The District Health Systems (DHS) across South Africa are the decentralised building blocks of the National Health System. The aim of the DHS is to have decisions made locally about services and resources. When this happens properly, communities can enjoy good access to services and resources, with ultimately an improved health status.

South Africa has now reached the stage where Local Government demarcation and transformation is in the final stage of completion. The boundaries of Health Districts are finalised and District Health Management Teams are building muscle to manage the district resources and services. This document aims to contribute to the strengthening of district management capacity, with emphasis on financial management.

The starting point in district service delivery is to have a district health plan. The district health plan shows how services are organised as well as how resources (such as finances and personnel) are combined to render the service. As public resource management is guided by several acts, the way services and finances are managed should allow for accounting according to this regulatory framework.

Background to the Field Guide

The idea to develop an Overview and Guide for District Health Managers on Financial Management arose after a range of capacity building initiatives had been conducted in several districts across South Africa. During these initiatives it became clear that districts had common problems with regard to financial management. For example:

- There was no comprehensive and strategic approach to financial management.
- There was very little linking of service and financial management.
- There was a lack of good organisational processes for managing finances.
- There was a shortage of technical skills.
- Financial management was often seen as a difficult skill that only a few people have.

This document aims to do the following:

1. It aims to make concepts of financial management clear and accessible in order to help District Health Managers in their task.

2. It gives an overview of financial management concepts, processes and techniques that can be used in the financial management of a district.

3. It aims to make clear the different steps in the financial management cycle, analyses the task of district management and takes the manager step by step through the financial management cycle.
Purpose

This Guide is not intended as a ‘how-to-do-it’ document. It aims to provide a framework for approaching the financial management cycle and to operate within the regulatory framework.
Health Districts operate within certain rules and regulations that guide financial management. The most important pieces of legislation are:

1. The new Public Finance Management Act (PFM Acts 1 and 29 of 1999)
2. The Treasury Regulations of June 2000 (as amended in 2001)
3. The Municipal Finance Management Act of 2001

These regulations and acts as well as directives and circulars about managing public resources or money, make up the regulatory framework. This regulatory framework aims to make sure that districts manage their own finances in ways that are efficient, effective and economical.

2.1 The Public Finance Management ACT (PMFA)

The PMFA sets the scene for government to get good value for money. It is all about good management and performing well. Performance in financial management is evaluated according to the following criteria:

- Effectiveness: Have we done the right things?
- Efficiency: Have we done them the right way?
- Equity: How fairly do we distribute and provide our services?
- Economy: Did we get good value for our health rands?

The criteria of good performance can best be explained using an example based on the systems approach to management as shown below.
Where outputs lead to the required outcomes, the service is effective. When the outcomes reflect fairness, the service is equitable. The way in which inputs are used to produce outputs is a measure of efficiency. The quality and mix of inputs reflect economy.

The Es are interrelated:
- Effectiveness is about output and outcome
- Efficiency is related to inputs and outputs
- Equity is about the distribution of inputs and outcomes
- Economy is about inputs.

2.1.1 What is the aim of the PFMA?

The PFMA applies to national and provincial government, whilst the Municipal Finance Management Act is applicable to local government. These acts have similar requirements and introduce the same treasury norms and standards for the whole public sector in South Africa. This means that all health districts, whether local government-driven or provincially driven, will operate within the same financial framework.

The PFMA adopts an approach that focuses on responsibilities and outcomes. The underlying principles of the Act are:

- Let managers manage, but hold them accountable.
- Introduce a broad view of financial management including the management of revenue, expenditure, assets and liabilities.
- Focus on outputs that relate to policy priorities.
- Establish good systems for financial control.

2.2 Treasury Regulations

The Treasury Regulations provide details about what the Act specifies and must be implemented by 1 April 2001. When this happens, health districts will have greater flexibility and accountability for managing their own finances.

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1 The Treasury Regulations came into effect on 1 June 2000, as amended in April 2001. Each province might develop their own TR.
2.2.1 What do the Treasury Regulations do?

These regulations outline the need for the following:

- Strong internal control which includes risk management (focusing on areas of risk such as drug supply) and fraud management.
- Financial planning.
- In-year (throughout the financial year) management and monitoring.
- Reporting and accountability.

2.2.2 How can the Regulations help districts to account for public resources?

These regulations set out the various reports that are necessary so that health districts can be accountable for the resources they receive. The reports are outlined below:

A. STRATEGIC PLAN (The District Health Plan)
   - Districts must submit a strategic plan for the next financial year before June of each year.
   - Districts must report every quarter on their progress towards meeting their goals.
   - Information on performance must be included in the annual report. (See Section 8 for more detail about the Annual Report.)

B. FINANCIAL PERFORMANCE REPORTS
   - Every month a health district must report on financial performance and must include information about the following:
     - Cash management performance
     - Expenditure against budget
     - Revenue against target
     - Projected expenditure and revenue
     - Variances between planned and real targets and actions
     - Uncleared items (items not allocated to the correct cost centre).
   - Every quarter (every three months), the district must report on all transfer payments done.
   - Annually or once a year the following documents are needed:
     - Annual financial statements of expenditure and revenue (within two months of the closing of the financial year). These must be audited by the Auditor General’s office.
     - Information on efficiency, equity, effectiveness and economy.
     - Transfer payments and compliance to transfer agreements.

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Equity is of particular importance in health although not a prerequisite in the PFMA.
- Report on write-offs and losses.
- Report on expenditure that is unauthorised, irregular or fruitless and wasteful.
- Report on disciplinary actions related to misconduct and fraud.

In addition, the annual report should comment on the effectiveness of internal control, as well as the quality of in-year management.

**GLOSSARY**

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Transfer payments:</strong></td>
<td>Money that is transferred between different spheres of government or from government to organisations such as non-governmental organisations according to certain legislation and agreements.</td>
</tr>
<tr>
<td><strong>Annual financial statements:</strong></td>
<td>A statement that explains all revenue and expenditure as prescribed in the Treasury Regulations.</td>
</tr>
<tr>
<td><strong>Compliance:</strong></td>
<td>To adhere to prescribed methods and agreements.</td>
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<tr>
<td><strong>Write-offs:</strong></td>
<td>Monies not collected even though an effort was made to collect them, and Treasury approved it to be uncollectable.</td>
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<tr>
<td><strong>Losses:</strong></td>
<td>Theft of any government property or accidents with government vehicles.</td>
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<tr>
<td><strong>Unauthorised expenditure:</strong></td>
<td>Expenditure that was not properly authorised, overspending or spending of money on things that the money was not intended for.</td>
</tr>
<tr>
<td><strong>Irregular expenditure:</strong></td>
<td>Expenditure that contravenes or goes against the PFMA or the State Tender Board.</td>
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<tr>
<td><strong>Fruitless and wasteful expenditure:</strong></td>
<td>Expenditure that could have been avoided if reasonable care had been exercised.</td>
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<tr>
<td><strong>Transactions:</strong></td>
<td>Events that are identified as making up the financial activity of an organisation.</td>
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</table>
2.3 The Role Players in the Financial Management Arena

2.3.1 Who are the main role players?

**Auditor General**
The Auditor General (AG) audits and reports on all financial accounts of national, provincial and local government, as well as any other person who deals with public money. The annual financial statement of a department must be audited first before it can be included in the annual report.

**Provincial Treasuries**
The Member of Executive Council (MEC) for Finance and the provincial department responsible for financial matters in the province make up the Provincial Treasury. The role of the Provincial Treasury is to prepare and implement the budget, make sure that finances are managed well and make sure that there is no breach of the PFM Act.

**Councillor responsible for Financial Matters**
In municipalities, the responsibility for financial matters is assigned to a councillor, the executive mayor or the mayor depending on the governance system.

**Accounting Officer (AO)**
The role of an AO is to make sure that there is no financial mismanagement. The AO must appoint a Chief Financial Officer (CFO) who will set up systems, procedures, processes and training to ensure good financial management. A number of programme managers e.g. managers who are responsible for district health services, support the AO and the CFO.

**Other officials**
The role of all other officials is to support the AO. They implement systems and take effective and appropriate steps to prevent any unauthorised, irregular and wasteful expenditure. They must also prevent any shortfall in the collection of revenue.
2.3.2 The health district and the role players

Role players involved in health districts are as follows:

<table>
<thead>
<tr>
<th>Local Government-led health districts</th>
<th>Provincial-led health districts</th>
</tr>
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<tbody>
<tr>
<td>• Auditor General</td>
<td>• Auditor General</td>
</tr>
<tr>
<td>• Provincial and National Treasury</td>
<td>• Provincial Treasury</td>
</tr>
<tr>
<td>• Councillor responsible for financial matters</td>
<td>• Member of the Executive Council</td>
</tr>
<tr>
<td>• Accounting Officer (Municipal Manager)</td>
<td>• Accounting Officer (Head of Department)</td>
</tr>
<tr>
<td>• Chief Finance Officer</td>
<td>• Chief Finance Officer</td>
</tr>
<tr>
<td>• Other officials</td>
<td>• Other officials</td>
</tr>
</tbody>
</table>

INFORMATION BOX

The following documents are important for districts to keep and update regularly:

✔ Financial handbook that includes the PFM Act / Municipal Finance Management Act and its amendments.

✔ Best Practice Guidelines from Treasury/Treasury Regulations/Manual of the Financial Planning and Budgeting System of the State.

✔ Delegations (financial administration, personnel administration, procurement administration, tender board).

✔ Circulars, directives and instructions.

✔ Relevant procedure manuals such as for stores and transport management.