

# PEMPAL IACOP

***FINANCIAL MANAGEMENT & CONTROL  
THE SOUTH AFRICAN EXPERIENCE***

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**national treasury**

Department:  
National Treasury  
**REPUBLIC OF SOUTH AFRICA**

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# In context

| Reference                    | Interpretation                                  |
|------------------------------|---|
| Accounting Officer/Authority | Administrative head of a government institution |
| Auditor-General              | Supreme Audit Institution                       |
| Department                   | Ministry  |
| Executive Authority          | Political head of a government institution      |
| FMPA                         | Financial Management Act of Parliament          |
| Local government             | Local council/municipality                      |
| National government          | Central government                              |
| National Treasury            | Ministry of Finance                             |
| PFMA                         | Public Finance Management Act                   |
| Provincial government        | Federal/state government                        |
| MFMA                         | Municipal Finance Management Act                |
| RSA                          | Republic of South Africa                        |

# Importance of control

- The Constitution of the RSA requires public resources to be managed efficiently, effectively and economically
- RSA has enormous social and development challenges which demands that Government institutions:
  - Deliver on their mandates and objectives
  - Report timeously and accurately on their use of public funds
  - Comply with laws and regulations
  - Exercise responsible stewardship
- Proper control provides comfort that order, consistency, uniformity, noble intentions and a high level of public service ethos are present in the functioning of Government
- Government acknowledges the positive relationship between proper control and successful outcomes of government actions

# Structure of the Government

## National Government

Legislative Authority

Executive Authority

Judicial Authority

## Provincial Government

Legislative Authority

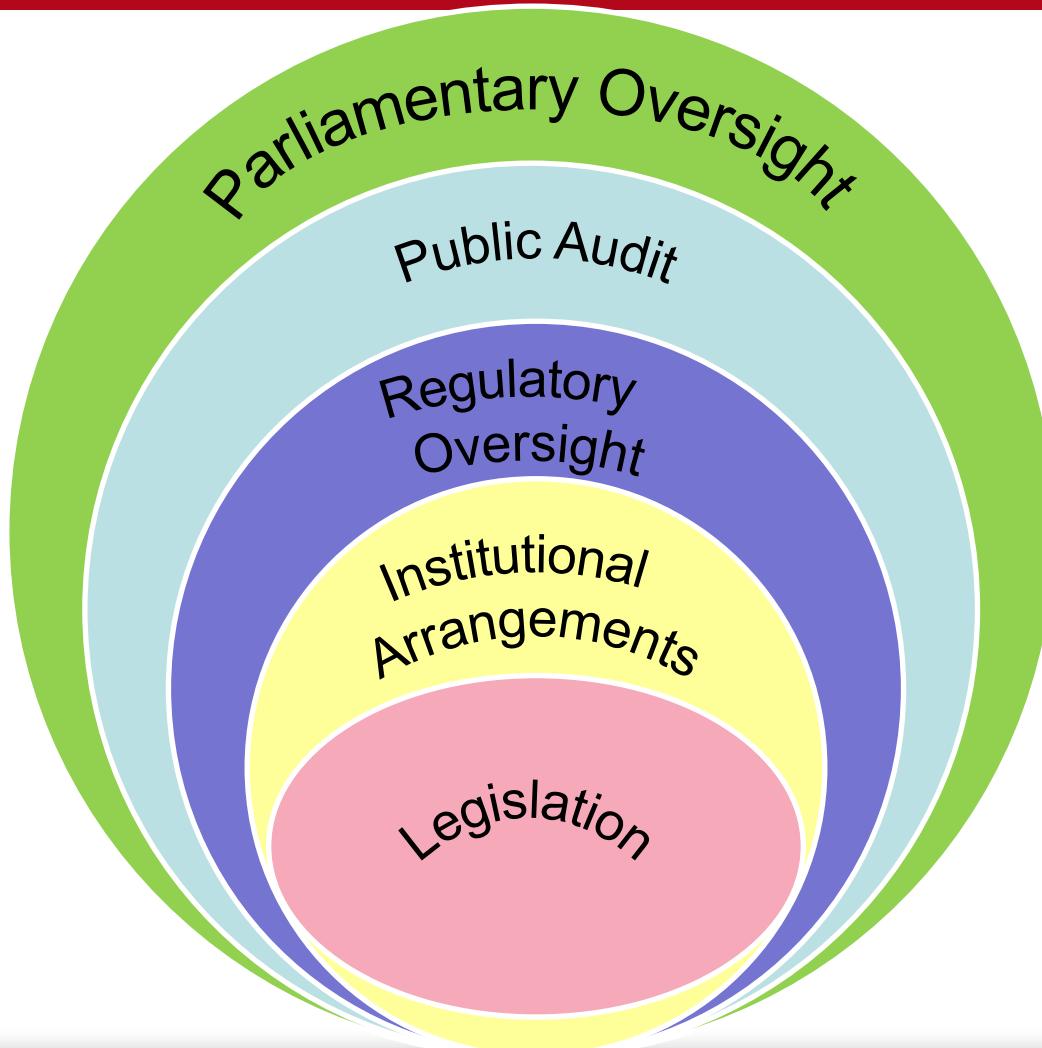
Executive Authority

## Local Government

Limited Legislative Powers

Executive Authority

# Control architecture of the state



# Legislation (1/2)

- Functions and actions of the state are strictly governed and regulated by a comprehensive body of laws and regulations
- All state institutions must comply with the financial management act specified for them, as well as regulations and instructions issued in terms of the act by the relevant Treasury
- There are 3 financial management acts:
  - Public Finance Management Act (applicable to national government and provincial government)
  - Municipal Finance Management Act (applicable to local government)
  - Financial Management Act of Parliament (applicable to the National Parliament and Provincial Legislatures)

## Legislation (2/2)

- In each of these acts the Accounting Officer is accountable for ensuring that the institution that he/she is in charge of has an effective, efficient and transparent system of financial management, risk management and internal control
- There is currently no nationally prescribed internal control framework, however, internal control principles are incorporated in the Treasury Regulations
- The National Treasury is planning to release an internal control framework shortly
- The philosophy of managerial accountability is embedded in all financial management acts

# Regulatory Oversight (1/3)

- National Treasury exercises financial management oversight of:
  - national government departments,
  - state entities established under national government
  - 17 of the nation's biggest municipalities
  - constitutional institutions, and
  - provincial governments (as a whole)
- Oversight is executed through, among other ways:
  - Monthly budget and expenditure reviews
  - Review of quarterly financial statements
  - Approving the amount to be withdrawn from the national revenue fund each month

# Regulatory Oversight (2/3)

- The respective Provincial Treasuries exercises financial management oversight of:
  - provincial government departments
  - state entities established by the provincial government
  - municipalities within the provincial borders
- Oversight is executed through, among other ways:
  - Monthly budget and expenditure reviews
  - Review of quarterly financial statements
  - Approving the amount to be withdrawn from the provincial revenue fund each month

# Regulatory Oversight (3/3)

- The Department of Performance Monitoring and Evaluation:
  - Reviews the performance of departments each quarter against their pre-approved performance plans
  - Annually assesses departments' broader performance capabilities

# Public Audit (1/2)

- Each government institution is required by law to produce annual financial statements within the prescribed period and submit these for audit
- The Auditor-General performs statutory audits of government institutions annually
- Within the process of the statutory evaluation of an institution's financial and performance management, the Auditor-General assesses:
  - Leadership (Political and Executive)
  - Governance (policies, procedures and institutional arrangements to achieve institutional goals)
  - Compliance to laws and regulations

# Public Audit (2/2)

- The Auditor-General expresses an opinion on the financial statements and will imminently also express an opinion on the performance against pre-set objectives
- The Auditor-General provides detailed management reports of their findings and recommendations to fix them
- Institutions must develop and implement plans to fix the control deficiencies raised in the Auditor's report
- Departments table their audit reports in the respective Legislature
- The Auditor-General tables a consolidated report of audit findings in the respective Legislature

# Parliamentary Oversight

- The Standing Committee On Public Accounts (SCOPA) exercises political oversight over departments' financial management and control
  - Departments appear before SCOPA to present their financial statements and annual reports
  - Departments also appear before SCOPA at its request to account for any matter that SCOPA has an interest in (e.g. Unauthorised expenditure, fruitless and wasteful expenditure, irregular expenditure, internal audit, audit committees, fraud)
- The respective Portfolio Committees (e.g. for Health, Defence, Education etc.) exercise political oversight over technical matters related to a department's mandate, as well as performance
- Departments appear before the Portfolio Committees to present the performance reports included in their annual reports

# Control architecture of institutions



# Control environment (1/2)

- Managerial accountability applies and management is responsible for designing, monitoring and fine tuning the system of internal control to ensure the efficient, effective, economical and transparent use of resources
- In order to execute accountability management must ensure the following minimum requirements
- Every institution must in terms of the law, have:
  - A Chief financial officer
  - A system of internal control
  - Risk management
  - Internal Audit
  - Audit Committee
  - Delegations of authority framework
  - Procedures to deal with financial misconduct

# Control environment (2/2)

- Every institution must function within an environment that fosters good internal control and must include:
  - Effective leadership
  - Integrity and ethics at all levels
  - Strategic and operational planning that take account of national priorities
  - Appropriate organisational structure & reporting lines
  - Standard operating procedures
  - Competent & trained employees
  - Systems and processes to manage performance against the strategic and operational goals
  - Management supervision & oversight

# Risk management

- Every institution must have a system of risk management
- The key elements of risk management:
  - Identify and assess risks to the set objectives
  - Manage through appropriate risk control activities risk that exceeds the risk appetite of the institution (control activities must be documented and availed to employees responsible for implementation)
  - Communicate responsibilities for risk management
  - Monitor and report on risk management

# Information & Communication

- Institutions must have an information and communications strategy for:
- **Internal purposes**, to:
  - Identify & define the information requirements
  - Identify internal & external sources of information
  - Adopt the most appropriate channels of communication
  - Implement a reporting framework
  - Collate and disseminate relevant information to people that need it on time and in the format required
- **External purposes**, to:
  - Communicate expeditiously and effectively with external stakeholders
  - Fulfil regulated reporting requirements

# Monitoring & Review

- Systems must be in place to keep track of whether objectives are being accomplished or not
- Monitoring and review activities must be used to implement corrective actions
- Key instruments of monitoring and review:
  - Monthly budget reports (legislated)
  - Quarterly performance reports (legislated)
  - Monitoring and evaluation functions
  - Internal audits

# Macro Control Instruments (1/2)

## Planning

- Medium Term Strategic Planning Framework
- Annual strategic planning
- Annual performance plans with performance objectives and targets
- Quarterly reporting on performance and consolidated annual reporting

## Budgeting

- Medium Term Expenditure Framework
- Budget circulars
- Mid-year adjustment budgets
- Restrictive rules on virements, transfers and rollover of funds

# Macro Control Instruments (2/2)

## Monitoring & Review

- Prescribed reporting templates

## Accounting and Reporting

- Prescribed accounting standards (Accounting Standards Board)
- Prescribed reporting frameworks (National Treasury)

## Other Prescribed Frameworks

- Banking, cash management and investment
- Public-private partnerships
- Supply Chain Management

# Challenges

- Skills
- Failure to fully understand the operating environment and to adapt the control systems to suit the peculiarities of the environment
- Malicious compliance
- Disregard for rules
- Not taking accountability and responsibility seriously
- Management overrides
- Lack of consequences
- Clash of politics and administration

Thank you  
for  
listening!

