

SUPPORTING NOTES TO THE GENERIC FUNCTIONAL STRUCTURES FOR THE OFFICE OF THE CHIEF FINANCIAL OFFICER

1. Background

The Public Finance Management Act (PFMA) and related 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, 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.

Without limiting the right of the accounting officer to assign specific responsibilities, the general responsibility of the chief financial officer is to assist the accounting officer in discharging the duties prescribed in Part 2 of Chapter 5 of the Act and the annual Division of Revenue Act. These duties relate to the effective financial management of the institution including the exercise of sound budgeting and budgetary control practices; the operation of internal controls and the timely production of financial reports. (TR 2.1.3)

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, other internal controls and external financial reporting. The CFO's function is therefore not limited purely to accounting matters.

The adoption of a uniform structure in the CFO's office within the public sector is fundamental in addressing the current rates of vacancies, staff movement and turnover challenges within financial management, Supply Chain Management, Internal Audit and Risk Management. Inconsistencies in workloads, job grading, job descriptions and salaries levels for the same functions and positions lead to staff movement and turnover (refer to *Research into the reasons for vacancies, turnover and movement in Financial Management, Internal Audit, Risk Management and Supply Chain Management and to develop an appropriate strategy to address the shortcoming. September 2010*)

The CFO generic functional structure recognizes that departments are not homogeneous and therefore there cannot be a blue print CFO structure that can be replicated through all organisations. For example unique operations like fleet management, trust accounts, Private Public Partnerships, Work In Progress accounting and accounting for agencies are not addressed in this structure. However, the structure does represent minimum functions that should be carried out in the office of the CFO in order for the department to comply with requirements of the PFMA. Departments will assign their unique functions as add-ons to the structure, without tempering with the minimum functions in the CFO office.

The impact of the Integrated Financial Management System on the proposed structure has been assessed. Currently, there are no fundamental differences between the IFMS and the CFO generic structures as all the functions are covered in both structures except that functions are grouped differently. We are satisfied that the minimum

functions are addressed in the CFO generic functional structure. Having said that, IFMS is a financial system in the process of implementation. One of the assumptions in our Technical Competency Dictionaries is that departments are exposed to the same IT environment. We are however liaising with the project team on IFMS and should there be a need to amend our TCD's, the relevant committees will convene and assess such recommendation based on our usual criteria of relevance, completeness and validity to the dictionary.

The structure does not address CFO's in municipalities as the structure of the municipality's TCD's is different to the national and provincial departments. The ultimate goal is to achieve uniformity in the CFO structures throughout the public sector to reduce movement, turnover and vacancies within the public sector.

In its current form, the generic structure is addressing minimum function that should be carried out in the office of the CFO to function optimally. Job grading and evaluation is a Department of Public Service Administration (DPSA) responsibility. Further consultations with the Department of Public Service Administration (DPSA) have been held as there are implications for the broader organisational review. These resulted in the adoption/endorsement of the generic CFO functional structure by the DPSA. An official directive has been issued by the DPSA awaiting approval of the MPSA for publication. The National Treasury and the DPSA further presented the generic functional structures at the national and provincial JE & OD forums.

2. What are the assumptions informing the structure

2.1 Organisational Structure aligned to the organisational goals

An organisational structure should be informed entirely by the organisation's strategic goals. The growing complexity and the resulting pressure in public finance management require that structures are frequently revisited as a key control. The continuous evaluation of competencies should be done parallel with this organisational review.

2.2 Technical Competency Dictionaries (TCD's)

The TCD's have informed the design of the proposed CFO structure. The TCD defines **minimum required** competencies for the full discharge of a function in the office of the CFO, Internal Audit and Risk Management. There are currently 8 (eight) TCD's that have been developed the CFO's office. The other two dictionaries Enterprise Risk Management and Internal Audit do not fall within the office of the CFO.

- Financial Accounting
- Management Accounting
- Internal Control
- Asset Management
- Immovable assets
- Revenue Management
- Expenditure Management
- Supply Chain Management

TCD's are being formally reviewed through Public Sector Expert Practitioners Committees (PSEPC) made up of public sector experts from CFO's offices at national and provincial governments. This is an ongoing process which occurs at least twice a year. Further, the TCD's were presented to the Provincial Accountants General forum (PAG) and the National CFO forum as part of the consultation on the CFO generic structure. These are formal structures established between National Treasury, National Departments and provinces.

The same assumptions that inform the TCD apply to the CFO structure.

The assumptions are:

- The TCD's reflect the current basis of accounting , which is the modified cash basis of accounting
- The TCD's are assumed to apply to a generic department
- All dictionaries specify minimum requirements for the fully competent discharge of a task
- There are key controls in place and they are being consistently applied and reviewed for efficacy
- Practitioners in financial management are subject to broadly the same working practices and use common information technology and other operational systems

2.3 Good Corporate Governance Roadmap

In order for the structure to be effective as a resource to achieve departmental goals, the following principles of good corporate governance need to be in place and are assumed in the structure.

Purpose, value and goals

The organisation must have a defined vision, and its purpose, values and goals must be clearly defined. There must be an organisational structure which directly supports the achievement of organisational goals. There is a performance management system in place. The focus of the organisation must be unambiguously clear.

2.3.2 People systems and processes

To support the achievement of the goals, there must be competent people, effective systems in place and properly defined processes to drive the achievement of institutional goals.

There must be a corporate culture in place driven by the promotion of high ethical standards driven from the top leadership within the institution. There is legal and regulatory compliance throughout the organisation which is managed and applied openly and consistently throughout.

There must be a culture of learning, development and continuous improvement within the organisation.

2.3.3 Risk management and internal control

All employees throughout the organisation must be continuously aware of risks affecting all areas of the organisation and the supporting internal control environment should be in place. Internal controls must be continuously assessed and evaluated for efficacy to reduce the risk of non-achievement of organisational goals.

3 CFO Structure

3.1 Departmental Head

The Head Of Department is the Accounting Officer. The AO may delegate functions to any person. However in delegating the functions, the AO should consider, among other things operational efficiency, capacity to discharge delegated functions and the need to achieve the organisational goals in an efficient, effective and economical way. (s36, s44 of the PFMA)

3.2 Internal Audit

Purpose of internal audit is to provide assurance on the effectiveness of controls, provide consulting services to management and other value add services. The Chief Audit Executive (CAE) should have unfettered access to the Audit Committee. Should any report implicate the HOD, the AC chair should immediately report to the Executive Authority (TR 3.1.14). The Internal Audit reports to the Head of Department administratively and to the Audit Committee functionally (s38 (1) (ii)). The need for an independent internal audit service is paramount for good corporate governance.

3.3 Enterprise Risk Management (ERM)

According to s38 (1) (a) (i), the accounting officer should implement an effective, efficient and transparent system of risk management. ERM helps a department accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The role of ERM unit is to facilitate risk identification, assessment, prioritization and how best to minimise, monitor and control the probability and/or impact of identified risks. Management and every employee of the department remain the risk owners in their respective areas of responsibility.

Risk identification, assessment and ranking should be an inclusive process, and should not overly rely on the inputs of a few individuals. This process should draw as much as possible on unbiased independent sources, including perspectives from key stakeholders. As a result, The Chief Risk Officer (CRO) should report to the risk management committee functionally and administratively to the Accounting Officer. Where there is no risk management committee, the CRO reports to the audit committee

functionally. The CRO should have unfettered access to the risk management committee and or audit committee.

ERM is not only about mitigating what could go wrong, but it is about exploitation of opportunities to maximize advantage.

3.4 Internal Control

Management is responsible for designing, implementing and monitoring the effective functioning of the system of internal control.

Management must develop:

- Preventative controls to reduce the probability that something will go wrong and reduce its impact should the risk materialize
- Corrective controls to correct errors when they occur
- Detective controls to find errors after they have occurred

The internal control architecture should include:

- Management controls to ensure that the department's structure and systems support its policies and plans and that the department operates within the statutory and regulatory environment
- Administrative controls to ensure that policies and objectives are implemented in an efficient and effective manner.
- Analysis of financial management environment to identify potential risk areas and deviations from financial controls
- Accounting controls to ensure that resources are properly accounted for
- Review of samples of financial transactions processed for accuracy and completeness, and the accurate interpretation of policy directives
- Information technology controls to secure security, integrity and availability of information.
- Ensure the implementation of corrective measures and preventative controls in respect of all financial risks and audit findings, as per reports of the Auditor-General and Internal audit unit.

Due to the continued repeat findings from the auditor general (AG) on the weak control environment, there is a need to support management in implementing controls. In certain departments the maturity in the control environment may not require such an intervention. Therefore, the extent of support provided by this unit to the institution depends on the stage of maturity of the control environment within the organisation. The Auditor General report is a good indicator of the control regime operating within a department.

The systems controllers are highly strategic functions within the office of the CFO as established within the Internal control unit. The structure recognizes the significance of optimal system utilization to achieve world class financial management. This unit is used to manage financial IT systems risks within the organisations. The function is

responsible for allocating access to IT systems in line with approved delegations. The management of allocation of access controls is the responsibility of this unit. Exception reporting is utilized extensively as a detective control tool.

3.5 Management Accounting (Planning and Budgeting)

A management accountant applies his or her professional knowledge and skill in the preparation and presentation of financial and other decision oriented information in such a way as to assist management in the formulation of policies and in the planning and control of the operation of the undertaking. Management Accountants therefore are seen as the “value-creators” amongst the accountants. They are much more interested in forward looking and taking decisions that will affect the future of the organization, than in the historical recording and compliance (scorekeeping) aspects of the profession.

This function is responsible for the coordination and integration of the financial aspects of the strategic and annual planning in relation with the budgeting cycles and reporting. The responsibility for providing budget inputs remains the responsibility of the individual programme managers. This function has been divided into the three components of planning, budgeting, and reporting.

Combining financial accounting and management accounting is discouraged due to the distinct nature of these two specialist accounting fields.

3.6 Financial Accounting

Financial Accounting is the process of summarizing financial data taken from an organization’s accounting records and publishing in the form of annual (or more frequent) reports for the benefit of people outside the organization.

Financial accounting involves all the procedures necessary to ensure that the department’s financial activities are captured and recorded and that the transactions are valid, accurate and complete.

For purposes of the proposed structure, financial accounting function is broken into:

3.6.1 Revenue Management:

Revenue management is the function concerned with accounting for collection of revenue due to the department. Directly associated with collection of revenue is management of debt and the administration of bank account services. This is the process of sending reminder letters for uncollected debt, sending statements and any correspondence linked collecting outstanding debt. The process of handing over and writing off of debt and estimation of provision for doubtful debts is performed in Financial Accounting in order to segregate the functions.

3.6.2 Expenditure Management:

This function is involved in all the procedures to ensure that the payments of sums owed by the department are settled efficiently and economically. The compensation of employees, payment for goods and services, transfers and subsidies as well as related reporting is performed in expenditure management.

In departments where revenue collection is not a major activity, the activities can be combined with expenditure control with clear controls in respect of segregation of duties and function.

3.6.3 Accounting:

Accounting function is concerned with the more elaborate accounting and reporting. This is the processing of, amongst others, journal entries, processing of unusual and periodic accounting entries on the accounting system as well as related reporting. Related functions include the administration of interdepartmental claims, whilst the reconciliation of all ledgers is co-ordinated within this function. It requires a good technical understanding of accounting.

3.7 Asset Management

The nature of a department's operations determines the technical nature of its assets. The departments of defence, roads and public works, roads, transport and health are unique in respect of their operations and have specialised assets. This complexity requires technical experts in the acquisition, maintenance and management of these assets. This has implications for where asset management is placed within the organisational structure. We are however proposing a generic structure where asset management is in the office of the CFO.

The operational and maintenance aspects are a technical requirement which may be beyond the technical competence of a CFO. Under these circumstances, the CFO cannot be said to be managing the asset. Competent officials are responsible for the operation and maintenance of the assets. However the accuracy, completeness and validity and the financial reporting on the assets is the direct responsibility of the CFO. The CFO will assist in the preparation of budgets for new and or replacement assets. The CFO is responsible for a complete, valid and accurate asset register as well as the reporting in the financial statements.

For all other assets which cannot be considered specialized and highly technical, the management of the total life cycle of such assets should remain the responsibility of the CFO. Management of assets is according to s45 of the PFMA the responsibility of all officials in the department.

Government Immovable Asset Management Act (GIAMA) imposes additional requirements in the management of assets. It clarifies the roles of the user department and landlord department in the management of assets. The operational management is

however not fundamentally different to the management of movable assets. Consequently, the management of movable and immovable assets has been combined into asset management for the proposed generic structure.

3.8 Supply Chain Management (SCM)

In terms of TR 16A 4.1, the accounting officer must establish a SCM unit under the direction of the CFO. The extent to which SCM provides strategic support to the user departments impacts on the performance of a department ultimately. SCM is not purely about purchasing supplies but is strategic sourcing which requires good product knowledge, research on commodities, pricing and an ability to negotiate with service providers to achieve good value for money. Vendor performance management and building good supplier relations is emphasized in this CFO generic structure.

In smaller departments, the functions of SCM and asset management may be combined with clear controls put in place. The link between the need for new and replacement assets identified in asset management and the acquisition of assets must be clearly established by implementing controls. This identification of the need has to be properly assessed as a minimum.

The SCM unit is divided according to the SCM Framework as follows:

Demand Management: This is the identification of the needs of the department through the budget process, procurement plans and applying research methodologies on pricing and requires product knowledge.

Acquisition management: This is the process of applying strategic sourcing methodologies to meet the needs of the department in an economically viable manner. Functions typically include the invitation of quotations and the bids invitation and adjudication function.

Logistics Management: This process commences at the point of requesting an already identified need or the need for goods and a service previously not budgeted for and culminates in the receipt of the goods or proof of delivery of the service. Outstanding orders are followed up and received goods are inspected quality in line with the specifications. Inventory management is performed in this section.

Disposal Management: This is the administration of the disposal process working closely with the asset management unit, demand management and budgeting. SCM are experts in the various processes in disposing assets. They understand the disposal market very well and understand the legal requirements for disposing various materials. Asset management through the physical asset inspections identifies goods due for disposal.

Risk management and performance management: This is risk management specific to SCM. The identification, evaluation of risks within the organisation is not done separate from the SCM risk. SCM risks are included on the risks register. However due to the higher risks associated with SCM, the SCM framework the risks to be more

closely monitored and reported more frequently. The establishment of complaints registers, investigation of such complaints and reporting back to complainants, establishment and evaluation of process followed in the various bid committees, inspecting bidding documents for compliance with bid requirements are some of the activities which are carried in risk management in SCM. This is an inspectorate function, and is not facilitation.

Performance management includes the gathering of intelligence information on the frequency of use of suppliers and assessment of value for money proposition among others.

The biggest risks in the public sector occur in SCM. This unit works closely with the systems controller in obtain useful information on suppliers to mitigate the risks in SCM.

Contract management

This section is responsible for close management of Service Level Agreements and contracts. Vendor performance management principles are applied in this unit to closely manage and control supplier activities. This is not only applicable to contracts, but to general service delivery. Although not part of the Asset Management Framework, contracts management should be a key function in SCM.

CONCLUSION

The process of arriving at the generic functional structures included extensive consultation with public sector experts through the PSEPC, Provincial Accountants Generals (PAG's), National CFO forum, review of existing structures in departments both provincial and national. Further research included material on good corporate governance, the PFMA, Treasury Regulations, Risk management framework in the public sector and normative measures.

The diversity of opinions on where components should be placed was assessed and addressed to the extent possible. There is wholesale agreement on the completeness of generic functions in the office of the CFO. The key assumption of the existence of an internal control regime throughout the organisation is fundamental to the implementation of the generic functional structure. The continuous review of the structure as a control is considered good corporate governance practice. Equally crucial in the attainment of an effective structure is the ongoing assessment of the competencies of personnel in financial management, internal audit and enterprise risk management. The generic functional structure addresses operational efficiency of an organisation.

This is a generic functional structure and is by no means intended to "straightjacket" departments, but its core emphasis is the achievement of minimum functions to achieve transparency in the use of public funds within the CFO's office.