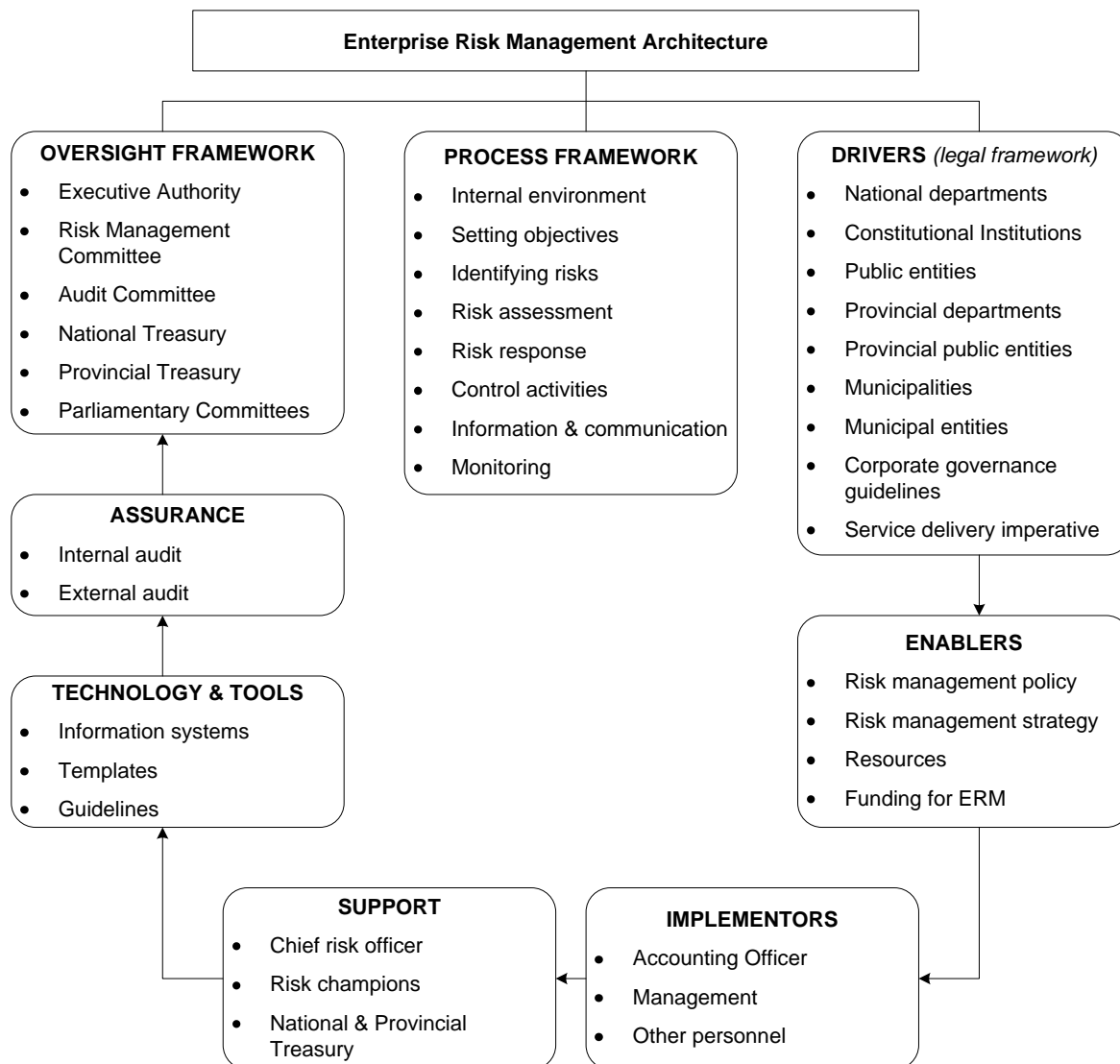
The Risk Management Framework adopts the following definitions:

"a risk is any threat or event that is currently occurring, or that has a reasonable chance of occurring in the future, which could undermine the institution's pursuit of its goals and objectives";

"risk management is a systematic process to identify, evaluate and address risks on a continuous basis before such risks can impact negatively on the institution's service delivery capacity"

"Enterprise Risk Management (ERM) is the application of risk management throughout the institution rather than only in selected business areas or disciplines. ERM recognises that risks (including opportunities) are dynamic, often highly interdependent and ought not to be considered and managed in isolation. ERM responds to this challenge by providing a methodology for managing institution-wide risks in a comprehensive and integrated way"

The Enterprise Risk Management Architecture is depicted below:



The process framework with reference to the departmental environment is as follows:

Internal environment: Establishing a conducive environment in which ERM can function

Setting objectives: Establishing objectives that are aligned to the department’s mission; this becomes the reference point for identifying and assessing risks

Identifying risks: Determining the risks that threaten the achievement of departmental objectives.

Risk assessment: Determining the magnitude of the risk exposure by assessing the likelihood of the risk materialising and the impact thereof.

Risk response: Determining how the department will mitigate the risks it is confronted with, through consideration of alternatives such as risk avoidance, reduction, risk sharing or acceptance.

Control activities: Establishing policies and appropriate procedures such as approvals, authorisations, segregation of duties, reconciliations and physical safeguards to ensure that the agreed risk responses are implemented.

Information & communication: Identifying, capturing and communicating information to enable departmental officials to carry out their responsibilities.

Monitoring: Monitoring and assessing the presence and functioning of the various components over time.

The Accounting Officer must develop and publish a risk management policy that explains the organisation's commitment to risk management. This should ensure that the department cultivates a conducive control environment where officials adopt an overall attitude, awareness and behaviour that is in line with the department's vision towards internal controls and their importance.

The high level risk management responsibilities of the CFO should include:

- identifying and managing the organisation's financial risks to protect its fiscal well-being;
- proactively participate in identifying the organisation's key risks, including regular monitoring and updating of the profile;
- quantifying trades-off between different policy options in order to ensure that financial and risk implications related to each policy initiative are fully assessed and addressed adequately and that resources are allocated to options that provide the greatest benefit at the least cost;
- empowering senior management team by providing detailed information on the true lifetime costs attached to particular decisions such that future obligations are fully understood and programme funding is prioritised accordingly;
- instilling financial mind-set among officials in the institution in order to root out financial management inefficiencies;
- proactively seeking out areas within the organisation in which financial insight among managers can benefit the organisation's mission;
- assessing the financial risk management skills required of the senior managers in the institution and enhance those skills to enable the managers to discharge their roles and responsibilities effectively;
- providing guidance to senior management regarding threshold of operating losses that the organisation has the capacity to bear;
- driving organisational behaviour by using his or her position of influence as a catalyst for change i.e. assist to embed a culture of risk management in the organisation;
- support the development and implementation of a risk management policy and strategy meant to ensure effective governance of risk in organisation.

Risk Management Maturity

The CFO together with the senior management team should regularly monitor and assess the risk management practices in the organisation in order ensure continuous improvement thereof. The Financial Management Capability Maturity Model (FMCM) developed by National Treasury should be used to assess the institution's risk management maturity at least once annually. The risk management sub-set (questionnaire) of the FMCM with all recommended practices is available on the following website: <http://rm.treasury.gov.za/fmcm/ng/default.asp>

Checklist: Risk management

Purpose: To ensure that proper arrangements are in place to identify and manage key business risks.

	Description	YES	NO	Action Required
1.	Are the senior management team and the accounting officer involved in determining key risks and responses?			
2.	Does the department have a risk register that is linked to departmental objectives?			
3.	Is department's risk register updated regularly?			
4.	Does the department have an updated risk management strategy or policy document in place?			
5.	Has the department identified and designated a risk manager?			
6.	Does the department's risk management arrangements include the following: a) formal identification and assessment of risks? b) action plans to mitigate and manage risks? c) changing resource allocation in response to managing risks? d) monitoring the effectiveness of risk management through indicators and early warning signs? e) assigned managers with responsibility for identified risks? f) benchmarking with similar organisations?			
7.	Does the department provide for risk management awareness training for all staff?			
8.	Does the department effectively manage key business risks identified by the risk assessment?			
9.	Does the department's senior management team regularly review the risk management system?			
10.	Does the department have adequate risk financing (external and self-insurance) based on records of incidents/claims and a value for money assessment?			
11.	Does the department have a process in place to effectively manage insurance claims?			

3 Supply Chain Management

The PFMA, section 38(1)(iii) stipulates that the accounting officer must ensure that the department has *"an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective"*.

The Treasury Regulations, 16A, Supply Chain Management, provides further guidance to give effect to section 38(1)(iii) of the PFMA. In addition, National Treasury's *Supply Chain Management Guide for Accounting Officers/Authorities, February 2004* provides guidance to effectively implement supply chain management.

It is recommended that the supply chain management team report to the CFO in terms of the reporting structure. In departments where the supply chain management function is not

accommodated in the office of the CFO, the responsibilities of the CFO in respect of supply chain management may be less intensive.

Legislative framework

In addition to the Constitution and other national and provincial government legislation mentioned previously, the following have a direct or indirect impact on supply chain administration:

- *Intergovernmental Fiscal Relations Act* establishes the process of consultation for budget allocations, including the role of the budget forum; it is during this planning process that the objectives of supply chain should be formulated.
- *Division of Revenue Act* provides three-year financial allocations for departments and provinces; the allocation of funds is indicative of implementation feasibility of the departments' supply chain strategies.
- *Public Finance Management Act, 1999 (Act 1 of 1999 as amended by Act 29 of 1999) (PFMA)*
- *Preferential Procurement Policy Framework Act, No. 5 of 2000*: The Act incorporates an 80/20 (for the procurement, sale and letting up to a Rand value of R500 000) and 90/10 (for the procurement, sale and letting with a Rand value of above R500 000) preference systems. All organs of the state should apply the prescribed preference points system and refrain from using set-aside practices.
- *Broad-based Black Economic Empowerment Act (BBBEEA), Act 53 of 2003*: The Act provides for the Minister of Trade and Industry to develop broad-based charters to promote BEE, and issue codes of practice which may include qualification criteria for preferential procurement and other economic activities.
- *Preferential Procurement Regulations of August 2001*, issued in terms of the PPPFA and published in the Government Gazette (10 August 2001). The following are important aspects of the Regulations:
 - o organs of state must ensure that proper planning and calculations of the estimated costs are done prior to prescribing the appropriate preference system in the bid invitation;
 - o penalties or other remedial actions may be applied for furnishing false information or not achieving the goals for which an undertaking was given;
 - o no contracts will be awarded to bidders who do not present a tax clearance certificate;
 - o the preference points system which will be applied as well as the goals to be achieved, must be clearly explained in the bidding documents;
 - o bids must be awarded to the bidder scoring the highest number of points. In the event that two or more bidders have scored equal total points, the successful bidder must be the one scoring the highest number of points for specified goals. Should there be equal bidders in all respects, the award shall be decided by the drawing of lots;

- a contract may on reasonable and justifiable grounds be awarded to a bidder that does not score the highest number of points. The reasons must, however, be defensible in a court of law.
- preference points stipulated in respect of a bid must at all times include points for equity ownership by a HDI as contemplated in paragraph 1(h)(1) of the Preferential Procurement Regulations

Other policy issues relating to Supply Chain Management

In addition to the legislative framework applicable to supply chain management there is a broad range of other policies and regulations that also influence procurement decisions and practices. This necessitates alignment between supply chain management and the broader Government policies that impact supply chain management activities. The accounting officer and the CFO should be aware of the following:

- ***Competition Law***

The Competition Act (89 of 1998), regulates business practices with the purpose of outlawing anti-competitive business practices (*such as price-fixing and collusive bidding*) between businesses, their supplier(s) and customers.

- ***The National Small Business Act, Act No. 102 of 1996***

The National Small Business Act establishes the National Small Business Council (NSBC) and the Ntsika Enterprise Promotion Agency (Ntsika) whose main function is to enable small businesses to compete successfully in the economy.

- ***Anti-corruption Measures and Practices***

The Constitution and related financial management legislation emphasises high standards of ethics within public administration, transparency and anti-corruption measures that strengthen the public sector's ability to combat corruption serves to protect employees from making disclosures against their employers.

- ***State Information Technology Agency (SITA) Act, (Act No. 88 of 1998, as amended by Act No. 38 of 2002)***

This Act makes provision for SITA to assist departments and other organs of state with the acquisition of all IT related goods and services. This arrangement requires a Service Level Agreement between SITA and the department or relevant organ of state that incorporates the payment to SITA for services rendered to that department or organ of state; the accounting officer is accountable.

- *Trade Policy*

Government's commitment to trade liberalisation should be evident in its supply chain practices; foreign companies should not be excluded from bidding for government contracts;

- *Labour Issues*

Accounting officers should ensure that suppliers/contractors comply with the prevailing provisions of Labour Law as government subscribes to international best practice principles of equitable and fair labour practices. Suppliers, service suppliers or contractors that do not comply with the country's labour standards should be designated as "*non-preferred*" service providers.

- *Safety, Health & Environment*

A policy of zero tolerance should be adopted in terms of occupational health and safety standards. Occupational health and safety issues should be considered for employees and employees of contractors who are performing work on site at any department or entity.

- *Public-Private Partnerships*

The applicable Treasury Regulations should be complied with goods, works and/or services are procured by means of public private partnerships.

- *New Partnership for Africa's Development (NEPAD)*

Supply Chain Management practices should strive to support NEPAD objective of recognising global interdependence in respect of production and demand, the protection of the environmental base that sustains the planet, reversal of the skills-loss from the continent and a global financial architecture that rewards good socio-economic management and global governance.

- *Proudly South African*

The Department of Trade and Industry is a key sponsor and strategic partner of the "*Proudly South African*" campaign that encourages South African companies to promote locally produced products. The government's supply chain management should support this campaign if and when appropriate opportunities arise.

Supply Chain Management framework

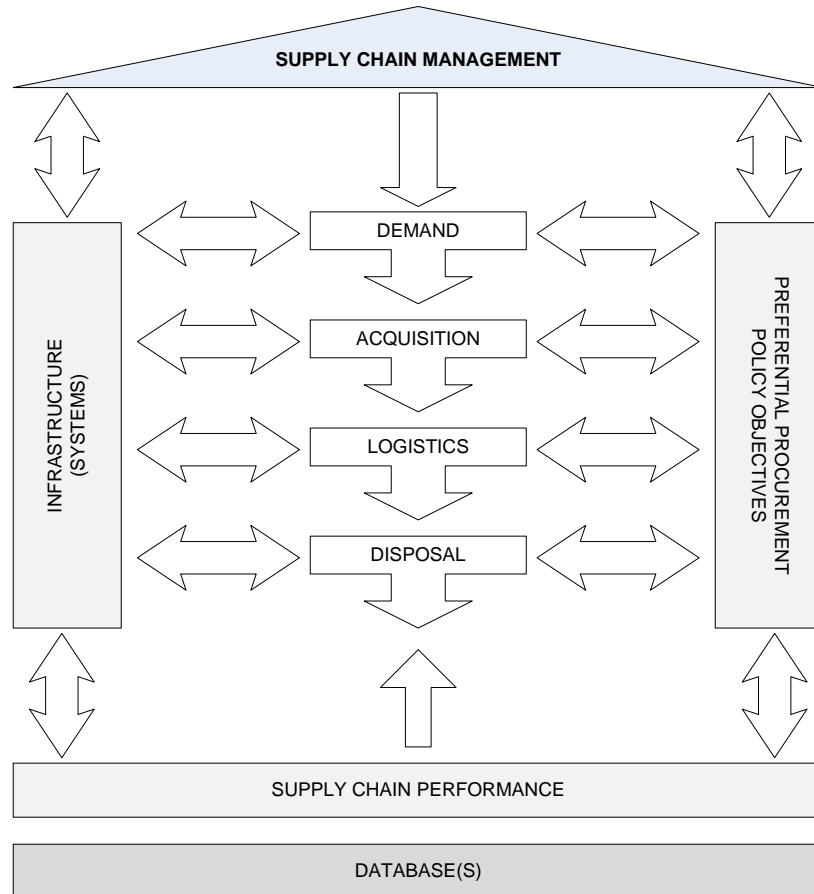
Managing the supply chain is an integral part of financial management hence it is recommended that the supply chain management unit operates under the supervision of the CFO.

The four key objectives of the supply chain management policy are to:

- i) transform government procurement and provisioning practices into an integrated SCM function;
- ii) introduce a systematic approach for the appointment of consultants;
- iii) create a common understanding and interpretation of the preferential procurement policy; and

iv) promote the consistent application of 'best practices' throughout government's supply chain.

An integrated supply chain management (SCM) function addresses the inefficiencies in government's current method of procurement, contract management, inventory/asset control and obsolescence planning. The integrated SCM function is depicted in the diagram below.



Note that the diagram above depicts a functional structure and is not indicative of a staffing structure for supply chain management; staffing the function is at the discretion of the department

The elements of SCM depicted in the diagram are summarised below:

Demand Management

Demand management is at the start of the supply chain; the following takes place:

- a needs assessment of the required goods, works and/or services is done;
- specifications are determined;
- the industry is analysed; and
- requirements are linked to the budget.

This phase brings the supply chain practitioner closer to the end user, to ensure that value for money is achieved.

Note that this phase assumes that the department's requirements in respect of goods and services have been determined during the strategic planning and budget processes.

Acquisitioning Management

This phase has traditionally been the main focus of supply chain management. The management considerations are as follows:

- the manner in which the market will be approached is decided;
- the total cost of ownership of a particular type of asset is established;
- the completeness of bidding documentation and evaluation criteria is ensured;
- bids are evaluated in accordance with published criteria; and
- the signing of legitimate contract documents is ensured.

Logistics Management

Logistics management addresses the following:

- determining the levels of inventory;
- receiving and distributing material;
- stores, warehouse and transport management; and
- reviewing the vendor's performance

The financial system should be activated to generate payments stemming from these processes.

Disposal Management

This is the final phase in the supply chain process when consideration is given to the following:

- obsolescence planning;
- maintaining a database of redundant material;
- inspecting material for potential re-use;
- determining a disposal strategy; and
- executing the physical disposal process.

Supply Chain Performance

This is the monitoring process whereby a retrospective analysis is done to determine whether the supply chain processes have been complied with and whether the desired objectives have been achieved. The following issues are generally reviewed:

- compliance to norms and standards;
- cost efficiency of SCM process (i.e. the cost of the process itself); and
- whether supply chain practices are consistent with Government's broader policy focus.

The SCM policy applies to the acquisition and disposal of all goods, services, construction and road works and movable property of all departments.

The National Treasury has published a regulatory framework in terms of the PFMA to prescribe minimum norms and standards for SCM practices in Government. This will establish minimum reporting requirements for accounting officers/authorities that will enable the National Treasury to report progress to Cabinet on compliance as well as policy outcomes.

National Treasury's Supply Change Management Office issued Practice Note Number SCM 3 of 2004, Checklist for the Implementation of Supply Chain Management and Monthly Reporting of Supply Chain Management Information to assist departments.

Fraud and Corruption

The definitions of fraud and corruption for the purpose of supply chain management are as follows:

“corrupt practice” means the offering, giving, receiving, or soliciting of anything of value to influence the action of a public official in the selection process or in contract execution; and

“fraudulent practice” means a misrepresentation of facts in collusive practices among bidders/contractors (*prior to or after submission of proposals*) designed to establish prices at artificial, non-competitive levels and to deprive the accounting officer of the benefits of free and open competition.

In terms of government policy bidders and/or contractors, including consultants, must observe the highest standard of ethics during the selection and execution of contracts.

Checklist: The procurement process and “value for money”

Purpose: To determine whether the procurement process delivers value for money environment and professional standards

	Description	YES	NO	Action Required
1.	Does the department have a published procurement policy?			
2.	Is there a guide available to suppliers on how to apply for contracts?			
3.	Does the department have a forward plan of contract renewals?			
4.	Are there strong contract management processes in place?			
5.	Is e-procurement used as a means of reducing transaction costs?			
6.	Are opportunities taken to aggregate purchases to access better terms?			
7.	Does the department have sufficient expertise in purchasing and negotiating contracts to secure value for money?			
8.	Are back-office processes for ordering, receipting and generating payment designed to minimise manual handling of invoices through effective IT systems?			

4 Contract Management

Once the contract has been awarded through the procurement process there are activities carried out to determine whether the service provider and the department are performing adequately to meet the contract requirements; this is called contract management.

Contract management is designed to ensure that the department gets what it paid for; to this end all dealings between the department and the service provider, from beginning to end are managed in terms of the contract.

Contract management focuses on the timely delivery of the required goods or services of quality and within the available budget. The legal aspects of the contract guide government officials to the proper course of action should the service provider fail to deliver.

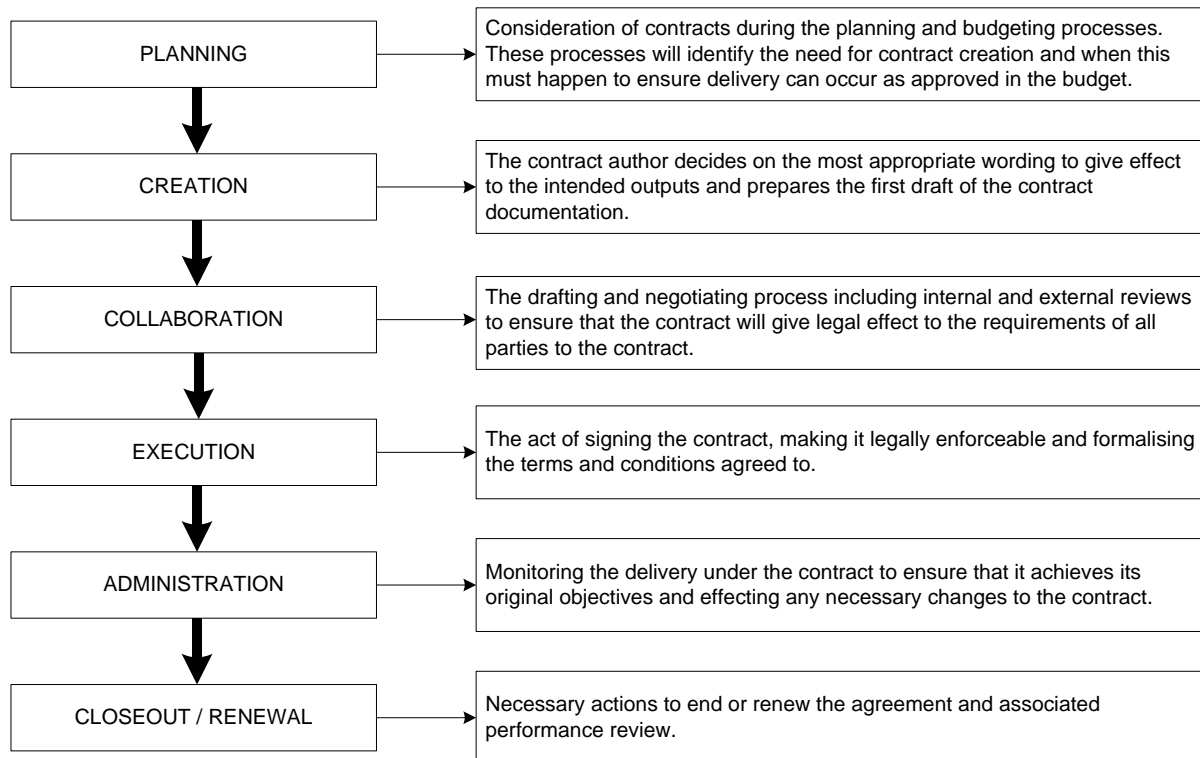
The activities necessary to manage the contract will depend on the nature of the work required, the type of contract and the experience of the relevant parties to the contract and those responsible for delivery.

Contracts should be managed throughout the Contract Life Cycle so as to maximise value for money through:

- identifying and maximising opportunities;
- maximising revenue and minimising costs through efficient operations;
- minimising risk;
- ensuring compliance with policies, procedures, regulations as well as terms and conditions; and

- monitoring and evaluating performance of the parties to the contract.

The Contract Life Cycle is illustrated in the diagram below:



Example of steps to follow in the contract management process:

Step One: Make a list of all the key delivery dates, deliverables and associated payment terms stipulated in the contract. Important timeframes include dates for authorisation of claims, expected payment dates and sign-off required; failure to comply with these contract stipulations may result in sanctions such as penalties or termination of the contract.

Step Two: Assign responsibility for overseeing the contract to a departmental official who understands the contract specifications, the deliverables agreed and who can manage the day-to-day performance in terms of the contract delivery. The departmental official should be responsible for overseeing the basic activities such as tracking compliance and information dissemination.

Step Three: Compliance and oversight is necessary to ensure that work done in accordance with the agreed deliverables for which the service provider is contracted to deliver; this must be managed so that deviations or non delivery can be detected and necessary options for recourse can be assessed.

Regular progress reports should be compiled by the service provider and this should specify the progress with achieving the deliverables; whether the timeframes for such delivery is being met and in the case of delays, the steps taken to bring the delivery timeframes back on track must be explained; risks and mitigating factors and responsibility for the various items should be stipulated. These are the minimum reporting requirements and additional specifications for reporting may be itemised in the contract between the department and the service provider; such requirements must be complied with.

The department must take action when service providers fall short of delivery in term of their contractual obligation; the department must ensure that they get value for money and comply with the expenditure management stipulations of the PFMA and supply chain management regulations hence the accounting officer must ensure that contracts are properly managed.

Checklist: Contract management

Purpose: To determine whether there is an effective contract management system in place

	Description	YES	NO	Action Required
1.	Are the contracts signed; have any amendments been agreed by the parties to the contract?			
2.	Have amendments to the contract been considered and authorised on the grounds of value for money?			
3.	Are the relevant delegations of authority in place for the purpose of contract management and related authorisation of expenditure?			
4.	Is there a process in place to periodically review long term contracts?			
5.	Are payments linked to delivery of outputs committed to in the signed contract?			
6.	Is there a process in place to review delivery of the contracted outputs; is corrective action taken if the contractual commitments have not been met?			
7.	Is there adequate record keeping of the issues relating to managing the contract?			
8.	Are stakeholders involved in feedback with regard to the contract implementation and management?			
9.	Does the department have a process in place whereby contracts are reviewed in terms of extensions and re-tender processes where required?			
10.	Is there a process in place to ensure regular meetings with the contracted parties to monitor progress on delivery?			

5 Asset Management

The purpose of asset management is to manage the life cycle of an asset so that the department derives the maximum benefit from the asset in the most cost effective manner.

Principles of effective asset management

- the departmental objectives and service delivery imperatives should serve as a guide for asset management practices and decision-making;
- asset management plans should be incorporated in the department's strategic planning process;
- the decision-making to acquire assets must be informed by an evaluation of alternative options, demand management and non-asset solutions (*activities in the supply chain process*);
- proposals for acquiring assets must include a complete business case that factors in the costs, benefits and risks for the life cycle of the asset;
- responsibility and accountability for performance, safekeeping and utilisation of the asset must be defined upfront;
- decision-making for the disposal of the asset at the end of its useful life must ensure that the department gets the best return in terms of the provisions of the PFMA; and
- effective internal controls to mitigate risks.

Checklist: Asset management

Purpose: To determine whether there is an effective asset management system in place

	Description	YES	NO	Action Required
1.	Does the department have an asset management plan?			
2.	Does the department's supply chain process evaluate alternative options when acquisition decisions are made?			
3.	Does the asset disposal process ensure that the department gets the best return?			
4.	Does the department have a process in place to tag or code all assets timely?			
5.	Does the department maintain an updated asset register that fairly represents all departmental assets?			
6.	Does the department comply with statutory requirements for safekeeping and storage of supplies that are hazardous?			
7.	Is there a policy in place for managing, safeguarding and maintaining assigned departmental assets?			
8.	Has the discrepancies identified by the annual stock take been finalised and authorised on the asset register?			
9.	Is there a process in place to "spot check" stock takes at regular intervals?			

	Description	YES	NO	Action Required
10.	Is there a process in place to track movement of assets; is the process complied with?			
11.	Is the asset register updated with information in respect of movement of assets?			
12.	Are there delegations in place whereby the asset manager assigns asset management responsibilities to the line manager who is custodian of the asset?			
13.	Is there a process in place whereby orders are placed so that adequate stock levels are maintained at all times?			

6 Internal Control

The purpose of internal controls is to provide reasonable assurances that the organisation's objectives are achieved effectively and efficiently, in compliance with applicable laws and regulations and to ensure reliable financial reporting.

Internal controls are the systems (*manual or electronic*), procedures and processes that are designed and implemented to minimise the risk (*and any financial consequences*) to which the department might otherwise be exposed as a result of fraud, negligence, error, incapacity or other cause.

Legislative requirements

The PFMA, section 38(1)(a)(i) stipulates that the accounting officer must ensure that the department has and maintains "*effective, efficient and transparent systems of financial risk and **internal control***";

Section 38(1)(a)(ii) stipulates that the accounting officer must ensure that the department has and maintains "*a system of **internal audit** under the control and direction of an **audit committee** ...*"

These legislative requirements in terms of internal control will be discussed below.

Establishing effective internal controls

The Treasury Regulations, 2.1.3, describes the CFO's role as assisting the accounting officer to discharge his/her duties as prescribed in the PFMA, Part 2, Chapter 5; these duties include the operation of internal controls.

The CFO must evaluate whether existing controls are appropriate, assess the risks facing the department, and introduce the necessary changes to the system of internal control. Internal controls must be evaluated to ensure that they are appropriate for the specific circumstances and, most importantly, are operating as intended.

When designing internal controls they should provide reasonable assurance that:

- goals are met with economical and efficient use of resources
- financial and operational information is reliable and useful

- assets are accounted for and protected from losses

The CFO, in terms of the accounting officer's delegated responsibility, should review the operation of the internal controls within the department, in accordance with the following basic principles:

- high quality internal control systems at a reasonable cost;
- adequate controls over the operations and resources entrusted to managers and continuous review of the effectiveness of such controls; and
- benefits must outweigh the cost of operating internal controls.

Audit committee

An audit committee comprising appropriate individuals will provide oversight and add value to departmental performance and efficiency. The TR 3.1 explains the role of the audit committee with reference to section 76(4)(d) and section 77 of the PFMA. The audit committee is required to review the following:

- effectiveness of the department's internal control system and internal audit function;
- areas of risk in the operations of the department;
- quality of the financial information;
- accounting and auditing issue raised by the internal and external audits;
- legislative compliance; and
- activities of the internal audit function, annual work programme, co-ordination with external audit and outcomes of investigations and management response.

Furthermore the audit committee must make comment in the department's annual report on matters pertaining to the

- effectiveness of the department's internal controls;
- quality of the reports in terms of legislated reporting requirements and the DoRA; and
- evaluation of the annual financial statements.

The CFO must make all necessary information available to the audit committee so that they can adequately perform their functions in respect of internal controls.

The CFO must communicate the reports of the audit committee to the management team so that shortcomings highlighted in the audit reports can be addressed.

Checklist: Audit committee

Purpose: To ensure that proper arrangements are in place to ensure the effectiveness of the audit committee.

	Description	YES	NO	Action Required
1.	Does the department advise the Audit Committee advised in a timely manner of all significant issues that may have impacted the financial statements?			
2.	Does the audit committee charter articulate the committee's roles and responsibilities; and provide the committee with the necessary authority to fulfil them?			
3.	Does the committee have access to appropriate internal and/or external resources to assist it in understanding and dealing with complex and difficult matters on a timely basis?			
4.	Does the committee receive agenda items and supporting papers in sufficient time prior to meetings?			
5.	Are the committee agenda and supporting papers of sufficient clarity and quality to make informed decisions?			
6.	Have all recommendations by the audit committee, made within the past 12 months, been implemented?			
7.	Did the committee review the internal audit charter to ensure that appropriate structures, authority, access and reporting arrangements are in place?			
8.	Did the committee review external audit reports and management letters and consider management responses to findings and recommendations?			

Internal audit

The purpose of the department's internal audit function evaluates and develops recommendations to bring about improvements in departmental processes so that service deliver objectives can be achieved.

The TR 3.2 explains the role of internal audit with reference to section 38(1)(a)(i) and section 76(4)(e) of the PFMA . Internal audit assess the department's risk management strategy and fraud prevention plan in addition to evaluating the department's internal controls.

Checklist: Internal audit

Purpose: To ensure that proper arrangements are in place to provide for an effective internal audit function

	Description	YES	NO	Action Required
1.	Does the department have an updated internal audit plan?			
2.	Is the internal audit plan linked to the department's risk management processes?			
3.	Are the internal audit staff appropriately qualified and trained to perform an effective internal audit function?			
4.	Does the internal audit function comply with the regulatory framework for internal audit?			
5.	Does internal audit have unlimited access to records or scope of activities?			
6.	Does the department's internal audit unit perform an annual assessment of the need to review key financial systems? (i.e. a key financial system is one which is significant for the compilation of the annual financial statements.)			
7.	Is the independence of internal audit safeguarded?			
8.	Is the internal audit plan monitored so that the key activities are prioritised?			
9.	Does the department's internal audit team effectively complete the audit plan?			
10.	Is external audit able to reduce the work required to complete the audit by using the work of internal audit?			
11.	Does the department have a formal process whereby the recommendations of internal audit are accepted for implementation?			
12.	Does the department have a process whereby directorates can request the services of the internal audit team?			
13.	Does internal audit have a role in, and provide advice about risk management?			

Responsibilities for internal control

The responsibilities of the various stakeholders for internal control can be summarised as follows:

- Management is ultimately responsible for the implementation, compliance and ownership of the system of internal control.
- The members of legislative bodies, in their capacity as representatives of taxpayers, are exercise governance, guidance and oversight.
- The Auditor-General has a role in making recommendations when any weaknesses in internal control are identified.

- The audit committee should be able to identify and act on instances where management may override internal control or otherwise seek to misrepresent reported financial results.
- Hence, the independence of the audit committee from management, the extent of the committee's involvement with and scrutiny of activities, and the appropriateness of its actions will strongly influence the control environment in the department.

Checklist: Internal control

Purpose: To ensure that proper arrangements are in place for effective internal controls

	Description	YES	NO	Action Required
1.	Are there adequate job descriptions for all accounting or finance positions?			
2.	Are the level of competence and the requisite knowledge and skills carefully defined for each job in the finance department?			
3.	Does the department have a written Accounting / Financial Policies and Procedures Manual; Is the manual up to date? Do all employees have a copy and are they compliant?			
4.	Has the finance staff been appropriately trained in the use of the accounting system, including the chart of accounts and other system controls?			
5.	When employees assigned to financial duties are on leave, does another employee assume their responsibilities?			
6.	Is there a written policy whereby employees are required to report suspicious activities, conflicts of interest, or unethical behaviour to the appropriate level of management?			
7.	Does the department have a whistleblower protection policy prohibiting retaliation against whistleblowers?			
8.	Are delegations of authority and responsibility to individuals properly signed and approved? Are the delegations complied with?			
9.	Are ongoing reviews of the internal controls for key processes and activities being performed and are suggestions for improvement acted on promptly?			
10.	Do the entity's internal controls adequately protect the entity's assets from fraudulent and/or inappropriate use?			
11.	Do the entity's financial controls incorporate, where relevant, the following: <ul style="list-style-type: none"> • approval and authorisation of transactions; • timely reconciliation of balances; • review of reconciliations; • production and review of exception reports; • segregation of duties; and • restricted access to financial management systems and data. 			

	Description	YES	NO	Action Required
12.	Are computers, and electronic data adequately protected from improper use, loss or destruction?			
13.	Have all recommendations by internal and external audit, made within the past twelve months, to address identified weaknesses in internal controls and systems been implemented?			
14.	Does the department have an action plan to address shortcomings of the annual audit opinion?			

7 Policies and Procedures

Policies and procedures are applicable to all departmental employees; these are the guidelines that govern the day to day operational requirements of the department. Policies and procedures are necessary to establish internal controls thereby mitigating risks.

The legislative framework provides guidance or parameters for consistency and, in most cases, allows the department to exercise discretion when formulating policies and procedures. Departments are most likely to follow best practice when compiling these policies and procedures.

Compiling policies and procedures

When compiling internal policies and procedures the CFO should ensure that:

- It is written in simple English that everyone can understand;
- It provides specific and relevant information; that it is not *“open to interpretation”*;
- It is available/accessible to all departmental officials;
- It is subject to periodic review;
- It is applicable and aligned to the legislative framework and related policies and procedures i.e. it must not contradict;
- It can be implemented as required and complied with;
- Any negative consequences of implementing such policies and procedures have been considered; and
- There is a system in place to monitor implementation and the effectiveness thereof.

Policies and procedures are also guided by the National Treasury and the Department of Public Service and Administration.

8 Reference Material

Applicable legislation

1. The Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999)
2. Treasury Regulations Treasury Regulations issued in terms of the Public Finance Management Act, 1999 (*April 2001*)
3. Public Service Regulations, *January 2001*

Other

4. Guide for Accounting Officers, Public Finance Management Act, *October 2000*
5. Supply Chain Management Guide for Accounting Officers/Authorities, National Treasury (*February 2004*)
6. Risk Management Framework, National Treasury
7. A Guide to Best Practice for Contract Administration, Office of Federal Procurement Policy (*October 1994*)
8. Financial Management Capability Maturity Model, 2009, Office of the Accountant-General, National Treasury
9. www.treasury.gov.za
10. www.dpsa.gov.za

Part III:

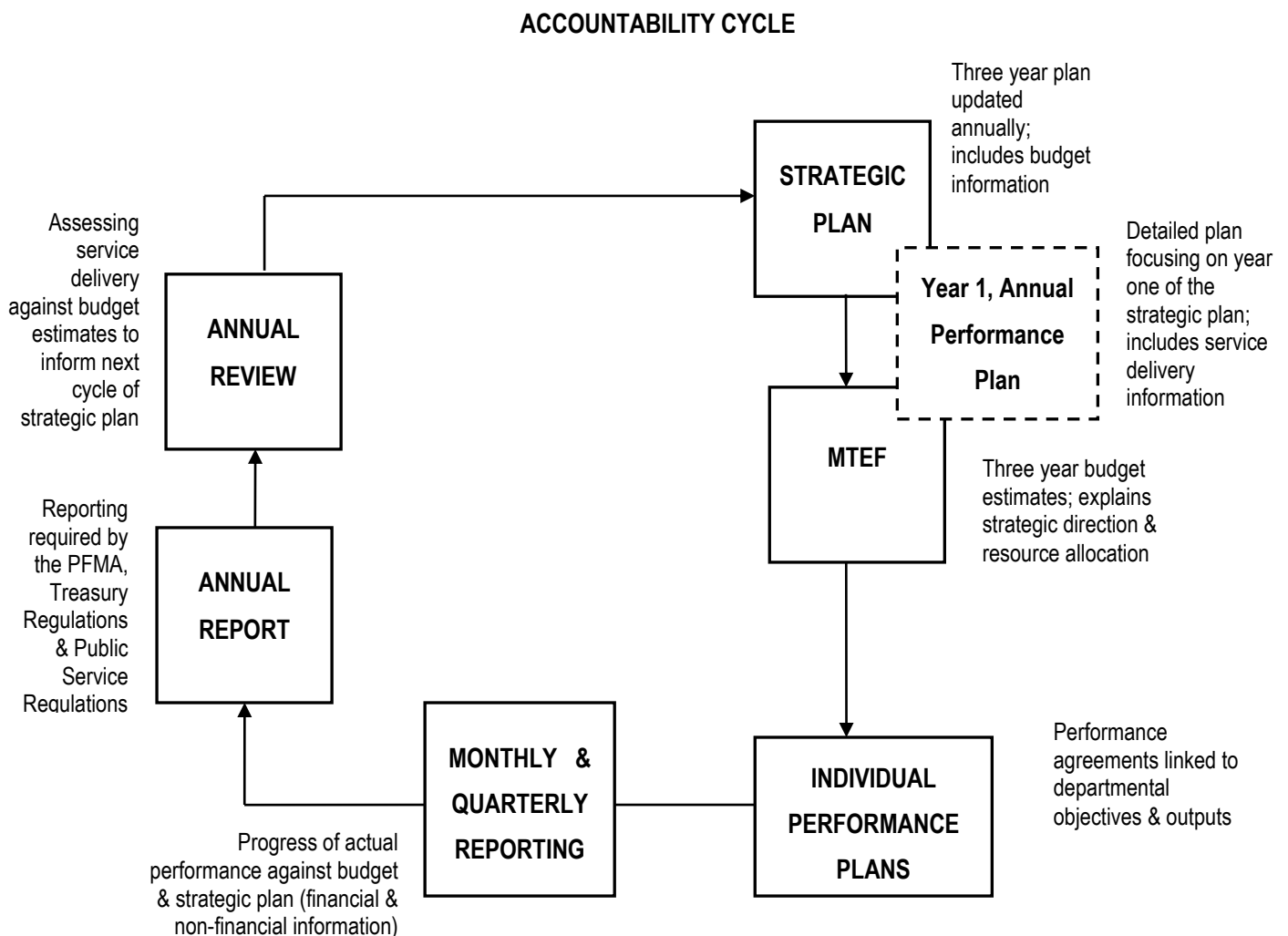
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1. Overview

The Public Finance Management Act, (PFMA, Act 1 of 1999, as amended) aims to regulate financial management in the national government and provincial governments; to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively; to provide for the responsibilities of persons entrusted with financial management in those governments; and to provide for matters connected...

The various financial management reports each have a purpose, specific timeframes for processes and submission of reports, prescribed formats and guidelines as issued in the form of instruction notes or circulars by the National Treasury.



2. Strategic Plan

The strategic plan sets out the department's service delivery objectives over a three year period, as derived from national and provincial policy priorities. The strategic plan presents the strategic goals of the department and the strategic objectives per programme for the following three year period.

The strategic planning process provides information about policy intention, formulation and implementation. It translates political imperatives into achievable objectives, supported by key performance indicators (KPIs).

2.1 Legislative Framework

In terms of the *Treasury Regulations Chapter 5, regulation 5.1* requires the preparation of a strategic plan “that is consistent with the period covered by the *Medium Term Expenditure Framework*”.

Treasury Regulation 5.2.1 requires the department to provide the medium term strategic plan, and where applicable, the annual performance plan, to Parliament or the relevant legislature.

The content of the strategic plan is prescribed by **Treasury Regulation 5.2.3** which specifies that the strategic plan must:

- cover a minimum period of three years and be consistent with the departments medium term expenditure estimates;
- include measurable objectives, expected outcomes, programme outputs, KPIs and targets per programme;
- include details of proposed acquisitions of capital assets and capital maintenance information;
- include details of proposed acquisitions of financial assets or capital transfers;
- include plans for the management of assets and liabilities;
- include details of proposed acquisitions and expansion of information technology.
- include information about the planned Service Delivery Improvement Programme; and requirements of the Public Service Regulations.

The National Treasury provides further guidance on an annual basis, detailing how the strategic plan should be presented and additional content as may be required.

2.2 Compiling the strategic plan

The minimum content of the strategic plan is as follows:

- a) An overview that includes
 - vision, mission and values of the department;
 - mandated service delivery objectives;
 - governing legislative mandates and relevant policies; and
 - summary of the macro-economic environment and the influence it has on determining national and provincial priorities
- b) Programme information that includes
 - a list of the departmental programmes and their service delivery objectives;
 - explanatory information of government priorities that may have guided the decision-making for setting programme objectives;
 - measurable KPIs derived from objectives per programme; and
 - information of joint initiatives, with other departments or organs of state, and details of funding should where applicable
- c) A detailed analysis of planned capital, maintenance and infrastructure spending for each programme within the vote should be compiled and consolidated separately for inclusion in the strategic plan publication.

2.3 The role of the CFO in the strategic planning process

The CFO is required to put a process in place for compiling the strategic plan. This process should specify the activities, information requirements, assign responsibility to line managers and provide timeframes for the compilation and submission of what is required and by whom.

The strategic planning schedule should be communicated to all role-players who are required to participate in the process.

The involvement of programme managers in the strategic planning process is critical as they are responsible for implementation i.e. for achieving programme objectives and related KPIs and targets.

The CFO will contribute to the strategic planning discussion but it is the programme managers who must take ownership of formulating the strategic plan as they are responsible for implementation. Programme managers must contribute to determining programme objectives and related KPIs. The CFO also plays an instrumental role in ensuring that internal budget allocations are appropriate in relation to the total budget of the department, i.e. that competing priorities within a departments are well considered in terms of budget allocations and delivery timelines. In other words, the CFO should

ensure that programme managers offer plans that are realistic, achievable and appropriate in the face of other priorities and delivery imperatives within the department.

The objectives and KPIs for each programme are linked to the individual performance plans of programme managers.

3. Planning and Budgeting

3.1 Overview

The budget preparation process is guided by the relevant treasury. The budget planning schedule, templates, submission requirements and timelines for budget submissions i.e. the budget preparation process is co-ordinated by the relevant treasury in accordance with the relevant legislative requirements and National Treasury's budget formats.

At provincial level the provincial treasury co-ordinates departmental budget submissions, consolidates departmental budget inputs and tables the provincial budget at the provincial legislature in accordance with the nationally prescribed timeframes.

The budget process involves debate and decision-making about how to achieve the agreed policy priorities and service delivery objectives. Budgeting is about considering choices and trade-offs as resources are limited making it impossible to fund every priority being considered; this is the budget reality and prioritisation is required to maximise what can be achieved in the medium term given the available resource envelope.

The process is guided by political oversight, transparency and good governance arrangements.

At the national level of government Cabinet plays a guiding role in aligning the limited resources with national priorities while at a provincial level it is the responsibility of the Executive Council.

The budget process usually includes a step referred to as "*budget hearings*" or "*budget benchmarking*" which is conducted by the relevant treasury and involves interrogation of departmental budgets. During this process the CFO is required to present the departmental budget for scrutiny by the relevant treasury; the department has an opportunity to make their case for additional funding should the need arise.

The national and provincial budget processes are similar and run parallel; these processes are discussed in great detail in the Induction Manual: Accounting Officers, Chapter 4. The Division of Revenue and Budget Process, published by National Treasury and available at www.treasury.gov.za.

A process perspective of the national budget process is shown in the table below:

Event	Indicative Month During Year
Departments receive Medium Term Expenditure Committee (MTEC) guidelines and database templates	June - July
Information sessions on expenditure estimate guidelines	
Departments submit revised drawings after rollovers	
Submission of capital/infrastructure funding requests	
Cabinet Lekgotla to discuss policy priorities and Medium Term Strategic Framework	
Departments submit expenditure estimates and database	
MTEC begins	August
Departments' final date for distribution of Treasury Committee memoranda for unforeseeable and unavoidable expenditure	
Departments submit Adjusted Estimate chapters, database and Adjustments Appropriation Bill	September
MTEC ends	
Treasury Committee	
Departments submit final adjustments estimate inputs (database and chapter including expenditure until end of September and additional funds allocated, as well as Adjustments Appropriation Bill)	October
Adjusted Estimate tabled in Parliament	
ENE guidelines to departments and entities	November
ENE database to departments and entities	
Inputs from departments for revised drawings after Adjusted Estimate	
Allocation letter to departments	
Departments submit first draft of ENE chapter, database and Appropriation Bill	December
Departments submit estimated under/overspending for 2009/10 financial year	
Departments submit revised (2nd draft) ENE chapters, databases and Appropriation Bill	January
Budget Day – Budget tabled in Parliament	February

3.2 Medium Term Expenditure Framework (MTEF)

The MTEF is an annual budget that includes a spending plan spanning three years; referred to as multi-year budgeting. Although only the single upcoming fiscal year is voted on by the Legislature each year, the government presents numbers for the following two years as well.

The MTEF is a tool to encourage cooperation across ministries and planning over a longer horizon than the immediately upcoming fiscal year. It also assists government with making informed choices

about trade-offs between national, provincial and local policy priorities that compete for the limited available fiscal resources. The framework enables government to make informed choices that are affordable in the medium-term, and to reprioritise expenditure as required.

The MTEF is a holistic approach to medium term budget planning that:

- enhances stability by making known to departments the revenue envelope for the three year period thereby facilitating effective planning;
- encourages investment by introducing an element of predictability to taxation, interest rates and government spending;
- improves transparency by publicising government's priorities and long-term policy objectives; and
- facilitates programme evaluation by providing a baseline for assessment of the previous year's programmes.

The MTEF is differentiated from the Medium Term Budget Policy Statement (MTBPS) which is the written document that is the policy base underlying the MTEF.

The MTBPS is published by National Treasury and includes key priorities, the size of the revenue envelope, division of revenue between the three spheres of government and allocations to the major conditional grants.

3.3 Legislative Framework

Section 215 of The Constitution states that national, provincial and municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector.

The PFMA, Chapter 4: National and Provincial Budgets, section 28, requires departments to prepare multi-year budget projections. The Act specifies that this multi-year budget projection must provide details of estimated revenue, capital and operating expenditure for the period and key macro-economic projections.

The compilation of the MTEF is guided by National Treasury's annual budget circulars that prescribe the process, formats and specific content required. Where provincial treasuries issue annual budget circulars these must be consistent with that issued by the National Treasury.

The **Treasury Regulations Part 3, section 6**, addresses budget and related matters.

3.4 Compiling the MTEF

The CFO is required to formulate the budget within the context of the MTEF which details three-year rolling expenditure and revenue plan for the department.

Annual budget preparation is informed by government's development priorities and these are subject to annual review.

The departmental budget process is guided by the following:

Annual Budget Circular

The accounting officer must comply with all relevant annual budget circulars issued by National Treasury; any budget circulars issued by the provincial treasury must be consistent with the budget circulars issued by the National Treasury.

Annual Budget Formats

The accounting officer must ensure that the budget submission for the vote includes relevant supporting information in respect of constitutional institutions and public entities that may receive transfer payments from the vote.

The annual budget documentation, as presented to Parliament or the provincial legislature, must conform to the formats as determined by the National Treasury.

Approach to budget formulation

The budget is an estimate of how the department will perform financially; accurate budget estimates will ensure that departmental resources such as money, people and assets are effectively utilised to achieve service delivery objectives.

- ***Zero-based budgeting:***

This approach assumes that the budget is being compiled for the first time, i.e. budget compilation starts from a zero baseline. Managers must plan their expenditure and present it to senior management for review, approval and consolidation.

- ***Incremental budgeting:***

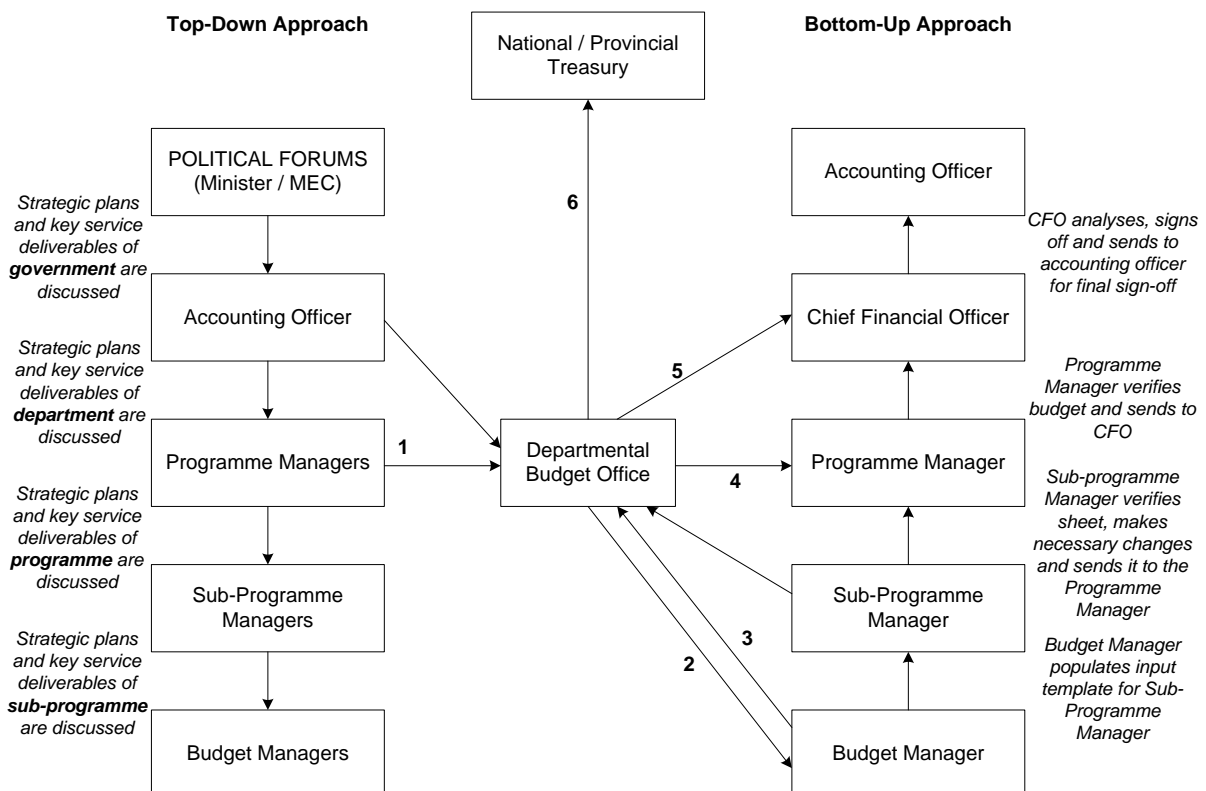
Incremental budgeting uses the previous financial year's actual expenditure to inform the following year's budget. Usually a percentage increase on the previous year's actual performance is added to arrive at the budget. This approach does not take cognisance of the changing environment and it does not allow for cost reduction initiatives.

The recommended approach to departmental budgeting is the bottom up approach whereby line managers "own" their budgets; key performance indicators are linked to performance contracts and line managers are committed and motivated to achieve the department's service delivery objectives.

3.5 Compiling a departmental budget

Departments employ different methodologies to compile their annual and medium-term budgets. Various factors guide their operational approach. For example, a national department that has a relatively small staff complement, is centrally domiciled and makes relatively large transfers to other government entities, could employ a much simpler process than a department that employs several thousand people across the country, and has to manage relatively large-scale annual purchases of goods and services. Departments fitting these profiles could be the Departments of Sport and Defence, respectively. With the existence of this diversity, we have recognised the potential perspectives of the approach departments may take in completing their budgets however; have elected not to discuss them in any operational detail.

The principles of the approaches that departments would employ in arriving at a budget are illustrated below:



1. The AO and PM inform the Departmental Budget Office about the departments' strategic plans, key service deliverables etc.
2. The Departmental Budget Office will send an input sheet with previous years MTEF numbers and a memo detailing the variables for future years including personnel projections.
3. BM populates input sheet for SPM and sends to both the Departmental Budget Office and SPM.
4. There is a communication loop between the SPM, PM and Departmental Budget Office.
5. The Departmental Budget Office will act as the interface between the CFO and Program Managers.
6. The Departmental Budget Office will consolidate the budgets for the Department, and send the consolidated budget to NT (National-Budgets).

* *Political Forums: MTEC Hearings; MinMecs; MinComBud Meetings etc.*

3.6 The role of the CFO in the budget compilation process

The CFO is more than an administrator; the CFO's role is to guide the programme managers with their MTEF submissions; more importantly, the CFO must interrogate the submissions prepared by programme managers to ensure linkages to the departmental strategic plan and related KPIs.

The CFO must ensure that the limited resource envelope is fairly allocated to meet the departmental priorities identified during the strategic planning process and that a credible budget is presented to the relevant Treasury.

When preparing the MTEF submission the CFO must involve line managers responsible for delivering outputs in respect of departmental programmes to do the "number crunching"; programme managers must take ownership of their budgets to ensure that they have adequate funding to deliver programme objectives.

The CFO must ensure that (*assuming that the department adopts the bottom up approach to zero-based budgeting*):

- Line managers understand the budget process and know what is required of them; including submission due dates
- Templates, formats and directives are made available to all line managers who are involved in the budget process
- Budget trade-offs are discussed with line managers; they must be involved in deciding departmental priorities
- Progress and decision-making is communicated to relevant line managers
- The CFO is expected to effectively manage any "*budget games*" among line managers; the CFO must interrogate requests for funding from line managers to ensure that the limited available resources are efficiently, fairly and transparently allocated across the departmental priorities
- The CFO provides relevant information to the accounting officer who will brief the executive authority on matters pertaining to budget discussions that they will be required to participate in at the national or provincial budget forums.
- The CFO must ensure that a credible budget is presented for approval; the following are characteristic of a credible budget:
 - o Realistic, reasonable and achievable;
 - o Takes cognisance of the economic climate
 - o Resource allocation aligned to service delivery objectives

3.6.1 Budget related matters

There are certain decisions with regard to budgeting that the department may want to take, but in terms of the PFMA, the approval of the relevant treasury is required. The process whereby the department makes an application to the relevant treasury for approval is guided by the Treasury Regulations.

The programme manager may approach the CFO for advice or with a request for such budget related matters; the CFO will prepare the necessary submission for presentation to the relevant treasury to request approval. These budgetary matters are briefly explained below:

Virement

A virement is when a saving from in the amount appropriated under a main division within a vote is utilised to defray over spending in another main division of the same vote; the relevant treasury's approval is required.

TR 6.3 further explains the conditions that apply in the case of virements.

The CFO is required to assess the merits of the case for a virement within the parameters of the PFMA and the Treasury Regulations. Where the CFO deems that a virement is justified and that all the relevant legislative requirements are satisfied, the CFO will make a submission for a virement to the relevant Treasury.

The CFO should monitor spending patterns of the relevant programmes to ensure that the request for virements do not recur annually as this may be indicative of ineffective budget planning.

Roll-overs

A roll-over is when funds not spent in a particular financial year are made available for spending in a subsequent financial year; the relevant treasury's approval is required.

TR 6.4 further explains the conditions that apply in the case of roll-overs.

The CFO should determine the merits of the case for roll-overs requested by the programme manager; this involves investigating the reasons for unspent funds during the applicable financial year. Unspent funds are most likely indicative of failure to achieve service delivery objectives within the financial year.

The CFO should strictly apply the criteria for conditions to be satisfied when considering roll-overs; TR 6.4.1 (a)(b) & (c).

The CFO should monitor spending patterns of the relevant programmes to ensure that annual requests for roll-overs are the exception rather than the norm as the latter would most likely be indicative of ineffective budget and project planning in the case of capital expenditure.

Failure to complete capital projects within the applicable financial year may be as a result of longer than anticipated tender processes which have a knock-on effect that delays project completion hence the request for roll-over.

The CFO should advise programme managers to factor in such dependencies when they compile their budget and related project planning.

Transfer of functions

The Act provides for the transfer of functions between departments or votes and the transfer of the voted funds for that function; the relevant treasury's approval is required and the treasury may determine the value of funds transferred if the departments have not agreed.

Where functions are transferred to provinces or municipalities it is dealt with in the terms of the Division of Revenue Act and the Municipal Finance Management Act, Act 56 of 2003.

TR 6.5 further explains the conditions that apply in the case of transfer of functions.

Adjustment Budget

Section 30 of the PFMA provides for the tabling of a national adjustments budget as and when necessary. The conditions applicable are listed in section 30(2) of the Act.

Section 31 of the PFMA provides for the tabling of a provincial adjustments budget and the applicable provisions are listed in section 31(2) of the Act.

The decision to table a national adjustments budget is that of the Minister of Finance and at provincial level it is that of the MEC for finance. The role of the department's CFO is to prepare the necessary submissions for inclusion in the adjustments budget and present it to the relevant treasury. Where the treasury approves submissions in respect of virements, roll-overs or the transfer of functions between votes these decisions will be incorporated in the adjustments budget.

Timeframes and adjustment budget formats are guided by the relevant treasury.

An Adjustments Budget accommodates unforeseeable and unavoidable expenditure such as utilisation of funds in the case of emergency situations as stipulated in section 16 of the PFMA applicable to National departments and section 25 of the PFMA applicable to provincial departments.

Virements, roll-overs and the transfer of funds that accompany the transfer of functions are accommodated within the Adjustments Budget.

4. Annual performance Plan

The purpose of the annual performance plan is to present the department's objectives for the following financial year which is planned achievements of the department's for the first year of their strategic plan. It is informed by the budget and the MTEF.

4.1 Legislative framework

The annual performance plan, in terms of *Treasury Regulation 5.2.1*, requires the department to provide the medium term strategic plan, and where applicable, the annual performance plan to Parliament or the relevant legislature.

4.2 Compiling the annual performance plan

The annual performance plan specifies the department's measurable objectives and performance targets which will ensure that the department achieves its strategic objectives presented in the strategic plan. The annual performance plan comprises the following:

At programme level

Consolidation of the sub-programmes per programme, objectives and key performance indicators accompanied by resource allocation plans that include the programme managers' responsibilities linked to service delivery objectives of the programmes as provided for in their performance contract.

At sub-programme level

Consolidation of the activities per sub-programme and key performance indicators accompanied by resource allocation plans and timelines for delivery

Support services

Consolidated plans of the following support services that demonstrate how internal service delivery objectives will be achieved in support of the department's annual performance plan; human resource planning; asset planning, information technology and internal communication amongst others. In addition the annual performance plan provides annual updates to any changes made to the strategic planning framework set out in the strategic plan; example: changes resulting from new policy developments or changes in environmental circumstances.

The annual performance plans are monitored through the *Quarterly Performance Reports*, and year-end reporting is done in the departmental performance section of the annual report.

5. In-Year Monitoring and Reporting

In-year monitoring and the annual report is the basis for evaluating departmental performance against clearly specified outputs. The Auditor-General will focus on performance as well as compliance auditing. In addition to examining the post-audit review, Parliament and Legislatures will play a greater role in monitoring the performance of accounting officers during the financial year.

The annual report and the annual financial statements are discussed in the section on annual reporting below.

5.1 Legislative framework

Section 40: Accounting officers' reporting responsibilities, prescribes the monthly, quarterly and annual reporting requirements.

5.2 In-year monitoring and reporting

The purpose of in-year management, monitoring and reporting is to ensure that departmental resources are used efficiently, economically and effectively i.e. that departments are getting value for money when voted funds are spent. The in-year monitoring and reporting system is intended to act as an *“early warning system”* for budget spending and to guide corrective action or control measures necessary to ensure that budget spending is effectively managed.

Over spending on budget allocations is evidence of ineffective budget management however under spending is not necessarily desirable as it can represent ineffective use of resources and shortcomings in service delivery due to objectives not being met or poor budgeting, for example.

Budget monitoring is at the heart of effective financial management and the budget and performance monitoring report is an integral part of the department's ongoing performance management and cost effectiveness. Officials entrusted with budgets are required to exercise effective financial control within their areas of responsibility and this demands careful monitoring of the financial position and accountability.

In-year management, monitoring and reporting therefore measures progress on the department's operational plan and related budget allocation which facilitates analysis of performance and allows for corrective action to ensure that the department performs adequately.

Managers should interpret and analyse reports to:

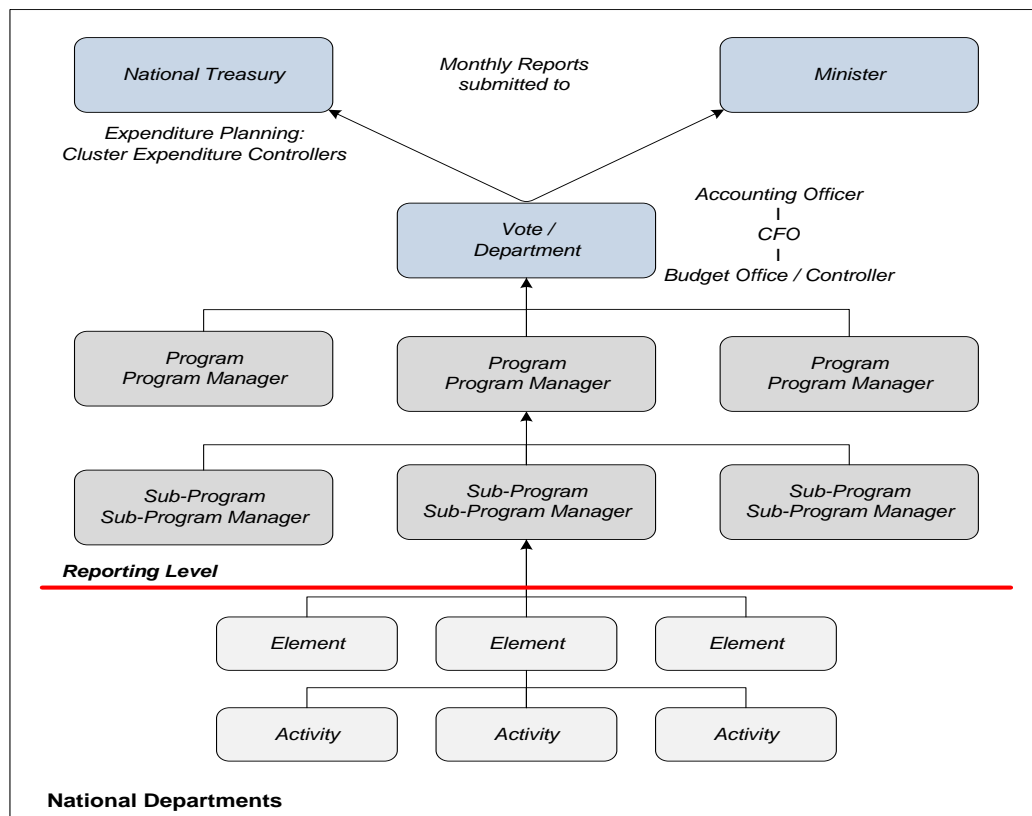
- control the activities of the department;
- plan the department's future strategies and operations;
- improve the objectivity in the departmental decision-making process;
- optimise the use of departmental resources;

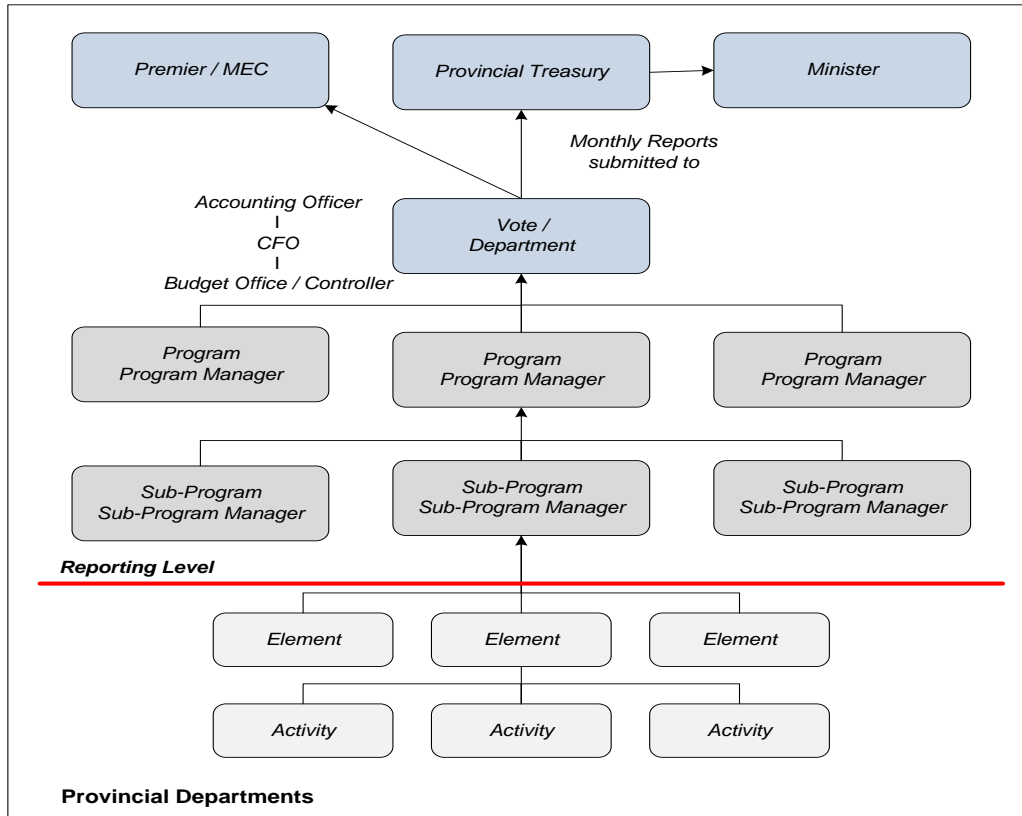
- measure and evaluate departmental performance; and
- improve internal and external communication.

Monthly and quarterly reports are submitted to the executive authority and the relevant treasury.

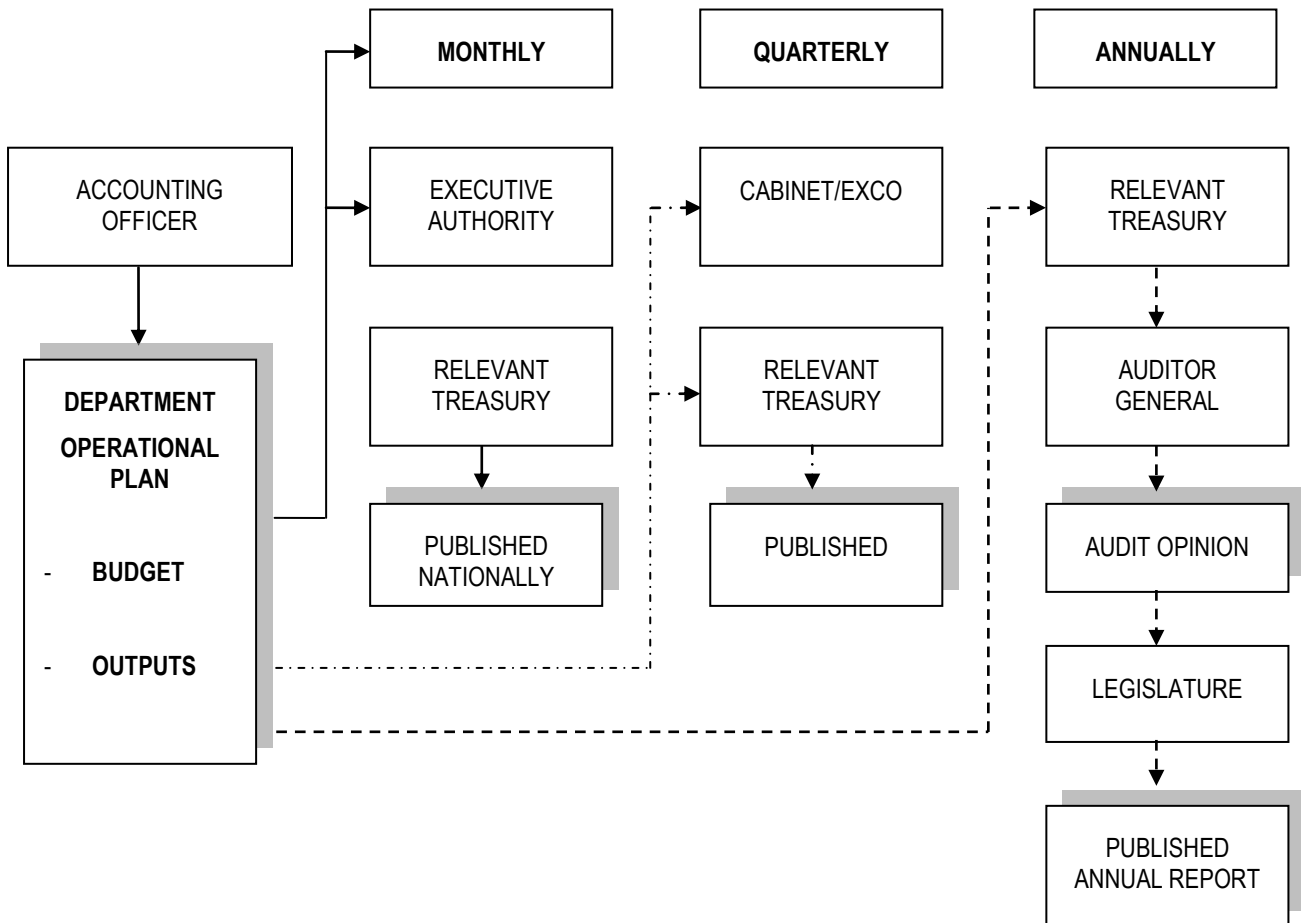
SUMMARY OF REPORTING STRUCTURES: IN-YEAR MONITORING AND REPORTING

The diagrams below depict the role players in the compilation and publication of monthly in-year reports for national and provincial departments.





SUMMARY OF IN-YEAR MONITORING AND REPORTING REQUIREMENTS



Monthly reports

The purpose of monthly financial reports is to serve as a management tool i.e. managers must analyse the reported information and use it to assess performance against plans, to evaluate alternative courses of action and, where necessary, take corrective action to ensure that service delivery objectives are achieved.

Monthly reports are only beneficial if the information is analysed by managers and used to inform management decisions. Sound financial reports are necessary for budget management and it will provide an “*early warning*” of possible virements or roll-overs if used to monitor spending patterns.

The reports required in terms of in-year monitoring and reporting will facilitate the compilation of the annual financial statements and annual reports compiled at year-end. The monthly reports will also allow the executive authority to monitor performance of the accounting officer and assist Cabinet/Exco to monitor performance.

Reports are useful if sound financial information is presented i.e. accurate, relevant, comparable and of good quality.

Monthly reporting requirements

Within fifteen days of the month-end, the accounting officer must submit to the relevant treasury and executive authority, information on:

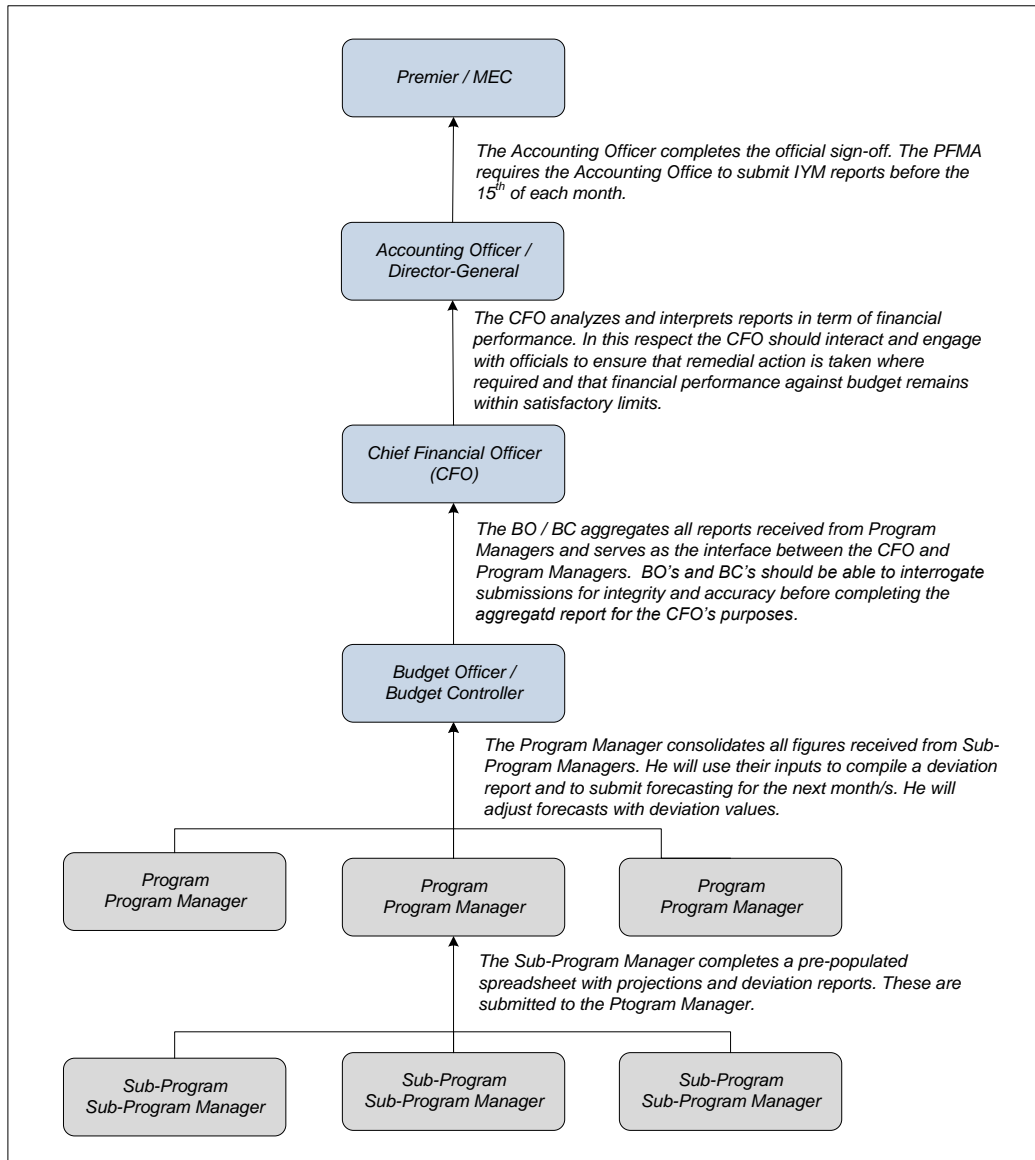
- actual revenue, expenditure and transfers for that month, in the format determined by the national Treasury
- actual expenditure on any conditional grants under the DORA
- projections of anticipated expenditure and revenue for the remainder of the current financial year, in the format determined by the National Treasury
- any material variances and a summary of actions to ensure that the projected expenditure and revenue remain within the budget

The provincial treasury must also submit a statement of transactions affecting its revenue fund (in the prescribed format) to the national Treasury before the twenty-second day of each month. The head of the provincial treasury must certify that the information has been verified. Monthly reports to the executive authority should at least contain the information provided to the treasury, and be complemented by quarterly reports on:

- more detailed information on the state of finances
- detailed information on corrective measures taken (*disciplinary action, etc.*)
- progress on implementing the PFMA (*internal controls, audit committee, clearing of audit queries*)
- non-financial information to enable measurement of progress against KPIs

Departmental Reporting Roles

The diagram below illustrates the monthly flow of financial information and briefly describes the role of each functionary in the process. It becomes clear that, although the Accounting Officer is responsible for complying with section 32 of the PFMA, that the CFO plays an instrumental role in producing these reports and advising the Accounting Officer of the necessary management steps to be taken.



Quarterly reports

Every quarter, the National Treasury will publish a statement in the *Government Gazette* detailing the revenue and expenditure of each of the ten revenue funds, with actual performance against the budget for each vote. Accounting officers should expect the press, parliamentary committees, non-governmental organisations (NGOs) and the public to monitor their department's progress through these reports. Information on grants made under the DORA must be reported in terms of that Act. The accounting officer effecting the payment must report to the relevant treasury on the funds transferred to each government entity within fifteen days of the end of every quarter.

Quarterly performance reports

In addition to expenditure and revenue reporting trends performance reporting requirements must be complied with. Performance reporting forms part of the budget reform agenda as introduced by the PFMA.

The refinement of performance reporting will assist with further development of government's performance management system. The accountability cycle at the beginning of Part Three illustrates the linkages between the department's strategic plan, medium term budget, management's performance agreements, in-year monitoring and reporting, the annual report and annual review; meaningful financial and non-financial information is necessary to assess departmental performance.

National Treasury's Guide for the Implementation of Provincial Quarterly Performance Reports, *April 2009*, available at www.treasury.gov.za, provides further information on meeting performance reporting requirements. The guideline identifies five distinct reporting themes, namely,

- programme performance management;
- the necessary building blocks that facilitate departmental reporting on service delivery performance by way of predefined outputs presented in the strategic plan and annual performance plan;
- steps in the implementation of the quarterly performance reporting process;
- quarterly reporting formats; and
- reporting dates.

5.3 The role of the CFO in in-year monitoring and reporting

The CFO must ensure that systems and processes are in place to facilitate the compilation of the relevant financial reports. The accounting officer is responsible for the scrutiny and sign-off of financial reports, including data on conditional grants and transfers.

The accounting officer relies on the CFO to compile accurate, timely and reliable financial and non-financial reports; the CFO is expected to analyse the reports and to advise the accounting officer accordingly.

While financial reports must be submitted on a monthly basis to the executive authority and the relevant treasury, they should be complemented by non-financial indicators at least on a quarterly basis.

The PFMA specifies a variety of reports, monthly, quarterly and at year-end, with different responsibilities for executive authorities and accounting officers. The requirements are illustrated in the diagram below.

5.3.1 Meeting user reporting requirements

Reporting requirements have been discussed with reference to what must be compiled, when it is due and to whom it must be submitted. It has also been said that compiling reports is only the first step to achieving sound financial management as analysing and interpreting the financial information is what informs decision-making.

It is inevitable that not everyone will derive the same value from the reports or in fact draw the same conclusions from the information provided.

The CFO and the financial management team compile the reports required and present it for sign-off to the accounting officer or relevant authority before distribution.

A summary of the stakeholders or users of financial reports is presented below.

- **Programme managers** – analyse reports to determine if they are spending within their budget allocation; explain variances of when actual expenditure is over or under the budget allocation and plan corrective action where necessary.

Programme managers are responsible for implementation plans to achieve service delivery objectives; they are not necessarily financial experts hence they may require guidance when working through financial reports; they are most likely to have a better grasp of the progress against KPIs and the challenges with regard to implementation.

A brief analysis of what the numbers are saying in respect of each cost centre is useful to assist the programme manager with budget management responsibilities.

- **Head of Department (*accounting officer*)** – interrogates the financial management reports to assess the overall performance of the department and pays attention to directorates that are over or under spending and posing a threat to achieving the KPIs presented in the MTEF.

The CFO should ideally present and discuss the financial management reports with the accounting officer before sign-off and distribution to all stakeholders.

The accounting officer may use the financial management reports as a basis for discussion when meeting with programme managers on issues of performance management.

The accounting officer will have to present the financial management reports to the executive authority with sound recommendations of corrective action to address under performance in the case of under spending and inadequate service delivery.

5.3.2 Quality of financial reports

The legislative reporting requirements have been explained above. This section is about ensuring data integrity of financial reports when meeting the legislative reporting requirements.

When reports are analysed for decision-making it is generally assumed that the financial information presented is accurate and therefore reliable. This means that the source of information must be

trustworthy. Financial systems are generally relied upon to process financial data correctly and we assume that financial information will be correctly captured by the relevant data capturer however this is not always the case.

Financial systems do have mechanisms to check the validity of data entries but “*human error*” may go by undetected, for example, when the incorrect account is debited because the data capturer transposes the account number or uses the incorrect account when classifying the expenditure. There is a need for “*human*” checks and balances to ensure data integrity and this may be in the form of programme managers checking their monthly expenditure reports to verify expenditure against the relevant items and alerting the CFO when expenditure has been incorrectly captured.

Errors must be corrected timeously and the necessary checks and balances must be implemented to minimise the risk of compromising data integrity in the future.

The CFO is expected to analyse financial reports and make recommendations to the accounting officer. The compilation of financial reports and getting it done on time is important however, the purpose of financial reports must not be overlooked. Financial reports provide an assessment of the financial well-being of the department at a point in time or, in the case of the annual financial statements and annual report it is indicative of the department’s financial performance over the twelve month period. Furthermore, financial reports are intended to inform decision-making by the relevant parties and this requires analysis and interpretation to explain “*what the numbers are saying*”; this is the value-add of financial reporting.

Financial reporting is also of importance for the department’s performance management system which considers all aspects of programme delivery in terms of achieving KPI’s within budget allocations, together with quality and timeliness thereof.

Guidelines for the various reporting requirements and relevant templates in terms of the financial management reporting requirements are available at the National Treasury website, www.treasury.gov.za.

6. Annual Reports

The accountability cycle is completed with the production and publication of an annual report, which reviews performance and achievement against the plan and budget approved by Parliament or the provincial legislature at the beginning of the financial year.

The PFMA requires each department to publish an annual report that ‘*fairly presents*’ the state of its affairs, its financial results and position at the end of the financial year, and its performance against predetermined objectives.

6.1 Legislative requirements

In terms of **Section 40 of the PFMA**: Accounting officers' reporting responsibilities, the accounting officer's annual reporting responsibilities are as follows:

Section 40(1)(d): must submit within five months of the end of a financial year ...

Section 40(1)(d)(i): an annual report on the activities of the department ...

Section 40(1)(d)(ii): the financial statements for that financial year after those statements have been audited ...

Treasury Regulation 18.3 specifies inclusions that the accounting officer must ensure when preparing the department's annual report.

- Provide an account of the department's achievement of efficiency, economy and effectiveness in the delivery of programmes and objectives in terms thereof; and outcomes against the key performance indicators presented in the department's strategic plan
- Include details of transfers and subsidies in terms of section 38(1)(j) of the PFMA
- Include information pertaining to foreign assistance received or pending, the nature thereof and achievements or performance in respect thereof
- Provide information on the management of Public Private Partnership agreements where applicable

In terms of Treasury Regulation 18.3.1(a) the accounting officer must comply with the provisions of Chapter 1, Part III J of the Public Service Regulations, 2001

The department must comply with the annual reporting requirements in terms of the annual DORA.

6.2 Compiling the annual report

The accounting officer must ensure that the annual report complies with the relevant legislative requirements and minimum content in accordance with the annual reporting guidelines published by the National Treasury's Office of the Accountant-General.

The annual report must provide the following minimum information:

- details of any material losses through criminal conduct
- details of any unauthorised, irregular, fruitless and wasteful expenditure, together with any criminal or disciplinary steps taken as a result of such losses
- information of the department's efficiency, economy and effectiveness in delivering the outputs specified in the annual performance plan
- additional information that may be required by Parliament or the provincial legislature
- audit report, including comment on the department's internal controls
- annual financial statements prepared in accordance with prescribed reporting framework

In terms of the PFMA the accounting officer has two months within which to submit appropriation accounts and delays in submission are deemed financial misconduct with applicable sanctions.

The accounting officer must ensure that the systems and financial staff within the department are capable of preparing high-quality financial statements within two months of the year-end.

The Auditor-General will report to Parliament, the provincial legislatures and the treasuries on the date of submission, and be asked to comment on the quality of the data; should this prove to be poor, a charge of financial misconduct may result.

The accounting officer must also, within five months of the year-end, submit the department's annual report containing the audited financial statements and the Auditor-General's report, to the relevant treasury and the executive authority.

Departments and the Auditor-General must cooperate to ensure that annual reports are finalised within five months of the year-end. This will include coordinating interim audits and ensuring that financial and other records are readily available for auditing at year-end. The reduced timescale will enhance accountability and will result in actual figures being available in time to influence submissions to the next budget cycle.

Annual Financial Statements

The purpose of the annual financial statements is to present a true and fair view of an entity's financial performance, financial position, changes in net assets and cash flows that is useful to a wide range of users. Financial statements also show the results of the stewardship of management and the accountability of management for the resources entrusted to them.

National Treasury's Office of the Accountant General annual issues a Financial Reporting Framework which guides the preparation of the annual financial statements; available at www.treasury.gov.za.

The annual financial statements comprise the following:

Report of the Audit Committee

The audit committee has a role in ensuring that an entity functions according to good governance, accounting and audit standards. The audit committee's report includes comment on risk management arrangements; accountability responsibilities to safeguard assets and operational systems and controls.

The audit committee must maintain objectivity hence their role is advisory and not executive; the audit committee does not perform any management functions or assume any managerial responsibilities.

Report of the Auditor-General

The report of the auditor general expresses an opinion on the department's performance and financial management as presented by the annual financial statements. The report of the Auditor-General is submitted to Parliament or the provincial legislature and made public.

Report of the Accounting-Officer

The purpose of the report of the accounting officer is to provide explanatory information of specific financial matters for the period under review. Examples of matters should be included in the report:

- Important policy decisions and strategic issues facing the department;
- Comment on significant events that have taken place during the year;
- Comment on major projects undertaken or completed during the year;
- Spending trends; and
- Virements

6.3 Role of the CFO in compiling the annual report

The CFO is intensively involved in the completion of the annual report.

The notes of auditors that are published along with the annual report broadly reflect whether the will of the department, and systems operated by the CFO, are in line with the interests of government; from a resource management perspective. The CFO is the custodian of financial management systems, including supply chain management, asset and inventory management, in-year reporting, maintaining proper records and procedures and the like.

It is important therefore, to recognise that, even though the annual report represents a single event the life cycle of the department, it broadly reflects the quality of the underlying information systems and processes that were in place during the year.

In order to ensure that the annual financial statements do in fact have integrity, the CFO is held to account through interaction with the accounting officer, audit committee, internal audit and risk management committees that should exist in the department. Each of these approaches resource management with a specific lens and together they will offer the department the prospect of publishing annual financial statements that are of high quality and with integrity. At the end of the financial year these systems are formally held to external scrutiny by the Auditor-General.

In addition to attending various committee meetings and centrally regulating the use of financial resources in the department, the CFO must assume responsibility for compiling the annual financial statements. Moreover, the CFO must address queries and questions from the auditors comprehensively in order that they are not constrained in their ability to arrive at opinions substantively in all cases. This will inevitably entail liaison with various line functions in the department and submissions from line functions would have to be screened internally to ensure that responses are constructed logically and adequately address audit queries. Finally, once the necessary changes have been agreed between auditors and the CFO, it is the responsibility of the CFO to ensure that internal journal adjustments and other related tasks are completed.

7. Annual review

The annual review is an assessment of the department's performance against the annual budget; service delivery objectives and KPIs. The outcome of the annual review will inform the next three year budget cycle comprising revision to the departmental strategic plan and MTEF.

The annual report forms the basis of the annual review. Any shortcomings in the annual performance assessment will inform interventions or corrective action required to improve service delivery.

Where strategic priorities have changed to the extent that it necessitates a structural change in the department proposals for such change should be considered during the annual review process to ensure that the revised priorities and the proposed new programme structures are linked to the MTEF.

When determining new departmental priorities measurable objectives for the programmes and key performance indicators (KPI's) must be determined as KPI's are important tools in monitoring and evaluation of programme spending.

Individual performance plans should be revised to ensure that they are consistent with the revised programme objectives where applicable.

Summary of the CFO's core responsibilities:

Notes:

- Executive Authority: the Minister at National Departments; the MEC at Provincial Departments
- The accounting officer may delegate responsibilities to the CFO

	LEGISLATION	FUNCTIONAL AREA	ACCOUNTABLE PARTY	ROLE OF THE CFO
1.	PFMA: S40(1)(d) & (e) TR Chapter 5 Public Service Regulations, Chapter 1, Part III B	STRATEGIC PLAN: - sets out government and the executive authority's strategic policy priorities and plans for the five-year period	Accounting Officer	The CFO must ensure that the departmental strategic plan is compiled in accordance with the National Treasury's prescribed guidelines, formats, templates & timelines; to achieve this the CFO must implement a strategic planning process whereby programme managers are informed of what is required; the CFO consolidates and interrogates the inputs for presentation to the accounting officer and executive authority.
2.	PFMA: S27(3) TR Chapter 6	MEDIUM TERM STRATEGIC FRAMEWORK (MTEF): - presents the "resource envelope" for the year ahead; and presents the indicative future budgets for the MTEF	Executive Authority	When the department receives the resource envelope from the relevant treasury the CFO must allocate the available revenue to the programmes and ensure that funding is adequate to achieve service delivery objectives presented per programme in the strategic plan. Budget trade-offs are considered when allocating the limited funds; this is done within department's budget process. The Executive Authority tables the annual budget but it is the CFO who supports the accounting officer in compiling the budget. Budget formats must comply with National Treasury's annual budget circulars.

	LEGISLATION	FUNCTIONAL AREA	ACCOUNTABLE PARTY	ROLE OF THE CFO
3.	TR: Chapter 5, Regulation 5.2.1	<p>ANNUAL PERFORMANCE PLAN</p> <ul style="list-style-type: none"> - sets out what the entity plans to achieve in the upcoming financial year; where appropriate, a quarterly breakdown of performance targets is included as this will facilitate the <i>Quarterly Performance Reporting</i> required. 	Accounting Officer	The CFO co-ordinates the process whereby programme managers compile annual performance plans for year one of the MTEF.
4.	TR: Chapter 18 PFMA: S32(2) & S40(4)(b) TR: Chapter 5, 5.3 PFMA: S27(4) & S36(5)	<p>REPORTING REQUIREMENTS</p> <ul style="list-style-type: none"> - Monthly Financial Reports provide the executive authority and the relevant treasury with information on the department's performance against plans; and provides the accounting officer with an opportunity to indicate measures that will be taken to ensure that implementation of the plans are on track. - Quarterly Performance Reports provide progress on the implementation of the <i>Performance Plan</i> with particular reference to monitoring delivery against the predetermined quarterly performance targets 	Accounting Officer	<p>The CFO consolidates monthly financial reports per programme so that an overview of the department's financial performance against budget estimates is provided; the CFO must ensure that a process is in place to facilitate monthly financial reporting and compliance to National Treasury's guidelines and reporting. The CFO must guide programme managers to interpret financial information and to explain any variances that may arise. Financial reporting includes specific reporting requirements in respect of conditional grants and transfers as specified in the DoRA.</p> <p>The CFO consolidates quarterly performance reports per programme so that an overview of the department's performance against predetermined performance (<i>in the annual performance plan</i>) targets is provided; the CFO must ensure that a process is in place to facilitate quarterly performance reporting and compliance to National Treasury's guidelines and reporting formats.</p>

	LEGISLATION	FUNCTIONAL AREA	ACCOUNTABLE PARTY	ROLE OF THE CFO
6.	<p>PFMA: S40(1)(d)</p> <p>TR: Chapter 18, 18.3</p> <p>Public Service Regulations: Chapter 1, Part III J</p>	<p>ANNUAL REPORT</p> <ul style="list-style-type: none"> - provides information on the performance of the entity in the preceding financial year for the purpose of oversight; reviews the entity's performance relative to the targets presented in the annual performance plan and budget; & shows how the budget was implemented and the state of the department's financial management systems. 	Accounting Officer	<p>The CFO must implement a process whereby the accounts of the department are closed at year-end and the annual financial statements are compiled; compliance to National Treasury's annual reporting framework is required.</p> <p>The CFO must co-ordinate inputs to the annual report from programme managers.</p> <p>When the audit opinion on the annual financial statements is made available the CFO must compile an action plan to address shortcomings highlighted by the auditor-general.</p>
7.	<p>PFMA S44, S45</p>	<p>MANAGEMENT RESPONSIBILITIES</p> <ul style="list-style-type: none"> - are the duties inherent in holding a position of senior management i.e. the generic responsibilities in addition to the specific duties of the CFO; the CFO is expected to exercise sound management practices when managing the CFO's portfolio; management responsibilities relate to staffing, performance management and decision-making associated with persons in management positions 	Officials	<p>The CFO must monitor financial management practices by officials to ensure compliance and sound financial management practices.</p> <p>The CFO must ensure that delegations of functions to officials are in writing and signed by both parties.</p> <p>The CFO must liaise with internal audit to investigate any alleged financial misconduct and disciplinary action must be initiated if necessary.</p>

	LEGISLATION	FUNCTIONAL AREA	ACCOUNTABLE PARTY	ROLE OF THE CFO
8.	PFMA: S38(1)(a)(i) & S76(4)(e) TR: 2 & 3.2	INTERNAL CONTROL - provide a framework for financial management functions that includes internal controls, policies and procedures to ensure sound financial management; and serves to guide officials on how to perform their financial management responsibilities efficiently, effectively, economically and consistently.	Accounting Officer	The CFO must ensure that policies and procedures relevant to financial management practices are in place and complied with by officials in the department. Such policies and procedures may be guided by National Treasury, Department of Public Service and Administration, Provincial Treasury or, depending on the mandate of the department, a policy or procedure may be specific to the department. The auditor-general will express an opinion on whether the department's internal controls are adequate; shortcomings should be addressed by the CFO in the audit action plan.

8. Reference Material

Applicable legislation

1. The Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999)
2. Treasury Regulations issued in terms of the Public Finance Management Act, 1999 (*April 2001*)
3. Public Service Regulations, *January 2001*

Other

4. Guide for Accounting Officers, Public Finance Management Act, *October 2000*
5. Oversight and Accountability Model, *Parliament*
6. Departmental Financial Reporting Framework, *National Treasury, Office of the Accountant – General, published annually*
7. Induction Manual: Accounting Officers, Chapter 4: The Division of Revenue and Budget Process, published by National Treasury, *July 2009*
8. Guide for the Implementation of Provincial Quarterly Performance Reports, National Treasury, *1 April 2009*
9. What is the Medium Term Expenditure Framework? *Idasa*
10. www.treasury.gov.za
11. www.dpsa.gov.za