NATIONAL TREASURY

Normative Measures for Financial Management

(Phase I: Perfecting the Basics)

NORMATIVE MEASURES FOR FINANCIAL MANAGEMENT
(PHASE I: PERFECTING THE BASICS)

1. Introduction

1.1 Purpose

The purpose of this document is to establish a framework for the development of acceptable normative measures for financial management. These normative measures, which should be regarded as a management tool to perfect the basics, are aimed at:

- providing a benchmark to accounting officers to assist them with the continuous evaluation of the quality of financial management within their departments and to report meaningfully thereon in their annual reports;
- contributing towards the improvement of financial management within Government departments;
- enabling the relevant treasuries to report bi-annually to Cabinet and the Executive Councils on specific aspects of financial management within a specific department or for national and provincial departments as a whole; and
- enabling the Auditor-General to improve his reports to legislatures on financial management in national and provincial departments.

1.2 Scope

The framework focuses on financial management within national and provincial departments and more specifically on the successful implementation of the Public Finance Management Act (PFMA), 1999, and its related Treasury Regulations. The focus is therefore not on service delivery standards (outputs and outcomes) of specific programmes within national and provincial departments. These issues and more advanced norms and standards for financial management in the public sector as a whole will be addressed in Phase II of the Normative Measures for Financial Management.

1.3 Coverage

The framework covers requirements as set out in the Public Finance Management Act, (PFMA), 1999, annual Division of Revenue Act (DORA), National Treasury Regulations, 2002, Public Service Regulations, 2001, principles contained in the King Report on Corporate Governance for South Africa, 2002 as well as principles contained in various guideline documents issued by the National Treasury.

1.4 Implementation

1.4.1 Accounting officers should use the Framework to establish to what extent his or her department is functioning towards 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 standards would obviously differ per department and level of application.

1.4.2 The relevant treasuries will utilise the Framework to conduct bi-annually surveys within departments for purposes of reporting to Cabinet, Executive Councils and Standing Committees of Public Accounts (SCOPA's). These reports will cover progress with PFMA implementation as well as improvement of financial management in general.

1.4.3 The Office of the Auditor-General will utilise the Framework as basis to evaluate the level of financial management in individual departments and report thereon in the General Report of the Auditor-General after year-end. Information submitted to the relevant treasuries during a financial year for purposes of the bi-annual surveys will therefore be subject to auditing.

2. The need for proper standards of financial management in the public sector

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

In the private sector, the dominant objective of a profit-orientated firm is to earn a satisfactory return for its owners. In this regard, the profit measure is probably the most useful criterion to analyse and evaluate different options and to support a decision on the most appropriate course of action. Management performance is analysed and evaluated over a combination of activities that are ultimately reflected in the profit measure. The profit measurement further permits comparison of the performance between different organisations which is not possible with any other measure.

The absence of the profit measure in the public sector makes analysis and evaluation of management performance more difficult than in profit-orientated firms. Economy is to be measured by the relationship between quantity and quality of resource inputs and its related cost. Efficiency is to be measured by the relationship between resource inputs and outputs. Effectiveness is to be measured by the extent that outputs accomplish set outcomes. Appropriateness is to be measured by the extent that outcomes of a programme are the priority of Government and addresses the real needs of the community.

Whilst the profit measure provides an overall measure for these elements of performance, the dynamics of public sector organisations call for (as far as practically possible) the individual measurement and reporting of these elements of performance. It is recognised that this may be difficult to achieve since effectiveness and efficiency is not always quantifiable. This fact, however, does not justify any argument in favour of less vigorous financial management for public sector organisations.

3. Financial management and an approach to managing for results

Several elements of private sector financial management provide a sound basis for practices in the public sector. The PFMA aims to introduce an approach of management for results instead of managing for compliance. Some characteristics of this approach include the following:

- accounting officers (departmental heads) enter into employment contracts with executive authorities supported by performance agreements that include performance standards;
- clearly defined responsibility of the accounting officer and other role players for resources committed and outputs produced;
- greater alignment of planning and budgeting processes;
- strategic planning is introduced;
- central regulations are reduced to the minimum and replaced with guidelines;
- accounting officers are allowed flexibility in the use of resources;
- management accounting and reporting;
- appropriate internal control and risk management principles are followed; and
- accounting practices similar to that employed in the private sector are being followed (i.e. accrual accounting, capitalisation of fixed assets and depreciation).

It is recognised that the quality of financial management in public sector organisations is directly related to the ability of accounting officers to recruit and retain adequately qualified chief financial officers, financial and management accountants and programme managers. The approach of management for results, with its associated flexibility in the use of resources with a greater emphasis on accountability, should enable accounting officers to compete for the best personnel to achieve the agreed outputs of each department with an acceptable standard of financial management.

4. The aim and goals of financial management in the public sector

For the private sector, the normative aim underlying financial management theory is owner wealth maximisation.

In the absence of this motive and the departure point that Government intends to maximise service delivery to the community, financial management in the public sector is defined as:

"all decisions and activities of management, as guided by a chief financial officer, that impact on the control and utilisation of limited financial resources entrusted to achieve specified and agreed strategic outputs."

The aim of financial management in the public sector is the following:

"to manage limited financial resources with the purpose to ensure economy and efficiency in the delivery of outputs required to achieve desired outcomes (effectiveness), that will serve the needs of the community (appropriateness)".

Financial management ranges from daily cash management through to the formulation of long term financial objectives, policies and strategies in support of the strategic and operational plans of the department. It includes the planning and control of capital expenditure, working capital management, interaction with the relevant Treasury, funding and performance decisions. It supervises the supporting financial and management accounting functions, which are predominantly concerned with the collection, processing and provision of financial information and the planning, operation and control of the supporting financial information systems.

5. General principles for financial management in the public sector

- Financial management must be performed by or under supervision of personnel with the necessary technical training and proficiency.

- In all decisions affecting departmental outputs, financial impact must objectively be considered with the aim to provide the public with economical, efficient, effective and appropriate services or products.

- Due professional care must be exercised during all financial decisions affecting departmental outputs.

6. Performance requirements for financial management in the public sector

- Financial resources must be optimally planned and allocated between required outputs.

- The optimal investment in total assets required to support specified departmental outputs must be quantified and economically funded.

- The use of financial resources to achieve specified outputs must be monitored and controlled against the strategic and operational plans of the department by means of quantitative and qualitative data.

- Internal controls must be designed, implemented and maintained to ensure that:

  - Transactions are executed in accordance with management's general or specific authorisation;
  - All transactions are promptly recorded at the correct amount, in the appropriate account, in the correct accounting period to which it relates and in accordance with the departments' accounting policies;
  - Access to assets is permitted only in accordance with management's authorisation;
  - Recorded assets are compared with existing assets and vice versa at reasonable intervals and appropriate action is taken with regard to any variances.
  - Accountability must be established for performance associated with the freedom to consume scarce financial resources in the delivery of specified outputs.

7. Reporting requirements for financial management in the public sector

- Financial management information must be supplied on a regular basis to management to facilitate objective corrective decisions where activities are not in line with the budget of the department.

- Financial management information must be useful, reliable and timeous in support of the evaluation of performance.

- Financial reports must conform to the standards of reporting identified by appropriate legislation.

8. Critical areas for financial management performance

To achieve the aim of financial management as described above, requires involvement by the chief financial officer in the planning, design and control processes of the department. The following are recognised as critical areas for financial management performance in the public sector:

Critical Area for Performance	**Typical core tasks**
Management arrangements	The efficient, effective, economical and transparent use of resources; delegation of powers to other officials; proper risk management; design and implementation of internal controls, including internal audit, proper systems, processes and procedures; segregation of duties and financial management training.
Planning and budgeting	Provision of timely, accurate and adequate financial and other operational information for strategic decision making purposes; preparation of strategic plans, including advice on new strategies for achieving Government's objectives; costing and pricing of the department's products and services; programme performance measurement.
Revenue and expenditure management	Examine the department's operations to identify sources or potential sources of revenue; regular evaluation of the effectiveness of sources of revenue; timeous collection of revenue; ensure that sound systems and procedures for expenditure management and control are in place; deliver programmes with levels of efficiency, effectiveness and economy that seek to emulate the forces of market competition; effective management of transfer payments and conditional grants in terms of the annual Division of Revenue Act; implementation of processes to track expenditure and commitments

Critical Area for Performance	**Typical core tasks**
	against the vote and the identification, recovery and reporting of unauthorised, irregular and fruitless and wasteful expenditure.
Asset and liability management	Proper planning for the acquisition of assets, including the need to consider alternative strategies for the achievement of Government objectives; design and implement measures to protect and maintain assets, including the establishment of a comprehensive asset register; preparation of monthly age analysis of debtors and creditors reports.
Accounting and reporting requirements	Design, implement and maintain accounting systems to ensure complete, valid, accurate and timeous financial/non-financial information; maintenance of appropriate and consistent financial/non-financial reports that satisfy the needs of the users of financial/non-financial information; guidance on regular performance reporting to management.

9. Relationship between the chief financial officer and his or her clients

The chief financial officer neither operates on his or her own nor is he or she divorced from management. Successful financial management is the result of a collective and conscientious effort from everybody in the department, as guided by a technically trained and proficient chief financial officer who is objective and performs his duties with due professional care.

In this regard, the chief financial officer must establish effective service delivery relationships with his or her clients on a basis of integrity, reliability, objectivity and usefulness. These core values must be evident in the relationship with the following clients:

- Accounting officer
- Programme managers
- Internal audit and the audit committee
- Budget committee

- Treasury
- Auditor General
- Portfolio Committee
- Standing Committee on Public Accounts

Achieving these core values requires adequate education and training and maintaining the highest possible degree of professionalism in the delivery of financial services.

10. Core competencies and skills required for financial management in the public sector

Against the background of the definition, aim and scope of financial management in the public sector, it is recognised that chief financial officers must be technically trained and proficient in at least the following subject areas:

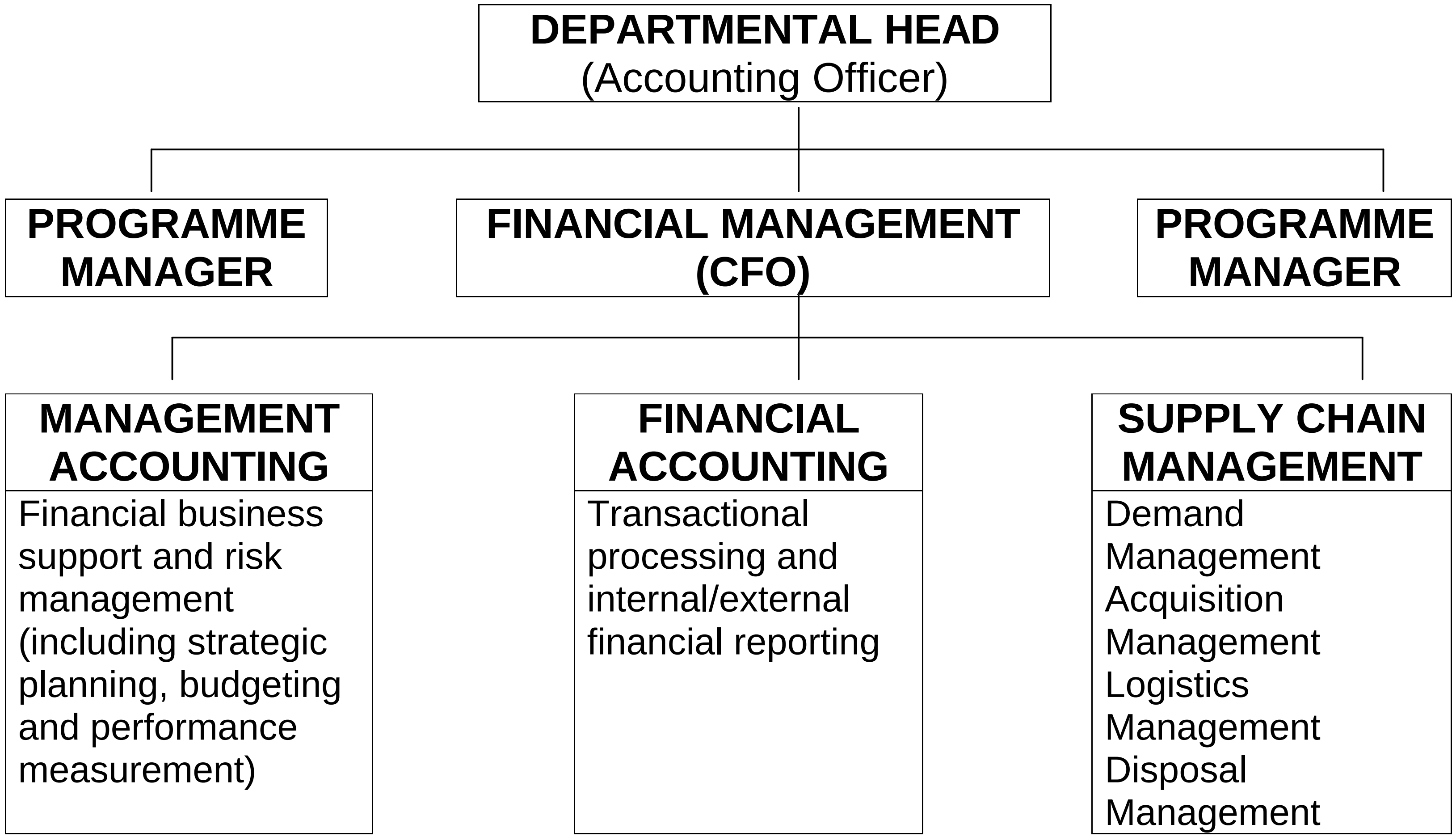
- Strategic management
- Business planning and design
- Performance measurement
- Financial accounting (including principles of GAAP/GRAP)
- Management accounting
- Internal control
- Internal and external audit
- Information systems
- Economy
- Negotiation skills
- Communication skills
- Analytical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

11. Recommended structure of the Office of the Chief Financial Officer and related duties

In terms of Treasury Regulation 2.1.2, the chief financial officer is directly accountable to the accounting officer. The chief financial officer should have an appropriate support structure that allows him/her sufficient opportunity to provide analysis, interpretations and appraisals that will assist and improve decision making in the institution.

The following diagrammatic representation recommends the reporting lines and structure of a chief financial officer's component:

FINANCIAL MANAGEMENT



12. Conclusion

The normative measures and its accompanying user manual, as contained in the enclosed Annexures A and B respectively, must be seen as a management tool to achieve sound financial management. By continuously evaluating the state of financial management in his or her department with the help of performance indicators/measures or requirements, the accounting officer should be able to ensure that pro-active rather than re-active steps are taken to address financial management problems. These measures must, however, not be seen as definitive but rather as a basis for the development of further measures that are unique to a department and its hierarchy.

NORMATIVE MEASURES FOR FINANCIAL MANAGEMENT (Annexure A)
(PHASE 1 : PERFECTING THE BASICS)

A. Management arrangements

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
1. Accounting officer (AO) Chief financial officer (CFO) and other organisational issues	1. Has an employment contract/annual performance agreement been prepared between the executive authority and the accounting officer? [sec 36(5) of the PFMA & PSR, Chapter 1 Part VII.B.2].		Existence	Signed performance agreement on or before 30 April or within three months from date of appointment		A1.1
			Frequency of evaluation and updating	4 times per year		
			Quality of performance agreement	Includes performance standards which are in line with objectives in the strategic plan		
			Quality of employment contract	Responsibilities of AO in terms of sec 38-42 of the PFMA form part of the		

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
				agreement Specified main delegations or authorisations		
	2. Has a competent CFO been appointed? [TR 2.1]		Appropriate qualifications Appropriate experience	CA/ MBA/ B Comm/ ± 5 years financial management experience		A1.2
	3. Has an annual performance agreement been prepared between the AO and the CFO? [PSR, Chapter 4 Part III]		Existence Frequency of evaluation and updating Quality of performance agreement	Signed agreement on or before 30 April or within 3 months from date of appointment 4 times per year Include performance standards which are in line with objectives in the strategic plan		A1.3

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
	4. Is the CFO seen as a business partner who is actively involved in the strategic issues facing the department?		Effective contribution	CFO attends at least 12 senior (Top) management meetings per year and reports on financial issues CFO correctly placed on the departments organogram to allow direct accountability to the AO		A1.4
	5. Has the CFO and his/her financial team prepared a strategic plan for the finance component and is this plan updated regularly?		Documented evidence Frequency of updating	Strategic plan exists Annually		A1.5
	6. Has the finance component been aligned to support the CFO and implementation of the PFMA?		Existence of key personnel	Financial accountant Management accountant Supply chain management practitioner		A1.6

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
	7. Is the vacancy rate in the finance component addressed on a regular basis? [PSR, Chapter 1, Part III]		No. of vacancies X 100 Establishment of finance Component Average length of vacancy	5% 3 months		A1.7
	8. Are the staff in the finance component appropriately qualified? [PSR, Chapter 1 Part I.B]		% of staff who have finance related qualifications or who are studying towards obtaining related qualifications	90%		A1.8
	9. Have development plans been drawn up for all staff members in the finance section? [PSR, Chapter 1 Part VIII.B]		% of financial staff with development plans % implementation of structured training programme	100 % 100%		A1.9
	10. Have job descriptions been prepared for each post or group of posts in the finance component? [PSR, Chapter 1 Part III.I]		Existence of job descriptions Frequency of updating	100% Every 3 years		A1.10

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
	11. Are all departmental policies and procedures within the finance component documented?		% of departmental policies and procedures documented Compliance Frequency of updating	100% In-line with latest Treasury Regulations Annually		A1.11
	12. Does the rest of the management team in the department understand the principles of good financial management and are they aware that all are responsible for financial management? [sec 44 & 45 of PFMA]		Frequency of information sessions	2 sessions per year		A1.12
	13. Are performance agre-ements/plans drawn up at all levels of the hierarchy? [PSR, Chapter 1 Part VIII.]		Existence Timeliness	Documented plans/agreements 1 April		A1.13

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
			Frequency of performance evaluation	4 times per year		
	14. Are officials within the department acquainted with the measures set out in the code of conduct for the public service? [PSR, Chapter 2]		Frequency of information sessions	2 sessions per year		A1.14
	15. Has your department established processes to ensure suitable oversight over public entities under the control of your executive authority? [sec 63(2) of PFMA]		Compliance	Schedule 2 PE and Schedule 3 business enterprises Submission of corporate plans Submission of estimates of revenue & expenditure and borrowings		A1.15

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
				Annual shareholders compact Quarterly reports regarding performance Schedule 3 PE Submission of strategic plans Submission of estimates of revenue & expenditure Quarterly reports regarding performance		
	16. Has your department established processes to ensure suitable oversight over trading entities under its control [TR19.3.1]		Compliance	Documented policy and reporting framework		A1.16

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
	17. Has the accounting officer delegated his/her responsibility to other officials in terms of the PFMA? [sec 44 of the PFMA]		Existence of delegations in writing and updated on a regular basis	Complete set of delegations for • PFMA • Treasury Regulations Updated annually		A1.17
	18. Has the executive authority delegated his/her responsibilities to officials in terms of the Public Service Regulations? [PSR, Chapter 1 Part 11.B]		Existence of delegations in writing and updated on a regular basis	Complete set of delegations for • Public Service Act; • Public Service Regulations Updated annually		A1.18

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
2. Risk management	1. Has the AO accepted responsibility for the total process of risk management, as well as forming his/her own opinion on the effectiveness of the process? [TR 3.2.1]		Existence and communication	Written, approved documents exist and are properly distributed/ communicated		A2.1
	2. Has the AO made use of generally recognised risk management and internal control models and frameworks?		Existence and best practice	Documented, approved system of risk management and internal control based on a recognised model		A2.2

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
	3. Has the AO ensured that a formal risk assessment is under-taken to determine the major risks (key strategic and material/ significant risks) facing the organisation? [TR 3.2.1]		Frequency	At least annually		A2.3
	4. Has a comprehensive system of control been established by the AO to ensure that the identified major risks are mitigated and that the organisation's objectives are attained? [TR 3.2.1]		Existence	Documented, approved portfolio of evaluated control activities for each risk identified		A2.4

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
	5. Are the strategies and control activities implemented by management adequate and appropriate to mitigate identified major risks?		Regular feedback	Twice per annum		A2.5
	6. Does the strategy to manage identified risks include a fraud prevention plan? [TR 3.2.1]		Existence Implementation	Documented plan 2 reports per year		A2.6
3. Internal control procedures	1. Are proper internal control mechanisms designed and implemented?		Internal audit findings	Favourable		A3.1

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
	2. Are the activities of the department organised in such a manner that the following functions are segregated in each cycle: ■ Execution of the transaction ■ Accounting for the transaction ■ Custody of the related assets		Internal audit findings	Favourable		A3.2
	3. Is the accounting for each transaction type organised in such a manner that different persons perform the following activities: ■ Approving ■ Processing ■ Recording ■ Reconciling		Internal audit findings	Favourable		A3.3

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
	4. Does the department have documented levels of authority?		Frequency of revision Internal audit findings	Annually Favourable		A3.4
	5. Are audit enquiries raised by the Auditor General being finalised timeously?		Timeliness	Audit queries: 30 days Interim audit management letters: 21 days Final audit management letters: 14 days		A3.5
4. Internal audit	1. Does the department have an effective system of internal audit? [sec 38(1)(a) (ii) of the PFMA] [TR 3.2]		Existence and effectiveness	Internal Audit Unit Reliance by top management Reliance by the external auditor At least 4 recommendations annually		A4.1

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
				75% of recommendations implemented		
	2. Has a competent head of internal audit been appointed?		Appropriate qualifications Appropriate experience	CIA/MBA/B. Com/ACIS 5 years management experience in internal auditing		A4.2
	3. Does the internal audit unit report at a level within the organisation that allows it to accomplish its responsibilities fully? [TR 3.2.9]		Documented reporting line	Report directly to accounting officer		A4.3
	4. Is the purpose, authority and responsibility of the internal audit activity formally defined? [TR 3.2.5]		Documented proof	Internal audit charter is approved by the Audit Committee Rolling three year strategic plan Annual internal audit plan		A4.4

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
				Plans indicating proposed scope of each audit		
	5. Is the internal audit effort based on the strategy for managing departmental risks? [TR3.2.1]		Documented proof	Internal audit plan addresses risk areas		A4.5
	6. Is the internal audit function evaluated to ensure that internal audits are performed with proficiency and due professional care?		Regular reviews	Annual review by audit committee Every 5 years quality assurance review by an independent, external party		A4.6
	7. Does internal audit submit reports to the audit committee detailing performance against the internal audit plan?		Frequency Timeliness	Quarterly reports 15 days after each quarter		A4.7

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
	[TR 3.2.7 (d)]					
	8. Is the internal audit function scrutinised and evaluated to ensure that it maximises the benefits from its independent status?		Frequency	Review by audit committee performed at least every 3 years		A4.8
	9. Does internal audit assess the operational procedure and monitoring mechanisms over all transfers made and received in terms of the annual Division of Revenue Act? [TR 3.2.8]		Frequency	Annually (form part of annual plan)		A4.9
5. Audit committees	1. Has an audit committee been established? [sections 38 (1) (a) (ii) & 77 of the PFMA and TR 3.1]		Establishment of an effective independent audit committee	Must have appropriate experience Consultation with executive authority		A5.1

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
				At least three members Majority of members may not be in the employ of the department One member from outside the public service Chairperson may not be in the employ of the department		
	2. Does the audit committee have formally determined, written terms of reference dealing with membership, mandate audit approach and operating procedures? [TR 3.1.8]		Existence	Formal, written terms of reference, approved by the accounting officer		A5.2

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
	3. Does the Audit Committee meet with the external auditors on a regular basis? [TR3.1.16]		Frequency	At least once a year		A5.3
	4. Does the audit committee have clearly agreed reporting lines? [TR3.1.12]		Clear reporting lines	Report to accounting officer		A5.4
	5. Is the audit committee subject to regular evaluation by the accounting officer as to its performance and effectiveness?		Frequency	Annually		A5.5
	6. Does the audit committee meet on a regular basis? [sec 77 of PFMA]		Frequency	At least twice per annum		A5.6

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Remarks/Reference Annexure
				Norm	Actual	
	7. Does the Audit Committee render an effective service to the department? [TR 3.1]		Coverage and quality of reports	Effectiveness of internal audit function Effectiveness of internal control Risk areas to be covered in internal and external audit Reliability and accuracy of financial reports Compliance with legal and regulatory provisions		A5.7
	8. Does the audit committee submit a report for purposes of the annual report? [TR 3.1.13]		Coverage of report	Effectiveness of internal control Quality of in year management and monthly reporting in terms of the PFMA and DORA Evaluation of annual financial statements		A5.8

B. Planning and Budgeting

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Refer Annexure
				Norm	Actual	
1. Planning	1. Has a strategic plan approved by the Executive Authority been tabled in the Legislature? [TR 5.2.1]		Timeliness	At least 7 days prior to the discussion of the department's budget vote		B1.1
	2. Has the AO established procedures to facilitate effective performance monitoring, evaluation and corrective action? [TR 5.3.1]		Documented proof	Existence of a written procedure		B1.2
	3. Is the strategic plan consistent with the medium term expenditure estimates? [TR5.2.2 (a)]		Compliance	100%		B1.3

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Refer Annexure
				Norm	Actual	
	4. Is the content of the strategic plan in accordance with the requirements of the Treasury Regulations and Public Service Regulations? [TR 5.2.2 and PSR, Chapter 1, Part III.B]		Compliance	100%		B1.4
	5. Is the strategic plan performance based? [TR 5.2.2 (d)]		Measurable objectives for each programme	100%		B1.5
	6. Is the strategic plan updated and revised on a regular basis? [TR.5.1.1]		Frequency of revision	Annually		B1.6

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Refer Annexure
				Norm	Actual	
	7. Has the department established a sustainable service delivery improvement programme? [PSR, Chapter 1, Part III.C]		Compliance	Annual statement of public service commitment including service standards		B1.7
2. Budgeting	1. Has the AO complied with the prescriptions of the budget circular as issued by the relevant Treasury. [TR 6.1.1; 6.2.1]		Compliance	100%		B2.1
	2. Are measurable outputs per programme specified in the departmental budget? [sec 27(4) of PFMA]		Number of performance measures/indicators per output to measure ▪ quantity ▪ quality ▪ timeliness	At least 1 1 1		B2.2

<table>
<tr><th rowspan="2">Critical Performance Area</th><th rowspan="2">Basic Evaluation</th><th rowspan="2">Yes/ No</th><th rowspan="2">Performance Indicator/Measure/ Requirement</th><th colspan="2">Performance</th><th rowspan="2">Refer Annexure</th></tr>
<tr><th>Norm</th><th>Actual</th></tr>
<tr><td></td><td>3. Has the organisational processes and structure been re-evaluated and aligned to the outputs?</td><td></td><td>Frequency of evaluation</td><td>Annually</td><td></td><td>B2.3</td></tr>
<tr><td></td><td>4. Is your department submitting reports concerning the utilization of a saving in terms of sec 43 (1) of the PFMA?</td><td></td><td>Timeliness</td><td>Within 7 days
Reports submitted to
▪ Executive authority
▪ Relevant Treasury</td><td></td><td>B2.4</td></tr>
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C. Revenue and expenditure management

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Refer Annexure
				Norm	Actual	
1. Revenue Management	1. Does the AO regularly examine the operations of the department to identify new sources or potential sources of revenue?		Frequency	At least annually		C1.1
	2. Does the AO regularly review existing fees, charges, rates, tariffs or scales of fees or other charges relating to the revenue accruing to a revenue fund and the letting of state property? [TR 7.3, TR 10.2.4]		Frequency Compliance	At least annually Treasury approval for tariff structure		C1.2

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Refer Annexure
				Norm	Actual	
	3. Is the collection of revenue monitored on a regular basis and reported to the executive authority? [sec 39 (2)(b) of the PFMA]		Frequency Timeliness Quality	Monthly 15 days after month end All variances explained and followed up		C1.3
	4. Is cash received deposited on a regular basis, where possible? [TR 15.10]		Frequency	Daily		C1.4
2. Expenditure Management	1. What is the estimated/actual % of overspending?		Total expenditure X 100 Total voted amount 1	0%		C2.1
	2. What is the estimated/actual % of underspending?		Total expenditure X 100 Total voted amount 1	2%		C2.2
	3. Is over/underspending monitored on a regular basis and reported to the relevant executive authority? [sec 39 of the		Frequency Timeliness Quality	Monthly 15 days after month end All variances explained		C2.3

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Refer Annexure
				Norm	Actual	
	PFMA]			and followed up		
	4. Does the AO ensure that, before transferring funds to an entity, the requirements of sec 38(1)(j) of the PFMA are met?		Compliance	Availability of written assurance		C2.4
	5. Are the certified payroll reports returned to the CFO as required? [TR 8.3.5]		Timeliness	Within 10 days of payment date		C2.5
	6. Is the actual monthly expenditure per programme in accordance with the cash flow projection?		% of variance	2%		C2.6
	7. Are all payments in access of R2 000 being effected electronically [TR.15.12.3]		Compliance	100%		C2.7

D. Asset and liability management

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Refer Annexure
				Norm	Actual	
1. Asset Management	1. Has the department established a comprehensive asset register for departmental assets? [sec 38(1) of the PFMA & TR.10.1.2]		Existence	Integration with purchasing and payments system Structure to allow for different classification of assets Clear identification of person responsible for assets Data on acquisition, asset identification, performance, disposal and accounting		D1.1

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Refer Annexure
				Norm	Actual	
	2. Has the department developed a policy and procedure manual to ensure effective management of assets? [sec 38(1)(d) of the PFMA & TR10.1.2]		Existence	Include all aspects of the asset life-circle Updated on a regular basis Staff involved receive appropriate training		D1.2
	3. Are replacements costs weighed against the cost of maintenance?		Investment cost analysis done in support of all decisions	100%		D1.3
	4. Are assets utilised optimally? [TR10.1.2]		Regular evaluation Utilisation: ▪ Land and buildings ▪ Furniture and office equipment ▪ Computer equipment	Annually 100% 90% 90%		D1.4

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Refer Annexure
				Norm	Actual	
2. Inventory/stock	1. Are stock levels at an optimum and economical level? [TR 10.1.1. (b)]		% of excessive and redundant stock items in relation to total number of stock items	0%		D2.1
			Number of out-of-stock requests as a % of number of requisitions	0%		
			Value of stock held in excess of 6 months	R0,00		
	2. Are stock losses / shortages monitored?		Value of stock losses as a % of total stock value	0,1%		D2.2
3. Debtors	1. Are effective processes in place to collect outstanding debt? [TR.11.2.1]		Number of days before payment is received	< 30 days		D3.1
			Amount of debt in arrears exceeding 6 months	0%		
	2. Does the department produce a debtors age analysis on a regular basis?		Timeliness	Monthly		D3.2

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/ Requirement	Performance		Refer Annexure
				Norm	Actual	
	3. Has the accounting officer established a debt write-off policy? [TR 11.4.2]		Existence $\frac{\text{Bad debt}}{\text{Debtors}} \times \frac{100}{1}$	Documented Policy 0,5%		D3.3
4. Creditors	1. Are all payments due to creditors settled within the prescribed period [TR8.2.3]?		Compliance	Normal creditors <30 days		D4.1
	2. Does the department produce a creditors age analysis on a regular basis?		Timeliness	Monthly		D4.2
	3. Are interest free facilities and possible discount utilised to the fullest extent? [TR.15.10.1.2]		Number of reported cases where discounts were not utilised	0		D4.3

E. Accounting and reporting requirements

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/Requirement	Performance		Refer Annexure
				Norm	Actual	
1. Accounting	1. Are revenue and expenditure transactions allocated to a clearing or suspense account approved at an appropriate level		Delegations in writing exist	CFO		E1.1
	2. Are suspense accounts cleared and reconciled appropriately? [TR 17.1.2]		Frequency Quality of reconciliation Regular reports to accounting officer Amounts dormant for longer than 6 months Value of cases older than 12 months not written off	Monthly 100% reconciled and cleared Report to AO on uncleared items monthly 0 0		E1.2

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/Requirement	Performance		Refer Annexure
				Norm	Actual	
	3. Are control measures in place to ensure that all transactions are supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation [TR.17.1.1]		Post audit findings	Favourable		E1.3
	4. Are bank reconciliation's done on a regular basis by the department? [TR15.10.1.2(j)]		Frequency	Daily		E1.4
	5. Does the accounting officer ensure that all transactions have been recorded before the closure of accounting months?		Compliance	Certificate of compliance signed by the accounting officer		E1.5

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/Requirement	Performance		Refer Annexure
				Norm	Actual	
2. Financial Systems	1. Is the objective within the general ledger aligned with the approved structure of the Estimates of Expenditure of the department?		Degree of alignment	100%		E2.1
	2. Is the responsibility structure within the general ledger aligned with the approved organisational structure of the department?		Degree of alignment	100%		E2.2
	3. Is the current approved establishment captured on the PERSAL system?		Degree of capturing	100%		E2.3

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/Requirement	Performance		Refer Annexure
				Norm	Actual	
	4. Are processes in place to ensure suitable absorption of employees into posts on the approved establishment?		% of employees employed out of adjustment	0%		E2.4
	5. Does the department conduct regular system training courses to ensure optimal utilisation of the departmental financial systems?		Frequency	Annually		E2.5
	6. Is proper maintenance done on the department's technical infrastructure (i.e. hardware, software, networks, etc)		Acceptable uptime for the users Acceptable response time	98% ≤ 5 seconds		E2.6

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/Requirement	Performance		Refer Annexure
				Norm	Actual	
	7. Are proper Batch control procedures implemented and maintained for Batch systems?		Frequency of updating batch control registers	Daily		E2.7
	8. Is there a proper password control strategy in the department?		Regular renewal of passwords Number of login attempts	≤ 30 days ≤ 3		E2.8
3. Monthly reports	1. Have the actual revenue and expenditure, projections and variances been submitted in the prescribed format? [sec 40(4)(b) & (c) of PFMA]		Frequency Timeliness Quality	Monthly 15 days after month end All variances explained, including information on DORA reporting requirements		E3.1
4. Quarterly reports	1. Is reporting on performance against the strategic plan done on a regular basis?		Frequency Timeliness of reporting	Quarterly 30 days after the end of each quarter		E4.1

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/Requirement	Performance		Refer Annexure
				Norm	Actual	
	[TR.5.3.1]			each quarter		
	2. Do Schedule 3A & 3C Public entities under the control of the department report on a regular basis regarding actual revenue and expenditure? [TR.26.1.1]		Frequency Timeliness	Quarterly 30 days after end of quarter		E4.2
	3. Do Schedule 3A & 3C Public entities report on a regular basis on the extent of compliance with the PFMA and Treasury Regulations? [TR26.1.2]		Frequency Timeliness Quality	Quarterly 30 days after end of quarter Explanation for non-compliance		E4.3

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/Requirement	Performance		Refer Annexure
				Norm	Actual	
5. Annual Reporting	1. Has the department submitted the AFS timeously for audit purposes? [sec 40(1) of PFMA]		Compliance Quality	On or before 31 May In accordance with National Treasury guidelines		E5.1
	2. Has the department submitted the annual report, including, the audited financial statements and the audit report, timeously to the executive authority?		Compliance Quality ▪ Annual report ▪ Financial statements	On or before 31 August In accordance with National Treasury Guidelines Unqualified report		E5.2
	3. Has the executive authority responsible for the department tabled the annual report including the financial statements and audit report thereon, timeously to the legislature? [sec 65(1) of PFMA]		Compliance Non-compliance	On or before 30 September Tabling of written explanation in the legislature		E5.3

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/Requirement	Performance		Refer Annexure
				Norm	Actual	
	4. Has the executive authority responsible for the department tabled the annual reports of public entities under his/her control timeously in the legislature? [sec 65(1) of PFMA]		Compliance Non-compliance	Within 6 months after year end Tabling of written explanation in the legislature		E5.4
	5. Is the content of the annual report in accordance with the legislative re-quirements? [sec 40(3) of the PFMA, TR 18.3 & PSR, Chapter1, Part 111 J]		Compliance	100%		E5.5

Critical Performance Area	Basic Evaluation	Yes/ No	Performance Indicator/Measure/Requirement	Performance		Refer Annexure
				Norm	Actual	
	6. Is a schedule regarding disciplinary procedures and criminal charges submitted to the relevant treasury and the Auditor-General. [TR 4.3.3]		Frequency Timeliness Quality	Annually 30 days after year end Include report on changes made to systems of financial and risk management		E5.6
	7. Are any surpluses/ deficits at the end of the financial year for trading entities under your control being declared to the relevant treasury. [TR 19.7.1]		Frequency Timeliness	Annually 2 months after year end		E5.7

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 state clear 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 align 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 necessary for 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 and thus for performance agreements.
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 ▪ develops 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 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 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 essential for good corporate governance as it ensures that knowledge is available in hard/electronic format for other staff to access. 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.
A1.15	The executive authority of a department must ensure that any 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. 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 responsible towards all stakeholders having 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 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: ▪ determined 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.
A3.5	The external audit process normally entails a pre-engagement, planning, fieldwork and reporting stage. 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 period 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 appropriately senior level of management, preferably at least the CFO. The interim letter is intended to enable corrective action and to comply with auditing standards which 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 which are tracked inside 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 issues 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 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 for the audit committee; and ▪ comply with standards, codes of conduct and ethics that are promulgated from time to time by the relevant professional bodies.

A4.2	Heads of internal audit are. amongst other, 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 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. The head of internal audit must report directly to the accounting officer. He 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 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 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 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 <u>must</u> 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 attend meetings on invitation.
A5.2	The audit committee should have written terms of reference, by the accounting officer, 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. This 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 an department's review of revenue sources was carried out by 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. 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 revenue collected is not retained by the department

	itself, but 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.
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 are 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 Logistics Directorate 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 departmentby 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 by 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.
E ACCOUNTING AND REPORTING REQUIREMENTS	
E1.1 E1.2	Treasury Regulation 17.1.2 determines, and 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 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.
E1.3	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.
E1.4	The accounting officer is responsible for establishing systems, procedures and processes to ensure efficient and effective banking management. Sound banking management includes performing bank reconciliation on a daily basis to detect any unauthorised entries.
E1.5	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.
E2.1	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 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 onto 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 departmentmust 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 departmentthe 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.