

Public Sector: Accounting and Finance

Presenters: **Caryn Maitland CA(SA)**
Bronwyn MacCallum CA(SA)

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Session 6: PFM Processes, reporting and UIF

Understanding the practical processes underlying PFM in the PFMA cycle

Presenter

Caryn Maitland CA(SA)

Caryn is a qualified CA(SA and RA, who has lectured extensively at UKZN (and other institutes) where she lectured Advanced Financial Accounting up until 2011 as well as co-ordinating the module on the Pietermaritzburg campus and was appointed Section Head of Financial Accounting and Deputy Head of the School of Accounting (managing the Pietermaritzburg campus) prior to leaving UKZN.

She has conducted independent workshops and seminars for professional accountants since 2006 on various topics and has consulted on a number of technical issues. Since January 2011, she has focused on her own business as technical freelance consultant and trainer to those working within the accounting profession. Caryn is a technical advisor to the SAICA Eastern Region Midlands District, Northern District and Southern District Associations, as well as the Small Practice Interest Group in Durban – specialising in financial reporting (IFRS, IFRS for SME's and general accounting), assurance, legislation and ethics. Caryn has a passion for Corporate Governance, which together with her Companies Act specialism and Financial Management for Non Financial Management lecturing background, has served her well in consulting and advising various Boards of Directors in recent years.

Caryn is also a platform presenter for various institutes as well as many small to medium accounting practices across the country and into Southern Africa. Maitland was appointed as a visiting Associate Professor to the University of Limpopo tasked with mentoring their Financial Accounting staff (Aug 2011 to Dec 2013).

Maitland's passion is IFRS and IFRS for SME's and was delighted at the opportunity granted in 2013 to serve on the APC subcommittee constituted to investigate the need for Micro GAAP and the role of IFRS for SME's for small and medium sized practitioners. Caryn, also serves on the Joint Accountants, Auditors and Attorneys Committee of SAICA, and is part of the School Governing Body project initiated by SAICA in KwaZulu-Natal, and has been appointed as an alternative member to the APC in June 2020

Caryn was elected as the first woman Chairperson for the Midlands District Association for SAICA in 2018 and also serves on the Eastern Region SMP Committee as well as the Local Subvention Committee for SAICA. In 2019 Caryn was appointed to the SAICA Eastern Region Council. As someone who is committed to environmental affairs, Caryn serves as a non-executive director for the Institute of Natural Resources, a Non Profit Company focusing on research. Since 2018 Caryn has worked extensively with commerce and industry, assisting analysts, directors and other users of financials to interpret, prepare, analyse and forecast based on the results of financial statements.



Presenter

Bronwyn MacCallum CA(SA)

Bronwyn qualified as a CA(SA) in 2004 and has spent time in private practice as a partner and later director of small and medium firms as well as a tenure at the Auditor-General of South Africa as a Senior Manager and SAICA Training Officer. Her current professional focus is on the design, implementation and monitoring of systems of quality control in the auditing profession for firms and for engagements.

Bronwyn has also spent many years lecturing Auditing, IFRS and Public Financial Management at undergraduate, post-graduate and professional levels, both face to face and in the design and implementation of blended and on-line learning platforms. Bronwyn has played active roles at both SAICA and IRBA in board sub-committees related to professional practical training and development, and in various public sector governance structures and audit committees.

Bronwyn has significant experience in auditing in the public sector in South Africa, in audit committee and financial misconduct governance structures and speaking and presenting to political oversight structures. Bronwyn has also had extensive experience in the authoring and quality assurance processes of professional learning content for public finance management and related disciplines in government for the English speaking African countries. Topics include accounting and auditing in the public sector, public sector context, public financial management, financial management, economics, performance management, ICT and communications.

The content and training materials prepared and delivered have catered to both qualified accounting professionals working in the public sector, as well as to long-serving public servants who have not been formally trained in PFM, accounting and finance in the public sector.



COURSE OUTLINE

Session Objectives

Obtain a high-level understanding of:

- The financial management provisions of the Treasury Regulations
- The strategic planning cycle
- The budget cycle
- Financial management
 - . Day to day financial management
 - . In-year reporting
 - . Annual reporting
- The annual audit process and reporting to legislature/parliament
- The life cycle of unauthorised, irregular and fruitless and wasteful expenditure and condoning irregular expenditure

Table of contents

- Implementation of PFM
- Financial management sections
- Treasury Regulations
- Strategic planning
- Budgeting
- Revenue management
- Expenditure management
- Asset management
- Procurement and contract management
- Accounting and reporting
- Auditing and assurance
- Irregular expenditure

PFM: Practical implementation

Definition of PFM:

- The set of **laws, rules, systems and processes** used by governments to
 - increase and collect revenue
 - allocate public funds
 - implement service delivery and public expenditure
 - account and report for spending and service delivery
 - provide assurance over the results

Financial management sections

- Strategic planning and performance management
- Budget
- Revenue
- Expenditure
- Assets
- Procurement and supply chain management

Treasury Regulations: Origin

- From s76 of the PFMA - GENERAL TREASURY MATTERS
- 76: Treasury regulations and instructions:
 - Any matters prescribed to the PFMA
 - Financial management and internal control
 - Framework for an appropriate procurement and provisioning system
 - Audit committees, their appointment and their functioning
 - Internal audit components and their functioning
 - Losses, damages, other ad-hoc control/trust/handover/disposal/non-routine matters

Treasury Regulations: Structure

- Definitions
- Management Arrangements (CFO, Internal control (AC, IA), Fin Misconduct)
- Planning and budgeting
- Revenue and expenditure management
- Asset and liability management
- Frameworks
- Accounting and reporting requirements
- Miscellaneous
- Public Entities



Strategic Planning

- Informed by:
 - Process:
 - PFMA
 - NT Regulations
 - Revised Framework for Strategic plans and Annual Performance Plans (R-FSAPP)
 - Policy Framework for the Government-Wide Monitoring and Evaluation System, 2005
 - Framework for Managing Programme Performance Information (FMPPI)
 - Strategic objectives and goals:
 - National Development Plan (NDP) (2030 development targets)
 - Medium Term Strategic Framework (MTSF) published by the Department of Planning, Monitoring and Evaluation (DPME)
 - Spatial Development Plans (SDPs)
 - Provincial, sector and local government priorities
 - Any other government medium and long term plans

MTSF 2019-2024

PRIORITY 1:

Building a
capable, ethical and
developmental
state

PRIORITY 2:

Economic
transformation
and job
creation

PRIORITY 3:

Education,
skills and
health

PRIORITY 4:

Consolidating the
social wage through
reliable and quality
basic services

PRIORITY 5:

Spatial integration,
human settlements
and local
government

PRIORITY 6:

Social
cohesion
and safe
communities

PRIORITY 7:

A better
Africa and
world

Strategic Planning Process



The Strategic Plan

- Draft from 31 October, table in parliament in March, applicable 1 April (SP, APP, AOP)
- 5-year strategic plan
- Once every 5 years ideally from the first planning cycle following an election
- Linked to the MTSF outcomes
- Tabled within a month after the tabling of the budget relating to the first year covered by the plan
- Must include:
 - Mandate
 - Strategic focus (vision, mission, values)
 - Performance measurement: Outcomes, indicators, indicator base-lines, 5-year targets, key risks
 - Technical indicator descriptions
- Forms the basis of annual performance plans, operational plans, implementation plans and annual reports

The Annual Performance Plan

- Informed by the strategic goals, measurable objectives and outcomes in the strategic plan
- Submitted to parliament/provincial legislature for discussion with approval of annual votes/budgets
- Includes:
 - Mandate
 - Strategic focus: medium term: strategic plan information updated annually for changes in the situational analysis
 - Performance measurement:
 - Institutional programme performance information: name, purpose, outputs, output indicators, targets, planned performance over medium term, programme resources, updated key risks
 - Technical indicator descriptions

The Annual Operational Plan

- Informed by the annual performance plan, provides the “how” – describes activities and budgets for each of the outputs and output indicators in the APP
- Includes:
 - Programme name
 - Programme outputs
 - Activities
 - Activity timeframes
 - Activity budget allocations
 - Activity dependencies
 - Activity responsibilities

The Annual Implementation Plan

- To address a specific challenge, a strategic intervention or improve implementation of existing or new programmes
- Outputs, output indicators and related activities must already be included in the APP and AOP

Strategic planning: Internal control

- System for performance management
 - Performance planning and approval
 - Predetermined measurement
 - Evidence of performance
 - Quarterly reporting
 - Annual reporting
 - Review of performance for mid-year reporting and adjustments where necessary

Performance Reporting

- On Annual Performance Plan:
 - Quarterly Performance Reports
 - Annual Reports
- On Annual Operational Plan and any Annual Implementation Plans:
 - Regular monitoring and evaluation: Internal policies and procedures
- On Strategic Plan:
 - Mid-term Assessment Report (2.5 years into 5 year period)
 - End Term Assessment Report

The budget process

- Informed by:
 - PFMA
 - NT Regulations
 - Medium Term Expenditure Framework and related guidelines, circulars and templates
 - Submitted to Treasury usually in August
 - Narratives, templates and guidelines
 - Zero-based budgeting framework: A framework for spending efficiency in a fiscally constrained environment

The budget process

- **Process:**

- MTEF Guidelines issued (August)
- MTEC submission workbooks issued (August)
- Submissions of proposals for budget programme structure revision (August)
- Submissions from institutions (August)
- Technical committee process concludes and recommendations tabled to MINCOMBUD (September)
- Tabling of Medium Term Budget Policy Statement (mid October)
- Preliminary allocation letters issued to departments (mid to end October)
- Cabinet-approved final allocations distributed to departments
- Budget tabled in parliament (February)
- Adoption of related expenditure legislation (March – July)

Revenue Management

- Informed by:
 - PFMA, TR, DORA, Appropriation Act, Approved budget
- Requirements:
 - The accounting officer must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the [identification, collection, safeguarding, recording and reconciliation of information about revenue \(TR\)](#)
 - Collect all monies due to the entity (PFMA)
 - Debt write-offs only when all reasonable steps taken to recover and only when compliant with TR and policy (TR)
 - Charge interest on outstanding debts (TR)

Expenditure Management

- Informed by:
 - PFMA, TR, DORA, Appropriation Act, Approved budget
- Requirements:
- Appropriate steps must be taken to prevent unauthorised expenditure (PFMA, TR)
 - Incurred only in accordance with the purposes of the vote (PFMA)
 - Prevent overspending (PFMA)
 - No utilisation of savings or unused capex as virements to offset opex (PFMA, TR)

Expenditure Management

- Appropriate steps must be taken to prevent irregular expenditure (PFMA, TR)
- Appropriate steps must be taken to prevent fruitless and wasteful expenditure (PFMA, TR)
- System of internal control:
 - Internal procedures and internal control measures for:
 - approval and processing of payments - that all expenditure is necessary, is appropriate, is paid promptly and is adequately recorded and reported on (NT)
 - Resources were utilised economically (PFMA)
 - Payments were settled within 30 days from receipt of an invoice or within the timeframe agreed upon (TR)
 - No prepayments for goods or services were made prior to receipt thereof, unless required by contractual arrangements with the supplier (TR)

Asset Management

- The accounting officer of an institution must take full responsibility and ensure that proper control systems exist for assets and that –
 - Stock levels are at an optimum and economical level... (TR)
- Disposal and letting of assets (TR)
- Proper control systems existed for assets (TR)
 - Manage, safeguard and maintain
 - Prevent loss, misappropriation, wastage and misuse
 - Ensure effective, efficient, economical and transparent use

Procurement and Contract Management

- Informed by:
 - PFMA, Treasury Regulations (16A)
 - NT Practice notes
 - Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000);
 - Broad Based Black Economic Empowerment Act, 2003

Procurement and Contract Management

Range	Requirements		
Up to R2 000 (incl VAT)	No quotations required Petty cash Internal controls PFMA and TR still apply		
Between R2 000 and R10 000 (incl VAT)	3 verbal or written quotations	Order placed against written confirmation	
Between R10 000 and R500 000 (incl VAT)	Invite and accept written price quotations from as many suppliers as possible	Suppliers must be registered as prospective suppliers	Open to other suppliers if no suitable prospective suppliers
Above R500 000 (incl VAT)	Invite competitive bids	Advertise No deliberate splitting PPPF	Deviations

Procurement and Contract Management

- A system for procurement and contract management must cover the management of:
 - Demand
 - Acquisition
 - Logistics
 - Disposal
 - Risk
 - Regular assessment of supply chain performance

Accounting and Reporting

- Monthly reporting:
 - In terms of PFMA, DORA, TR
 - In-year monitoring and annexures by 2 weeks after month-end (quarterly for CIs and PEs)
 - Actual revenue and expenditure
 - Projections for remainder of financial year
 - Information on conditional grants
 - Any material variances
 - UIFW

Accounting and Reporting

Annual reporting:

- **Annual financial statements** must consist of –
 - (a) a balance sheet (statement of financial position);
 - (b) a statement of changes in equity;
 - (c) an income statement (statement of financial performance);
 - (d) a cash flow statement;
 - (e) an appropriation statement;
 - (f) notes to the appropriation statement and annual financial statement; and
 - (g) such other statements as may be determined by the National Treasury.
- The statements must be prepared on a modified cash basis in accordance with the formats prescribed by the National Treasury and must be accompanied by the audit opinion of the Auditor-General.
- The annual financial statements must, by means of figures and a descriptive report, explain any other matters and information material to the affairs of the department.

Accounting and Reporting

Annual reports:

- Information on the institution's economy, efficiency and effectiveness in delivering programmes and achieving objectives and outcomes against the measures and indicators set out in the strategic plan for the year under consideration
- Information on transfers and subsidies
- Information required by DORA
- Additional parliamentary/legislature requirements
- Report on the use of foreign aid assistance
- Report from the audit committee
- Information on the management of PPPs

Auditing and Assurance

- The AGSA is the organisation that exists in terms of the Public Audit Act to support and carry out the constitutional mandate of the Auditor General as created by Chapter 9 of the Constitution
- The AG determines the scope of the assurance provided to parliament
- The AG has determined to audit in terms of the ISSAIs and the ISAs and to perform procedures in the following areas:
 - Regularity audit
 - Financial statements
 - Compliance
 - Reported performance against pre-determined objectives
 - Internal control
 - Performance Audit
 - Compliance Audit
 - Any other investigations

Auditing and Assurance

- For PFMA:
- Departments/CIs/PEs to submit AFS and annual performance report to AGSA by 31 May
- Consolidations to be submitted by 30 June
- AGSA to audit and report on separate AFS etc by 31 July and by 31 August on consolidations
- Institutions include AGSA report in annual report
- AGSA presents reports to provincial legislature/parliamentary SCOPAs

Irregular expenditure

1 IDENTIFICATION OF IRREGULAR EXPENDITURE

- Expenditure must firstly be INCURRED, i.e. it must be linked to a TRANSACTION and PAYMENT must have been made before Irregular Expenditure can be identified and recorded
 - If the non-compliance is identified before payment is made, it is a non-compliance matter, but no irregular expenditure is recorded
 - If the non-compliance is corrected before payment is made (before expenditure is incurred), the expenditure will not result in irregular expenditure
- Tests for identification of irregular expenditure refer to the requirements in the PFMA and Treasury Regulations and any other instructions issued by the National or Provincial Treasury and must relate to either how the transaction, even or condition was entered into and by whom, as opposed to WHEN
- Expenditure could meet the requirements for both irregular and unauthorised. In this case, unauthorised expenditure takes precedence and the expenditure will be classified as unauthorised (it cannot be both)
- Irregular expenditure is accounted for the same way as normal expenditure, but requires additional disclosure in an irregular expenditure disclosure note

Irregular expenditure

2 FINANCIAL MISCONDUCT

- The PFMA contains provisions relating to financial misconduct which include the making, instructing or permitting of irregular expenditure either on purpose or negligently.
- Alleged irregular expenditure must be investigated and if the allegations are confirmed, appropriate disciplinary action must be taken

Irregular expenditure

3 PROCESS FOR TREATMENT OF IRREGULAR EXPENDITURE

- Identify and report in writing to accounting officer/authority
- Enter details into the irregular expenditure register
- Investigation to determine whether or not the expenditure is irregular
 - If it is not irregular – remains in normal expense account and remains in register for completeness with outcome of investigation reflected
 - If it is irregular –
 - report immediately in writing to the Treasury
 - Include in in-year monitoring reports

Irregular expenditure

- If it is irregular –
 - Raise a receivable
 - Take all reasonable steps to recover the irregular expenditure
 - Determine responsible party
 - Request repayment within 30 days or enter into arrangement, handing over where necessary
 - The write off of this debt as irrecoverable is covered by the TRs on debtor management
- Applying for condonation
 - Accounting officers/authorities may apply to the National Treasury to request condonation for non-compliance that lead to the irregular expenditure
 - If the condonation is approved, no further action (eg recovery/financial misconduct proceedings) are required

QUESTIONS

**Thank you
for your participation**