Financial Management

National Treasury Corporate Services

Finding the glue to stick a bridge to the stars[1]

The decision to draft a Case Study on the Financial Management function of the Corporate Services Division of the National Treasury emanates from the moderated evaluation score the Division achieved on the Management Performance Assessment Tool (MPAT) of the South African Government. A score of four (4) was achieved, for four areas of financial management (In supply chain management, the areas of demand management, and disposal management; and in expenditure management, the areas of cash flow management, and payment of suppliers). This would suggest that the Department not only complied with relevant regulations, but was innovative in the manner in which it conducted financial management in the department.

This case reviews the Corporate Services Division of National Treasury's performance in the area of Financial Management: particularly in the Supply Chain Management (SCM) areas of demand management and disposal management; and in expenditure management in the areas of cash flow management and payment of suppliers.

The successes of the division arises out of the process and organisation re-configuration that arose from the implementation of SCM, and which has facilitated a high degree of awareness on the part of all staff of the implications of their actions on the other operations of the Division, as well as a shift from a reactive to a proactive stance. A key aspect of all process and policy implementation in the Division is a rigorous process of communication and consultation, with associated assessment of compliance and feedback reporting with implications for non-compliance.

The Corporate Services Division of the National Treasury has a particular need to uphold best practice and be exemplary in its operations. Rigour in policy implementation and a continual cycle of improvement has borne fruit.

---

[1]This case was written for the Department of Performance Monitoring and Evaluation (DPME) by Mr Murray Cairns supported by Mr Salim Latib from the Wits Graduate School of Public and Development Management (www.wits.ac.za/Academic/CLM/PDM/).

Introduction

The Corporate Services Division (the Division) of the National Treasury of South Africa has a particularly difficult role. The way it comports itself in terms of its financial management must be a best practice example to other government departments in terms of the way in which they execute the business of government.

The Treasury itself is responsible for coordinating South Africa's macroeconomic policy, and promoting the national fiscal policy framework[2], and the Constitution of the Republic mandates[3] the National Treasury to ensure transparency, accountability and sound financial controls in the management of public finances, which is seen as an underpinning foundation for the achievement of social and economic progress, and improved living standards for all South Africans. Given the mandate of the National Treasury itself, the way in which it conducts its own financial business through its Corporate Services Division must be beyond reproach.

For the CFO:

> *The Division works in a continual cycle of improvement. The aim is that when the Auditor General comes to do an audit, they find small things, not fundamental issues, that need to be resolved. Further, the leadership of the department from top to bottom has embraced governance and this paves way for continuous improvement.*

There is evidence through the MPAT process that the Department has managed to exceed baseline expectations with respect to aspects of supply chain management, and expenditure management functions. In some respects one would expect such an outcome of a National Treasury Department, but the way in which the Division proceeds with its work and how it drives improvements in its processes provides lessons for other departments.

For the Corporate Services Division, achieving success in one year and keeping that success into the following year without improving on it, equates to a failure. The department maintains a continual cycle of improvement underpinned by strategy. With a constitutional mandate to uphold best practice in terms of financial management, governance and transparency, the Division is continually assessing itself in terms of national strategy and ensuring that it structures itself to conform to and support national policy. On clear catalyst for change in the Division was the adoption of Supply Chain Management (SCM).

SCM was introduced in 2003 by the Treasury itself, and was implemented across government departments to ensure uniformity in terms of key aspects of financial management, benchmarked against international best practice. For the Division, the introduction of SCM resulted in a structural reconfiguration of the department, with

[2] Public Finance Management Act (PFMA) Chapter 2
[3] The Constitution of the Republic of South Africa, Chapter 13.

functions that had formerly been in different sub-Directorates being brought together under the banner of SCM.

The SCM-triggered reconfiguration has been used to facilitate a coordinated overview of the financial operation of the department, and the process is underway to extend this into integrated reporting that not only looks at financial indicators but also non-financial such as impacts and sustainability of projects. This case tracks the challenges and achievements of this process.

Buy-in and accountability

The Treasury is known to be a 'preferred employer' government department, and attracts some of the brightest talent working for government. Ensuring that the department has healthy financial management controls under these conditions should be a relatively simple matter. "Not so", says the Chief Financial Officer. One of the challenges that come with bright 'go-getter' staff, is that their familiarity with the systems and the theory that underpins them means that they have the tendency to try to try to work around them when it suits them.

In order to ensure that your officials stick to the rules, when you develop and implement departmental policy it has to have staff buy-in. The brightest staff member will be the first to question why a particular policy needs to be introduced, and why it should govern their work, and the internalisation of policy for all staff in corporate services is critical for success. The Treasury is the guardian of good financial governance; it is the place where all other departments go for advice. Says the CFO:

> *We can't consult the Treasury if we need advice. We are the Treasury. We have to think for ourselves. Not only do we have to obey the Treasury rules, but we have to advise Treasury on good practice and the development of appropriate policy for other departments.*

So just how does a Division which is able to attract the best and brightest talent in the country achieve innovation and best practice; achieve the buy-in and compliance of its own staff, and ensure that it is able to act as a benchmark to other departments, while at the same time having to be its own authority? The CFO is clear that there is no one ingredient in the recipe that provides success.

> *When the pig is fat, and feeding at a trough which is filled with food, you don't ask which particular ingredient it is that is making the pig fat. And you don't start removing parts of its food. You keep feeding it on what you know is making it fat.*

Understanding the process chain

A key activity in the re-configuration of the Division that was undertaken in the process of embedding SCM has been an exercise in process mapping every activity in the Division. The mapping has provided the ability to develop and monitor a value chain in the financial operation of the division, which has in turn allowed a level of introspection for each person's involvement in the process. All staff is expected to know what the implications of their actions are, to build a meta-awareness of their role and how it fits into the bigger picture of the Division.

The Director involved in Internal Controls talks about this meta-awareness in terms of assumed controls and real controls. An example is the payment of invoices. The processes and procedures of how you pay invoices are well articulated. Anyone in the chain can tell you what documentation is required before a transaction can be paid. But if a staff member is not completely focused on what they are doing when they sit down to a batch of paperwork, they run the risk of stamping the documents and signing them off to the next stage without really interrogating and understanding what is on the documents.

> *The fact of having a purchase requisition, a purchase order and an invoice is not sufficient. At every stage of the process the person enacting the transaction has to be aware of whether the documents match up. Does the order match the requisition, and does the invoice match the order?*

So if the paperwork is not right in all respects, it should not be signed-off to the next stage, and is sent back to be fixed. An assumption that could easily be made is that the to-and-fro of getting paperwork right would slow the process down. The evidence suggests otherwise. The MPAT evaluations show that the Corporate Services Division has managed to achieve a good record of paying suppliers in 30 days. Because the process requirements are known, and the implications of incorrect paperwork are known, people make sure that what they submit to the next stage for payment is correct, right from the inception of the process. The mechanism for getting a turnaround on the supplier payments was to ensure that everyone is doing what they have to – correctly.

The CFO extends this concept.

> *When staff have finished ticking the boxes that they are meant to in terms of completing a task or a process, they need to go further and ask themselves to what extent they have exceeded the requirements of getting the job done. How much time did they shave off a tender process? How much money did they save in the process of doing a task?*

The language in the Division is of a common purpose, with the each person or department that contributes to the end-goal aware of their particular role in the process, and actively being aware of the need to improve processes on an on-going basis.

A critical pre-requisite to achieving this cohesive momentum is ensuring common and universal buy in across the whole organisation, and ensuring that throughout the whole organisation, people are aware of their role in the bigger picture, and the implications of their actions. This almost becomes as important as a vision statement for this department. The need to ensure that each and every link in the process chain is aware of how it links both forward and backwards to ensure effective, transparent and accountable financial governance.

One of the ways in which the department has gained buy-in, is to get divisional heads to sign off on a service level agreement (SLA). At the time of the development of this case, approximately half of the eleven divisions in the Division had signed off a SLA between their DDGs and the Supply Chain Management Department (SCM). For the SCM Director, this sign-off is critical.

> *People say that they will follow a new procedure, but once you've left the office and moved onto the next issue, the compliance falters. Once people have signed off on an agreement, they do become more compliant.*

By signing the SLA, the DDGs of departments agree to be bound to a particular set of delivery expectations, and those expectations are codified in the SLA. This allows divisional managers to work with an explicit set of service level expectations when planning their operations. The Internal Controls Director concurs, and argues that in order to gain compliance across the system people need to become aware of what the implications of their actions are – all the way up and down the process chain. This means that when a member of staff does not perform appropriately there is a comeback in concrete terms which articulates the implications of their poor performance. The CFO is clear that people in the Division have to be accountable, and the mechanism of achieving accountability starts with detailed process mapping.

In order to implement SCM, the department engaged the services of an independent assessor to provide advice on how best to reconfigure the SCM within the Department and at the same time identifying gaps in the department's processes, and how to better balance the functions across the various units in the Division. Says the CFO:

> *We had a procurement function, not aligned with the SCM framework, so that had to be fixed, and all of other units and their relationships within SCM and how they link to the broader work units had to be developed or re-aligned. Asset Management, demand, bids, budgeting. And each function had to understand its mandate and its boundaries. The budget unit cannot do what SCM does, but they do have to work closely with each other in an integrated manner and create synergies. And in order to achieve this you have to formulate a structure that supports your strategy.*

Once the assessment was done, and the ideal structure mapped out, the actual implementation of the new structure was done by the Department itself which ensured that full accountability for the success or failure of the restructuring remained with the Division.

> *Implementation was internal, and in the process we learned a lot. We owned the process. HR was on board. And the implementation affected all units. That meant that change management needed to be intact and executed to precision. We moved functions across different units, creating balance and improving governance which results in good financial management. We are still not where we want to be –we still have a lot to do.*

The process of identifying the gaps and developing policy to close the gaps is on-going and cyclical. There is a strong recurring theme in the Corporate Services Division that what works this year must be improved on next year or the Division stagnates.
The Director overseeing Internal Controls argues that mapping and re-mapping process locates the assumed controls and the real controls. And once potential risks in the system are identified, they can be dealt with. But in a work culture which requires people to

think for themselves and demands a Division that upholds the highest levels of accountability, the processes and procedures have to be discussed and agreed upon in a transparent and consultative process which allows the Department to gain broad agreement. This consultation and broad agreement is reached through the work of the Governance Review Committee.

Planning and compliance

The Governance Review Committee is where all of the units in the Division come together to thrash out the issues of revised policy and process. Feedback from all units on a particular policy is presented at the Governance Review Committee, thereby ensuring transparency. Once a process or policy revision is agreed upon, an assessment is done of those units that are or will be affected in terms of compliance, and their progress is monitored through quarterly progress reports. The feedback of all staff consultations is fed back to the Governance Review Committee to ensure that all staff are given the opportunity to review planned change and to comment on it, and that there is evidenced transparency and consultation in the process of developing policy. Only once the Governance Review Committee has had a detailed interrogation of a proposed change in process is it given to the Executive Committee for ratification.

Says the CFO:

> *There is no person in the Department that can say that insufficient consultation has not taken place.*

Not only does the systematic cycle of ensuring that there is consultation in terms of process and policy ensure transparency, it also ensures that there is momentum across the department. The Governance Review Committee will also check that there is appropriate fit in terms of the people that are in place in the different areas of the Department, to handle the implications of a shift in procedure, and ensure that there are appropriate checks and balances to ensure appropriate governance. For the CFO these checks and balances are critical. The mechanism for how the department handles exceptions on its expenditure management illustrates this.

The original process of managing exceptions to expenditure management was to forward the BAS report to those units that had deviated from forecast expenditure patterns, and ask them to comment on why they had material under or overspending against their budget. What resulted in many cases were inadmissible reasons being given, and no internalisation for the need to be aware of monitoring and managing monthly expenditure against forecast. The system was revised so that where there are exceptions, a person goes to the relevant unit and discusses the reasons why there has been an exception and ensures that the reasons given are valid.

In the process of the discussion of the reasons why there has been a deviation from forecast, staff are made aware of how to answer the queries, and provided an insight to the accounting and financial processes, and at the same time a discussion can take place regarding the ways in which the budget of the Division can be re-configured to allow shifting of funds from one unit or line item to another to facilitate un-foreseen expenditure which arises from time to time. Says the SCM Director:

> *If the money is not spent in a division, it can and will be shifted to where it can be used. Instead of getting a warning letter for not utilising your budget, give the money to another department which needs it most through reprioritisation.*

The process of doing this interrogation and internal re-organisation of the budget means that there is continual and on-going communication that takes place across the whole organisation. This allows a broad awareness of the needs of the whole Division and breaks down the tendency for people working within a unit to only be aware of their own unit's needs. With the discussion on reallocating funds to areas where it is needed in other units of the Division, it breaks the tendency to work in operational silos.

The ability to cross the operational boundaries is an outcome of the re-configuration and effective use of SCM as a strategic driver for financial governance in the department. Another case to illustrate this is demand management, which requires that units determine what they will need, and when.

> *Instead of the budget determining what we will buy, we define the demand, and structure the budget to meet what is needed.*

By mapping the demand SCM is able to ensure that any tender process can take place timeously, and the Division can negotiate good prices for goods. It can also ensure that when the goods are needed, the appropriate agreements and contracts are in place to allow speedy ordering, delivery and payment for goods. And at the same time, it allows disposal management to manage its tasks appropriately so that equipment is decommissioned in an orderly and appropriate manner.

Being engaged and pro-active

The way in which the Division manages disposal management reinforces the concept of doing better, and exceeding the basic expectations. Annually, Treasury disposes of a large number of computers. The equipment is generally sound, but is replaced after three years to ensure that the hardware keeps up to date with the requirements of evolving software needs. One of the policies that guides disposal management in the area of computer hardware is the need to support as far as possible, educational institutions. In general there are enough computers disposed of from Treasury on an annual basis to provide three to four schools with 20 computers each.

Says the SCM disposal management head:

> *The approach that we have is to start by assisting those schools that have the initiative to say that they need the assistance. We then engage the requesters, and identifying those that are most able to benefit from a donation from Treasury – and after the donation we perform analysis on what is happening.*

In the process of engagement, the unit assess that the school is able to accept the equipment in an environment which has sufficient security to protect them, that there is an appropriate educator on site that can provide training to staff and students on the use of the equipment, and that the school actually needs the computers. A ranking system is defined in terms of the criteria, and this is forwarded to the Disposal Committee for a decision on which schools should get donations.

Once the disposal has been made, follow up is made to ensure that the equipment is being used for the purposes that it was donated for, and that the conditions that resulted in the donation still are in place. On the one hand the Department is being proactive in terms of working with schools to make an assessment of readiness and need, and on the other hand the Department is following up to verify that the donation has not been used inappropriately an is meeting its intended purpose.

Another case in the area of disposal management illustrates the Division's attention to communication and transparency. Throughout the year items of inventory are decommissioned and given to disposal. These items which might be computer peripherals, cell phones, furniture or other miscellaneous items of equipment, are collected in a secure store. Annually, on a date which is communicated to all staff, an auction is held. A sample of each of the items to be disposed of is set out in a 'shop' with minimum bids indicated for each item. Staff can bid on the items, and the income is fed into the revenue. The auction has become an annual event that raises a high level of excitement.

> *We build energy by being transparent and making it exciting. Because it is held once a year, the process has becomes part of the Treasury culture. The auction day is advertised through e-mail, and we display it like a shop – store we display the models and tell how many – people put in bid prices. People get very excited about spending money.*

But managing disposal effectively means that the Division is also able to more effectively manage its assets.

> *As we verify assets, we identify things that may have to be disposed. Once there is agreement for disposal, the item is decommissioned and put into the store. The process allows us to keep the asset register.*

Pulling it all together

In this Division there is a sense of one voice, and a common vision and commitment to trying to improve on yesterday's results. The structures have been put in place to ensure that there is consultation, participation and transparency, and that in terms of financial management; all role players within the Department know what they have to do, and how to do it. The CFO acknowledges that the key ingredient is the staff.

> *We need to acknowledge that it is done by the staff. You need to let them know where they have achieved well, and you need to give them the benefit. When we are the first department to close out our financial year, the staff need to be acknowledged for this achievement.*

Says one manager in the unit:

> *For me part of the magic of working in the Corporate Services Division is that I know that my contribution is recognised, and valued. It makes me want to come in each day.*

There is also a cautionary thread that permeates the Division which is very strong, and that is that if you do not achieve the required level of performance, there are consequences, and these are far-reaching. Compliance is monitored at the unit level, and where it has been identified that a unit is not delivering on its targets, the matter is taken to the Executive Committee and from there to the relevant DDG. A letter of warning is sent to the appropriate person, and the matter is then dealt with through normal disciplinary mechanisms.

The follow up is fast and managed through integrated reporting that feeds into the Executive Committee which receives quarterly, and sometimes monthly monitoring reports, particularly focusing on those Divisions which have been seen to lag in terms of delivery to required standards.

The Corporate Services Division of the National Treasury engages on an on-going process of critical reflection which is designed to ensure that all staff are aware of their role, seek to improve their practice, and are held accountable to explicitly articulated standards of service for their units. The evidence of this is seen in the manner in which the Division executes key financial control and management functions.

Lessons learned

1. On-going communication that is structured across the units within the broader organisation is critical to ensuring buy-in and common purpose. It also allows the development of a broader organisational awareness of the organisational challenges and activities. This should be driven by leadership as an example.
2. When looking at an organisational structure to achieve a strategic outcome, an independent overview may give an objective review of the status, and assist in developing a proposed structure, but in order to ensure that the strategic goals are met, the actual implementation and reorganisation should be owned and managed by the organisation itself. The actual change process must be closely managed and controlled to be successful
3. It is important that the various Units within a department should develop an explicit set of guidelines which detail their operational requirements and set out a clear set of service level agreements against which they can be held accountable. This feeds into both planning and reporting, and the process must be closely monitored for adherence and compliance.
4. Build energy around policy and a sense of cycle, and ensure that different activities across the organisation are integrated to create synergy
5. A move from a reactive to a proactive stance allows the management style to become forward looking rather than retrospective.