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Briefing Notes: Summary and Analysis of the Department of Water Affairs and Forestry's (DWAF) Finance Branch (Main and Trading Account) Business Plan, 1 April 2008 to 31 March 2009

1. Introduction

The total budget of the Department comprises 2 parts, that is, the Exchequer Account and the Trading Account. The Exchequer Account refers to the account voted in Parliament, while the Trading Account refers to those accounts that are intended to generate revenue, such as the income from water users. If the Trading Account generates insufficient revenue, it is augmented from the Exchequer Allocations. The generated revenue and the augmentation therefore make up the total Trading budget.

With the promulgation of the Public Finance Management Act, 1 of 1999 and specifically Treasury Regulation 18.2, it required the Department to process their financial information for all trading entities on the accrual based principle in line with Generally Accepted Accounting Practice (GAAP), while the other activities on the main (Exchequer) account are recognised in terms of Generally Recognised Accounting Practice (GRAP). In order to achieve this, the Department had segregated the functions and staff of the Main Account to those in the Trading Entity.

However, over a period of approximately four years, the results of the Office of the Auditor-General highlighted the root causes, which resulted in the modification of the audit reports of the department and its trading entities.

The overall audit result for 06/07 for DWAF reflected the following:

	2007	2006	2005
DWAF	Qualified	Qualified	U (EOM)
Water Trading Account	Disclaimer	Disclaimer	D
ETA	-	D	D
Trust	U (EOM)	U (EOM)	U (EOM)

The root causes related to audit opinions expressed for the department comprised the following:

- Capacity of people related issues (high vacancy levels and lack of financial skills).
- Unapproved human resource plan.
- Average vacancy rate of 14.45
- Enormous asset base – capacity constraints.
- Commitments – not accounted for properly.
- Material changes to the annual financial statements.
- An unsubstantiated balance – lack of monitoring supervision and review.

The system related matters (inadequate financial reporting systems, inadequate business processes and inadequate non-financial reporting systems) reflected the following:

- The cash based accounting system, BAS – accrual accounting.



- Amounts and disclosures in Annual Financial Statements not substantiated.
- There was a lack of separate financial systems – National Forest Recreation and Access Trust.
- Inadequate roles and responsibilities programmed into SAP system.
- SAP implementation to facilitate accrual accounting.
- SAP implementation resulted in unsubstantiated material balances in major line items.

With regard to the water trading account, the following was noted:

- Capacity or people related issues (high vacancy levels and lack of financial skills).
 - Lack of generally accepted accounting practices (GAAP) skills resulted in items in Annual Financial Statements not complying with GAAP requirements, material changes to the annual financial statements during audit, material reclassification of balances that could not be substantiated.

The governance arrangements (compliance issues and inadequate or lack of policies) reflected the following:

- Inadequate fixed asset management policy.
- Lack of appropriately documented business processes.
- An inadequate structure.
- No compliance officer to ensure compliance to all relevant legislation.
- Inadequate monitoring framework to ensure monitoring and review expenditure trends during the year, departmental policies and procedures are adhered to or state guarantees timely terminated.
- Internal audit – no reliance.
- Numerous cycles did not have approved policies and procedures in place.
- Material unsubstantiated transactions.

The audit of performance information (AOPI) reflected the following:

- An assessment of the performance against predetermined objectives revealed the following:
 - No policies and procedures to govern collection, recording and reporting.
 - There are no separate objectives indicated for the Water Trading Account.
 - Inconsistencies in objectives in the strategic plan, budget and annual report.
 - The information reported could not be substantiated.

The root causes, according to the presentation, encompassed the following:

- No policy framework.
- Too many performance targets

In light of the above, the Portfolio Committee on Water Affairs and Forestry requested business plans (1 April 2008 to 31 March 2009) from the Finance Branch in the Main and Trading Account to ascertain the steps that would be taken to achieve the following goals:

- The provision of fully compliant financial management services.
- To achieve optimal client satisfaction.
- To strengthen DWAF's financial capability to fulfil its mandate.
- To drive continuous improvement of financial management performance and reporting.



2. Finance Branch: Main and Trading Accounts

To address some of the concerns listed in the reports of the Office of the Auditor-General, the Department segregated the finance section between the Main Account and Trading Account.

In the Main Account, the business plan maintained that in order to achieve the strategic goals of the Finance Branch and to ensure clear roles and responsibilities, the approved structure necessitates the following three sub-directorates: financial accounting, supply chain management and management accounting.

The Trading Account, to attain its objectives and to address the problems encountered, noted that four functional areas, Revenue Management, Financial Accounting, Management Accounting and Supply Chain Management, had to be included in the organisational structure. The Trading Account, at present, provides support for the National Water Resources Infrastructure Branch, and this poses a problem to the Trading Account. In the long-term, it is envisaged that the functional component of the NWRI Branch will be supported by a Finance and Corporate support function that will report to the NWRI Branch DDG.

2.1 Main Account

The proposed staff complement for the Finance Branch comprises 180. The budget for the 2008/09 financial year is R162 739 million. The economic classification provides for a sum of R70 061 for compensation of employees; R90 955 for goods and services and R1 704 for payments for capital assets.

Some of the challenges encountered by the Department over the years, together with the mechanisms to address these are highlighted in the Business Plan. Some of the challenges highlighted in the presentation incorporate the following:

- Lack of proper segregation between Trading Entity and Main Account.
- Lack of appropriate skills.
- Lack of proper implementation of budget process.
- Inaccurate asset register.
- Delay in appointment of staff members.
- Management of Division of Revenue Act funds.
- Increase in staff debt.
- Lack of proper risk management.
- Lack of financial support to other units.

To address the above challenges, a number of outputs, together with target dates (all within the 2008/09 financial year) were listed in the operational section of the business plan. This entailed the following:



- Segregations between Main Account and Trading Entity: **31 March 2009** with the appointment of a Head in the first quarter.
- The appointment of qualified and skilled directors to be filled in the **first quarter**.
- All critical posts will be filled by the **last quarter**.
- Retention of key personnel and reduction of reliance on private service providers.
- Provision of financial support to regions as well as financial management training to be undertaken to enhance the work of the Finance: Main Account.

The supply chain management issues will entail an increased focus on the following:¹

- Updating and implementation of supply chain procedures in accordance with newly issued prescripts: **first and second quarter of the 2008/09 financial year**.
- Conducting workshops on implementation of revised procedure manuals.
- Compliance reports for 24 management areas.
- Implementation of a proper asset management register, and supply chain management principles: **31 December 2008**.

With regard to financial management of this branch, the following was listed:

- The implementation of sound financial management policies and procedures by:
 - Updating financial policies and procedures.
 - Clearing and reconciling suspense accounts.
 - Collecting of outstanding staff debt.
 - Paying creditors.
 - Compiling annual financial statements for 2007/08 financial year.
 - Auditing queries answered sufficiently.
 - Proper management of subsistence and allowance account.
 - Preparing financial reports.

With regard to management accounting, the following was listed:

- Develop and implement budget management policy
 - Budget management policy to be implemented in the first quarter and budget reports will be provided to manager in the second, third and fourth quarter
- Establish budget advisory committee established in the first quarter.
- Implement new Standard Chart of Accounts (SCOA) on Basic Accounting System (BAS) by training all staff members on SCOA. Budget to be captured on the BAS system by the first quarter. The new SCOA to be captured on BAS.

¹ Supply chain management (SCM) is the oversight of materials, information, and finances as they move in a process from supplier to manufacturer to wholesaler to retailer to consumer. Supply chain management involves coordinating and integrating these flows both within and among companies. It is said that the ultimate goal of any effective supply chain management system is to reduce inventory (with the assumption that products are available when needed). As a solution for successful supply chain management, sophisticated software systems with Web interfaces are competing with Web-based application service providers (ASP) who promise to provide part or all of the SCM service for companies who rent their service.



- Complete ENE document to be compiled by the third quarter.
- Capture budget.
- Compile monthly expenditure reports and follow up with budget managers.
- Coordinate the submission of options to National Treasury.
- Process roll over and virement requests.
- Prepare adjustment budget. In the first quarter.
- Monitor donor funding.

2.2 Trading Account

The water trading account manages water infrastructure using departmental resources for maintaining and constructing new infrastructure to meet evolving water requirements in terms of national policy.

The water trading account is divided into four components: The four sub-accounts are:

- The integrated water resource management component funds the implementation of water resource construction and management activities, including the integration and rollout of water quality standards, the authorisation and control of water use, and water conservation measures in catchment areas nationally. Revenue is generated by a water resource management charge on all registered users.
- The integrated systems component ensures that water is transferred from water rich areas to areas where locally available water resources cannot meet the demand, providing for new water resource infrastructure and the rehabilitation of existing infrastructure. Expenses related to management, operations and maintenance as well as revenue collected from the supply of water are reflected in this component.
- Revenue in the bulk water supply component is earned through sales of bulk water from stand alone water schemes to users. Expenditure arises from management, operations and maintenance. This component also finances new infrastructure and the rehabilitation of existing infrastructure.
- The equipment and construction component provides equipment and undertakes the construction and maintenance of government water schemes.

As mentioned earlier, the finance section of the Water Trading Account will include revenue management, financial accounting, management accounting and supply chain management. The purpose of each of these is detailed below:

- The revenue management is to maximise timely billing and collection of revenue for the WTA.
- The financial accounting directorate is to execute all expenditure based activities for the Trading Account, within an accrual environment.
- The management accounting function is to perform financial planning and implement costing models to enhance the Trading Account's overall financial performance.
- The supply chain management function is to effectively manage the Supply Chain Management system, and assets as required by the PFMA, for the Trading Account.



The total budget for the chief directorate comprises R41.181.377 million for compensation of employees, and R258.639.124 million for goods and services. Of the 65 staff needed, 43 vacancies are listed in the management accounting section of the finance branch of the trading account. Of the 61 staff needed, 43 posts still need to be filled in the financial accounting section. Of the 28 staff needed, 15 vacancies still need to be filled in the revenue management section.

2.2.1 Risk assessment

In terms of risk assessment², the department notes that in pursuing its mandate over the next three years, it faces an environment characterised by both risks and opportunities. A critical factor in the Department's ability to achieve its goals and objectives is the state of the service delivery demands placed on public sector organisations. Within this broader context, the Finance function will aid the Department in implementing an Enterprise-wide Risk Management programme, as part of the reorganisation of the financial management activities. This will entail identifying and managing internal and external risks, and to realise new opportunities.

The business plan highlights the following strategies being undertaken in response to envisaged risks:

- Risk – Economic fluctuations and unexpected fires/disasters could affect forest, water use revenues and other revenues
 - Mitigation – use of prudent assumptions in the preparation of the budget.

The presentation talks of 'prudent assumptions' in the preparation of the budget, on issues relating to risks that may impact on water, sanitation and forestry issues. Could the Department highlight precisely what this means?

- Risk – Demand for public services will continue to be on the rise.
- Risk – Demand for support from finance will be on the increase in view of the qualified audits.
- Risk – The inclusion of multi-sector programmes such as the bucket eradication and sanitation schools may introduce forecasting errors in financials plans for various projects.

A number of risks have been identified relating to qualified audits, erroneous data for statistics on bucket eradication and sanitation in schools. However, no mitigating components are attached to the presentation, and no details are provided as to how the Department will work with other Departments to address this serious issue?

- Risk – Department's commitment to encourage alternative public service delivery, including public-private partnerships, catchment management agencies and water boards may impact internal resources
 - Mitigation – ensure that the department has the necessary capacities and skill sets to effectively support public-private partnerships initiatives.

What engagements are undertaken by the department on public-private partnerships as this is increasingly becoming a contested terrain in South Africa, more specifically with the end users?

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² The process of identifying, assessing, and controlling, risks arising from operational factors and making decisions that balance risk cost with mission benefits



- Risk – a workforce turnover presents significant succession and recruitment challenges.
 - Mitigation – support staff professional and career developments, ensure current succession plans for key plans, and aggressively use internship to beef up capacity.
- Risk – full implementation of GAAP may result in additional workloads within both core business and affected broader public sector organisations.
 - Mitigation – work closely with Auditor-General and Office of the Accountant General on accounting interpretations.

For a number of years, the Department has been grappling with the accounting systems required by the PFMA, why is there a need for further training?

The Department has worked with the Office of the Auditor-General and Office of the Accountant General on a number of issues for a number of years. How effective was this?

- Risk – interruption of critical functions due to catastrophic loss or malicious software viruses/worms.
 - Mitigation – continue to update ministry business continuation plans and information management security.
 - Investigate alternative processing sites for mission critical activities.
 - Utilise multiple financial institutions for external banking and cash management systems.

The strategic planning framework for the Trading Account 2008/09 – 2010/11 in focusing on the key focus areas and outputs for the 2008/09 financial years, highlight the following:

Key focus area	Output
Performance of risk management by ensuring compliance with set rules and regulations.	A list of possible risks that might affect the Department's operations. Different mechanisms and strategies developed for identified risks. Compliance with set regulations and rules.
Management of accounts receivables and accounts payable.	A well documented record of debtors and creditors that provides age analysis reports, collect 85% of billed revenue, a system that identifies, records and helps to manage different accounts, payment of accounts within 30 days.
Establish and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective.	Accounting officer's procurement procedure and guidelines to be followed in a fair, equitable, transparent and competitive (to encourage HDI and SMME participation) manner in the procurement of goods and services.
Budget planning and expenditure control.	Timely issuing of quality financial reports, sharing of financial information with managers, improved financial reporting by managers. Establishment of a comprehensive asset and loss register. Development of a system to record and manage all assets in the department.



Management of assets.	Ensure that government resources are properly accounted for in terms of the PFMA; develop policies and systems to ensure in accordance with PFMA.
Accounting and reporting management.	Separation of water trading activities from main exchequer activities. Conclusion of performance agreements based on detailed job description.
Reorganising of the finance function of the department.	Involvement of the CFO and the Chief Directorate as strategic partners who contribute to resolution of strategic issues facing the department.

The targets set by chief director's activity planning matrix for the 2008/09 reflect the following:

- Approval and implementation of financial accounting policies, business processes and operational plans and procedures.
- Appoint skilled staff.
- Implement formal and on-the-job training.
- Placement of staff in the trading account finalised.
- Review and update all job descriptions.
- Conduct training on trading account operations.
- Proper linkage between the water trading account budget and the strategic/business plans.
- Functional and effective supply chain management unit for water trading account.

The financial accounting planning matrix for the 2008/09 financial year, reflects the following:

- Submit accurate monthly reconciliation reports to National Treasury.
- Maintain accurate chart of accounts.
- Establish interface between supply chain and accounts payable.
- Updated payroll structures.
- Automate the PERSAL-SAP and bank interface.
- Accurate payments effected timeously.
- Placement of staff in the trading account finalised.
- Accurate and regular update HR data.

The revenue management matrix for the 2008/09 financial year reflects the following:

- Reduction of sales blocked for billing.
- Accurate and timely billing for water used by customers.
- All registered water users are billed regularly.
- Revenue collections to be improved.
- Improved relationship with customers.
- Timely billing and collection of water research levy.



3. Analysis of the presentations by the use of questions/issues to consider

- Many attempts have already been made by the department to address the issues raised by the reports of the office of the auditor-general. What happened to those processes and the people employed during that phase. Will they be incorporated into the new branch or moved to other branches?
- Vacancies – will it be complete by the target set by the president within 6 months?
- If people are employed or being employed, why is there such a high amount noted for consultants, contractors and special services in the finance branch of the main account?
- Over the last four years, the department has by trial and error attempted to work at improving their financial systems, in terms of asset register, staff appointments, basic accounting principles that were not well understood by many working in the finance section, inaccurate amounts listed in columns, how effective will this new finance branch be if the institutional transformation is not been addressed?
- Staff turnover and vacancies are high in almost all government departments. Has the department engaged with the department of public service and administration to engage on issues of salaries commensurate with skills that people bring. How will the department expect to attract the most skilled financial people, who understand the context in which it operates if the salary scales for the senior state accountant is pitched at level 8?
- In the trading account (financial accounting), the salary level for the senior state accountant, state accountant, chief accounting clerk and secretary is pitched at 6 and 7, respectively? Why is this, if one factors the educational levels and different expertise offered by each? Could the department explain the criteria used in defining salary packages in terms of levels?
- It is also important to understand with the staff complement the exact nature of the job description of each of the levels, that is, from the deputy director general, chief director, director, to the senior accounting clerk, etc. To understand the linkages and the extent of work to be undertaken by each group to provide an effective service to the department?
- In the past, the department reacted to the information contained in the audits of the office of the auditor-general, how effective is the business plan devised in creating two new finance branches to address the main and trading accounts?
- What monitoring and evaluation tools are put in place to systematically address any problems encountered through the supply chain process?
- Could the department provide more detail of how it will address issues of organisation, processes, systems, legal and commercial issues that impact on the water trading account
- A re-engineering of the water trading business process was underway in the last year? Could the department highlight the challenges encountered during this process?
- Certain deliverables and timelines were set within the trading account. These were the definition of roles and responsibilities within the trading account to address water trading and equipment trading account integration (13 August 2007), the reviewing of training of accrual accounting (28 September 2007), review of the organisational structure and reporting lines for the trading account (14 December 2007). Could the department please provide details of this progress, and challenges encountered?
- Could the department expand on the mechanisms put in place to improve the infrastructure asset management practice?
- Has the process of transferring infrastructure to catchment management areas being complete



and if so, how will then impact on the work of the finance branch of the trading account in terms of transferring staff, etc.

- On page 10 of the presentation of the finance branch: trading account business plan, the number of posts calculated for the supply chain management is incorrectly reflected. This is not the first time that information is incorrectly reflected (either numerically or grammatically in the work of the department). This was pointed to the officials over the last two years. Is there no specialist in-house editor who will be able to edit presentations, reports, etc before it is put out into the public domain?
- Could a breakdown be given of R258, 6 million accounted for goods and services in the Trading Account? What percentage of this is being demarcated for the risk assessment programme?

4. Possible oversight functions for the Portfolio Committee

- Each of the targets has a date assigned by which the Department would like to attain its set output. The researcher will tabulate each of these target dates for the respective output and provide this to the Committee to engage the department as part of its oversight functions in the course of the year.

References

Reports submitted to the Portfolio Committee on Water Affairs and Forestry in relation to Programmes and Business Plans. 5 March 2008.