# Guide for Accounting Officers

## Public Finance Management Act

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**National Treasury**

**Republic of South Africa**

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# PREFACE

This *Guide for Accounting Officers* is the main guide in a series of publications designed to help accounting officers implement the changes brought about by the introduction of the Public Finance Management Act of 1999. This *Guide* updates and significantly expands on the preliminary versions distributed in March and July 2000.

The PFMA is a key element in a set of reforms to the management of government finances. Implementing the Act represents a major challenge for the public sector. If the objectives of the Act are to be achieved successfully, all stakeholders will need to change their way of working. The Act emphasises the importance of good management and accountability, and clarifies the accountability chain by defining the division of responsibilities between accounting officers and their Ministers or MECs. The Act recognises the importance of sound information for good management practices and for enabling the various stakeholders to fulfil their responsibilities.

Chapters 1 and 2 of the *Guide* set out the philosophy behind the drafting of the PFMA and assists stakeholders in understanding their responsibilities under the Act. These chapters explain the impact of the changes for the accounting officers of national and provincial departments at each step of the planning, implementing, monitoring and reporting cycle.

The national Treasury has produced the *Guide* to help improve financial management, but recognises that the process of implementation will be a *collective learning experience* for all concerned. Complete implementation of the Act is expected to take several years, but *significant and continuous improvements* can and must be achieved over the next 12 months. Chapter 3 outlines these priorities for implementation, and should be regarded as the most important chapter. Many of these urgent steps are basic to any organisation, and are concerns only because of past neglect. Addressing the priorities set out in Chapter 3 will enable accounting officers to manage their departments more effectively, and will lay the basis for improved service delivery by those departments. The chapters that follow expand on Chapter 3.

The *Guide* emphasises that the PFMA must be read with the three sets of *Treasury Regulations* issued for departments, public entities and payroll deductions respectively. In addition, given the complex system of intergovernmental and labour issues, the Division of Revenue Act of 2000 and the *Public Service Regulations* are also relevant. This *Guide* does not include detailed information on public entities – a separate document will be published in due course.

The *Guide for Accounting Officers* is intended to facilitate a general understanding and assist in the smooth implementation of the PFMA. An informal approach has been followed to make the *Guide* as user friendly as possible. It is not a substitute for the Act and should not be used for legal interpretations. This *Guide* does not in any way detract from the responsibilities Parliament and the legislatures expect all accounting officers to fulfil in terms of the PFMA.

**Maria Ramos**

**Director-General: National Treasury**

# ABBREVIATIONS

| | |
|---|---|
| ASB | Accounting Standards Board |
| CFO | chief financial officer |
| DoRA | Division of Revenue Act |
| Exco | Executive Council |
| FOSAD | Forum of (South African) Directors-General |
| GRAP | generally recognised accounting practice |
| KPI | key performance indicator |
| MEC | Member of the Executive Council (of a province) |
| MTEF | Medium Term Expenditure Framework |
| NGO | Non-governmental organisation |
| NRF | National Revenue Fund |
| PFMA | Public Finance Management Act, No. 1 of 1999, as amended |
| PPP | public-private partnership |
| RDP | Reconstruction and Development Programme |
| SCOPA | Standing Committee on Public Accounts |

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1

# Introduction

## Purpose of this *Guide*

This *Guide* is designed to familiarise accounting officers with the changes to their responsibilities that were introduced by the Public Finance Management Act (PFMA), a key element in a series of government budget and finance reforms. This introductory chapter explains the rationale behind the Act and accompanying *Treasury Regulations*, and the behavioural changes necessary to upgrade financial management throughout Government.

*Structure of this* Guide

Chapters 1 and 2 are introductory and set out the context within which the Act has been drafted and the vision its seeks to achieve. Chapter 3 details the most urgent steps accounting officers will be expected to address in the next 6–12 months. The remainder of the *Guide* provides more detail on implementing the steps in Chapter 3, and concludes with sections dealing with the responsibilities of executive authorities and the way forward.

## Background to the Act

Government has prioritised the transformation of the public sector to enable it to meet the needs of the people and the objectives of the Reconstruction and Development Programme (RDP). Given the enormous demand for services and the limited resources available to satisfy that demand, all available resources must be used as effectively and efficiently as possible. Government is determined to modernise the management of the public sector, to make it more people friendly and sensitive to the communities it serves.

*Budget and financial management reforms*

Budgetary and financial reforms were initiated soon after the 1994 elections. The first phase of reforms began with the introduction of a new intergovernmental system, which required all three spheres to develop and adopt their own budgets (decentralised budgeting). This was complemented by a system of significant transfers to provinces and municipalities. In addition, multi-year budgeting through the Medium-term Expenditure Framework (MTEF) was introduced in 1997/98 to replace the one-year incremental system. The final elements in this phase of reforms were to deepen the budget process and better align policy, planning and budgeting.

*Second phase reforms*

The adoption and implementation of the PFMA signalled the second phase of the programme of reforms. Its objective is to modernise financial management and enhance accountability. This will be complemented by changes to the procurement system.

*Third phase reforms*

The third phase of reforms will include the introduction of service delivery indicators, performance budgets and generally recognised accounting practice (GRAP).

**Table 1: The series of financial reforms**

| Achieved 1995–99 | Now | 2001 onwards |
|---|---|---|
| Decentralised budgeting<br>Multi-year budgeting (MTEF)<br>Deepening budgetary processes<br>Aligning policy and budgets | PFMA<br>• Empowering managers<br>• Enhancing accountability<br>• Linking planning and budgeting | Service delivery indicators<br>Performance budgeting<br>GRAP<br>Procurement system |

*Managers must manage and be accountable*

Other elements of these changes to public sector management can be seen in the 'Batho Pele' White Paper, the new *Public Service Regulations*, the imminent reforms to the property management and procurement systems, and the promotion of private sector involvement in the delivery of services. A basic principle is that managers must be given the flexibility to manage, within a framework that satisfies the constitutional requirements of transparency and accountability. This is the context within which the PFMA was drafted. The aim is to provide a framework of best practices to assist managers in ensuring that their departments deliver services to communities as efficiently and effectively as possible.

## Defining responsibilities

The Act clarifies the division of responsibilities between the head of department (the accounting officer) and the political head (called the 'executive authority' – either a Minister or an MEC). 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 accounting officer prepares the departmental budget (specified in terms of measurable objectives) for the Minister or MEC to approve and present to the legislature for voting. The accounting officer is then responsible for implementing and managing the budget.

*From instructions to frameworks*

In addition, the traditional 'micro-control by the Treasury' approach is replaced by the specification of minimum requirements in the *Regulations* (and exemplified in the best practice guidelines). This gives accounting officers significant powers for managing their budgets to achieve the defined outputs. It is therefore essential that the accounting officer's performance contract is consistent with the outputs defined in the budget.

In the transition from detailed *Treasury Instructions* to the new approach in the *Regulations*, accounting officers must ensure that no vacuum is created – they may decide to adhere to the former *Instructions* until new systems, processes and procedures have been developed specifically for their department.

## Modernisation of financial management

In the past, financial processes were controlled by centrally prescribed bureaucratic rules that allowed little scope for managerial discretion, and even mundane issues had to be referred for 'Treasury approval'. This was, in fact, *financial administration*, regulating how money was used to 'buy' inputs, and diverting attention from the delivery of the outputs that the inputs were intended to achieve. This approach did not clearly define responsibilities, and resulted in poor accountability and value for money. The incremental (one-year) budgetary system undermined planning and the prioritisation of programmes. Accounting officers adopted a passive approach to their budgets during the financial year, and did little to avoid overspending or underspending. This was compounded by delays in producing financial information, which was often only available well after the end of the financial year.

*Promoting efficient and effective use of public resources*

The Act aims to modernise financial management in the public sector and, in the process, to reduce fraud, corruption and waste. More efficient and effective use of public resources will maximise the capacity of Government to deliver services. The PFMA enables accounting officers to manage but, at the same time, holds them accountable for the resources they use. It establishes clear lines of accountability and broad frameworks of best practices that managers can adopt or, where necessary, adapt. The Act is not intended to make managers so cautious that they fail to deliver the outputs agreed in their departmental budgets for fear of contravening the PFMA. Any accounting officer underspending or underperforming (both of which must be monitored regularly by the executive authority) will also be transgressing the Act and be open to the sanctions specified.

## What is financial management?

Financial management is not an end in itself. It is, however, crucial to the successful running of any organisation, as it relates to how the resources available to the organisation are used.

In the private sector, financial management centres on the examination of alternative sources of finance, the effective utilisation of such finance, and cohesion between financial and utilisation decisions. In the public sector, financial management focuses on the prioritisation and use of scarce resources, on ensuring effective 'stewardship' over public money and assets, and on achieving value for money in meeting the objectives of Government, i.e. rendering the best possible services. This must be done transparently and in terms of all relevant legislation.

However, public sector organisations can learn from the private sector, where the success and survival of an organisation depend on its financial results. This is not to suggest that the public sector should pursue profits, but rather to acknowledge that public spending is an investment made by taxpayers, which should therefore be managed optimally.

*Future directions*

Several elements of private sector financial management provide a sound basis for practices in the public sector and, over the coming years, the Act will introduce:

- Greater alignment of planning and budgeting processes
- Professional input to strategic and operational business planning
- Management accounting and reporting
- A focus on results rather than on processes and rules, but with appropriate internal controls and management of risks
- Accrual accounting – ensuring that accounting statements reflect the value of resources consumed and benefits provided, rather than simply the timing of cash movements (as is the current practice in the national and provincial governments)

The Act emphasises the importance of generating and using information to improve financial management. Financial management can encompass almost all activities within an organisation, and the PFMA significantly changes a number of these elements, in particular:

- Financial planning
- Internal control, internal audit and audit committees
- Financial staff
- Management information and reporting

The principles involved are outlined in the remainder of this *Guide*:

## Behavioural aspects of the changes

The changes introduced by the Act are not purely technical. For implementation of the PFMA to be successful, it is crucial that ‘change leadership’ skills are utilised to drive the process. Both finance and non-finance professionals should be suitably capacitated to implement the reforms. This will require mindset changes by all stakeholders – accounting officers, departmental officials, treasuries, political office-bearers, the Office of the Auditor-General and parliamentarians or legislators.

*Empowering accounting officers*

Departments will no longer continually need to request treasuries to exercise procedural controls and approvals. For example, accounting officers will have the authority to write off losses, but will have to report on and justify the decisions they take, if necessary to the Auditor-General or to the public accounts committees. Should they be unable to do so, the sanctions prescribed in the Act will come into effect.

## Approach to implementation

Implementation will be a *collective learning experience* for all involved, as practices that have been in place for many years will be challenged, rethought and modified. The more qualitative changes will be phased in over several years. However, significant improvements are possible and necessary over the next 12 months. Accounting officers will need to ensure that the essential components for effective implementation are in place. Preparations will include employing appropriately qualified and experienced chief financial officers (CFOs) and accountants, setting up effective internal controls, constituting an audit committee, and ensuring that the in-year management requirements are met.

*Regulations will become less prescriptive*

The new *Regulations* (which took effect on 1 June 2000) are a significant shift from the previous approach in the *Treasury Instructions*, in that they provide more flexibility and place responsibility for decisions in the hands of the accounting officer. Although less prescriptive than the Exchequer Act *Instructions*, certain sections of the *Regulations* still contain considerable detail, to address any potential temporary legislative and capacity gaps. This allows accounting officers to prepare their departments for full implementation, and the Accounting Standards Board (ASB) to define GRAP, as required by the Constitution. As further reforms of accounting practices, procurement, provisioning and budgeting are introduced, the *Regulations* will be revised to become even more flexible.

The national Treasury recognises the demands these changes will place on accounting officers, and has developed a range of support mechanisms to assist with the short-term implementation of the Act. These include best practice guidelines on various topics, to be launched at workshops over the coming months.

## Conclusion

The objective of the Act is to enable managers in the public sector to manage, while being accountable for the use of the resources made available to them.

The long-term vision behind the Act sees a public sector that has:

- Sound financial systems and processes, producing the necessary information to managers
- Transparent budgeting processes
- Effective management of revenue, expenditure, assets and liabilities
- Unqualified consolidated financial statements, prepared on the accrual basis

In the short term, progress towards this vision will require each accounting officer to address the immediate steps set out in Chapter 3.

# 2

# Vision of the PFMA: performance budgets and accountability

## Financial planning

Financial planning is a cycle that runs from policy formulation, to the determination of priorities in the short and long run, to planning the delivery of services and reflecting these plans in financial allocations (the budget), and to the monitoring of results. The most notable reforms over the last four years include:

- The moves towards decentralising budgeting from national to subnational governments
- The new system of equitable shares and conditional grants
- The shift to multi-year budgeting through the MTEF
- The deepening of the budget process, through greater political participation and oversight
- The closure of the gap between policy and budgeting through joint MinMECs between the national Treasury and other line functions
- The setting up of technical forums such as the '4x4s' to support joint MinMECs
- The introduction of the Medium-term Budget Policy Statement in October, four months before Budget day

Government departments are currently attempting to align planning and budgeting. Future changes will seek to close the gap between service delivery and budgets, for example, through 'service delivery improvement programmes' and performance budgeting.

*Focus on outcomes and outputs*

As expenditure has been brought under control successfully, the major challenge is now for the public sector to become more efficient and effective in the use of resources – this requires a focus on outcomes and outputs. Outcomes are the results Government wants to achieve for communities, for example, reduced child mortality rates and a lower level of crime. As the articulated vision of Government, they indicate the intended impact of government activity on the community.

The definition and costing of outputs are vital for assessing the level of service delivery. Outputs are statements of the goods and services produced by departments for communities, such as access to treatment in primary health clinics, or the administration of social welfare payments. Accounting officers are accountable for achieving outputs against a range of predetermined indicators. In future, planning, budgeting, monitoring and reporting must be more closely linked and departments must be specific about what is intended to be, and has actually been, delivered.

*Planning and budgeting*

In the context of the broader process of budgetary reform, which reduces the policy and budgeting gap, the *Regulations* strengthen the coordination of planning and budgeting. Accounting officers must ensure that the strategic plans developed in accordance with the 1999 *Public Service Regulations* and the *Regulations* are sufficiently quantified to shape the budget and include appropriate service delivery indicators. Although this is not an immediate *legal* requirement, accounting officers should adopt this measure as soon as possible. The Forum of Directors-General (FOSAD) is considering ways of streamlining and rationalising the various regulations on planning into a single *Planning Framework* document.

The strategic planning process will ensure commonality of purpose between the accounting officer and the executive authority in the pursuit of government objectives and outcomes. Published plans are key instruments in the accountability process, as they provide essential information for the legislatures to assess and debate proposed government programmes. In addition, by providing performance measures and indicators (that will eventually be published in the annual report), they enable stakeholders to evaluate the department's performance in achieving planned programmes, objectives and outcomes.

The strategic plan will form the basis for identifying the departmental programmes necessary to achieve government objectives or outcomes. It will also allocate responsibility for the delivery of specific programmes and be the foundation for performance contracts.

*Operational plan*

The first year of the strategic plan is known as the operational plan. It must provide a sufficiently detailed quantification of outputs and resources, together with service delivery indicators, for the legislature to understand exactly what it is 'buying' for the community when it approves the budget. The operational plan must not be a wish list, but must be flexible and adjustable while remaining within the MTEF allocation. The plan must contain:

- Descriptions of the various programmes that the department will pursue to achieve its objectives, and for each programme, the measurable objectives, total cost and intended lifespan
- Information on any conditional grants to be paid or received, including the criteria to be satisfied
- Information on any new programmes to be implemented, including the justification for such programmes, expected costs, staffing and new capital, as well as future implications
- Information on any programmes to be scaled down or discontinued during the financial year
- Where two or more departments contribute to the delivery of the same service, a concise summary of the contribution of each department (the accounting officers must ensure that the summaries included in their respective plans are consistent)

- Summary information, drawn from the strategic plan, of all capital investments planned for the year, including the future impact on the operating budget (this information should be rolled forward, amended as appropriate, to the next year's strategic plan)

*Quantifiable measures*

A measurable objective might be illustrated as follows:

- *Objective:* to supply electricity to all provincial schools by 2002/03
- *Service delivery indicator:* the percentage of schools that have electricity
- *Target:* to have 80 per cent of schools electrified by 31 March 2001

The budget for 2000/01 will then indicate the amounts required to have 80 per cent of schools electrified by 31 March 2001.

Progress towards each objective will be measured against the predetermined targets. The Office of the Auditor-General is moving to a more integrated audit approach (covering both regularity and performance audits), and will examine departments' progress against their targets.

*Matching performance contracts to operational plans*

Each executive authority must ensure that these specified outputs are reflected in the terms of his or her accounting officer's performance contract. In addition, one of the key performance indicators (KPIs) in this contract should relate to the extent to which financial management responsibilities have been effectively performed, and the plans successfully implemented by the department.

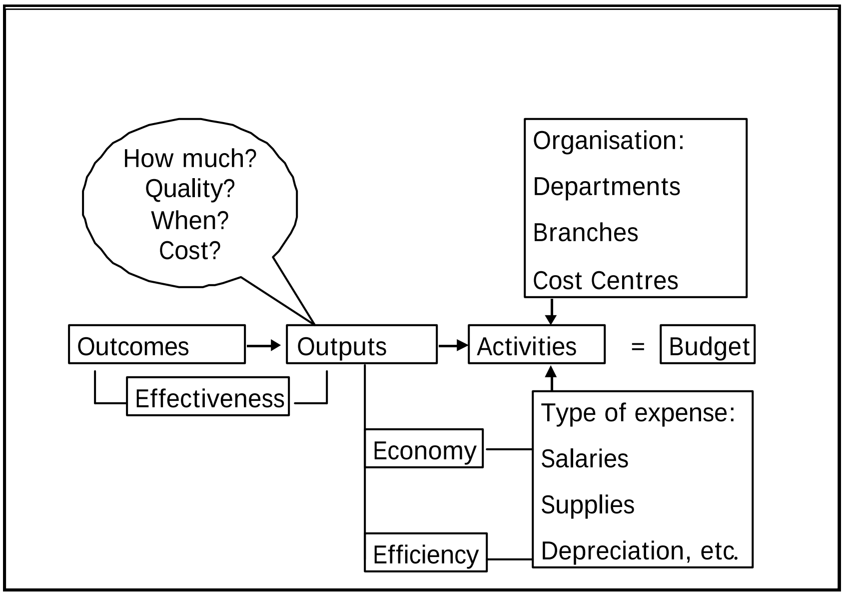
## Evaluation of performance

Performance evaluation is a cyclical process that starts with strategic planning and moves through programme implementation and monitoring to performance evaluation. The findings are then reported, objectively, to accounting officers and executive authorities for use in the next strategic planning process. An appreciation of these linkages between planning, implementation, monitoring, evaluation and reporting is critical to good resource management. The *Planning Framework* being developed by FOSAD emphasises that the information necessary to monitor all steps in the cycle must be available within departments.

*Appropriate measures*

The Act differentiates between measures of efficiency and economy (typically cost, time and quantitative items that can be measured accurately) and indicators of effectiveness (often assessments of recipient satisfaction, for example through surveys). It also emphasises the need to ensure that performance measures and indicators are developed as integral parts of the planning process, and that the systems and processes can provide the relevant information. This is illustrated in the diagram below.

Through the evaluation of performance, accounting officers, executive authorities and other stakeholders will be able to determine whether departments are achieving the objectives or outcomes identified in their strategic plans. Holding heads of department and other officials accountable for *performance*, i.e. the efficient, effective, economical and transparent use of the resources of their departments, may be more important than the traditional accountability for 'compliance' within a vote. However, the national Treasury recognises that this shift will take several years to complete.




## Accountability cycle

The accountability cycle runs for at least three years, but ideally five when the multi-year budget is taken into account. It begins with the preparation of a three-year strategic plan ten months before the first year of the multi-year period, along with a more detailed plan for the first year – the operational plan. The next steps in the cycle are implementation at the beginning of the year, and in-year management, monitoring and reporting. The cycle culminates the following year with the publication of an annual report, and the hearings of the public accounts committees of the legislatures. The Act places very clear responsibilities on accounting officers at each stage of this cycle, in particular specifying a set of reporting requirements, which are detailed in Chapter 4 of this *Guide*.

*Planning the year before the budget*

As required by the 1999 *Public Service Regulations,* and the *Regulations*, departments will already have prepared strategic plans. To be consistent with the timescale of the MTEF, the strategic plan will cover a minimum of three years and be rolled forward each year. The operational plan will define the outputs to be delivered, so that when the legislature considers the department's budget, it is clear what is being 'bought' for delivery to communities. While this form of quantification is not an *immediate* legal requirement of the PFMA, as this provision has been delayed to August 2002, accounting officers should ensure that outputs are sufficiently quantified and appropriate service delivery indicators developed as soon as possible. As the next major reform in the budget process, quantification will be phased in over two years, starting with the national and provincial health departments.

The operational plan will include conditional grants, transfers and capital projects. The strategic and operational plans must be submitted to the relevant treasury by 30 June, together with the MTEF submissions. The strategic plan will be tabled with the budget, having been adjusted to incorporate the new three-year allocations.

*Implementation, in-year management and reporting*

The executive authority should ensure that the accounting officer's performance contract is based on the agreed plan. The KPIs must reflect the fact that implementation begins from the first day of the financial year, rather than later in the year, as is currently the case. Good planning and in-year management and reporting are critical to successful implementation. Once the financial year begins, the accounting officer must submit regular monthly management reports to the Minister or MEC and the relevant treasury. These reports must focus on performance against budget *and* against service delivery improvement programmes, and alert managers when remedial actions are required. The onus for such actions is put squarely on the manager and not on the relevant treasury. Internal control measures such as internal audit will enable the accounting officer to be more proactive and to deal with problems in good time.

While the Act focuses on financial reporting, as financial data are leading indicators of performance, the accounting officer must also include non-financial indicators, which are produced quarterly. These non-financial indicators are often department or programme specific, and should be stipulated in the performance agreement between the accounting officer and executive authority, and endorsed by the portfolio committee in the relevant legislature. The monthly monitoring reports will be consolidated and published in the national *Government Gazette*, in line with international best practice. These reports will facilitate the compilation of the year-end financial statements and the annual report, which completes the accountability cycle.

*Annual report*

The annual report must review performance and achievements against the plan and budget approved by the legislature at the start of the year. It must include the financial statements of the department, together with its achievements against the service delivery indicators agreed at the time of the budget. The report must also quote the 'audit opinion' of the Auditor-General, based on the external audit. In order to strengthen accountability to the legislature, a reduced time-frame has been specified for the completion of the external audit, as is the case in the private sector. Once published, the annual report will be tabled in the (relevant) legislature, and will be available for scrutiny by the relevant public accounts committee. Portfolio Committees should also consider such reports to ensure that accounting officers address any issues raised in the audit report or any recommendations of the public accounts committee.

*New roles*

For this process to operate effectively, all stakeholders will need to adjust their mindsets substantially. For example, accounting officers must be able to justify decisions taken during the course of the year.

The Auditor-General's reports will need to focus the legislature on *significant* matters, and the emphasis of the audit will shift towards evaluating performance, rather than simply compliance with rules. The Standing Committee on Public Accounts (SCOPA) or the relevant public accounts committee is the ultimate arbiter of the financial performance of accounting officers. Should accounting officers not implement appropriate financial management measures, or not adequately address audit queries, the relevant public accounts committee is expected to encourage executive authorities to utilise the specified sanctions.

Similarly, the role of treasuries will change and they will adopt a more strategic role in monitoring departmental progress in addressing reported weaknesses. The relevant treasury could submit regular reports to Cabinet/Exco on the extent to which accounting officers resolve audit queries.

A memorandum clarifying the respective roles of the treasury, the Office of the Auditor-General and the public accounts committees is being prepared for publication.

*Accountability chain as driver*

The accountability chain is the most critical driver for improving financial management in the public sector. It represents a sanction of last resort should accounting officers or their political heads fail to take corrective or appropriate action. In the past, many accounting officers failed to resolve problems raised by the Auditor-General and SCOPA, and continued to operate as though no changes were necessary. This attitude was assisted by the following negative practices:

- Submitting poor quality financial statements, and often requesting the Auditor-General to correct any errors and complete the work
- Long delays before audited statements reached Parliament
- Parliament's expectation that treasuries or Excos would monitor the implementation of corrective actions

*Steps in the accountability chain*

Closing the loop of accountability after the submission of financial statements is critical to the successful implementation of the PFMA. The Act puts a series of steps in place:

- *A written performance agreement between the executive authority and the head of department:* One of the KPIs in this agreement ought to relate to the financial management of the department. The executive authority should monitor the agreement.
- *Disciplinary processes:* The accounting officer is expected to ensure that incompetent or dishonest departmental officials are subjected to the prescribed disciplinary steps. Should the accounting officer fail in his or her duties, the onus is on the executive authority to act against the accounting officer.
- *Role of the Auditor-General:* The work of this Office will shift to auditing performance, as well as compliance. It is also likely that the Office will develop a proactive relationship with audit committees, particularly in discussing the management letter. To avoid compromising its audit independence, the Office will no longer complete erroneous financial statements.

- *Role of SCOPA:* The Constitution gives SCOPA wide-ranging powers to investigate issues, and the committee will receive reports of actions taken and not taken by accounting officers. SCOPA is likely to focus on those matters that the previous steps in the accountability chain failed to resolve. For this reason, an accounting officer appearing before the committee will be expected to answer for the failure to take appropriate corrective action earlier. SCOPA may recommend sanctions against the accounting officer to the executive authority, ranging from salary deductions, demotion to dismissal. In serious cases, it may also recommend that charges of financial misconduct be brought.

*Accounting officer's personal liability*

When investigating cases against accounting officers, the relevant public accounts committee may find that the accounting officer is personally liable unless it is convinced that he or she had:

- Recruited the necessary financial expertise
- Implemented effective internal controls
- If a particular official had been responsible for the problem, initiated the necessary disciplinary steps

Accounting officers must therefore ensure that they put in place best practice controls, and have quality financial staff, to avoid being held personally liable in the event of any problems.

## Approach of the Standing Committee on Public Accounts

In the event of a serious problem, the public accounts committee will want to determine culpability. To determine whether an accounting officer is responsible, the public accounts committee may wish to examine whether he or she had implemented the recommended best practice systems to prevent the problem. For this reason, an accounting officer should be able to answer the following questions to reduce any personal liability.

i When during the financial year did the accounting officer become aware of the potential problem? Could it have been detected earlier?

ii Did the accounting officer appoint a suitably qualified and experienced CFO, together with qualified accounting staff, to develop a systematic monitoring and reporting system?

iii Did the accounting officer have sufficient internal controls to prevent such a problem? Had appropriate members been appointed to the audit committee?

iv Did the accounting officer submit monthly reports to the treasury (and executive authority)? What was the quality of the monthly reports?

v Did the accounting officer attempt to conceal the problem or mislead the executive authority or relevant treasury (which could result in a charge of fraud)?

vi What remedial steps were taken when the problem was first identified?

vii If the problem was identified before the adjustment budget had been tabled, did the accounting officer seek to amend the budget during this process?

viii Did the accounting officer take steps to address any concerns raised in previous audit reports or in any reports of the audit committee?

ix If a particular official had been responsible for the problem, did the accounting officer take the appropriate disciplinary steps? Accounting officers who are negligent or fail to take appropriate corrective steps may be held personally liable.

These questions aim to identify the extent to which the accounting officer can demonstrate real efforts to prevent unauthorised expenditure by adopting or adapting best practice guidelines. Such efforts would be strong grounds to suggest that he or she could not reasonably be held culpable and therefore should not face sanctions, which range from salary deductions to demotion or dismissal.

## Famous excuses

Provided that accounting officers adopt a constructive and forthright approach towards accepting the responsibilities placed on them by the Act, it is unlikely that SCOPA will have to hear (and it will almost certainly not accept) the excuses for non-performance presented in the past. Some common examples are set out in the table below:

**Table 2: Famous excuses**

| Excuse | PFMA change |
|---|---|
| No Treasury approval was granted | One of the major thrusts of the Act removes the ‘micro-control’ regime previously exercised by the Treasury, in favour of frameworks of best practice for accounting officers to adapt and adopt. |
| Tender Board procedures caused a delay | The accounting officer must allow sufficient lead time when planning a project, and factor in such delays when preparing the budget. |
| Inadequate systems | No system is perfect, but the existing financial systems can provide the information managers require for monitoring departmental performance. |
| Unfunded mandates | The PFMA specifically requires the funding implications of any new responsibility to be clarified before a function is assigned or transferred to a province. Neither are receiving (provincial) accounting officers passive victims: they can refuse to implement a mandate for which funds have not been transferred. |
| Capital projects take longer than expected | Strategic and operational planning must be realistic. Planning should begin before budgetary allocations are made. |
| Rollovers | Rollovers imply poor budgetary capacity within departments. Departments must take projected cash flows into account when determining their budgets. |
| Blaming a province or municipality | National accounting officers must consider the capacity of provincial or local governments when motivating programmes or conditional grants, and not blame them for implementation failures. |

Most of these examples relate to poor planning capacity. Accounting officers who assume their full responsibilities for planning and budgeting will probably not encounter these problems.

# 3

# Seven immediate steps

The new approach to the management of public finances will be phased in over a number of years, as the current position is far from the vision underlying the PFMA. During the first year, the focus will be on empowering accounting officers, who are expected to adopt a problem-solving approach to the issues that will arise. To this end, some sections of the Act have been delayed and several exemptions granted (see Annexure A).

The more qualitative improvements, including further reforms to the budgetary process and the introduction of GRAP, will evolve over the medium term. The quality of financial management will be raised each year in a process of *continuous improvement*.

Each accounting officer will have prepared an implementation plan to address the immediate priorities of their departments. These issues are considered in subsequent chapters of the *Guide*, and in summary are:

- The systems and processes that will allow the monitoring and reporting of monthly budgetary performance
- The effectiveness of the existing internal controls, based on an assessment of the risks facing the department
- The extent to which the internal audit unit and the audit committee are appropriately capacitated and functional
- Preparations to recruit a suitable CFO
- The extent to which systems and processes can ensure efficient and effective management of revenue, expenditure, liabilities and assets
- Delegations of responsibilities to relevant officials
- Proposals to ensure suitable oversight of any public entities controlled by the department

The national Treasury has published a *Guide* on the compilation of departmental implementation plans (which is available on the web site) and will provide further assistance where possible.

Treasuries should submit quarterly progress reports to the Cabinet/Exco on departmental progress against the agreed implementation plans. Such progress should be taken into account when assessing the performance of each accounting officer.

The immediate steps, in order of priority, are summarised in the remainder of the chapter.

## 1. In-year management, monitoring and reporting

The most important requirement of the PFMA is to expect accounting officers to act as managers with immediate effect, ensuring that mechanisms for the in-year management of resources are effective. They must monitor progress on the department's operational plan (which includes the budget), and produce, consider and act on monthly and quarterly reports, which are then submitted to the executive authority and the treasury. Systems and processes already exist for monitoring and reporting monthly budgetary performance, but accounting officers will have to scrutinise the financial reports, including data on grants and transfers, before signing off and submitting the required reports (see Chapter 4 and the best practice guide published by the national Treasury).

The PFMA focuses on financial indicators because they are a leading performance indicator, i.e. they are normally produced before other non-financial data become available. While financial reports must be submitted on a monthly basis to the executive authority and treasury, they should be complemented by non-financial indicators at least on a quarterly basis. A broader issue is the quality of the information available; this depends crucially on the accuracy and timeliness of the data entered into the various systems. Accounting officers will need to ensure that all staff involved in these processes have suitable capacity. It is only when accounting officers and CFOs actively use such information that weaknesses become apparent and the quality of the information can be improved.

Similarly, in order to interpret and, where necessary, act on the information produced, accounting officers will require high-level financial advice. The person appointed as the CFO will ultimately provide this, and the role of this post is considered in Chapter 6.

## 2. Clear up audit queries

Accounting officers must urgently address any outstanding queries raised by the Auditor-General or audit committee. These will be followed up by the relevant public accounts committee and monitored by the relevant treasury. Public accounts committees will report to the legislature and could consider submitting reports to Cabinet/Exco on accounting officers' progress or lack thereof.

## 3. Establish effective internal controls

All organisations have systems of internal control, and Government is no exception. The PFMA places a clear responsibility on accounting officers to ensure that the department's revenue, expenditure, assets and liabilities are efficiently and effectively managed. This requires appropriate systems and procedures.

Accounting officers must evaluate whether existing controls are appropriate, assess the risks facing the department, and introduce the necessary changes to the system of internal control. This may require improvements in capacity to adhere to the requirements of the PFMA.

In particular, the *Regulations* require each department to appoint a CFO.

Although internal audit has been a requirement for some years, not all departments have established this function. Even where an internal audit function has been established, it is often not fully operational. Reasons include a lack of capacity or the assumption that the function will perform a traditional 'inspectorate' role, instead of an appreciation of the services it can provide to management.

Similarly, while most departments have established an audit committee, they have not necessarily appointed appropriate people to the committee, thus rendering it ineffective. This is particularly relevant in some provinces, and the accounting officers of such departments must consult with the relevant treasury (see Chapter 6).

## 4. Improve expenditure management and transfers

Accounting officers must plan properly before spending or transferring funds or benefits. Any transfer not specified in an appropriation Act and/or DoRA will be unauthorised expenditure.

Transfers to public entities within the same sphere of government or to a private institution must be reported in terms of the PFMA and the *Regulations*. Transfers from a national department to a province or municipality must be in accordance with the schedules contained in the DoRA, and reported in terms of that Act. Transfers from a provincial department to a municipality must be reported in terms of section 13 of the DoRA. A transfer from a national department to a municipality, which passes through a province, represents a direct charge on that province's revenue fund.

Fiscal dumping (the transfer of funds late in the financial year) to conceal a national department's underspending may constitute financial misconduct.

The Act also requires that, unless otherwise contracted, payments be made within 30 days of receiving an invoice. Accounting officers delaying payment may undermine government objectives such as promoting small, medium and microenterprises.

## 5. Banking arrangements

Accounting officers must take full responsibility for ensuring that all revenue received by their department is deposited only in the relevant revenue fund. Any exception must be in terms of section 13(1) of the PFMA.

Accounting officers must ensure that all suspense accounts are cleared and correctly allocated to the relevant cost centres each month. Any uncleared items should be reported to the CFO. A failure to clear suspense accounts each month will open the accounting officer to charges of financial misconduct.

## 6. Complete financial statements on time

The Act requires annual financial statements to be submitted to the Auditor-General within two months of the year-end. This timescale will be difficult to achieve unless the routine month-end procedures are completed systematically during the year, and the accounting officer must therefore ensure that the necessary measures are in place to ensure that good quality reports are produced. Accounting officers must note that the Auditor-General will not complete poor quality financial statements submitted by departments. These will not only be referred back to the department, but will also constitute strong grounds for charges of financial misconduct.

Accounting officers must therefore ensure that:

- The 2000/01 financial statements are submitted within two months (by 31 May 2001)
- These statements are of the highest quality
- They are checked by the Audit Committee

The Auditor-General will comment on both the quality and timeliness of the reports submitted.

## 7. Delegation of responsibilities

The PFMA and the *Regulations* require new delegations of financial responsibilities to appropriate officials within departments. This must be done urgently if accounting officers are to manage their departments effectively and to spread management responsibility to all senior managers. Examples of delegations are available on the national Treasury's web site.

## Summary

Accounting officers are expected to make significant progress in these areas, which will have been included in their departmental implementation plans. The table below summarises these steps, indicating sources of additional information. A failure to make any progress, for example not attempting to appoint a CFO, will constitute grounds for financial misconduct. Treasuries are expected to report progress quarterly to their Cabinet/Exco.

**Table 3: Summary of immediate steps**

| Step | Chapter in this *Guide* | More information |
|---|---|---|
| In-year management, monitoring and reporting | 4 | Best practice guide |
| Clear up audit queries | – | Auditor-General's reports |
| Establish effective internal controls | 6 | Best practice guide (to follow) |
| Improve expenditure management and transfers | 8 & 9 | Best practice guide (to follow) |
| Banking arrangements | 10 | *Regulations* |
| Complete financial statements on time | 4 & 5 | Best practice guide (to follow) |
| Delegation of responsibilities | 5 | National Treasury web site |

# 4

# Reporting and accountability

Information has no intrinsic value: it must be used by managers to develop plans, evaluate alternative courses of action and, where necessary, institute corrective actions. The production of information is not an end in itself, and when reports are not scrutinised and used by managers, the quality of information will remain poor. Ideally, management information should be:

- Accurate, for meaningful decisions and steps to be taken
- Economically justified, without redundancy
- Flexible and capable of rapid adjustment should needs change
- Comparable, to ensure that decisions are benchmarked
- Relevant to each manager's particular area of responsibility

*Improving the quality of information*

Improving the quality of information available to managers will be a crucial aspect of implementing the PFMA. While the Act stresses the need for regular monthly management reports for submission to the Minister or MEC and the relevant treasury, the primary purpose of these reports is to assist managers in discharging their responsibilities. The reports will focus on performance against budget *and* against service delivery improvement programmes, and will alert managers where remedial action is required. In addition, these reports will be consolidated and published monthly for the National Revenue Fund (NRF) and quarterly for the provincial revenue funds in the national *Government Gazette*, in line with international best practice. The reports will facilitate the compilation of the year-end financial statements and annual reports, and the reduced time-frame for audit procedures will strengthen accountability to the legislatures.

The monthly reports will also enable executive authorities to monitor performance of their accounting officers, and assist Cabinet/Exco in monitoring the performance of their government.

## Best practice internal reporting

Information to managers, Ministers and MECs is usually presented in internal reports, to facilitate:

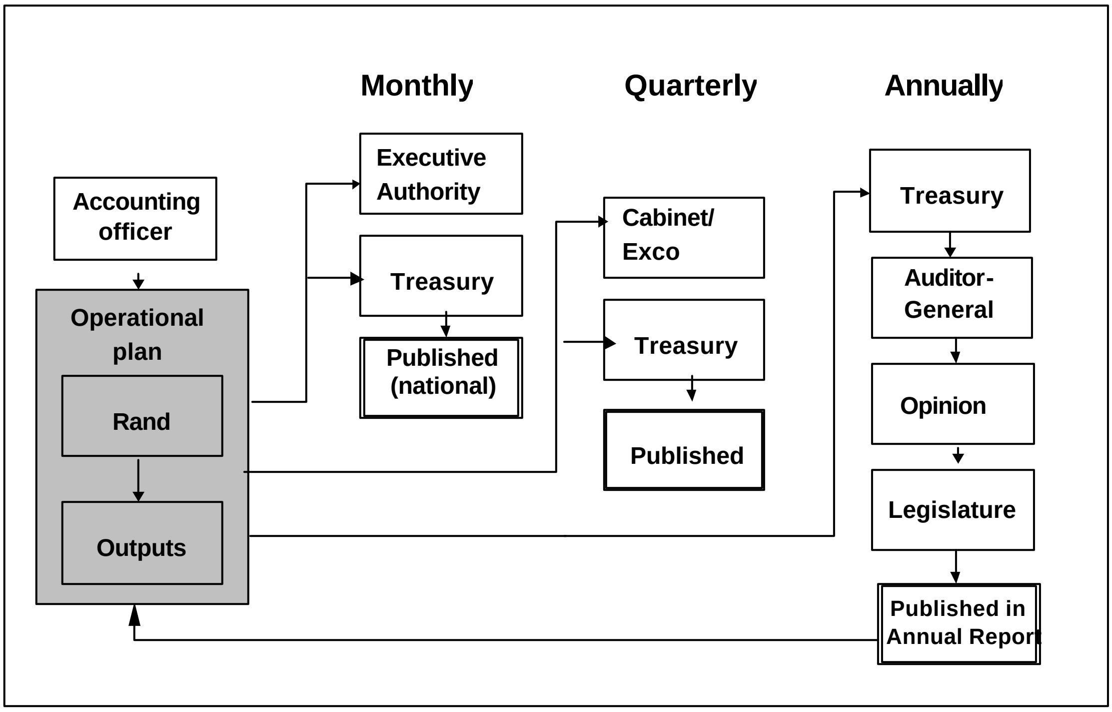
- Controlling the current activities of the organisation
- Planning its future strategies and operations
- Improving objectivity in the decision-making process
- Optimising the use of resources
- Measuring and evaluating performance
- Improving internal and external communication

Best practice internal reporting suggests that management information should include the following:

- A graphical presentation of performance for the period showing KPIs (which must not be solely financial)
- A focus on those KPIs essential for senior management's attention, balancing operational and financial indicators
- Written commentary on the overall performance of the department
- A set of financial statements (ideally compiled on the accrual base)
- A concise report from each major business unit, highlighting operating results and variances against budget

## In-year management, monitoring and reporting

The Act 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, and detailed in the remainder of this chapter.




### Monthly reports

Within 15 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 (see Annexure B)
- Any material variances and a summary of actions to ensure that the projected expenditure and revenue remain within the budget

*Provincial treasury reports*

The provincial treasury must also submit a statement of transactions affecting its revenue fund (in the prescribed format) to the national Treasury before the 22nd 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 service delivery indicators also as objective

### Quarterly reports

*Section 32 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 15 days of the end of every quarter.

### Annual report

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 the legislature at the start of the year. The Act 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. The annual report must include particulars of any material losses through criminal conduct, and any unauthorised, irregular, fruitless and wasteful expenditure, together with any criminal or disciplinary steps taken as a result of such losses.

*Performance information*

The annual report should also indicate the department's efficiency, economy and effectiveness in delivering the outputs specified in the operational plan, as well as any other information required by the legislature, and the use of any foreign assistance or aid-in-kind. The audit committee must comment on internal control in the department.

*Introduction of GRAP*

In accordance with the Constitution, the financial statements will be prepared under GRAP. GRAP will be defined by the Accounting Standards Board (established under the Act) and will introduce many of the accounting practices used in the private sector. In particular, accrual accounting will be introduced: this recognises income and expenditure when the benefit is received or given, rather that simply reflecting the timing of a cash flow. It also acknowledges the consumption of assets over their useful lives, through depreciation.

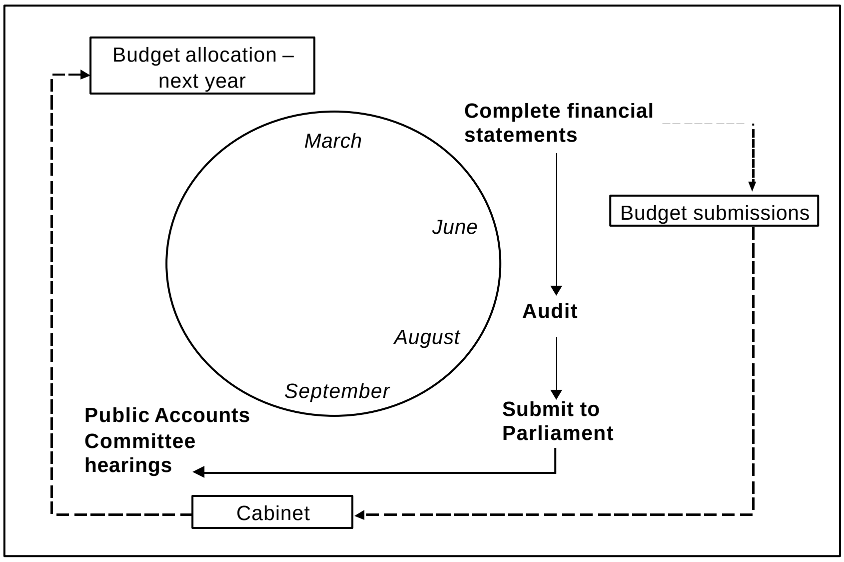
Until GRAP is defined, and accrual accounting introduced over the next few years, the *Regulations* specify GRAP for the year ending 31 March 2001, to be a set of cash-based statements that comprise:

- A balance sheet
- An income statement
- A cash flow statement
- Notes and such other statements as may be prescribed by the ASB

The Accountant-General will issue guidelines for the production of financial statements, as well as a series of practice notes dealing with matters such as the closure of accounts. These will also be available on the national Treasury web site.

*Timescale for submission*

Under the Exchequer Act, accounting officers had four months to submit appropriation accounts to the Auditor-General and Treasury, and no sanctions were applied if delays occurred. The PFMA reduces this period to two months and introduces strong sanctions for delays, which are deemed financial misconduct. 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 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. Should accounting officers submit incomplete financial statements, the Auditor-General will no longer finalise these.




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. The Accountant-General will consolidate the departmental information to show Government's overall position.

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 (indicated by the dotted line in the diagram).

In-year monitoring and the annual report will be the basis for evaluating achievements, and accounting officers will be responsible for delivering clearly specified outputs. The Office of the Auditor-General will focus on performance as well as compliance auditing. In addition to examining the post-audit review, legislators will play a greater role in monitoring the performance of accounting officers during the financial year.

**Table 4: Reporting responsibilities of the accounting officer**

| Responsibility | Actions required | When? | Reference |
|---|---|---|---|
| Unauthorised and other expenditure | Report, in writing, to the relevant treasury (and tender board in the case of irregular expenditure) particulars of unauthorised, irregular or fruitless and wasteful expenditure | On discovery | S 38(1)(g) |
| Undercollection or overexpenditure | Report to the executive authority and the relevant treasury any impending:<br>• Undercollection of revenue<br>• Shortfall in budgeted revenue<br>• Overspending of the vote or main division | No specific time stipulated | S 39(2)(b) |
| Financial statements | Submit financial statements to the Auditor-General and the relevant treasury | Within two months of the end of the year | S 40(1)© |
| Annual reports | Submit to the relevant treasury and executive authority:<br>• Annual report<br>• Audited financial statements<br>• Report of the Auditor-General | Within five months of the end of a financial year | S 40(1)(d) |
| Breakdown per month | Provide the relevant treasury with a monthly breakdown of the anticipated revenue and expenditure for the year | Before the beginning of the financial year | S 40(4)(a) |
| Actual and anticipated figures | Submit to the relevant treasury revenue and expenditure information for the previous month and the budget for that month | Within 15 days of each month-end | S 40(4)(b) |
| Projected figures | Submit to the relevant treasury and executive authority:<br>• A projection of expenditure and revenue to the year-end<br>• An explanation of material variances<br>• The remedial actions taken to remain within budget | Within 15 days of the end of each month | S 40(4)© |
| Conditional grants | Ensure all conditional grants and transfers are made in terms of the DoRA or an appropriation Act | Promptly | |
| Inability to comply | Report to the relevant treasury and executive authority the reasons for failure to comply with the reporting requirements | Promptly | S 40(5) |
| Other information | Supply to the relevant legislature, treasury, executive authority and the Auditor-General any information, documents or explanations, as prescribed or required | As regulated or required | S 40(1)(f) and 41 |
| Inventory | When transferring assets and liabilities to another department, file a copy of the signed inventory with the relevant treasury and the Auditor-General | Within 14 days of the transfer | S 42(3) |
| Utilisation of saving | Submit to the executive authority details of the exercise of virement | Within seven days | S 43(3) |
| Directive that will lead to unauthorised expenditure | If any directive of an executive authority will result in unauthorised expenditure, file copies of the directive with the Auditor-General, the national Treasury and, in the case of a province, with the provincial treasury | Promptly | S 64(3) |

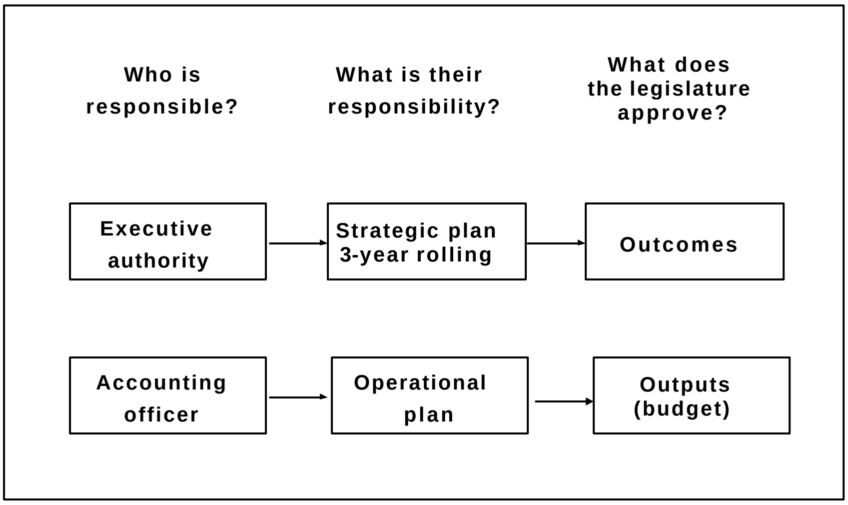
# 5

# Responsibilities and planning

The Act may appear to make significant changes to the responsibilities of accounting officers. In practice, these changes revolve mainly around the production, implementation, monitoring and reporting of each department's strategic and operational plans. The strategic plan focuses on outcomes over a three-year period, consistent with the MTEF, and the operational plan will eventually specify anticipated outputs and measurable objectives.

## Separation of responsibilities

The Act reinforces the distinction between the responsibility of a Minister or MEC for policy and outcomes, and of the accounting officer for implementing the policy and achieving defined outputs. The Minister or MEC (the executive authority) presents the department's budget to the legislature, but the accounting officer is responsible for implementing and managing the budget in terms of measurable outputs once it has been adopted. The accounting officer is responsible for achieving the operational plan by promoting commitment to the plan throughout the department and, more fundamentally, by ensuring that all managers accept their financial management responsibilities.




## Delegation by executive authorities

Accounting officers will be unable to fulfil their responsibilities unless they are appropriately empowered. Executive authorities must delegate certain personnel functions to their accounting officers in terms of the *Public Service Regulations*. The need for appropriate delegations has been reinforced by Cabinet's approach, which locates both managerial and financial accountability at the same point.

*Employment contracts must include performance standards*

The Act stipulates that the employment contract of an accounting officer must be in writing and include performance standards, i.e. what is to be delivered by the department. These performance standards must be aligned to and be consistent with the measurable objectives in the operational plan and, therefore, the budget. In addition, the Act requires the employment contract to specify responsibilities for budgetary control and reporting, as well as the general responsibilities of accounting officers, as summarised below.

Concluding similar contracts with all members of top management in the department is considered good practice.

## Delegation by accounting officers

Clearly, no accounting officer can personally undertake all the tasks expected of his or her department. The Act recognises this by allowing the accounting officer to delegate any power or duty under the Act *in writing* to an individual official (or post).

*Delegator retains responsibility*

However, the delegation 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. All officials in the department are accountable for their specific areas of responsibility.

## Responsibilities of accounting officers

*General responsibilities*

In broad terms, the Act makes each accounting officer responsible for effective, efficient, economical and transparent use of resources. More specifically, he or she must ensure that the following are in place:

- An effective, efficient and transparent system of financial and risk management and internal control
- A system of internal audit, controlled and directed by an audit committee
- Effective and appropriate disciplinary procedures
- A system for the proper evaluation of all major capital proposals

*Responsibilities for budgetary control*

The accounting officer is responsible for exercising proper budgetary control. This requires systems that prevent overspending of a vote or main division and warn of any impending undercollection of revenue or shortfall in budgeted revenue (which is to be reported to the executive authority).

*Reporting responsibilities*

The accounting officer is responsible for the submission of all reports, returns, notices and other information to the relevant legislature, executive authority, the relevant treasury or the Auditor-General, as required by the Act, and detailed in Chapter 4 of this *Guide*.

# 6

# Corporate management and internal controls

This section of the *Guide* deals with the organisational matters internal to the department. The appointment of a CFO and the establishment of an effective internal audit function whose work is overseen by an audit committee are measures that – provided the decisions are appropriate – will add value to departmental performance and efficiency in expenditure.

## Financial staff

Government increasingly recognises the importance of financial staff. While the accounting officer (and indeed every line manager) is accountable for financial management, he or she must be able to rely on independent, professional advice to improve the quality of decision-making. Most private companies and a growing number of public entities appoint a CFO for this purpose.

In the United States of America, the authority and functions of CFOs in the public sector have been legislated in the Chief Financial Officers Act, 1990, which defines their functions to include:

- Reporting directly to the head of the agency on financial management matters, and overseeing all financial management activities of the agency
- Developing and maintaining an integrated accounting and financial management system, including financial reporting and internal controls
- Systematically measuring performance

*Appointing a suitable CFO*

While the PFMA assigns these responsibilities to accounting officers, they may be delegated to a suitably competent CFO. Accounting officers should appoint (probably on a performance-based contract) a CFO with relevant experience at a senior management level 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 will be 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
- Direct access to the accounting officer

The CFO must combine timely, materially accurate, relevant, complete and suitably presented financial results and trends, with interpretative professional advice. In addition, he or she must play a major role in preparing strategic plans and in ensuring that best practice (as set out in the *Regulations*) is followed. The CFO must be given the appropriate infrastructure and staff to minimise number crunching, allowing him or her sufficient opportunity to provide analysis, interpretations and appraisals that assist and improve decision-making in the department.

*Role of CFO*

Within a department, the role of the CFO will be to:

- Maintain a close liaison with the accounting officer and all managers
- Respond to changing needs for financial information and advice
- Make a major 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 any associated agreement with Government
- Manage working capital, assets and liabilities
- Manage the accounting and finance staff
- Pay accounts and collect receipts
- Meet reporting requirements (for example, monthly reports under the PFMA and DoRA, and annual financial statements)
- Maintain systems of internal control, which comply with internal audit requirements
- Undertake product and service costing tasks

## Internal control

Internal control is nothing new – it exists in all organisations. It can be defined as the processes put in place by management and other stakeholders, which are designed to:

- Provide reasonable assurances that the organisation's objectives are achieved effectively and efficiently, in compliance with applicable laws and regulations
- Ensure reliable financial reporting

Internal controls are the systems (manual or electronic), procedures and processes that are 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.

*Appropriate internal control*

The Exchequer Act prescribed detailed internal control processes for all entities in the *Treasury Instructions* and in other centrally defined regulations. The PFMA makes it clear that accounting officers must actively ensure that internal controls are appropriate for their specific circumstances and, most importantly, are operating as intended. Controls must be designed to 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

- Policies, procedures, laws and regulations are complied with

In a rapidly changing environment, internal control becomes significantly more important. Changes in management personnel and culture may well result in a fundamental redesign of internal controls, but must never expose the organisation or its management to the risks that would arise should these controls be eliminated.

### Responsibilities for internal control

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

- Management has the ultimate responsibility for the operation and ownership of the system of internal control.
- The members of legislative bodies, in their capacity as representatives of the taxpayers, are to exercise governance, guidance and oversight.
- The Auditor-General will play an important role in making recommendations should any weaknesses in internal control be 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 an organisation.

### Is internal control effective?

Accounting officers are required to ensure that the internal controls within their departments are operating effectively. To do this, they will need to examine the five elements of internal control, which are:

- The control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring arrangements

While the last three points are well understood, the first two may not be and are considered in the paragraphs below.

*Control environment*

The control environment includes:

- The governance structures and functions of the department
- Management's philosophy towards risk, and its style of operation
- The approach to assigning authority and responsibility in the department
- The nature and extent of the risks involved
- Systems for controlling expenditure
- The control systems in place, including internal audit
- Personnel policies and procedures

- Segregation of duties
- Access to computer-based systems (both physical and in terms of network security)
- Physical protection of cash and securities (the need to hold cash and securities should first be assessed), etc.
- The management information system

Despite the previous centrally prescribed and procedurally focused *Treasury Instructions*, the present weaknesses in the control environment in the public sector are significant. These weaknesses arise when, for example, newly appointed staff do not appreciate the reasons why duties are separated.

*Risk assessment*

Because the *Treasury Instructions* prescribed detailed procedures to be applied to all entities, regardless of specific circumstances, the notion of departmental managers undertaking a 'risk assessment' for themselves will be an innovation in most parts of the public sector.

Risk management acknowledges that all the activities of an organisation involve some element of risk. Management must decide what is an acceptable level of risk (given the cost and other social factors) by objectively assessing the factors (risks) that may prevent a particular activity from meeting its objective. For example, the risk of delay in constructing 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.

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
- Monitoring, reporting and, from time to time, reassessing the level and implications of the risk exposure

## Need to review internal control

The *Regulations* assign responsibilities for aspects of risk management to the internal audit unit and the audit committee, each of which reports to the accounting officer. Hence, each accounting officer will need to review the operation of the internal controls within his or her department, in accordance with the following basic principles:

- Internal control systems should be of high quality, but at reasonable cost.
- Managers must ensure that the controls over the operations and resources entrusted to them are adequate, and should continuously determine whether controls are effective.
- The design and extent of control measures and procedures must match the risk and exposure in the particular area. Before implementing a control, management should be satisfied that the benefits outweigh the cost of operating the control.

*Remedial actions*

After such a review, the accounting officer may need to implement some or all of the following measures:

- Produce guidelines and standards to reflect the organisation's values for conducting business
- Train managers in risk management and control techniques
- Establish self-assessment programmes for managers to measure the adequacy of controls on a routine basis
- Establish information flows that will indicate unfavourable trends and trigger corrective actions

It is impossible to avoid *all* risk through internal control measures; attempts to do so may come at a cost higher than that of the potential risk. This was often the case with the procedures implemented in previous years. Before further internal control measures are implemented, the cost of these must be assessed against cost of the risk.

## Internal audit

Internal audit is not new to Government, but the Act formalises the requirement for departments to operate effective internal audit units, except where the relevant treasury agrees that two or more – perhaps smaller – departments may share this resource.

*Internal audit serves management*

Traditionally, internal audit was seen as part of the finance function. However, the current view defines internal audit as 'an independent appraisal function, established within an organisation to examine and evaluate its activities'. In other words, internal audit exists to assist management in carrying out its responsibilities effectively, by providing analyses, appraisals, recommendations and advice concerning the activities under review. Internal audit must examine and objectively appraise the adequacy and effectiveness of internal control in the organisation. An effective internal audit will highlight potential problems during the financial year, and possibly allow management the opportunity to remedy deficiencies before they receive adverse comment from the Auditor-General in the (annual) audit report.

### Structure of internal audit

Over the last few years, most departments have established an internal audit function in one of the following ways:

- Full in-house internal audit section – this has been the exception rather than the rule in the light of scarce technical skills
- Co-source the function with the private sector, i.e. some of the work is contracted out
- Outsource the function to the private sector, i.e. the entire function is contracted out
- Share the function with another department, subject to approval by the relevant treasury (heads of provincial departments must consider the resource constraints and consult with the relevant treasury)

The decision on the structure of internal audit is less important than the responsibility of the accounting officer under the Act to ensure that internal audit is effective. Adequate resources must be made available for performing the duties specified in the audit plan.

### Role and mandate of internal audit

Most internal audit units have developed a ‘Charter’, which specifies:

- The purpose of the internal audit unit
- The scope of its authority, including provisions guaranteeing access to people, documents, assets and the operations of the organisation
- Internal audit’s responsibility for examining and reporting on financial and non-financial matters, including the effectiveness, efficiency and economy of operations
- The role of the audit committee
- The reporting arrangements, which must be designed to enhance the independence of internal audit

### Operation of internal audit

Internal audit must be conducted in accordance with the standards set by the Institute of Internal Auditors (to be available via a link on the national Treasury’s web site), and the internal audit unit must prepare, in consultation with and for approval by the audit committee:

- A *modus operandi*, with management inputs, to guide the audit relationship
- A rolling three-year strategic internal audit plan based on its assessment of key areas of risk for the department
- A plan for the first year of the rolling plan, which indicates the proposed scope of each audit
- A quarterly report to the audit committee detailing performance against the plan

### Fraud prevention plans

Fraud prevention plans aim to manage the risk of fraud through cost-effective use of the control environment, information systems, control procedures and an ethical culture within the department. Each accounting officer must ensure that the fraud prevention plan is completed no later than 31 March 2001.

## Audit committee

An effective audit committee can assist management in discharging its accountability responsibilities to safeguard assets, operate adequate systems and controls, and prepare annual financial statements, by:

- Improving communication and increasing contact, understanding and confidence between management and internal and external auditors (which may result in a more cost-effective external audit, to benefit both the organisation and the auditors)

- Scrutinising the performance of internal and external auditors, thus increasing accountability
- Facilitating the imposition of discipline and control, thus reducing the opportunity for fraud
- Strengthening the objectivity and credibility of financial reporting

In principle, an audit committee should be advisory and not executive, and will probably only meet quarterly. The committee should not perform any management functions or assume any managerial responsibilities, as this would prejudice objectivity.

*Composition of the audit committee*

The Act specifies that each department must establish an audit committee unless the relevant treasury has agreed that two or more departments may share a committee (this may well be appropriate in provinces, and the onus is on each department to consult with the relevant treasury). The audit committee must consist of at least three people – three to five is the norm in the private sector. One of the members must be from outside the public service, and the chairperson may not be employed by the department. Similarly, departmental staff members may not be in the majority, and political office-bearers may not be appointed to the committee.

*Proactive role*

An audit committee is expected to play a proactive role; hence those appointed as members must have enquiring minds, a sound understanding of the complexities involved, and an appreciation of the department's activities. Common sense and objectivity are essential criteria. Ideally, the committee should have a mix of skills and experience, and at least one member should have the necessary financial and auditing expertise to advise the committee in the execution of its duties and responsibilities. Members should rotate on a regular basis, to ensure a mix of experience and new members. A minimum of two to three years' service is advisable.

*Duties of audit committee*

The audit committee should perform the following duties:

- Make recommendations on the appointment or retention of auditors, if applicable
- Review and discuss the scope of the audit
- Satisfy itself that the audit plan sufficiently addresses the critical risk areas in the organisation
- Review the effectiveness of the organisation's systems of internal control
- Monitor management's response to reported weaknesses in controls (particularly those raised as audit queries), deficiencies in systems and recommendations for improvement
- Consider differences of opinion between management and auditors
- Evaluate the performance of auditors and of management
- Consider the quality of financial information produced
- Review the financial statements prior to approval by the accounting officer, including the accounting policies adopted, before submission to the Auditor-General
- Communicate to stakeholders regarding its activities

*Terms of reference*

The terms of reference of an audit committee should cover the following matters:

- The objectives and responsibilities of the committee
- The committee's authority in requesting information and in obliging management to attend meetings and submit reports
- The resources available to the committee
- The minimum number of annual meetings (the Act requires at least two meetings a year)
- Who is required to attend meetings
- Minutes of meetings

*Timing of meetings*

The audit committee should meet before the annual external audit to consider its scope and approximate timing, as well as the audit fee. It should also meet on completion of the audit to review the audit and all significant matters arising from it, in addition to the performance of the auditors.

The audit committee and the accounting officer must facilitate a risk assessment to determine the material risks to which the department may be exposed and to evaluate the strategy for managing those risks. The strategy must be used to direct audit effort and priority, and to determine the skills required for managing these risks.

The audit committee must report and make recommendations to the accounting officer, but the accounting officer retains responsibility for implementing such recommendations. The committee may communicate any concerns it deems necessary to the executive authority, the relevant treasury and/or the Auditor-General.

# 7

# Revenue, assets and liabilities

## Revenue management

Most managers in the public sector do not derive income directly from the community in the form of charges, fees, fines, grants or levies, but receive money from a revenue fund. Revenue collected is not retained by the department but has to be paid into the relevant revenue fund. Consequently, revenue management has become a low priority within departments, even those, such as Health and Transport, which levy substantial amounts of user charges each year. The Act addresses this, in part by stipulating that the undercollection of expected income may result in a reduction in the approved budget of a department.

*Continuous review of revenue*

Accounting officers must continuously examine their departments' operations to identify potential or actual sources of revenue. As a minimum, a review must be conducted during the budget preparation process and form 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 disclosed in the annual report; this should include details of any free services rendered but not taken into account in the budget, which could have yielded significant revenue.

Revenue management processes must ensure adequate separation of duties and provide for effective supervision and monitoring of revenue collected. For example, activities related to the collection, recording and banking of revenue may not be undertaken by the same person.

### Management of debtors

The amount owing to a department by debtors, who have received a service but have not yet paid for it, is generally a significant current asset. The accounting officer must take effective and appropriate steps to collect all money due to the department, if necessary by instalments. This will require the accounting officer to consider the following:

- Procedures for writing off debts
- Monthly reconciliations of the debtors ledger with each debtor's account(s)
- Preparation of monthly age analysis reports and follow-up action on debtors

- Terms of trade for debtors and issuing of reminder notices
- Charging interest on all debts to the state at the rate provided for in the Act

*Recording and reporting on debts*

Each department will be expected to:

- Maintain accounts in the name of each debtor in order to determine and analyse the total debt
- Maintain separate ledger accounts for the recovery of debts by instalment
- Maintain separate records for the portion of debts or advances that has matured or become due
- Provide a summary of all individual debts, to ensure the integrity and reliability of individual accounts
- Separate duties between functions related to maintaining accounting records and receipting of money
- Ensure that employees do not have continuous control of any one function for an extended period, by using annual leave and job rotation

As people rarely pay amounts unless a claim is made, an invoice or statement must be issued to request payment as soon as possible. This will facilitate the timely collection of revenue. Failure to do so may constitute financial misconduct.

Notifications to debtors should be controlled (for example through sequentially numbered statements) and procedures should be implemented to ensure the accuracy of the information. These could include the establishment and maintenance of control accounts, and regular and independent checks to ensure that the total of each individual account balances with the control account total.

Each month, an age analysis should be produced by type of debt. This should include detailed listings to allow follow-up on individual accounts. These reports should also include data summarised according to the overall collection performance.

*Collection of debts*

Collection measures should be progressive and include the following routine actions:

- Issuing invoices when a service is rendered
- Sending monthly statements
- Sending reminders
- Making personal contact

Departments may use private sector agencies to trace debtors when their normal tracing activities fail. Any related costs should be borne by the debtor and not the department. Cases referred to tracing agencies shall be on a ‘no trace – no pay’ basis.

*Debt write-offs*

Should an accounting officer have taken all reasonable steps to recover a debt, yet have been unsuccessful (or have determined that it would be to the state’s advantage to waive a claim), he or she may write off the debt. This must be disclosed in the annual financial statements, indicating the policy followed.

## Asset management

Assets are items, such as buildings, which will be used in the delivery of services for a number of years. Departments should hold only those assets that are necessary for the efficient, effective and economical delivery of its programmes. Assets are investments in the delivery of future services to communities and generally affect the operating budget. Therefore, accounting officers must plan properly for the acquisition of assets, and consider alternative strategies such as:

- Leasing the asset, by assessing relative costs and benefits
- If full-time use of the asset is not expected, sharing ownership with another person or organisation, whether in the private or public sector
- Contracting out the delivery of a specific programme that requires assets with economies of scale or specialist skills

### Asset records, asset management and financial reporting

Accounting officers are unlikely to be able to safeguard and effectively utilise their department's assets in the absence of proper accounts and records, as required by section 40 of the Act.

### Writing-off of losses and debt recovery

The treatment of losses clearly illustrates how the approach in the PFMA differs from that in the Exchequer Act. Losses inevitably occur in the day-to-day operation of government activity, for example through vehicle accidents. The previous *Treasury Instructions*, which ran to almost 20 pages on this issue, effectively achieved the opposite of what was intended – they undermined accountability by placing the decision to write off an irrecoverable loss in the hands of a Treasury official, rather than in the hands of the management of the department concerned. The new *Regulations* placed this responsibility where it belongs: on the accounting officer. Chapter 12 of the *Regulations* explains the principles to be followed; these are summarised below:

- The state will still bear its own damages and accident risks. It will also be responsible for all claims and losses of state property where these arise from state activities by an official who is liable in law and who is or was employed by a department. However, departments may choose to insure certain moveable assets, such as vehicles, up to an annual premium limit of R250 000.
- A department may accept liability for any loss or damage suffered by another person, where this arose from an act or omission of an official, provided that the official had not forfeited his or her cover.
- If an official can prove that he or she has sustained a loss or damage in the execution of official duties and has not been compensated, the accounting officer may make good the loss or damage.
- Losses or damages suffered by a department because of an act committed or omitted by an official must be recovered from the official if he or she is liable in law.

- The accounting officer may write off losses or damages arising from criminal acts or omissions and other unavoidable causes if, after a thorough investigation, it is found that the loss or damage is irrecoverable. The Act requires all such write-offs to be disclosed in the annual report, and the policy adopted to be set out in a note to the annual financial statements.

## Liability management

A liability is an item that will eventually become expenditure. A department may incur liabilities in different ways, including through employee entitlements, leases, or receiving revenue before goods and services have been delivered.

The accounting officer must ensure that, just as for expenditure, liabilities are incurred only for authorised purposes and only after the normal approval procedures have been followed. The relevant details of any liability must be recorded, and liabilities outstanding at the end of the financial year must be reflected in the financial statements.

## Loans, borrowing and guarantees

Departments may not borrow money, issue guarantees, indemnities or securities or enter into transactions that bind the revenue fund to a future commitment unless authorised by the PFMA or the Borrowing Powers of Provincial Governments Act.

No person in a provincial department may issue a guarantee, security or indemnity that may bind the provincial revenue fund, except with the prior written approval of the relevant MEC for finance.

*Financial misconduct for issuing guarantee*

The accounting officer of a department must ensure that no person borrows money on behalf of that department or issues an unauthorised guarantee, security or indemnity. Any transgression must result in disciplinary proceedings.

The accounting officer must report on all the department's contingent liabilities in the annual report.

# 8

# Expenditure management

Accounting officers must exercise control over all government expenditure, whether it is incurred directly by a department or takes the form of a transfer payment (see Chapter 9) to another sphere of government or other entity. Expenditure must only be incurred in accordance with the purpose approved by the legislature in a vote, unless it is a direct charge or a transfer specified in the DoRA.

*Payments to suppliers within 30 days*

Procurement practices must be competitive, fair and equitable, and payments to suppliers are to be made within 30 days of receiving an invoice, unless otherwise specified in a contract. Accounting officers delaying payment for whatever reason (deliberate or cash management) may not only open themselves to financial misconduct charges, but also may undermine government objectives such as promoting small, medium and microenterprises.

*Personnel costs*

In relation to personnel costs, the Act requires each accounting officer to ensure that the personnel cost of all appointees, as well as promotion and salary increases, can be met within the budgetary allocation of the department. Managers must also authorise their monthly payrolls before processing and ensure that all such payments are made in good time. Any deductions must be in accordance with the *Payroll Deduction Regulation, 2000*. The Department of Public Service and Administration is considering proposals on remuneration which, if implemented, will require additional capacity within departments to manage personnel costs.

## Unauthorised, irregular, fruitless and wasteful expenditure

The Act specifically requires accounting officers to exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure. They 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 a main division. Accounting officers must implement appropriate mechanisms to prevent such spending. Expenditure for a public purpose that is not government policy is also unauthorised, as is any transfer not made in terms of a DoRA or appropriation Act.

*Approval of unauthorised expenditure*

If the unauthorised expenditure is to be authorised, this will be dealt with in a Finance Act. In instances of overexpenditure, the amount by which the total of a vote was exceeded in a specific financial year must form a charge against the amount appropriated in the next financial year. The legislature may, however, recommend that an additional amount be appropriated by means of a Finance Act; this will be deemed a direct charge against the relevant revenue fund. Regardless of whether the unauthorised expenditure is recovered in terms of the prescribed procedures, disciplinary action can still be taken against the accounting officer or any other official in terms of the Act or the Public Service Act, 1994.

### 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, the State Tender Board Act or provincial legislation providing for procurement procedures.

### 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.

### Requirement to report

Should unauthorised, irregular or fruitless and wasteful expenditure be discovered, it must immediately be reported to the accounting officer, who must disclose it in the monthly report. Where appropriate, the accounting officer must instigate disciplinary steps and attempt to recover resulting losses or damages in accordance with the *Regulations*. The amount of such expenditure must be disclosed as a note to the annual financial statements.

## Financial misconduct

The PFMA introduces the offence of financial misconduct, and defines specific sanctions. However, in the first year, the focus will be on empowering accounting officers rather than on the sanctions that are available. Financial misconduct must be seen in the context of other disciplinary measures, such as misconduct or incompetence, which are intended to assist accounting officers in improving departmental efficiency.

*Disciplinary processes*

Should the accounting officer (or if necessary, the relevant treasury) believe that a matter merits investigation, the *Regulations* require the standard disciplinary procedures be followed, as outlined in Table 5.

**Table 5: Disciplinary arrangements**

| Category of employee | Agreed disciplinary procedures |
|---|---|
| Educators | Contained within the Employment of Educators Act, 1998 |
| Members of SAPS | Regulations issued in terms of the SAPS Act |
| All other public servants | Resolution 2 of 1999, agreed in the Public Service Central Bargaining Chamber (see diagram in Annexure C) |

An accounting officer commits an act of financial misconduct by wilfully or negligently failing to comply with his or her general responsibilities, as well as specific responsibilities related to:

- Budgetary control
- Reporting
- The submission of information
- The transfer of assets and liabilities
- Unauthorised bank accounts
- A failure to pay all revenue into the relevant revenue fund
- Prevention of unauthorised, irregular or fruitless and wasteful expenditure

An official commits financial misconduct by wilfully or negligently failing to exercise a power or perform duties assigned to him or her by the accounting officer. The accounting officer must take effective and appropriate disciplinary steps against any official who makes or permits unauthorised, irregular or fruitless and wasteful expenditure.

## Investigation of alleged financial misconduct

If an official is alleged to have committed financial misconduct, the accounting officer must investigate and ensure that any disciplinary proceedings are carried out in accordance with the relevant prescripts.

If an accounting officer is alleged to have committed financial misconduct, the executive authority must initiate appropriate disciplinary procedures. Should the executive authority fail to take action, the relevant treasury must initiate appropriate disciplinary proceedings. The treasury may issue any reasonable requirement regarding the way in which the investigation should be performed. It may also direct that an official from outside the department should investigate – an accounting officer of higher rank will normally preside – and the Department of Public Service and Administration will usually be involved.

## Reporting

The department must inform the executive authority, the relevant treasury, the Department of Public Service and Administration and the Public Service Commission of the outcome of any criminal proceedings for financial misconduct.

The accounting officer must, each year, submit to the relevant treasury and Auditor-General a schedule of:

- The name and rank of officials facing disciplinary hearings or criminal charges
- The outcome of any disciplinary hearings and/or criminal charges
- Any sanctions or other actions taken against the relevant officials

The report must note any changes to the department's systems of financial and risk management or any other matter dealt with in the Act, as a result of the investigation.

### Offences and penalties

Where an accounting officer wilfully or negligently fails to comply with his or her general, budgetary control or reporting responsibilities, the Act specifies a fine or imprisonment for up to five years. A person who unlawfully borrows money or issues a guarantee is liable to the same penalties.

## In-year processes

*Virement*

Unless the relevant treasury directs otherwise, an accounting officer may utilise a saving of up to 8per cent of the amount appropriated under a main division for defraying excess expenditure under another main division within the same vote. This must be reported to the executive authority and the relevant treasury within seven days.

The *Regulations* specify that the relevant treasury must give prior approval before any personnel expenditure or transfers are increased, or before any earmarked allocations are used for other purposes.

### Case study: Virement

The department of ABC has two main divisions within its vote – Programmes A and B. The budget, actual expenditure and variations for each programme are set out in the table below.

**Table 6: Virement case study: Department of ABC**

| R million | Budget | Actual expenditure | Variation |
|---|---|---|---|
| Programme A | 1 200 | 1 600 | 400 |
| Programme B | 1 000 | 800 | (200) |
| **Total** | **2 200** | **2 400** | **200** |

Unless the adjustments budget increased the total allocation by R200 million, increased the allocation for Programme A, and decreased the original allocation to Programme B, the Auditor-General's audit opinion will note that the total budget was overspent by R200 million, and that this is unauthorised expenditure. It will highlight that the budget for Programme A was overspent by R400 million, compared to the original allocation.

The PFMA does allow the accounting officer to shift R80 million (8 per cent of R1 000 million) from Programme B to A. Had this been done, only R320 million of the additional R400 million spent on Programme A would have been unauthorised. Further, Programme B is underspent by R200 million (or R120 million had the virement been exercised).

*Rollovers*

A particular problem in recent years has been the amount of money rolled over from one financial year to the next. This is generally the result of poor planning, and Government intends to reduce the size of rollovers in future. Accounting officers must recognise that, in most cases, the failure to utilise funds allocated by a legislature represents underperformance.

The *Regulations* allow for unspent appropriated funds to be rolled over to a subsequent year in certain circumstances, subject to approval by the relevant treasury. Capital funds may be rolled over to finalise projects still in progress or for other capital purposes. Transfer payments may not be rolled over for purposes other than originally voted. A maximum of 5 per cent of a department's current expenditure may be carried into the next financial year.

*Transfer of functions*

Before seeking formal approval from the Minister of Public Service and Administration or the Premier of a province for a transfer of functions to another sphere of government, the transferring accounting officer must first obtain the approval of the relevant treasury for any funding arrangements.

*Additional funds through an adjustments budget*

Departments can no longer assume that additional funds will necessarily be made available through an adjustments budget. The Act defines the conditions under which unavoidable or unforeseeable matters may be included in an adjustments budget – departments must submit a memorandum to the relevant treasury, the Cabinet/Exco Secretariat and any treasury subcommittee of the Cabinet/Exco.

## Public-private partnership agreements

Only an accounting officer may enter into a public-private partnership (PPP) agreement on behalf of the department, and only with the prior written approval of the national Treasury.

To determine whether a proposed PPP agreement is in the best interests of a department, the accounting officer must prepare a feasibility analysis. It should, among other things, explain the strategic and operational benefits of the PPP agreement and assess how the agreement will assist in meeting the department's strategic objectives.

The details of the processes to be followed are specified in the Framework in Chapter 16 of the *Regulations* and in the national Treasury *Guide*.

# 9

# Transfer payments and conditional grants

Transfers are an important part of the intergovernmental system in South Africa. Since 1994, a number of different forms of transfers have been introduced, including those made as conditional grants to other spheres of government, or as transfers to public entities, constitutional institutions, NGOs and households. In total, these transfers comprise more than half the expenditure on the national Budget. Whilst accounting officers have full responsibility for their expenditure, the treatment of transfers has tended to create confusion, a point noted in several recent reports of the Auditor-General (e.g. non-compliance with the previous *Treasury Instruction* K5).

Both the income and expenditure aspects of any transfer must be considered. The transferring accounting officer must ensure that all funds are deposited in the provincial revenue fund or, in the case of a municipality, into an authorised bank account. The receiving accounting officer must account for the money received and the manner in which it is spent. The PFMA and DoRA both clarify these accountability responsibilities, and a much more specific regime is in place from the current financial year.

*Accountability*

The arrangements for auditing the recipient entity must be considered by the transferring accounting officer, as these may determine the degree of caution and oversight necessary before any funds can be released. The audit arrangements will differ according to the type of body receiving the transfer, as follows:

**Table 7: Transfer audit arrangements**

| Transfer to | Audited by | Consideration |
|---|---|---|
| Constitutional institution | Independent audit arrangements | Not relevant, as constitutionally independent, with own accounting officer |
| Province or municipality | Auditor-General | Not relevant, as audited by Auditor-General |
| Public entity | Different arrangements, overseen by Auditor-General | Probably audited by Auditor-General, but responsibilities of the accounting authority may differ |
| NGO | Various arrangements | Greatest caution required, as Auditor-General is not responsible |
| Household/individual | Not relevant | Not relevant |

## General principles

Transfers or grants not authorised in terms of an appropriation Act and/or DoRA constitute unauthorised expenditure. Accounting officers transferring grants must ensure that:

- A grant to another sphere of government complies with the DoRA; this is an obligation in terms of the Constitution, and covers conditional grants and any other grants (e.g. poverty relief or job creation) transferred to a province or municipality
- A grant to a public entity within the sphere (but not a constitutional institution) or a private institution, is in terms of the Act
- A grant to a constitutional institution whose source of funds is protected once budgets are approved by Parliament

In assessing the degree of accountability, the following considerations should apply:

- If a receiving entity falls under the audit scope of the Auditor-General (e.g. a provincial department, municipality or public entity), then the transferring accounting officer is not expected to maintain micro-control once the transfers are effected, as the receiving authority should be accountable for the actual spending. This does not however absolve the transferring accounting officer from putting in place a basic monitoring mechanism for some of these transfers (e.g. conditional grants).
- If a receiving entity (excluding households) does not fall under the audit scope of the Auditor-General (e.g. welfare society or NGO), the accounting officer has a greater responsibility to ensure that proper auditing and internal arrangements are in place in that entity. The accounting officer never ceases to be responsible after the transfer of funds, and should therefore assume that a regular monitoring mechanism must be in place to ensure that proper accountability mechanisms and recourse are in place.

*Avoiding unnecessary delays*

Should national departments delay approved transfer payments, service delivery may be compromised. While the *Regulations* specifically require accounting officers making transfer payments to organisations (but not to households) to ensure that the money is used effectively, this must not cause unnecessary delays in the transfer. Payment schedules should be finalised before the financial year begins.

*Fiscal dumping*

Accounting officers must not transfer funds (to a province, municipality, public entity or NGO) to conceal underspending in their own departments (fiscal dumping); this may constitute financial misconduct. Any intentions to transfer should be outlined during the budget preparation process, before the financial year begins. The recipient organisation must be encouraged to have plans in place for spending the funds before the financial year commences.

## Division of Revenue grants

Accounting officers transferring grants must eliminate any ambiguity as to which department or municipality will be audited for spending such transfers. The basic considerations are that:

- The allocation must be on the budget of the entity responsible for spending, and which will be audited. Unless otherwise approved by the relevant treasury, the spending department should be the beneficiary province or municipality.

- Original documents must be kept with the responsible spending entity, for audit purposes.
- Procurement must be in terms of the responsible spending entity's procedures.
- The spending entity will be expected to take over ownership and future maintenance responsibilities.

Where any of these considerations apply, the grant should be treated as a transfer, and the transferring accounting officer is accountable only for the transfer itself: the receiving accounting officer will be responsible for the actual spending.

*Grants-in-kind*

However, there are grants where the beneficiary is not the spending agency (for example, grants-in-kind, which are benefits rather than cash transfers). These are transitional and are being phased out, as they should be on the budget of the benefiting province or municipality. Grants-in-kind must be reported in terms of sections 9 and 10 of the DoRA, which set out special reporting requirements for agency payments and capital grants.

For example, a national department that builds a provincial road transfers a benefit to the province as, even if the national department undertakes construction and procurement, the ownership or maintenance responsibility will reside with the province. Accounting officers transferring a benefit in kind to another sphere must seek the prior written approval of the relevant treasury, and report the matter to the national Treasury in terms of sections 9 and 10 of DoRA.

An accounting officer receiving a grant or benefit in kind must ensure that future commitments are taken into account.

*Agency payments*

Agency payments, however, are not transfers, and full accountability for spending these funds always resides with the transferring accounting-officer. Agency funds should *not* be on the budget of the entity performing the agency service, but should rather be treated in the same way as an outsourced service (for which the agency performing the service may, with prior approval, charge a fee). The agency agreement must comply with the DoRA, and all such agreements must be reported to the relevant treasury. The transferring accounting officer is responsible for ensuring that funds are only deposited in bank accounts which have been authorised by the relevant treasury.

An accounting officer should not accept an agency payment without a good reason: any permanent employment created in relation to an agency payment may leave the department with long-term commitments.

*Transfers by provinces to municipalities*

Transfers (in whatever form) by provincial accounting-officers to municipalities must be reported monthly in terms of the DoRA, and provincial treasuries are expected to ensure that normal cash management arrangements apply. These reports will include grants such as health and ambulance subsidies, or for municipal infrastructure, housing, roads etc.

*Stringent reporting requirements*

Accounting officers of departments making or receiving grants to or from other spheres of government in terms of the annual DoRA must comply with the reporting requirements of that Act (see Chapter 4), which includes a requirement to monitor the actual expenditure of funds. These reports should be submitted together with the monthly reports required by the PFMA, as part of a single reporting process.

No transfer, grant or agency payment can be made outside the terms of the DoRA. Any such payment will constitute unauthorised expenditure, unless it has been gazetted before funds are transferred. The national Treasury will only grant approval for items to be gazetted in exceptional circumstances.

## Other transfer payments

Transfer payments are typically made to assist other levels of government or non-government entities in delivering outputs and achieving objectives that would not otherwise be feasible. (They may also be made direct to individuals to meet the welfare, educational or other objectives of national Government.) Efficiency, effectiveness, economy and transparency in the use of the money by the end users are as important as they are for Government's own programme delivery. For this reason, accounting officers, through their CFOs, must ensure that entities receiving government money have appropriate financial management and control systems.

*Requirements before transferring funds*

Before funds are transferred to an entity (not to a household or individual) outside Government, the accounting officer must obtain the most recent audited statement and annual report, together with a written assurance that the entity has or will implement effective, efficient and transparent financial management and control systems. Where this assurance is not forthcoming, the transfer must be subject to conditions and remedial measures requiring the entity to establish and implement such systems. Should the accounting officer make a transfer having failed to insist on such measures, he or she may be liable to a charge of financial misconduct.

Education legislation requires that individual schools receive 'grants', and similar circumstances apply to hospitals and clinics. A number of matters remain to be addressed in this area, and hence an accounting officer transferring funds to a school, hospital or clinic may delay implementation of this clause, but not beyond 31 January 2001.

# 10

# Cash and banking

## Cash management

Accounting officers have to establish systems, procedures, processes and training to ensure sound cash management and banking. When departments provide reliable forecasts of the timing and amounts of material cash payments and receipts, they mitigate the risk that the national Treasury may have insufficient funds to meet Government's cash flow needs. Poor cash management may include:

- Failure to collect revenues promptly, or at all
- Failure to bank money as soon as possible
- Failure to pursue debtors with due rigour
- Failure to sell surplus or underperforming assets
- Maintaining stocks at levels higher than required for efficient programme delivery
- Making transfer payments ahead of schedule or other payments ahead of their due date
- Failing to forecast the timing and amounts of material cash flows

## Banking practices

Good cash management and responsible banking practices go hand in hand. For instance, the timely collection of revenues can be partly nullified if the money is not banked immediately, as revenue is not available to Government unless it has been deposited into the Paymaster-General's account.

*Revenue collection arrangements*

The ease with which officials can promptly deposit money into the Paymaster-General's account will depend on the accessibility of the account. This will, in turn, depend on revenue collection arrangements, such as the use of agencies or payments by credit card. Accounting officers and CFOs should critically evaluate these options to ensure the best combination of collection and banking arrangements. Collection agency agreements should include provision for the prompt depositing of government money into the Paymaster-General's account.

## Bank accounts

Departments may not open a bank account without the written approval of the relevant treasury. Previous approvals continue to apply unless revoked, as long as they are listed. Departments that are authorised to open a bank account may only do so at a bank registered in South Africa and approved in writing by the national Treasury, after prescribed tendering procedures have been followed.

Should the accounting officer require a separate bank account, the relevant treasury may approve this as a subaccount within the Paymaster-General account of the revenue fund.

Money deposited into the Paymaster-General account must immediately be available to the relevant treasury for spending or investment according to its central cash management responsibilities.

## Responsibilities of departments

The accounting officer, through the CFO, is responsible for establishing systems, procedures, processes and training and awareness programmes to ensure efficient and effective banking and cash management. These arrangements include:

- Making payments, including transfers to other levels of government or non-government entities, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and Government's normal terms for account payments
- Ensuring that all money collected by a department is paid into the department's Paymaster-General account and accounted for in its ledger
- Avoiding prepayments for goods or services (i.e. payments in advance of the receipt of the goods or services), unless required by contractual arrangements with the supplier
- Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury
- Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by Government are collected and banked promptly
- Accurately forecasting the department's cash flow requirements so that the national Treasury can optimise its central cash management responsibilities on behalf of Government
- Taking any other action that avoids locking up money unnecessarily, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or underutilised assets

The CFO must ensure that the department's systems, records and statements of procedures meet the purposes of sound cash management. He or she must monitor cash management performance and report to the accounting officer, in writing, at least monthly.

### Requisitioning of funds by departments

When requesting the transfer of appropriated funds, accounting officers of national departments must submit their requisitions (in accordance with approved cash flow estimates) to the national Treasury at least four full working days before the end of the month. Provincial treasuries may determine their own timescales.

At the end of each financial year, and after the accounts of a department have been closed, the accounting officer must surrender to the relevant treasury any unexpended voted money for redepositing into the Exchequer bank account of the relevant revenue fund.

### Warrant vouchers, cheques and electronic payments

As numerous problems have been experienced in this area, detailed requirements for accounting officers are set out in Chapter 15 of the *Regulations*.

### Responsibility for trust money and property

Money held in trust (that is, money or property held by a department on behalf of other persons or entities) should not be mixed with the trustee's own money. Hence, the accounting officer must maintain a separate bank account for each portion of trust money, maintain individual accounting records for each account, and annually prepare separate financial statements.

The accounting officer, through the CFO or a duly authorised agent, is responsible for the safekeeping and proper use of trust money and property in accordance with the relevant deed of trust or its equivalent.

Without breaking the terms of the trust arrangement, the accounting officer may invest trust money as may seem appropriate. Any proceeds will revert to the trust.

# 11

# Miscellaneous

## Basic accounting records and related issues

The *Regulations* require each department to maintain a 'main ledger' for all voted money under its control, including certain control accounts. All transactions must be supported by authentic and verifiable source documents that clearly indicate the approved accounting allocation.

*Use of control accounts*

Only in exceptional circumstances should it be necessary to account for revenue and expenditure transactions in a control account. Such amounts must be cleared and correctly allocated to the relevant cost centres each month, and any uncleared items must be reported to the CFO.

*Availability of financial information*

Accounting officers must, subject to the provisions of the National Archives of South Africa Act, 1996, retain *all* financial information in its original form for 12 months after the audit report for the financial year has been tabled. Information that relates to more than one financial year must be retained for 12 months beyond the date of the audit report for the last relevant financial year. For certain types of records, longer periods are specified in Part 7 of the *Regulations*.

After the expiry of the these retention periods, the information may be secured in an alternative form that maintains the integrity and reliability of the data and ensures that the information can be reproduced, if necessary, as permissible evidence in a court of law.

*Changes to financial systems*

Departments may not amend existing or institute new computerised systems that will affect financial administration without first consulting the national Treasury.

## Trading entities

The accounting officer or a designated official will be the 'head of the trading entity', and must ensure compliance with the Act and the *Regulations*. The head of the trading entity is accountable to the accounting officer of the department operating the entity and must forward the required reports or approvals via this accounting officer.

*Pricing decisions*

In determining charges for goods or services, the head of the trading entity must aim to recover the full cost of providing the goods or services, unless the relevant treasury approves lower charges. Trading entities must justify their pricing decisions. The methodology for cost collection and pricing procedures must be documented and costing must reflect all resource components as comprehensively as possible. Trading entities should analyse the impact of changes in any cost components when preparing annual estimates of revenue. Charges should be justifiable based on changes in costs or market conditions.

Appropriate charges will depend on factors such as the nature of the particular service and its market environment. To maintain a level playing field when comparing private sector costs, additional costs incurred by the public sector for regulatory or social policy functions, or any cost privileges (or disadvantages) of the private sector must also be considered.

Where charges do not reflect full costs, trading entities must nevertheless accurately attribute those costs to ensure accountability. Correct identification of costs ensures that the value of a reduction in price is transparent to both supplier and consumer, and allows trading entities to compare the costs of market rates with the full costs of producing or buying a service.

*Bank accounts*

Trading entities allowed to open bank accounts may not borrow for bridging purposes and may not run overdrafts on their banking accounts unless approved otherwise, in writing, by both the accounting officer and the relevant treasury.

*Disposal of assets*

When assets are disposed of other than in the normal course of the business, the relevant treasury must approve the transaction.

*Notification of financial result*

An accounting officer of a department operating a trading entity must, at the end of each financial year and after books of account have been closed, declare any surplus or deficit to the relevant treasury. The treasury may correspondingly reduce any proposed allocation to the trading entity, or require that all or part of the surplus be redeposited into the relevant revenue fund.

*Treatment of deficit*

Where a trading entity suffers a deficit in trading, the relevant accounting officer must investigate whether:

- The head of the trading entity mentioned any foreseeable potential overexpenditure in the monthly reports and adopted appropriate measures to address the deficit
- Financial misconduct and criminal sanctions should be instituted

## Oversight of public entities

The Board of a public entity will hold the fiduciary responsibility for the entity and will be accountable to the Director-General of the department, who will report to the executive authority.

*Additional reporting requirements*

The accounting officer of a department that controls a public entity is required to consider its budget proposals from 2001/02. Additional requirements for monitoring the performance of such entities during the year include specified information for the annual report. In future, annual plans are to be approved by the relevant executive authority.

A department controlling any public entities must include in its annual report a list of such entities, a statement of their functions, as well as the accountability arrangements.

## Commissions and Committees of Inquiry

Taking into account market-related rates, the accounting officer can determine remuneration packages in consultation with the executive authority and after consulting the relevant treasury, provided that:

- The terms of reference include specific times and costs
- The tariffs are reasonable compared to current market tariffs
- Funds are available

## Gifts, donations and sponsorships

To record and control gifts (which includes donations and sponsorships) granted and received by the state, accounting officers must maintain a register of the date, persons involved, detailed descriptions and approvals given (if applicable), and the location or the application of the proceeds. Other requirements include:

- *Granting:* The relevant treasury may approve the granting of gifts of state money and other movable property in the interest of the state provided that, should the amount exceed R100 000, funds must first be voted by the legislature.
- *Acceptance:* The accounting officer may approve the acceptance of any gift to the state, whether in cash or kind. All cash gifts must be paid into the relevant revenue fund.
- *Purpose:* Should the purpose of a gift be unclear, the Minister or the MEC for finance may decide how it should be utilised.
- *Disclosure:* All gifts received during the financial year must be disclosed as a note to the annual financial statements of the department.
- *RDP funds:* Donor funding received in terms of the Reconstruction and Development Fund Act of 1994 must be dealt with as determined by the national Treasury from time to time.
- *Immovable property:* Before offering or accepting any gift of immovable property, a department must obtain approval from the relevant treasury, stating the reasons for and the conditions related to the gift.
- *Identity of donors and sponsors:* When a donor or sponsor requests to remain anonymous, the accounting officer must submit to the relevant treasury a certificate from both the Public Protector and the Auditor-General stating that the identity of the donor or sponsor has been revealed to them, that they have noted it and have no objection. This does not limit the Auditor-General or the Public Protector from supplying this information to their staff and, where they deem it in the public interest, to report on this.

## Payments, refunds and remissions as an act of grace

An act of grace payment is a special gift of money by the state for a 'grace or favour'. Such a payment falls outside any statutory entitlement, government-approved scheme (such as a grant-in-aid) or payment of a legal liability (e.g. a settlement).

An act of grace payment is often a way of providing compensation to an unfairly disadvantaged individual who has no legal claim against the state. However, should the possibility of such a claim exist, no act of grace payment should be made. As each act of grace payment sets a precedent for future requests, accounting officers must exercise this power with discretion.

If more than R100 000 is involved, the accounting officer must seek legislative approval by including the item separately in the estimates. Departments and trading entities should maintain a suitable register of act of grace payments and disclose these as a note to the annual financial statements.

# 12

# Implications for executive authorities

This *Guide* focuses on the responsibilities the Act places on accounting officers, and does not attempt to spell out the role of the executive authority in any detail. However, several Ministers and MECs have requested advice on the implications of the PFMA for executive authorities, and this chapter provides this information in the broad context of the role of a political head of department.

*Scope of the Act*

The Act does not legislate the role of the executive authority, nor the relationship between the executive authority and the legislature: it is assumed that these are best dealt with by political processes. However, PFMA does differentiate between the responsibility of the executive authority for policy and outcomes, and of the accounting officer for achieving outputs and for financial management.

*Role of the political head*

In general terms, the political head of a department may be expected to fulfil a range of functions including:

- *Policy formulation:* The executive authority must take overall responsibility for developing a five-year vision; develop policy and obtain approval for the outcomes within the political collective; and engage with the relevant legislature and portfolio committee.
- *Budget proposals:* The executive authority will oversee and approve departmental budgetary submissions made to the relevant treasury, ensuring that the outputs to be delivered are specified and consistent with the desired (political) outcomes. The outcomes must accord with policy and fit within the MTEF framework. The executive authority and the accounting officer must determine the extent to which departmental activities can be reshaped to fit new priorities in the operational plan, which will form the basis for the accounting officer's performance contract.
- *Monitoring:* During the year, the executive authority will review the accounting officer's progress against the agreed performance contract. This will require the executive authority to examine both budgetary and service delivery information.
- *Oversight of public entities:* The executive authority must ensure that any public entities controlled by the department are listed in the appropriate schedule to the Act. In most cases, the executive authority is in the position of a shareholder and has an arms-length relationship with the public entity. The fiduciary responsibility will lie with the Board, which is accountable to the executive authority via the head of department. In future, annual plans are to be approved by the executive authority. During the year, the performance of the public entity must be monitored.

- *Exercising discipline:* Should the accounting officer commit any offence, the executive authority must ensure that the necessary steps are taken to instigate any investigation.
- *Reporting to Cabinet/Exco:* A variety of reports may be appropriate. Some will be a direct responsibility of the executive authority, such as:
  - Monthly and quarterly financial reports
  - A mid-term performance review
  - Progress against the departmental implementation plan for the PFMA

  In other cases, the executive authority will report to Cabinet/Exco on matters such as concerns raised by the audit committee or Auditor-General (possibly on the progress of the internal audit unit), or the extent to which audit queries have been addressed.

*Contract with accounting officer*

The successful implementation of the PFMA in a department is critically dependent on the relationship between the executive authority and the accounting officer. In line with the initiatives of the Department of Public Service and Administration, the PFMA facilitates this relationship by encouraging an explicit performance contract that clearly specifies outputs.

In addition to preparing and monitoring the performance contract, the executive authority must also consider information required in terms of the Act. Much of this information (monthly and annual reports) is basic to helping the executive authority assess the performance of the head of department (this is spelt out in more detail below). The critical challenge facing executive authorities is to complement these statutory reporting requirements with measures and reports (even if only once a year) on service delivery indicators.

*Political executive*

The role of the executive authority should also be seen in the context of the functioning of Cabinet or a provincial Exco. Such a body may request regular reports for assessing the performance of that Government. For example, the Presidency is considering a system of mid-year reviews for assessing the performance of all national departments.

*Relationship with legislature*

Another important relationship is between the executive authority and the legislature. At national level, Parliament (through the finance and public accounts committees) requires the national Treasury to report on the implementation of the PFMA, and to produce quarterly reports on progress. Provinces may follow similar practices.

*Legal sanctions*

While the sanctions in the Act apply mostly to accounting officers, some, such as unauthorised borrowing or the issuing of a guarantee or security, apply to any person (including an executive authority). A guilty person could face a five-year jail sentence.

*Statutory obligations*

While the Act focuses mostly on the responsibilities of accounting officers, it places some statutory responsibilities on executive authorities. These are described in the following paragraphs and summarised in the table below.

- *Monthly reports:* The executive authority must consider the monthly reports specified in section 32 of the Act. These reports must indicate any undercollection or shortfall in budgeted revenue (as this may impact on the department's ability to spend and therefore deliver services), as well as any overspending (this would eventually become unauthorised expenditure). The report must also project expenditure and revenue for the remainder of the year, and show any remedial action proposed by the accounting officer.
- *Annual report:* The executive authority must table the department's annual report, financial statements and audit report in the relevant legislature. Should this not be achieved within six months of the year-end, a written explanation must be provided to the relevant legislature.
- *Disciplinary board:* Should any disciplinary action for financial misconduct be taken against the accounting officer, the executive authority must table the findings in the relevant legislature.
- *Directive with financial consequence:* When an executive authority issues a directive that has a financial consequence (which will include almost all), this must be put in writing.
- *Public entity*: The executive authority must ensure that all public entities controlled by the department are included in the appropriate schedule to the Act and comply with the timescales for submitting business plans, monitoring reports and annual financial statements.
- *In the case of a payment made under guarantee by a Cabinet Minister:* While only the Minister of Finance may authorise the *issuing* of a guarantee, section 70 requires that a member of Cabinet making a payment under the terms of a guarantee, indemnity or security, reports the fact to the National Assembly.

**Table 7: Statutory responsibilities of executive authorities**

| Responsibility | Actions required | When? | Reference |
|---|---|---|---|
| Monthly reports | Consider monthly reports regarding undercollection or shortfall in budgeted revenue, overspending, the actual financial information for a month and a projection of expenditure and revenue for the year | Monthly | S 63(1)(b) |
| Annual reports | Table the annual report, financial statements and audit report in the relevant legislature | Within a month after audit report received | S 65(1)(a) |
| Written explanation | Table a written explanation in the relevant legislature if failing to submit the information within six months after the end of the year | Within six months of the end of the financial year | S 65(2) |
| Disciplinary board | Table in the relevant legislature the findings of any disciplinary proceedings against an accounting officer for financial misconduct | No specific time stipulated | S 65(1)(b) |
| Directive with financial consequence | Put in writing | No time stipulated | S 64(1) |
| Public entities | Ensure listing in appropriate Schedule to Act. Approve business plan, monitor performance during year, and table financial statements in the legislature | Various | S 46-62 |
| Payments under guarantee by Cabinet Minister | Report to the National Assembly on payments made under guarantees, indemnities or securities issued | At least annually | S 70(4) |

*Other implications*

In addition to the legal requirements above, the PFMA also implies several other responsibilities, mostly in relation to the interaction with and monitoring of the accounting officer. These are as follows:

- The executive authority must agree on a written performance contract with the accounting officer, which ensures that the measurable outputs are consistent with the agreed (political) outcomes. The contract should include a KPI that relates to the financial management of the department.
- The executive authority should monitor and evaluate the performance of the accounting officer against this contract, ensuring that appropriate incentives are in place to encourage good performance.
- Should the accounting officer be in contravention of the Act, the executive authority must initiate appropriate action, including disciplinary procedures, as necessary.
- The executive authority must be satisfied that departmental budget submissions reflect agreed outcomes and policy priorities.
- The executive authority must ensure that the accounting officer manages the department appropriately, conforms to the reporting requirements of the PFMA and achieves progress against the departmental implementation plan.
- Before financial statements are submitted to the Auditor-General, the executive authority must ensure that the audit committee has scrutinised these statements and that they are of a suitable quality.
- The executive authority could submit to the Cabinet/Exco a mid-term (around October) progress report, if so requested by that body.

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# The way forward

## Key success factors

The PFMA is central to improving financial management in the public sector. Financial management reform is being introduced in phases, and larger projects broken down into more manageable subprojects.

The main requirements for successful implementation of the Act are:

- Political will to drive the implementation processes
- Buy-in and unconditional support for the implementation process from top management
- Capacity building in departments and treasuries
- Sufficient resources

The implementation of the PFMA depends on strong, entrepreneurial managers. The reform of the financial management system requires empowered managers to take the initiative in revamping operations, reallocating resources and pointing their departments in new directions. Without strong management, departments may be in a similar position after the reform process, but may have incurred high transaction costs and pose a greater risk to Government.

## National and provincial treasuries

In line with Section 214 of the Constitution, the Act creates a 'national Treasury' (by combining the existing Departments of Finance and State Expenditure). It also establishes nine provincial treasuries.

The Act modernises the role of the treasuries, and shifts their focus from the policing of detailed expenditure control procedures to a more constructive, guidance role in financial matters. Treasuries will play a crucial role in the implementation of the PFMA and in the establishment and maintenance of efficient and effective financial management systems and principles throughout the public sector.

*Role of treasuries*

The Act places a specific duty on the ten treasuries to enforce the PFMA, and this has to be seen in the context of cooperative governance. The national Treasury is responsible for promoting and implementing Government's macroeconomic policy through its oversight of both national and provincial departments (the latter through provincial treasuries). To fulfil this oversight role, current information and monitoring systems are to be improved. The relevant treasury will monitor the implementation of the PFMA within departments, and assist with building capacity to ensure the efficient and effective management of revenue, expenditure, assets and liabilities. The relevant treasury will report progress to Cabinet/Exco, and the national Treasury will monitor the extent to which provincial treasuries fulfil their responsibilities.

*Special Quality-enhancing Projects*

Just as the role of departments changes under the PFMA, so does the role of the treasuries. While the treasuries will provide support to all departments, they cannot be closely involved with implementation in all departments. The treasuries will, however, promote models of best practice and share lessons from the experiences gained from the first phase of the Special Quality-enhancing Projects, which will operate in a number of departments. These pilot projects will focus on finance staff, internal controls and the functioning of newly appointed CFOs, and will run for at least 12 months.

## Capacity building

The PFMA represents a fundamental change in Government's approach to the handling of public finances, as it shifts the emphasis away from a highly centralised system of expenditure control by the treasuries. It holds the heads of departments accountable for the use of resources to deliver services to communities. It will also change the accounting base from cash to accruals. These substantial changes will require finance staff to undergo significant training.

Currently, departments are spending large amounts on training their officials, but they often do not receive value for money. Training frequently fails to meet the real priorities and is rarely coordinated, as:

- Providers are operating in an increasingly commercialised environment and may opportunistically offer programmes of (at best) variable quality on matters they perceive to be topical. A good example is a training course being presented on accrual accounting (GRAP), despite the fact that this has yet to be defined.
- Government has yet to give clear direction to providers about its priorities for training.
- Officials may be sent on inappropriate courses by managers who feel a desperate need to do 'something' to improve performance.

The national Treasury is taking urgent steps, in collaboration with the South African Management Development Institute and the Institute for Public Finance and Auditing, to address training issues in a coherent manner, ensuring that individual needs are defined and courses accredited according to Government's priorities.

# Annexure A
# Exemptions

## Sections of the PFMA to be delayed in terms of section 95(b)

| Section | Contents | Commence-ment date |
|---|---|---|
| 8 & 19 | Arrangements for the preparation, auditing and tabling of annual consolidated financial statements in accordance with GRAP for departments, public entities, constitutional institutions, the South African Reserve Bank, the Office of the Auditor-General, Parliament and the legislatures | 1 April 2003 |
| 13(2) & 22(2) | The exclusion of public entities from paying money into the NRF does not apply to a public entity that is not listed on Schedule 2 or 3 but is required to register in terms of section 47. | 1 April 2001 |
| 15(1)(a)(ii) | Direct charges arrangements | 31 August 2001 |
| 18(2)(a) | A provincial treasury must issue treasury instructions. | 31 August 2001 |
| 27(3)(e) | Inclusion of estimates of revenue excluded in terms of sections 13(1) or 22(1) from the relevant revenue fund for a financial year | 31 August 2001 |
| 27(4) | When the annual budget is introduced in the legislature, the accounting officer for each department must submit *measurable objectives* for each main division within the department's vote. | 1 August 2002 |
| 38(2) | Accounting officers may not commit a department, trading entity or constitutional institution to a liability for which money has not been appropriated. | 31 August 2001 |
| 52 | Annual budget and corporate plan by Schedule 2 public entities and government business enterprises | 1 April 2001 |
| 66(3) | Only specific persons in a public entity may borrow money, or issue a guarantee, indemnity or security, or enter into any transaction binding that public entity to any future financial commitment. | 1 April 2001 |
| 66(7)(b) | Public entities that are authorised to borrow money may not borrow in a foreign currency above a prescribed limit, except where that public entity is a company in which the state is the only shareholder. | 1 April 2001 |
| 70(1)(b) | A Cabinet member, with the written concurrence of the Minister, may issue a guarantee, indemnity or security that binds a national public entity in respect of a financial commitment. | 1 April 2001 |

## Institutions exempted from sections of the PFMA, in terms of section 92

| Section | Contents | Institution exempted | Extent of exemption |
|---|---|---|---|
| 7(1) | National Treasury must prescribe a framework within which departments, public entities (Schedule 3) and constitutional institutions must conduct their cash management. | Public entities listed in Schedule 3 of the Act | Exemption from the whole section until 1 January 2001 |
| 38(1)(j) | Accounting officers must obtain a written assurance that entities receiving transfer payments are implementing effective, efficient and transparent financial management and internal control systems | Provincial health departments | Transfer payments to hospitals and clinics are exempted until 31 January 2001. |

| | | | |
|---|---|---|---|
| 38(1)(j) | Accounting officers must obtain a written assurance that entities receiving transfer payments are implementing effective, efficient and transparent financial management and internal control systems. | Provincial education departments | Transfer payments to schools are exempted until 31 January 2001 |
| 40(3)(a) | The annual report and financial statements of a department must fairly represent its performance against predetermined objectives. | All departments, trading entities and constitutional institutions | Exemption until 1 April 2002 |
| 66(1) | An institution may not borrow money or issue a guarantee. | Public entities listed in Schedules 2 & 3 | Exemption from the whole section until 1 April 2001 |

# Annexure B
# Reporting formats

## ACTUAL AND PROJECTED EXPENDITURE AND REVENUE

Vote :

| PROGRAMME<br>1 | April<br>2 | May<br>3 | June<br>4 | July<br>5 | August<br>6 | Sept<br>7 | October<br>8 | Novem<br>9 | Dec<br>10 | Jan<br>11 | Feb<br>12 | March<br>13 | Total<br>Expenditure<br>14 | Projected<br>Expenditure<br>15 | Total<br>Expected<br>16 | Budget<br>(Including<br>17 | Adjust-<br>ments<br>18 | Available<br>funds<br>19 | Variance Between<br>Available Funds<br>20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| EXPENDITURE | | | | | | | | | | | | | | | | | | | |
| Programme 1: Administration | | | | | | | | | | | | | | | | | | | |
| Programme 2: | | | | | | | | | | | | | | | | | | | |
| Programme 3: | | | | | | | | | | | | | | | | | | | |
| etc. | | | | | | | | | | | | | | | | | | | |
| Statutory amounts | | | | | | | | | | | | | | | | | | | |
| TOTAL EXPENDITURE | | | | | | | | | | | | | | | | | | | |
| STANDARD ITEM | | | | | | | | | | | | | | | | | | | |
| EXPENDITURE | | | | | | | | | | | | | | | | | | | |
| Personnel expenditure | | | | | | | | | | | | | | | | | | | |
| Administrative expenditure | | | | | | | | | | | | | | | | | | | |
| Stores and livestock | | | | | | | | | | | | | | | | | | | |
| Equipment | | | | | | | | | | | | | | | | | | | |
| Professional end special services | | | | | | | | | | | | | | | | | | | |
| Land and buildings | | | | | | | | | | | | | | | | | | | |
| Transfer payments | | | | | | | | | | | | | | | | | | | |
| Miscellaneous expenditure | | | | | | | | | | | | | | | | | | | |
| Statutory amounts | | | | | | | | | | | | | | | | | | | |
| TOTAL EXPENDITURE | | | | | | | | | | | | | | | | | | | |
| ECONOMIC CLASSIFICATION | | | | | | | | | | | | | | | | | | | |
| Current expenditure | | | | | | | | | | | | | | | | | | | |
| Capital expenditure | | | | | | | | | | | | | | | | | | | |
| TOTAL EXPENDITURE | | | | | | | | | | | | | | | | | | | |
| DEPARTMENTAL REVENUE | | | | | | | | | | | | | | | | | | | |
| Sale of products | | | | | | | | | | | | | | | | | | | |
| Monies prescribed by law | | | | | | | | | | | | | | | | | | | |
| Registration and inspection fees | | | | | | | | | | | | | | | | | | | |
| Fines and forfeitures | | | | | | | | | | | | | | | | | | | |
| Pension contribution | | | | | | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | | | | | | | |
| Monies not prescribed by law | | | | | | | | | | | | | | | | | | | |
| Leasing | | | | | | | | | | | | | | | | | | | |
| Domestic services | | | | | | | | | | | | | | | | | | | |
| Profits on trading accounts | | | | | | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | | | | | | | |
| Miscellaneous revenue | | | | | | | | | | | | | | | | | | | |
| Recoveries | | | | | | | | | | | | | | | | | | | |
| Unspecified | | | | | | | | | | | | | | | | | | | |
| TOTAL REVENUE | | | | | | | | | | | | | | | | | | | |

Columns 2 - 13: Actual expenditure and departmental revenue per month to date of reporting and projections for the remaining months.
Column 14 : Total actual expenditure and departmental revenue to date.
Column 15 : Total projected expenditure and departmental revenue (excluding months for which actual figures were indicated).
Column 16 : Total expected expenditure and departmental revenue (Columns 14 + 15).
Column 17 : Budgeted amount according to Printed Estimate of Expenditure (Blue Book) plus Adjustments Estimate.
Column 18 : Virement and suspensions.
Column 19 : Total funds available.
Column 20 : Variance between Available Funds (Column 19) and Total expected expenditure (Column 16). Savings = Positive, Over expenditure = Negative.
The variances on departmental revenue will be as follows: Higher receiptes than budgeted = Negative, Under collection = Positive.

Note:
Reasons for deviations (column 20) and how excesses will be dealt with must be indicated on a separate sheet.

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ACCOUNTING OFFICER
hnxl2635

MONTHLY REPORTING: 2000/01

| EXPENDITURE | ACTUAL | | PROJECTION | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | Actual APR to end of MAY | Proj JUNE to end MARCH | Total 2000/01 | Budget 2000/01 | Adjust-ments | Adjusted Budget | (Over)/ Under Adjusted Budget |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| **VOTE NAME** | | | | | | | | | | | | | | | | | | | |
| Programme | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Programme | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Programme | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Programme | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Programme | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Programme | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Programme | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Programme | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Programme | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Programme | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Programme | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Programme | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| **TOTAL EXPENDITURE** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Current | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Capital | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| **TOTAL EXPENDITURE** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

| EXPENDITURE | ACTUAL | | PROJECTION | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | Actual Apr'00 to end of May'00 | Proj Jun'00 to end Mar'01 | Total 2000/01 | Budget 2000/01 | Adjust-ments | Adjusted Budget | (Over)/ Under Adjusted Budget |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| **STANDARD ITEMS** | | | | | | | | | | | | | | | | | | | |
| Personnel Expenditure | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Administrative Expenditure | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Inventories | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Equipment | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Land and Buildings | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Professional and Special Services | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Transfer Payments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Miscellaneous Expenditure | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | | | | |
| **BUDGETED EXPENDITURE** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

I …………………………………………………………………………… certify that I have ensured that funds have been used properly, accounted for, and spent in accordance with the purposes as indicated in the provincial budget.

……………………………………………..….. (name)
HEAD OF DEPARTMENT

PROVINCE

PROJECTED AND ACTUAL EXPENDITURE, REVENUE AND BORROWINGS

| EXPENDITURE 1 | April 2 | May 3 | June 4 | July 5 | August 6 | Sept 7 | Oct 8 | Nov 9 | Dec 10 | Jan 11 | Feb 12 | March 13 | Total Expendi-ture to End of 14 | Projec-ted Expen-diture from to 15 | Total 2000/01 16 | Budget 2000/01 17 | Adjust-ments 18 | Adjusted Budget 19 | (Over)/ Under Adjusted Budget 20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 |
| **DEPARTMENT** | | | | | | | | | | | | | | | | | | | |
| PREMIER | | | | | | | | | | | | | | | | | | | |
| Current | | | | | | | | | | | | | | | | | | | |
| Capital | | | | | | | | | | | | | | | | | | | |
| PROVINCIAL LEGISLATURE | | | | | | | | | | | | | | | | | | | |
| Current | | | | | | | | | | | | | | | | | | | |
| Capital | | | | | | | | | | | | | | | | | | | |
| FINANCE | | | | | | | | | | | | | | | | | | | |
| Current | | | | | | | | | | | | | | | | | | | |
| Capital | | | | | | | | | | | | | | | | | | | |
| HEALTH | | | | | | | | | | | | | | | | | | | |
| Current | | | | | | | | | | | | | | | | | | | |
| Capital | | | | | | | | | | | | | | | | | | | |
| WELFARE | | | | | | | | | | | | | | | | | | | |
| Current | | | | | | | | | | | | | | | | | | | |
| Capital | | | | | | | | | | | | | | | | | | | |
| EDUCATION | | | | | | | | | | | | | | | | | | | |
| Current | | | | | | | | | | | | | | | | | | | |
| Capital | | | | | | | | | | | | | | | | | | | |
| Other departments to be listed | | | | | | | | | | | | | | | | | | | |
| **BUDGETED EXPENDITURE** | | | | | | | | | | | | | | | | | | | |
| **STANDARD ITEM** | | | | | | | | | | | | | | | | | | | |
| Personnel expenditure | | | | | | | | | | | | | | | | | | | |
| Administrative expenditure | | | | | | | | | | | | | | | | | | | |
| Inventories | | | | | | | | | | | | | | | | | | | |
| Equipment | | | | | | | | | | | | | | | | | | | |
| Professional and special services | | | | | | | | | | | | | | | | | | | |
| Transfer payments | | | | | | | | | | | | | | | | | | | |
| Miscellaneous expenditure | | | | | | | | | | | | | | | | | | | |
| **BUDGETED EXPENDITURE** | | | | | | | | | | | | | | | | | | | |
| **REVENUE** | | | | | | | | | | | | | | | | | | | |
| Equitable share | | | | | | | | | | | | | | | | | | | |
| Conditional grants: | | | | | | | | | | | | | | | | | | | |
| - Supplementary allocation - Finance | | | | | | | | | | | | | | | | | | | |
| - R293m town personnel - Const. Development | | | | | | | | | | | | | | | | | | | |
| - Financial Management - Education | | | | | | | | | | | | | | | | | | | |
| - Training and Research - Health | | | | | | | | | | | | | | | | | | | |
| - Central hospital services - Health | | | | | | | | | | | | | | | | | | | |
| - Umtata and Durban Academic - Health | | | | | | | | | | | | | | | | | | | |
| - Primary school nutrition - Health | | | | | | | | | | | | | | | | | | | |
| - Manpower training centres - Labour | | | | | | | | | | | | | | | | | | | |
| - Land development objectives - Land Affairs | | | | | | | | | | | | | | | | | | | |
| - Management support prog - Const. Development | | | | | | | | | | | | | | | | | | | |
| Own revenue | | | | | | | | | | | | | | | | | | | |
| National roll-overs (conditional grants) | | | | | | | | | | | | | | | | | | | |
| **TOTAL REVENUE** | | | | | | | | | | | | | | | | | | | |

I …………………………………………………………………… certify that the amounts set out per department have been checked and verified where necessary.

……………………………………….….. (name)
HEAD OF TREASURY

| BORROWINGS 1 | April 2 | May 3 | June 4 | July 5 | August 6 | Sept 7 | Oct 8 | Nov 9 | Dec 10 | Jan 11 | Feb 12 | March 13 | Total Expendi-ture to End of 14 | Projec-ted Expen-diture from to 15 | Total 2000/01 16 | Budget 2000/01 17 | Adjust-ments 18 | Adjusted Budget 19 | (Over)/ Under Adjusted Budget 20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 | R' 000 |
| Details of borrowing requirements | | | | | | | | | | | | | | | | | | | |

Main Adj. Projec-

## Division of Revenue Act 2000 - Section 7 (8)

## Schedule 3A and 3C – (Grants spent by province directly, and not transferred to a municipality)

**Grant** ____________________________**Province**______________________ **Month**_________________________ **Year**________________________

**Financial Information**

| For the Month | | Total Transfers and Expenditure To-date | | | Annual Allocation | | Committed at end of Month | Projected Rollover |
|---|---|---|---|---|---|---|---|---|
| Received<br>R'000 | Spent<br>R'000 | Scheduled for Transfer<br>R'000 | Received<br>R'000 | Expenditure<br>R'000 | Budget<br>R'000 | Current Forecast<br>R'000 | R'000 | R'000 |
| | | | | | | | | |

**Variances:** *If Current Forecast differs from Annual Allocation, then include here an explanation. Also identify any measures to be taken to rectify this.*

| |
|---|
| |

**Variances:** *If expenditure to date differs from amounts received, then include here an explanation. Also identify any measures to be taken to rectify this.*

| |
|---|
| |

**Compliance Summary**: *Include here summary information about how the municipalities are complying with the conditions of the grant.*

| |
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| |

**General Comments**

| |
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| |

I…………………………………………………..the accounting officer of the provincial department certify that I have ensured that funds have been used as agreed, and spent in accordance with the purpose and conditions of the grant as per requirements of Section 7(7) of the Division of Revenue Act.

…………………..…………

**PROVINCIAL RECEIVING OFFICER**

**..…/…...../……..**

(Note: This report must be completed and provided to the head official of the provincial treasury and to the transferring national officer within ten working days of the end of each month. Provincial Receiving Officer refers the Accounting Officer of the receiving department)

# Conditional Grants to Provinces and Municipalities

## Quarterly Report by Transferring National Department to National Treasury

Division of Revenue Act 2000 - Section 7 (10)

Schedule 3A, 3B and 3C – Grants to Provinces and Municipalities

Grant___________________ National Department _________________ Quarter Ending__________________ Year_______________

**Financial Information**

| Province/Municipality | For the Quarter | | Total Transfers and Expenditure To-date | | | Annual Allocations | | Committed end of Quarter R'000 | Projected Rollover R'000 |
|---|---|---|---|---|---|---|---|---|---|
| | Transferred R'000 | Expenditure R'000 | Scheduled for Transfer R'000 | Transferred R'000 | Expenditure R'000 | Budget R'000 | Current Forecast R'000 | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |

**Variance**: *If Current Forecast differs from Annual Allocation, then include here an explanation. Also identify any measures to be taken to rectify this.*

| Province/Municipality | Explanation of Variations and Measures |
|---|---|
| | |
| | |

**Variance**: *If expenditure to-date differs from amounts transferred, then include here an explanation. Also identify any measures to be taken to rectify this.*

| Province/Municipality | Explanation of Variations and Measures |
|---|---|
| | |
| | |

**Compliance Summary:** *Include here summary information about how provinces/municipalities are complying with the conditions of the grant.*

| |
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| |

**General Comments on transfers and expenditure of this grant**

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|---|
| |

I………………………………………………. the national accounting officer certify that I have received reports from Receiving Provincial Officers or Receiving Municipal officers and certifying that funds have been used properly, accounted for, and spent in accordance with the purpose and conditions of the grant as per requirements of Section 7(7) of the Division of Revenue Act.

**……………………………..**

**TRANSFERRING NATIONAL OFFICER**

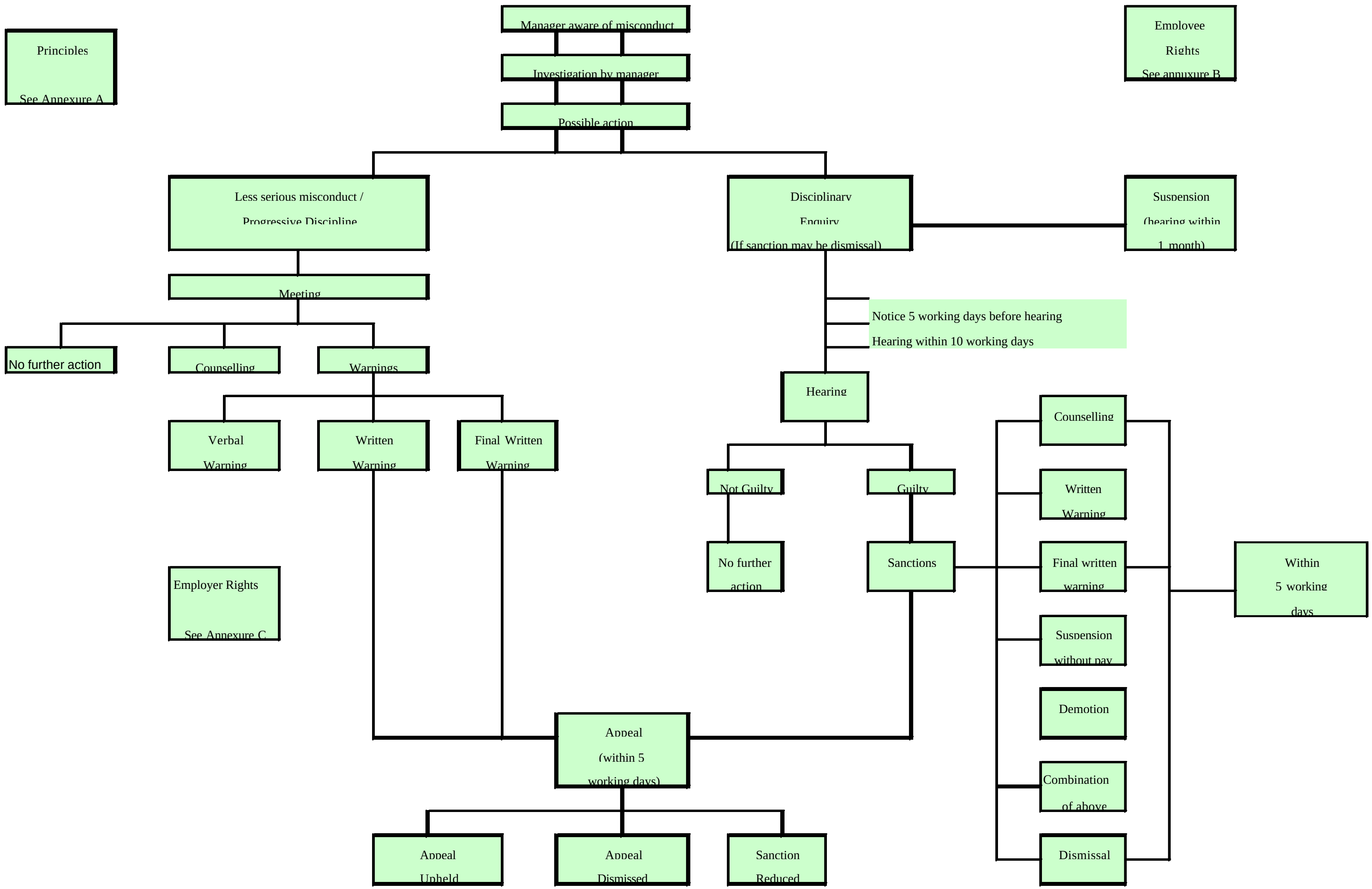
**…..../..…./…….**

(Note: This report must be forwarded to the Director-General, Department of Finance, no later than the fifteenth working day after the end of the quarter.

Transferring National Officer refers to the Accounting Officer of the transferring national department)

# Annexure C
# Disciplinary procedures

# NEW DISCIPLINARY CODE AND PROCEDURE FOR THE PUBLIC SERVICE



# Annexure D
# Structure of the PFMA

The contents of the 12 chapters of the PFMA are summarised below, as are the *Treasury Regulations*.

## Public Finance Management Act

1. *Interpretation, objective, application and amendment of the Act (sections 1–4):* This chapter deals with definitions, the objectives of the PFMA, the departments to which it applies and a procedure for amending the Act. The PFMA applies to national and provincial departments, and to the entities under their control. The definitions of ownership control, national government business enterprise and public entity determine which entities fall under the control of a national or provincial executive authority.

2. *National Treasury and National Revenue Fund (sections 5–16):* This chapter establishes the national Treasury and deals with its composition, functions, powers and responsibilities. It gives effect to section 213 of the Constitution on the management of the NRF, any exclusions to depositing money received, and the authorisation required before any money can be withdrawn from the NRF.

3. *Provincial treasuries and provincial revenue funds (sections 17–25):* It establishes provincial treasuries and deals with their composition, powers and functions, and the management of provincial revenue funds.

4. *National and provincial budgets (sections 26–35):* It gives effect to section 215 of the Constitution on the timing and content of national and provincial budgets, and sets out the reporting requirements for transparency in the implementation of a budget. It introduces the concept of measures and objectives, and deals with the authorisation of unauthorised expenditure.

5. *Departments and constitutional institutions (sections 36–45):* This chapter ensures that constitutional institutions and national and provincial departments appoint accounting officers, and spells out their responsibilities. It also addresses the shifting of funds between programmes and the responsibilities of other officials.

6. *Public entities (sections 46–62):* All public entities are to be listed in terms of the PFMA. The chapter outlines the fiduciary and other responsibilities of the controlling bodies. Furthermore, it assigns certain responsibilities to the accounting officer of the department, as designated by the executive authority responsible for the public entity.

7. *Executive authorities (sections 63–65):* Executive authorities are defined as Ministers or MECs responsible for a department. This chapter deals with the responsibilities of the executive authorities of departments.

8. *Loans, guarantees and other commitments (sections 66–75):* This chapter outlines general principles on borrowing and the issuing of guarantees. It gives effect to section 218 of the Constitution on the issuing of guarantees.

9. *General Treasury matters (sections 76–80):* It lists areas over which the national Treasury is empowered to issue uniform norms and standards, and deals with the composition of audit committees.

10. *Financial misconduct (sections 81–86):* It defines financial misconduct and lays down the procedures for disciplining public officials guilty of financial misconduct. It also includes provisions for criminal prosecution in cases of gross financial misconduct.

11. *Accounting Standards Board (sections 87–91):* An Accounting Standards Board is to be established to set accounting standards for the public sector. The chapter also deals with the composition, powers and functions of the Board.

12. *Miscellaneous (sections 92–95):* It deals with sundry matters, including exemptions and transitional provisions.

## Treasury regulations for departments and constitutional institutions

1. *Definitions and application (Chapter 1):* These regulations relate to departments and constitutional institutions, and to the South African Revenue Services in so far as it collects and administers state revenue. Public entities are covered by a separate set of regulations issued under the Act.

2. *Management arrangements (Chapters 2–4):* This part addresses corporate management issues, including the appointment of a CFO and arrangements for internal audit and the audit committee. Chapter 4 relates to financial misconduct.

3. *Planning and budgeting (Chapters 5 & 6):* It sets out the requirements and time-frame for quantifying strategic plans over the MTEF period, as well as the arrangements for virement, rollovers and adjustments budgets.

4. *Revenue and expenditure management (Chapters 7–9):* The accounting officer's responsibilities in respect of revenue management, authorising and controlling expenditure (including transfer payments) are set out. Chapter 9 deals with unauthorised, irregular, fruitless and wasteful expenditure.

5. *Assets and liability management (Chapters 10–14):* Frameworks are provided for managing revenue due to the state, arranging for payments from debtors, dealing with assets and liabilities, and managing losses and claims. Chapter 13 sets out arrangements for loans, guarantees and other commitments, and Chapter 14 deals with money and property held in trust.

6. *Frameworks (Chapters 15 & 16):* Detailed frameworks are provided to cover banking, cash management and investment, and public-private partnerships.

7. *Accounting and reporting requirements (Chapters 17 & 18):* The requirements for maintaining accounting records, and the formats for annual financial statements and various other reports are contained in this part of the *Regulations*.

8. *Miscellaneous (Chapters 19–23):* This part deals with sundry matters, including the operation of trading entities; commissions and committees of inquiry; payments, gifts, donations and sponsorships; refunds and remissions as an act of grace; and the repeal of legislation.

## Payroll deduction regulation

This regulation prohibits discretionary deductions from the salary of an employee on the Persal system.

# Annexure E
# Glossary

| | |
|---|---|
| *Accounting officer* | The head of a department or the chief executive officer of a constitutional institution |
| *Accrual accounting* | A system of accounting in which items are brought to account as they are earned or incurred and not as money is received or paid |
| *Benchmarking* | A process of systematically measuring and comparing the products, services and processes of an organisation, internally and against other relevant organisations, and adopting the best practices |
| *Budget* | A systematic indication of the resources needed by and allocated to each organisational unit for carrying out its part of the strategic plan |
| *Budgeting* | The process of expressing, in numerical terms, a set of planned activities for a coming period |
| *Cash flow statement* | A financial statement that shows, for a financial period, the sources of cash inflows and how the cash was used, distinguishing between operating, investing or financing activities |
| *Change management* | The process of aligning an organisation's people and culture with changes in organisational strategy, structure, systems and processes |
| *Department* | A national or provincial government department, or a constitutional institution |
| *Effectiveness* | The extent to which policy objectives, operational goals and other intended effects are achieved |
| *Executive authority* | • In relation to a national department, the Cabinet member who is accountable to Parliament for that department<br>• In relation to a provincial department, the MEC who is accountable to the provincial legislature for that department |
| *Financial management* | In the public sector, financial management focuses on transparency, prioritisation of scarce resources and value for money, i.e. providing the best possible services with the available resources. |
| *Financial statements* | Such statements consist of at least:<br>• A balance sheet<br>• An income statement<br>• A cash flow statement<br>• Any other statements that may be prescribed<br>• Any notes to these statements |
| *Financial year* | The period 1 April to 31 March |
| *Fruitless and wasteful expenditure* | Expenditure that was made in vain and that could have been avoided had reasonable care been exercised |

| | |
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| *Generally recognised accounting practice* | Accounting practice complying in material aspects with standards issued by the Accounting Standards Board |
| *Irregular expenditure* | Expenditure, other than unauthorised expenditure, incurred in contravention of or not in accordance with a requirement of any applicable legislation, including:<br>• The PFMA<br>• The State Tender Board Act of 1968 or any regulations in terms of that Act<br>• Provincial legislation on procurement procedures |
| *Key performance indicator* | Key measures of performance for an organisation or business unit within an organisation; indicators of the critical success factors for the organisation |
| *Main division within a vote* | One of the main segments into which a vote is divided and which:<br>• Specifies the total amount that is appropriated for the items under that segment<br>• Is approved by Parliament or a provincial legislature as part of the vote |
| *MEC for finance* | The Member of the Executive Council of a province who is responsible for finance in the province |
| *Minister* | The Minister of Finance |
| *National Treasury* | Consists of:<br>• The Minister of Finance, who is the head of the national Treasury<br>• The national department formed by the merger of the Departments of Finance and State Expenditure |
| *Operational plan* | The first year of the multi-year strategic plan, setting out specific actions to enable the organisation to achieve its overall strategic plan targets |
| *Outcomes* | The impact of government activity on society |
| *Outputs* | The products and services directly produced by an agency and delivered to external users |
| *Provincial treasury* | Consists of:<br>• The MEC for finance in the province, who is the head of the provincial treasury<br>• The provincial department responsible for financial matters in the province |
| *Risk management* | The systematic application of management policies, procedures and practices to the tasks of identifying, analysing, assessing, treating and monitoring risk. This includes quantifying and assessing actual and potential risks and their associated losses, and developing management strategies to either assume control or eliminate these risks and losses. |
| *Service delivery indicator* | A quantification related to a specific function, included in a department's service delivery improvement programme and used to monitor performance |

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| *Stakeholder* | Any person or group who has an interest in or is affected, even unwittingly, by a particular issue |
| *Targets* | Quantified performance levels or changes in the level of performance to be attained at a specific future date |
| *Treasury* | The national Treasury or a provincial treasury, as may be appropriate in the circumstances |
| *Unauthorised expenditure* | Either of the following:<br>• Overspending of a vote or of a main division within a vote<br>• Expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division |
| *Vote* | One of the main segments into which an appropriation Act is divided and which:<br>• Specifies the total amount that is to be appropriated, usually per department, in an appropriation Act<br>• Is separately approved by Parliament or a provincial legislature before it approves the relevant draft appropriation Act |