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PROVINCIAL TREASURY CIRCULAR 2 OF 2009

TO:

ACTING DIRECTOR-GENERAL
HEADS OF DEPARTMENTS

ASSESSMENT OF FINANCIAL MANAGEMENT CAPACITY

The Public Finance Management Act (PFMA) provides a financial management framework that is comparable to the world's best and requires the highest level of discipline in the management of public funds.

The Auditor-General's reports continuously expose financial management weaknesses in many institutions of Government, which implies that they are failing to meet the standards set out in the PFMA and other legislation. Whilst audit reports focus on root causes and audit opinions, departments are experiencing difficulties in rectifying problems associated with poor audit outcomes.

The National Treasury has therefore initiated a project to assist departments, in partnership with the Provincial Treasuries, to improve their financial management to a level that would eventually secure a "clean" audit opinion.

The first phase of the project consists of a databank of questions which departments are required to complete, the results of which will be analysed to identify department specific and systemic causes of poor financial management, including those highlighted in internal and external audit reports.

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Departments that received good audit outcomes and who appear to have implemented sound financial management practices will also be assessed with a view to identifying those good practices that could be replicated in other Government institutions.

The results of the assessment will be compared with a Financial Management Capability Maturity Model (FMCMM) which is aimed at determining a department's level of financial maturity.

The model consists of six levels commencing with Level One as a Start-up Level and progressing to Level Six which is the Optimisation Level. A synopsis of the various levels in the model is contained in the attached Annexure.

The second phase of the project will involve developing action plans in consultation with departmental officials to address deficient aspects identified, if any.

Accounting Officers are consequently requested to ensure that their Chief Financial Officers co-operate by ensuring the timeous completion of the databank of questions.

Funding for the project has been secured from the European Commission (EC) and the EC has appointed a consortium of local and international financial management experts to work with National Treasury and Provincial Treasuries to execute the project.

The project team wishes to work through the Departments' Chief Financial Officers to gather information on various aspects of revenue, expenditure, assets and liabilities management for the purposes of the assessment.

Unfortunately, given the contractual dynamics with the EC, there is little room for flexibility with dates since the project needs to be completed in its entirety by the end of March 2009.

A presentation in this regard will be presented to the Province's Chief Financial Officers during the Provincial CFO Forum meeting that will take place in February 2009. The team allocated to the Mpumalanga Province proposed that the assessments be done during the first week of March 2009. The Provincial Treasury will make the necessary administrative arrangements in terms of a dedicated venue and availability of web access for the completion of the assessments.

It will be appreciated if the content of this Circular could be distributed to the relevant role-players in your Departments and hereby thank you in advance for your usual co-operation.

Regards

MR. RS TSHUKUDU
HEAD OF DEPARTMENT
DATE: 18/02/2009.

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**SYNOPSIS OF THE VARIOUS LEVELS IN THE
FINANCIAL MANAGEMENET CAPABILITY MATURITY MODEL (FMCMM)**

Level	Outline	Characteristics
1 – Start-up Level	No proper internal control framework exists.	Policies and procedures for are not developed for, amongst others: ■ planning and budgeting; ■ quarterly and annual reporting; ■ for all elements of financial management (REAL); ■ for all elements of human resource management, including performance management systems; ■ service delivery programmes; and ■ maintaining, managing security and data storage of database systems. An annual service delivery improvement programme is not developed (Public Service Regulations). Delegations of authority in terms of the PFMA, Public Service Act and other legislation applicable to the institution do not exist and there are no written plans to rectify this. A Risk Management strategy has not been developed. An Internal Audit function has not been established. An Audit Committee has not been established. Formal job descriptions for individual staff members/posts have not been developed. Written code of conduct for employees does not exist.
2 – Development Level	A proper internal control framework is in the process of being developed or has been developed but not implemented. Policies and procedures are in place but are not implemented.	Policies and procedures as listed in the Start up Level above are in the process of being developed or have been developed, are in full compliance with relevant legislation and have been approved. This includes the design of internal controls, such as: ● processes ● delegations of authority ● segregation of duties ● independent reconciliations

Level	Outline	Characteristics
		• verification/monitoring Employees lack appropriate skills and/or experience to perform their duties. Approved delegations of authority in terms of PFMA, Public Service Act and other legislation applicable to the institution have been approved. A Risk Management strategy is in the process of being documented or has been documented and approved by management (including a risk register). An Internal Audit function has been established. An Audit Committee has been established/ including the establishment of a formal charter. Approved job descriptions for individual staff members/posts are in the process of being developed or have been developed and approved. A written Code of Conduct for employees is in the process of being developed or has been developed and approved.
3 – Control Level	Focus on compliance, implementation and control. An internal control framework is fully developed, implemented and adhered to. Adequate resources (human, physical, technical and financial) are available. Assets are safeguarded. Data is reliable and its integrity supports operational planning and monitoring Operations are monitored and controlled Statutory and reporting requirements are met	A departmental organisational structure is established that includes job descriptions, segregation of duties and clear lines of communication and accountability. Approved policies and procedures (as mentioned above) are implemented, adhered to and are regularly updated to ensure full compliance by staff, including: • processes • delegations of authority • segregation of duties • independent reconciliations • verification/monitoring Training programs are in place to address developmental needs of individual staff members. The annual service delivery improvement programme is implemented and adhered to.

Level	Outline	Characteristics
		Approved delegations of authority in terms of the PFMA, Public Service Act and other legislation applicable to the institution are implemented, kept up to date and are adhered to. A Risk Management strategy is implemented and a risk register is maintained and updated on an annual basis. The Internal Audit system is effective and reliance can be placed on the work of the internal audit function. The Audit committee is functioning effectively in accordance with an audit committee charter. Individual staff members are performing their duties in accordance with approved job descriptions. The Code of Conduct is implemented, communicated and enforced. The organisational culture, epitomised by senior management, demonstrates a commitment to an effective control environment in the institution. The institution provides adequate resources (human, physical, technical and financial) for managing and implementing the control environment. Performance indicators are used to monitor the effectiveness of the institution's control framework and action is taken when control weaknesses are identified. The department monitors and evaluates the effectiveness of its control framework by performing self-assessments through the use of the Financial Management Capability Maturity Model, Internal and External Audit Reports and through Parliamentary Reports. Controls are established over changes to programme applications, database structures or supporting systems. This ensures that only authorised personnel make these changes, that changes are in response to approved requests and that the changes reflect the new

Level	Outline	Characteristics
		requirements. Financial and non-financial data are securely maintained. This would typically include setting security policies, providing security training programmes, documenting security guidelines, ensuring physical security, segregating duties, maintaining access rules and profiles, determining password security practices, controlling exterior access to databases (e.g. installing firewalls and developing backup/disaster recovery procedures).
4 – Information Level	Focus on measuring how resources are used.	The annual service delivery improvement programme is published and sets out the institutions service standards that the public can expect (PSR). The institution's service delivery objectives are clearly defined and linked to the strategic performance plan, annual performance plan and the budget. Programme performance indicators are clearly defined for each programme within the institution. Senior management reviews institutional performance management on a periodic and event driven basis. Progress with the achievement of service delivery objectives is independently reviewed. Performance indicators are used to monitor management information reporting. Mechanisms are used to provide senior management with assurances that procedures for reporting management information have been followed. Programme performance indicators reflected in the annual report are consistent with programme performance indicators published in estimates of expenditure, strategic performance plan and annual performance plan.

Level	Outline	Characteristics
5 – Managed Level	The institution is not only capable of analysing the cost and quality of the goods and services produced but is also capable of assessing whether the service delivery was conducted in the most cost effective way. Focus on balancing efficient and economical use of resources with quality/effectiveness of service delivery.	External stakeholders are regularly consulted on the assessment of the institution. The annual service delivery improvement programme is reviewed and updated on an ongoing basis. Programme performance indicators are routinely reviewed and interrogated by management (at least quarterly). There is evidence that management has reviewed service delivery in terms of economy, efficiency and effectiveness. Actual performance is reported in the annual report and compared with initial programme performance indicators (in the strategic performance plan, annual performance plan and budget). Reasons for variances are explained. Corrective action is taken to eliminate the causes of these variances. The institution identifies and obtains core operational and financial processes that it wants quantitative, qualitative and timely information about. The institution identifies opportunities to improve the manner in which services are provided and an assessment is conducted on the impact of potential changes.
6 – Optimising Level	Focus on continuous improvement and learning	There is a continuous internal assessment of financial management processes, improvements and measurements in accordance with economy, efficiency and effectiveness (three EEE's).