ANNEXURE B

USER MANUAL FOR APPLICATION OF NORMATIVE MEASURES

The purpose of designing / establishing the normative measure questionnaire in this format is to enable the accounting officer to establish to what extent his financial and procurement and provisioning components are functioning to required and predetermined standards.

Chief financial officers must design supplementary measurement standards to support the normative measures to be evaluated by the accounting officer. These supplementary measurement standards would obviously differ per department and level off application.

The following must be seen as a guideline on how the basic measurement question must be interpreted:

A MANAGEMENT ARRANGEMENTS

Reference	Remarks
A1.1	In terms of section 12(2) of the Public Service Act, 1994 an employment contract should be concluded between an executive authority and a head of department on appointment. The employment contract provides for an annual performance agreement linked to a specific financial year. The annual performance agreement concluded between the executive authority and the departmental head must clearly state performance areas/criteria/deliverables. In terms of section 36(5) of the PFMA, the provisions of section 38 to 42 of the PFMA, as may be appropriate, must be regarded as forming part of the employment contract.
A1.2	The Treasury Regulations have given regard to international best practice in both the public and private sectors in recognising that the head of any department should, in fulfilling his/her financial management responsibilities (sec 38 - 40 of the PFMA), have the support of a strong and professional finance unit. The requirement for each accounting officer to appoint a CFO is intended to provide that support. The CFO's functions span the provision of advisory and operational services across the full range of financial management responsibilities of the accounting officer, from the preparation of strategic plans, to the provision of regular internal management reports to risk management, to other internal controls and external financial reporting.

A1.3	In terms of Resolution No. 13 of 1998 of the Public Service Co-ordinating Bargaining Council (PSCBC) senior managers must enter into a performance agreement on an annual basis. Performance management aims to enhance organisational efficiency and effectiveness, accountability for the use of resources and the achievements of results. Performance management processes must link to broad and consistent plans for staff development and alignment with the department's strategic goals.
A1.4	In terms of Treasury Regulation 2.1.1 the CFO must be part of the senior management structure. It is important that the CFO support the accounting officer and other senior managers of the department through the provision of timely and accurate financial and other operational information. Chief financial officers should table management reports on financial issues at each management meeting to facilitate strategic decision-making and for assessing the performance of the department.
A1.5	At the level of branches within the department, strategic plans should form the basis for identifying strategies necessary to achieve broader departmental objectives as set out in the departmental strategic plan. They should also form the basis for allocating responsibilities within the branch through operational plans for the directorates, etc. responsible for the delivery of specific outputs. Strategic plans should also form the basis of performance agreements. It is further imperative that the contents of strategic plans are communicated to employees and that such plans are easily accessible to employees.
A1.6	The CFO must be given the appropriate infrastructure and staff to minimise number crunching, allowing him of her sufficient opportunity to provide analysis, interpretation and appraisals that assist and improve decision-making in the department. In smaller departments the financial accountant and management accountant can be the same person.
A1.7 A1.8 A1.9	These measures address the pro-active manner by which a department: ▪ retains staff; ▪ recruits qualified/experienced staff; and ▪ introduces career development plans to develop staff to become qualified/experienced. 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 eventually change the accounting base from cash to accruals. These substantial changes will require finance staff to undergo significant training.
A1.10	In terms of PSR, Chapter 1, Part III.I, departments must establish job descriptions for each post or group of posts, with appropriate emphasis on service delivery - a) the main objectives of the post or posts; b) the inherent requirements of the job; and c) the requirements for promotion or progression to the next salary range, in accordance with a relevant career path. The job descriptions must be communicated to all employees and reviewed at least once every three years and, where necessary, be redefined to ensure that they remain appropriate and accurate.
A1.11	While the erstwhile Treasury Instructions contained a considerable number of prescripts and guidelines, the new Treasury Regulations only serve as a broad framework within which accounting officers can formulate procedures and processes that best serve the circumstances of their departments. Process and procedure manuals are an integral part of internal control and are essential for good corporate governance. Such manuals also ensure that knowledge is available in hard/electronic format for easy access to staff. This lessens the dependability on key individuals in finance components.
A1.12	The successful implementation of the PFMA is not only the responsibility of the accounting officer, CFO and the financial component. Without the support and commitment of line managers, the chances of success are slim. It is therefore imperative that all personnel be empowered through training to be able to fulfil their generic financial responsibilities effectively. The areas that should be addressed include: ▪ the financial duties and responsibilities of line managers (sec 45 of PFMA); ▪ the financial support (e.g. cost benefit analysis) that can be given by the CFO; ▪ strategic planning and output formulation; ▪ performance management; and ▪ in-year management, monitoring and reporting.

A1.13	Departments must manage performance in a consultative, supportive and non-discriminatory manner in order to enhance organisational efficiency and effectiveness, accountability for the use of resources and the achievement of results. Performance management processes must be linked to broad and consistent plans for staff development and aligned with the department's strategic goals. The primary orientation of performance management shall be developmental but shall allow for effective response to consistent inadequate performance and for recognising outstanding performance.
A1.14	The Code of Conduct should act as a guideline to employees as to what is expected of them from an ethical point of view, both in their individual conduct and in their relationship with others. Compliance with the code can be expected to enhance professionalism and help to ensure confidence in the public service. Heads of departments, by virtue of their responsibility in terms of section 7(3)(b) of the Public Service Act, are under a duty to ensure that the conduct of their employees conforms to the basic values and principles governing public administration. Heads of departments should also ensure that their staff are acquainted with these measures and that they accept and abide by them. The Code of Conduct should also be easily accessible to all employees.
A1.15	The executive authority of a department must ensure that all public entities controlled by the department are listed in the appropriate schedule to the PFMA. 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. The executive authority must ensure that public entities comply with the time-scales for submitting corporate/strategic plans, budgets, shareholders compacts and quarterly reports regarding performance.
A1.16	A trading entity is regarded as an entity operating within the administration of a department for the provision of goods or services. The accounting officer of the department operating a trading entity must ensure that the head of a trading entity complies with the PFMA and Treasury Regulations. In terms of TR 19.3 the accounting officer must formulate a policy and reporting framework for the head of the trading entity.

A1.17	An officer is likely to be severely hampered in fulfilling his/her responsibilities unless appropriately empowered to do what is necessary for those purposes. Delegations should ideally be in writing in order to have the desired legal effect. Furthermore, the person delegating or sub-delegating a power does not, by that action, divest him/her self of the responsibility for the exercise of that power or the performance of an assigned duty in terms of section 44 of the PFMA. It is thus incumbent on the delegator to ensure that adequate systems and processes are in place to document, monitor and review the exercise of those powers or assigned duties.
A1.18	In terms of the Public Service Regulations, Chapter 1, Part II B, the executive authority must provide the head of a department with appropriate powers and authority to enable him/her to manage his or her department effectively and efficiently. For the same reason, a head of department must empower employees in the department by means of appropriate delegations and authorisations, where necessary.
A2.1	Risk management can be defined as the identification and evaluation of actual and potential risk areas, as they pertain to the department as a total entity, followed by a process of either termination, transfer, acceptance (tolerance) or mitigation through a system of appropriate internal controls. This risk management process entails the planning, arranging and controlling of activities and resources to minimise the impacts of all risks. The accounting officer is responsible for the total process of risk management, as well as forming his/her own opinion on the effectiveness of the process. Management, especially the CFO, is accountable to the accounting officer for designing, implementing and integrating it into the day-to-day activities of the department.
A2.2	The risk management processes/systems should be based on a recognised model such as COSA (USA), Turnbull (UK), COCO (Canada), etc. The COSA model (also incorporated in Turnbull) highlights the following five aspects of control: ▪ control environment; ▪ risk assessment; ▪ control activities; ▪ information and communication; and ▪ monitoring.

	These should assist the organisation in maintaining a sound system of risk management and internal control. The objectives are to: ▪ facilitate the department's effective and efficient operations; ▪ safeguard the organisation's assets and investments; ▪ support the organisation's objectives and sustainability (under normal as well as under adverse operating conditions); and ▪ behave responsibly towards all stakeholders that have a legitimate interest in the department.
A2.3	The accounting officer is responsible for ensuring that a formal risk assessment is undertaken at least annually for the purpose of making a public statement (annual report) on risk management. The performance of a formal risk assessment must be designed to identify and evaluate the: ▪ nature of the major risks; ▪ extent/impact of major risks; ▪ likelihood of major risks materialising; and ▪ the department's ability to reduce the incidence and impacts of major risks that do materialise. The risk assessment should address both internal and external, physical, financial, operational and compliance risks to which the organisation is exposed.
A2.4	Identification of strategies and control activities to respond to and mitigate identified major risks is important. Consideration should be given to: ▪ the effectiveness of strategies and existing internal control activities to appropriately mitigate the incidence and impact of major risks materialising; ▪ the cost of controls relative to the benefit obtained in managing the related risks; ▪ actions required by management to improve the efficiency and effectiveness of control activities; and ▪ responsibility and accountability for strategies and control activities and required improvements.

	Strategies and control activities should include, amongst others, written and approved: ▪ vision, mission and values; ▪ code of conduct – demonstrating a commitment to competence, integrity and trust; ▪ policies and procedures for all key aspects – finance and accounting, operations and compliance with legal and regulatory requirements; and ▪ delegation of authority, responsibility and accountability. The considerations and evaluation of strategies/control activities should also be used to: ▪ determine the skills required to manage risks; and ▪ to direct internal audit effort and priority.
A2.5	Effective, continuous monitoring is an essential part of the risk management process. As the accounting officer cannot rely solely on the embedded monitoring processes within the department to discharge his/her responsibilities, he/she should at appropriately considered intervals receive and review reports on whether strategies and control activities implemented are adequate and appropriate.
A2.6	In terms of Treasury Regulation 3.2.1 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 the risks. Such a strategy must include a fraud prevention plan.
A3.1	Internal controls are the systems (whether manual, electronic or otherwise), procedures and processes that an accounting officer must have in place to minimise the financial risk to which the department might otherwise be exposed, whether as a result of fraud, negligence, inadvertence, error or any other cause. The absolute avoidance of risk through internal control measures is a virtual impossibility or, typically, could only be achieved at high cost, possibly higher than the cost of the risks they seek to avoid. Thus like most investments, investments in internal control measures must themselves be put to the test of benefit/cost assessment before being implemented.

	Internal control measures should have regard to the control environments, including: ▪ the governance structures and functions of the department; ▪ management's philosophy towards risks and its style of operation; ▪ the department's method of assigning authority and responsibility; ▪ 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, physical protection of cash and securities; and ▪ the management information system.
A3.2 A3.3 A3.4	Transactions and significant events are to be authorised and executed only by persons acting within the scope of their authority. Authorisation is the principal means of ensuring that only valid transactions and events are initiated as intended by management. Authorisation, which should be documented and clearly communicated to managers and employees, should include the specific conditions and terms (including levels of authority) under which authorisations are to be made. Key duties and responsibilities in authorising, processing, recording and reconciling transactions and events should be separated amongst individuals. To reduce the risk or error, waste, or wrongful acts and the risk of not detecting such problems, no one individual or section should control all key stages of a transaction or event. Duties and responsibilities should rather be assigned systematically to a number of individuals to ensure that effective checks and balances exist. Key duties include authorising and recording transactions, issuing and receiving assets, making payments and reconciling or auditing transactions and receiving and banking money.
A3.5	The external audit process normally entails stages of pre-engagement, planning, fieldwork and reporting. Audit issues are discussed with the first level of management during the first three phases of the audit as they come up. If not resolved immediately or if it raises an issue needing further clarification or evidence, a written audit query is raised. This should be early enough in the audit to allow 30 days (a month) for resolving it, and there should be an agreed contact person at the department who receives,

	records, disseminates and follows up the query. As the audit comes closer to the finalisation stage (reporting phase), the response time should be shorter as management need to focus on the PFMA timescale between 31 May and 31 July during which these matters should receive priority treatment. When the query is not resolved or if further clarification or evidence is needed, a management letter is issued to an appropriate senior manager, preferably at least the CFO. The interim letter is intended to enable corrective action and to comply with auditing standards that require concerns over internal control to be communicated timeously to the appropriate level of management. Here the period is shorter because, due to audit discussions and audit queries, the matter should already be receiving attention. The final management letter is a step in the audit that is at a formal level and for which there are specific timescales that are tracked at the Office of the Auditor-General to ensure that the audit is finalised on time. More than 14 days (two weeks) can also not be allowed for this purpose because these should be material issues that are of concern for both the auditors and senior management and which, failing the resolving thereof, could result in a modification of the audit report which in turn could affect the performance agreement of the accounting officer. A proper register of queries and management letters needs to be maintained which records, with signatures, the dates of receipt and response.
A4.1	The objective of internal auditing is to assist the accounting officer in the effective discharge of his/her duties and responsibilities. To this end, internal auditing is a management tool that furnishes the accounting officer with analyses, appraisals, recommendations and information concerning the activities reviewed. Although the internal audit function must have an independent status within the department, the internal audit unit must interact with and compliment other divisions within the department to provide the growth of the department. In particular the internal audit unit must: ▪ co-ordinate all reviews, evaluations and/or investigation of activities within the department; ▪ liaise with the external auditors and ensure that the audit programmes are complementary; ▪ act as secretary to the audit committee; and ▪ comply with standards, codes of conduct and ethics that are promulgated from time to time by the relevant professional bodies.

	The internal audit function may be established in-house, shared with other departments or outsourced to external service providers.
A4.2	Heads of internal audit are, amongst others, responsible for: ▪ providing periodic management assurance that appropriate risk management and risk avoidance techniques including internal control are used within the department; ▪ providing awareness and training where appropriate; and ▪ supporting the accounting officer and senior management regarding their duties and responsibilities. The individual who occupies this post must have qualifications such as B Com (Honours), CIA/CA/ACIS preferably with MBA/MBL. The incumbent should be able to: ▪ provide strategic direction for the audit department; ▪ develop and manage a formalised risk-based three year strategic plan; ▪ develop and manage an annual internal audit plan; and ▪ certify that all audits are properly planned and executed.
A4.3	Internal audit should report to a level within the department that allows it to accomplish its responsibilities effectively. The head of internal audit must report directly to the accounting officer. He or she should also have ready and regular access to the chairperson of the audit committee.
A4.4	The purpose, authority and responsibility of the internal audit unit should be formally defined in an audit charter and be consistent with the Institute of Internal Auditors (IIA) definition of internal auditing. Internal audits must be conducted in accordance with the standards set by the institute of Internal Auditors (IIA). The internal audit unit must prepare, in consultation with and for approval by the audit committee: ▪ a rolling three year strategic internal audit plan based on its assessment of key areas of risk for the department, having regard to its current operations, those proposed in its strategic plan and its risk management strategy; ▪ an annual internal audit plan for the first year of the rolling three year strategic internal audit plan; and ▪ plans indicating the proposed scope of each audit in the annual internal audit plan.

A4.5	The total process of risk management, which includes a strategy to manage the risks, is the responsibility of the accounting officer and senior management. The internal audit function should assist management in monitoring, evaluating and assessing significant departmental risks, and by providing assurance as to the effectiveness of related internal controls.
A4.6 A4.7 A4.8	An important role of the audit committee is to monitor and supervise the effectiveness of the internal audit unit. This will include: ▪ evaluating the performance of internal audit; ▪ reviewing the internal audit function's compliance with its mandate as approved by the audit committee; ▪ considering the appointment, dismissal or re-assignment of the head of the internal audit function; ▪ reviewing the activities and the operations of the internal audit function, against the approved annual internal audit plan; ▪ assessing the adequacy of the internal audit function and the adequacy of available internal audit resources; and ▪ evaluating the independence and effectiveness of the internal auditors. The external auditor or any other independent external party should conduct a quality control review of the activities of the internal audit component at regular intervals (at least every 5 years).
A4.9	In terms of Treasury Regulation 3.2.8 the internal audit unit must assess the operational procedures and monitoring mechanisms over all transfers made and received, including transfers in terms of the annual Division of Revenue Act.
A5.1	An audit committee can assist the accounting officer in discharging his/her accountability responsibilities relating to the safeguarding of assets, the operation of adequate systems and control processes, maintenance of an effective system of internal audit and the preparation of accurate financial reports and statements in compliance with all applicable legal requirements and accounting standards. The audit committee should be large enough to represent a balance of views and experience, yet be small enough to operate efficiently. Other qualifications/attributes of audit committee members include:

	▪ integrity; ▪ understanding of the organisation, its services, risks and controls; ▪ independent judgement; and ▪ dedication and commitment. The CFO, head of internal audit and external auditor are not formal members of the audit committee but may attend meetings on invitation.
A5.2	The accounting officer must provide the audit committee with a written terms of reference which clearly sets out its: ▪ role, purpose and objectives; ▪ membership, composition and qualifications; ▪ authority and rights; ▪ responsibilities and duties; and ▪ reporting lines and independence. The audit committee's terms of reference may be supported by detailed policies and operating procedures – including formats and frequency of meetings (for a model terms of reference see King Report on Corporate Governance for South Africa, 2002)
A5.3	The audit committee and the external auditors should develop a direct, strong and candid relationship. Lines of communication and reporting should facilitate independence from management and encourage the external auditors to speak freely, regularly and on a confidential basis with the audit committee. The audit committee should have a formal discussion with the external auditors at least once a year, without the accounting officer being present, to ensure that there are no unresolved issues of concern.
A5.4	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, however, communicate any concerns it deems necessary to the executive authority, the relevant treasury and/or the external auditor.

A5.5	The audit committee's activities and effectiveness should be assessed periodically and reviewed by the accounting officer. Membership of the audit committee should be disclosed in the annual report and the chairperson of the committee should be available to answer questions about its work at management meetings. Departments should disclose, in their annual reports, whether or not the audit committee has adopted a formal terms of reference and, if so, whether or not the committee satisfied its responsibilities for the year in compliance with its terms of reference.
A5.6	The audit committee should be advisory and not executive and will probably meet quarterly (section 77 of the PFMA determines that the audit committee must meet at least twice a year). The audit committee should not perform any management functions or assume any managerial responsibilities, as this would prejudice objectivity.
A5.7	The audit committee should review the following: ▪ the functioning of the internal audit component; ▪ the functioning of the internal control system; ▪ the risk areas of the department's operations to be covered in the internal and external audits; ▪ the reliability and accuracy of the financial information provided to management and other users of financial information; ▪ any accounting or auditing concerns identified as a result of the internal or external audits; and ▪ the department's compliance with legal and regulatory provisions, its code of conduct, by laws and the rules established by management. The duties of the audit committee include reviewing the scope and results of the external audit and its cost effectiveness, as well as the independence and objectivity of the external auditors. The audit committee should confirm the internal audit unit's charter and the internal audit plan.

A5.8	In terms of Treasury Regulation 3.1.10 an audit committee must, in the annual report of the department, comment on: ▪ the effectiveness of internal control; ▪ the quality of in-year management and monthly reports submitted in terms of the PFMA and the annual Division of Revenue Act; and ▪ its evaluation of the annual financial statements.
B PLANNING AND BUDGETING	
B1.1 to B1.6	The Strategic Planning process is one of the key responsibilities of the accounting officer. It is central to his/her responsibility in terms of section 38(1)(b) of the Act for the effective, efficient, economical and transparent use of the resources of the department to which he/she is assigned. The strategic planning process promotes communication between the accounting officer and the executive authority to ensure commonality of understanding and purpose in the department's pursuit of Government objectives and outcomes. The consolidated strategic plans of budget dependent institutions are also central to the Government's overall budget deliberations and fiscal policy as well as its medium term budgetary and fiscal strategies and thus impact directly on its plans for the allocation of resources between sectors, regions and socio-economic groups within the economy. Published plans also constitute an important basis for making Government operations transparent to Parliament and Provincial Legislatures and are thus key instruments in the accountability process. They not only provide essential information for Parliament and the Provincial Legislatures to assess and debate proposed Government programmes, they also through the provision of performance measures and indicators, enable them to evaluate performance in the achievement of planned programmes, objectives and outcomes when such measures and indicators are published in annual reports. In terms of Treasury Regulation 5.3.1 the accounting officer of a department must establish procedures for quarterly reporting to the executive authority against the published strategic plan to facilitate effective performance monitoring, evaluation and

	corrective action.
B1.7	In terms of PSR, Chapter 1, Part III C, an executive authority must establish and sustain a service delivery improvement programme for his or her department: ▪ specifying the main services to be provided to the different types of actual and potential customers; ▪ containing consultation arrangements with the department's customers; ▪ with due regard to the customers means of access to the services and the barriers to increased access thereof, specifying the mechanisms or strategies to be utilised progressively to remove the barriers so that access to services is increased; ▪ indicating standards for the main services to be provided; ▪ containing arrangements as to how information about the department's services are to be provided; and ▪ stipulating a system or mechanism for complaints. The executive authority must publish an annual statement of public service commitment, which must set out the department's service standards that citizens and customers can expect and which will serve to explain how the department will meet each of the standards.
B2.1	In terms of Treasury Regulation 6.1 the accounting officer of a department must comply with any annual budget circular issued by the relevant treasury. Budget circulars issued by the provincial treasuries must be consistent with any budget circular issued by the National Treasury to provincial treasuries.
B2.2	Economy denotes the cheapest possible option for the production of a chosen output. Economy measures ask the questions "Was the service delivered at the lowest possible cost"? or "did the service delivered cost more than comparable services elsewhere"? Efficiency tries to capture how productively resources are translated into service delivery. It basically asks the question "Did we perform the job without wasting resources"? or in other words "Did we do things right"? Effectiveness captures the degree to which objectives are achieved. Effectiveness measures ask the question "Did the job

	achieve the desired results"? Or Did we do the right thing"? It is important to note that none of these measures should be used in isolation. For example, it is useless to have the cheapest possible service (economy) unless the service actually achieves its goal (effectiveness). Effectiveness is also of limited use unless the cost of achievement is known.
B2.3	The organisational processes and structures must be reviewed regularly to ensure that not only output criteria are met but that they are met efficiently and at the least cost and effort. In terms of planning and budgeting, line managers need to be able to define the objectives of their particular programme, which in turn will lead to defining the key activities, outputs and outcomes for service delivery. They need to ensure that lines of accountability are appropriate and match the required responsibility. They also need to be able to refine programme objectives and structures according to the feedback received from performance monitoring and evaluation.
B2.4	Unless the relevant treasury directs otherwise, an accounting officer may utilise a saving of up to 8 per cent of the amount appropriated under a main division for defraying excess expenditure under another main division within the same vote. The PFMA or the Treasury Regulations do not make provision for more than 8% to be utilized. The utilization of any such saving must be reported to the executive authority and the relevant treasury within seven days. Treasury Regulation 6.3 specifies that the relevant treasury must provide prior approval before any personnel expenditure or transfer payment is increased or before any earmarked allocations are used for purposes other than originally voted.
C	**REVENUE AND EXPENDITURE MANAGEMENT**
C1.1 C1.2	Accounting officers should ideally examine their department's operations to identify sources or potential sources of revenue, including, for example, fees, fines, grants, levies, subsidies and forms of charging. It would be preferable if managers who are familiar with the operations of the department and who are also aware of proposed initiatives that may have a revenue bearing effect carried out a department’s review of revenue sources. Revenue review should be a continuous process but should, as a minimum, be conducted during the budget process when resources and requirements are under consideration. Identification of revenue includes the regular evaluation of the effectiveness of the department's sources of revenue. A department should always aim to optimise its revenue sources,

	even if the department itself does not retain the revenue that is collected, but is paid into the relevant revenue fund.
C1.3	In terms of section 39 of the PFMA an accounting officer must report any impending under collection of revenue due or any shortfall in budgeted revenue to the executive authority and the relevant treasury.
C1.4	Good cash management and responsible banking practices go hand in hand. Good cash management (e.g. the prompt collection of revenues) can be nullified, at least in part, if the money collected is not promptly banked. This reflects the fact that revenue is not available to meet Government's cash flow requirements unless it has been deposited into the Paymaster-General's Bank account and may result in the Treasury having to borrow more for a period.
C2.1 C2.2 C2.3	Proper planning and in-year management and reporting are some of the critical important requirements of the PFMA. Once the financial year begins, the accounting officer must submit regular monthly management reports to the executive authority and the relevant treasury. These reports must focus on performance against the budget and should alert managers when remedial actions are required. A particular problem in recent years has been the huge amounts of unspent funds at the end of a particular financial year. This in general is the result of poor planning and accounting officers must recognise that, in most cases, the failure to utilise funds allocated by a legislature represents under-performance.
C2.4	Transfer payments are typically made to enable or assist other levels of government or non-government entities to deliver programmes (and achieve objectives) that would not otherwise be feasible. Efficiency, effectiveness, economy and transparency in the use of the money by the recipients is as important as it is for the government's own programme delivery. For this reason, accounting officers should ensure that the recipient entities have appropriate financial management and control system in place. A certificate to this effect, as required by section 38(1)(j) of the PFMA, must be obtained from each institution to which funds are transferred.

C2.5	In terms of Treasury Regulation 8.3.4 and 8.3.5 the person in charge at a pay-point must certify that all employees listed on the payroll report are entitled to payment. Within ten days of being certified, the payroll report must be returned to the chief financial officer. The accounting officer must ensure that all pay-point certificates have been received on a monthly basis.
C2.6	In terms of section 11(5) of the PFMA, the National Treasury must ensure that there is at all times sufficient money in the National Revenue Fund. Reliable forecasts of the timing and amounts of material cash payments and receipts by departments can mitigate the risk of the National Treasury not having sufficient funds to meet the cash flow needs of the Government's programmes. Reliable forecasts can reduce the cash buffer (represented by higher borrowings or lower investments) it would otherwise need to maintain in the NRF. Accounting officers have the important responsibility for establishing systems, procedures and processes to ensure sound cash management. They are also required to monitor cash management on a regular basis. Particular areas for attention include systems, procedures and processes for: ▪ identifying revenue and other accounts receivable; ▪ collecting and banking revenue that is due; ▪ regular reviews of assets and asset registers for surplus or under-performing assets; ▪ monitoring accounts payable to avoid premature or unnecessary expenditure; and ▪ reliable forecasts of the timing and amounts of material cash flows.
C2.7	To minimise the risk of fraud, all payments in excess of R2000 must be effected electronically unless otherwise approved by the relevant treasury. Payments may not be split to circumvent Treasury Regulation 15.12.3 and any non-compliance with this regulation constitutes financial misconduct.
D ASSET AND LIABILITY MANAGEMENT	
D1.1	An adequate asset register is integral to effective asset management. It is the basis of an asset management information system and should contain relevant data beyond that required for financial reporting. The size and complexity of an asset register will depend on the number and type of assets held

	by an entity. The volume of purchases, transfers and disposals in a year is also an indicator of the degree of sophistication required for asset recording and reporting. The features of a good asset register include: ▪ integration to the extent practical with purchasing and payment systems and the general ledger; ▪ structuring to allow the different classifications of assets to be distinguished; ▪ financial data on assets that is maintained down to the level which is important to decision-makers; ▪ clear identification of the individual or unit responsible for the asset; and ▪ non-financial data on acquisition, identity, accountability performance and disposal, in addition to the financial data necessary to discharge statutory reporting obligations.
D1.2	Asset policies extend beyond accounting policies. They should be comprehensive, covering all phases of the asset life cycle (planning, acquisition, operation and maintenance and disposal) and should address principles of asset management. The development and promulgation of comprehensive asset policies and procedures are important elements of the internal control structure of a department. The absence of asset policies and procedure manuals, or the existence of outdated manuals, is generally an indicator that internal controls are less reliable and effective. The primary reason for this is that policy and procedure statements are the principle means by which management's intentions are communicated to staff. These are also an initial reference point for new staff. In their absence, staff must rely on "word of mouth" and "on-the-job" training to decide policy.
D1.3	It is important that proper investment cost analyses is done prior to the acquisition of expensive assets. Part of this investigation will resolve around the costs to repair/maintain existing equipment if replacement of such assets is being considered.
D1.4	The effectiveness of existing assets in supporting programme delivery should be determined. Evaluations are to include the evaluation of asset performance. Asset performance is to be reviewed regularly against best practice benchmarks to identify assets that are under-performing, or costly to own or operate.

D2.1	The prime function of an efficient Supply Chain Office is to have the right product at the right time, at the right price and at the right location. This lends itself to the temptation to want to please everybody all the time resulting in: ▪ excessive stock; ▪ excessive stock becoming redundant stock; and ▪ funds tied up in stock. The performance indicator/requirement therefore aims to measure: ▪ excessive and redundant stock; ▪ service levels (out of stock requests); and ▪ value of excessive stock (total stock not to exceed two months consumption).
D2.2	In terms of Treasury Regulation 10.1.1 the accounting officer of a department must take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, losses, wastage and misuse. Stores and equipment must be subject to stocktaking at least once every financial year. Where the quantity of stores or equipment is too large to allow a complete check in a single occasion, stocktaking may be carried out continuously or in progressive phases.
D3.1	The amount owing to a department by debtors who have received a service but who 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 in installments. 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 debt by installment; ▪ maintain separate records for the portion of debts that has matured or become due; and ▪ provide a summary of all individual debts, to ensure the integrity and reliability of individual accounts. Collection measures should be progressive and should include the following routine actions: ▪ issuing invoices when a service is rendered;

	▪ sending monthly statements; ▪ sending reminders; and ▪ making personal contract.
D3.2	Each month the accounting officer should prepare an age analysis 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.
D3.3	In terms of Treasury Regulation 11.4, an accounting officer may write off a debt if he or she is satisfied that: ▪ all reasonable steps have been taken to recover the debt and the debt is irrecoverable, or, ▪ he or she is convinced that: - recovery of the debt would be uneconomical; - recovery would cause undue hardship to the debtor or his or her dependants; or - it would be to the advantage of the state to effect a settlement of its claim or to waive the claim. An accounting officer must ensure that all debts written-off are done in accordance with a write-off policy determined by the accounting officer. All debts written off must be disclosed in the annual report, indicating the policy in terms of which the debt was written off.
D4.1	In terms of Treasury Regulation 8.2.3 all payments due to creditors must be settled within 30 days from receipt of an invoice unless determined otherwise in a contract or other agreement, or in the case of civil claims, from the date of settlement or court judgement.
D4.2	The records of the department must be capable of showing, at least monthly, a profile of amounts payable, showing for each category, the number and value of amounts outstanding.
D4.3	The accounting officer is responsible for establishing systems, procedures and processes to ensure efficient and effective cash management. Sound cash management includes accepting discount by effecting early payments if so offered by creditors.

<table>
<tr><th colspan="2">E ACCOUNTING AND REPORTING REQUIREMENTS</th></tr>
<tr><td>E1.1
E1.2</td><td>Should it be necessary in exceptional cases, to account for revenue and expenditure transactions in a clearing or suspense account because the classification has not been resolved, the accounting officer must, in terms of Treasury Regulation 17.1.2, ensure that:
▪ the sources of the transactions are readily identifiable;
▪ amounts are cleared and correctly allocated to the relevant cost centres on a monthly basis;
▪ monthly reconciliations are performed to confirm the balance of each account; and
▪ reports are provided to the accounting officer about uncleared items on a monthly basis.</td></tr>
<tr><td>E1.3</td><td>In terms of Treasury Regulation 17.1.1 all transactions of a department must be supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation.</td></tr>
<tr><td>E1.4</td><td>The accounting officer is responsible for establishing systems, procedures and processes to ensure efficient and effective banking management. Sound banking management includes performing daily bank reconciliations to detect any unauthorised entries.</td></tr>
<tr><td>E1.5</td><td>Practice Note 13 of 2002 requires an accounting officer to certify on a monthly basis that the following financial management performance indicators has taken place, before the closure of the accounting month:
• the recording of all issued cheques in the general ledger;
• the recording of all deposits in the general ledger;
• the recording of all receipts in the general ledger;
• the recording of all journals;
• that all interfaces for the month have taken place and have been reconciled; and
• that a bank reconciliation has taken place.</td></tr>
<tr><td>E2.1</td><td>Departments annually compile a complete estimate of expenditure to be pursued per objective. This results in the cost of all departmental activities being determined and made available to decision makers within the framework of a suitable</td></tr>
</table>

	objective or programme structure, i.e. a structure reflecting the programmes, sub-programmes and lower sub-divisions into elements and activities for the achievement of each objective. It is therefore important that the objective structure within the general ledger be aligned with the approved structure of the estimate of expenditure of the department.
E2.2	It remains essential to identify which organisational component (regional office, division, component) within a department has requested funds for a specific objective. In other words, an estimate of expenditure must be compiled for each centre of financial responsibility, i.e. each organisational unit entrusted with the task of submitting a draft estimate and accounting for expenditure against such estimate.
E2.3 E2.4	"Outdated" organisational and establishment structures negatively influence – • the achievement of the strategic objectives of the department; • effective human resource management; • the credibility of information extracted from PERSAL; and • the evaluation of employees work performance since their rank levels are not in agreement with the post levels. In term of Treasury Practice Note No. 19 of 2001, accounting officers must instate measures to deal with these issues by ensuring that the current approved establishment is captured and kept updated on the PERSAL system and there is suitable absorption of employees into posts on the approved establishment.
E2.5 E2.6	Maintenance of departmental technical infrastructure (i.e. hardware, software, networks and training related issues) is the sole responsibility of the accounting officer. Proper management of such infrastructure is of the utmost importance to ensure acceptable uptime and response times of financial applications.
E2.7 E2.8	The goal of computer security is to institute controls that preserve secrecy, integrity and availability of information. It is therefore of the utmost importance to control access to departmental data and activity within departmental databases. For batch systems, it is essential to implement and maintain proper batch control systems to manage and control access to departmental databases.

	For online systems, it is essential to manage and control access of individual users by implementing a procedure and maintaining control of: • User Ids • Passwords • User Profiles • Etc.
E3.1	The accounting officer of a department must: ▪ each month submit information in the prescribed format on actual revenue and expenditure for the preceding month and the amounts anticipated for that month; and ▪ within 15 days of the end of each month submit to the relevant treasury and the executive authority responsible for that department: - the information for that month; - a projection of expected expenditure and revenue collection for the remainder of the current financial year; and - when necessary, an explanation of any material variances and a summary of the steps that are taken to ensure that the projected expenditure and revenue remain within budget.
E4.1	The accounting officer of a department must establish procedures for quarterly reporting to the executive authority to facilitate effective performance monitoring, evaluation and corrective action regarding the strategic plan.
E4.2	The accounting officer for a department must ensure that, within thirty days of the end of each quarter, the public entity submits a report on its actual revenue and expenditure up to the end of that quarter.
E4.3	The accounting authority of schedule 3A and 3C public entity must report to the executive authority through the accounting officer of a department on the extent of compliance on the PFMA and related Treasury Regulations quarterly. Any non-compliance must be reported together with reasons for non-compliance.

E5.1	The accounting officer for a department, trading entity or constitutional institution: ▪ must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; ▪ must prepare financial statements for each financial year in accordance with generally recognised accounting practice/generally accepted accounting practice; and ▪ must submit these financial statements within two months after the end of the financial year to the Auditor-General for auditing and to the relevant treasury.
E5.2	The accounting officer must, within five months of the end of a financial year, submit to the relevant treasury and in the case of a department or trading entity, also to the executive authority responsible for that department or trading entity: ▪ an annual report on the activities of that department, trading entity or constitutional institution during that financial year; ▪ the financial statements for that financial year after those statements have been audited; and ▪ the Auditor-General's report on those statements. Accounting officers of constitutional institutions must, within five months from the end of the financial year, submit their institution’s annual report, financial statements and the Auditor-General’s report on those statements to Parliament
E5.3 E5.4	The executive authority responsible for a department or public entity must table, in the National Assembly or a provincial legislature, as may be appropriate: ▪ the annual report, financial statements and the audit report on those statements within one month after the accounting officer for the department or the accounting authority for the public entity received the audit report. If an executive authority fails to table the annual report and financial statements of the department or the public entity and the audit reports on those statements in the relevant legislature within six months after the end of the financial year to which those statement relate: ▪ the executive authority must table a written explanation in the legislature setting out the reasons why they were not tabled; and ▪ the Auditor-General may issue a special report on the delay.

E5.5	The accountability cycle is completed with the production and publication of an annual report, which reviews performance and achievement against the strategic plan and the budget approved by the legislature at the start of the year. Section 40(3) of the PFMA requires each department to publish an annual report that 'fairly presents' the state of its affairs, its financial results and position at the end of the financial year, and its performance against predetermined objectives. 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 proceedings or disciplinary steps taken as a result of such losses. In preparing the annual report of a department the accounting officer must also take cognisance of the requirements of Chapter 18 of the Treasury Regulations and PSR, Chapter 1, Part III J.
E5.6	The accounting officer must, on an annual basis, submit to the provincial treasury (if applicable) National Treasury and Auditor-General a schedule of the outcome of any disciplinary proceedings and/or criminal charges; the names and ranks of officials involved; and the sanctions and any further actions taken against these officials. The schedule mentioned above must be accompanied by a report, which refers to any changes made to the department's systems of financial and risk management as a result of any investigations.
E5.7	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 surpluses or deficit to the relevant treasury. The relevant treasury may apply such surplus to reduce any proposed allocation to the trading entity, or require that all or part of it be re-deposited in the Exchequer bank account.