SECTION 7

In-Year Management: Operating, Monitoring and Safeguarding

About this section

This section reflects the activities that happen throughout the financial year of operation. It emphasises the importance of internal controls and covers the management of revenue, expenditure, assets and losses.

Once finances are allocated to each cost centre or service unit, the district moves into an operation phase. This continues for the whole financial year. The PFMA refers to this phase as ‘in-year management of resources’ and includes the following:

◆ Creating good administrative procedures
◆ Making funds available for operation (implementing service plans)
◆ Monitoring the use of funds
◆ Managing revenue, expenditure, assets and liabilities (REAL).

Monitoring finances depends on good financial data in the form of financial reports. This again draws from good bookkeeping which allows the district to control accounts and keep an accurate record of payments. (See Addendum 1 which lists the tasks of a district finance section.)

7.1 Key principles

Operating, monitoring and safeguarding is an important phase in the financial management cycle. It is guided by the following principles:

◆ Expenses incurred are authorised and in line with a budget.
◆ Expenditure is in line with the service plan.
◆ There is adherence to the regulations that guide spending, revenue collection and safeguarding.
◆ There is proper reporting on revenue and expenditure.
◆ There are good internal controls and fraud prevention.

7.2 Internal controls

Appropriate internal control measures are central to the requirements of the PFMA. These measures are needed to safeguard assets, get the best value for money and allow uninterrupted service delivery.
Internal controls involve having early warning systems in place, especially for risk areas such as drug supply, to ensure compliance to the regulatory framework and to prevent fraud. Some examples include:

- No purchasing happens without approval.
- Payments due to creditors are settled within 30 days.
- Mechanisms to ensure that deposit and income reports correspond with each other.
- Revenue is collected when it is due.
- Payments are not made earlier than necessary.
- All transactions can be trailed (an audit trail).
- Stock levels meet the service need.

### 7.3 Managing expenditure

Managing expenditure is a key process during the financial year. A team (called a Budget, Cash Flow or Cost Containment Committee 6 ) should meet frequently for this task. There are three basic questions that the team needs to answer:

1. What has happened so far?
2. What will happen to our plan for the rest of the year?
3. What (if any) action do we need to take to achieve our agreed plan?

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6 Some facilities, such as hospitals, prefer to have a cash flow committee that meets once a week to consider or approve requisitions. In this case, a financial management committee will take on the other responsibilities listed.
Table 4: Fingertip information for managing expenditure

<table>
<thead>
<tr>
<th>Information</th>
<th>What it tells</th>
<th>Where to find it</th>
<th>Frequency of obtaining the information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow</td>
<td>Cash flow position.</td>
<td>The cash flow record</td>
<td>Weekly</td>
</tr>
<tr>
<td>Expenditure to budget allocation</td>
<td>This shows whether expenditure to date is in line with the allocated budget.</td>
<td>The cash flow record and the ledger report</td>
<td>Monthly</td>
</tr>
<tr>
<td>Expenditure pattern</td>
<td>The trend of expenditure over the past months will tell whether the present levels of spending are sustainable and whether under-spending is projected.</td>
<td>The ledger report</td>
<td>Monthly</td>
</tr>
<tr>
<td>Expenditure on key items such as drugs, telephones and transport</td>
<td>Whether cost containment measures are successful.</td>
<td>The ledger report</td>
<td>Monthly</td>
</tr>
<tr>
<td>Revenue collection</td>
<td>Targets are met in terms of revenue collection.</td>
<td>Revenue collection record or ledger report</td>
<td>Monthly</td>
</tr>
<tr>
<td>Achieving service targets</td>
<td>It tells us whether changes are required to improve service outputs.</td>
<td>Service achievement records</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Service efficiency, such as unit costs, cost of inputs to achieve outputs</td>
<td>If the inputs are used efficiently.</td>
<td>Combining service and expenditure records</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Number and value of losses, theft and fraud</td>
<td>The appropriateness of the internal control system. If there is adherence to a plan to prevent fraud.</td>
<td>Reports on losses and fraud</td>
<td>As soon as available</td>
</tr>
<tr>
<td>Payments to suppliers happen within the limit of 30 days, as well as any audit queries</td>
<td>If there is financial administrative efficiency.</td>
<td>Audit queries: System to monitor suppliers payment</td>
<td>Monthly</td>
</tr>
<tr>
<td>Out of stock situation</td>
<td>If there is efficient stock control and management.</td>
<td>Out of stock records</td>
<td>Weekly</td>
</tr>
</tbody>
</table>
7.3.1 Mismatch between budget and expenditure

The budget shows how resources should be used. It often happens that there is a mismatch between budget allocation and expenditure. Some explanations are:

- The budget is poorly prepared and allocated. Reasons for this include:
  - An inadequate understanding of the resources required.
  - The amount allocated was inadequate.
  - The distribution of resources is wrong.

- Programme implementation is poor. Reasons for this:
  - Resources were squandered.
  - Resources were inefficiently used.
  - Resources were diverted.
  - Unexpected situations, such as disasters, arose.

7.4 Managing revenue

The main sources of revenue in this section include: money payable by staff for private telephone calls, payment for accommodation provided, use of facilities such as a crèche, patient fees for hospital and ambulance services, and monies from other authorities such as transfer payments received.

The following are measures and indicators to manage revenue:

- **Revenue collection targets**
  To what extent targets are met.

- **Revenue collection rate**
  This is the rate at which the service was able to collect the revenue due. The amount collected is expressed as a percentage (%) of the amount owed. This is a measure of revenue collection efficiency.

- **Revenue as a percentage of total expenditure**
  This is the revenue collected expressed as a percentage of the total expenditure. This is a measure of sustainability.

- **Debtors days**
  This the average time it takes for debtors to pay and is usually expressed as 30, 60, or 90 days brackets. The private sector aims at an average time of 45 days for hospital fees. This is a measure of efficiency, effectiveness and sustainability.
7.5 Managing assets

In order to manage assets, someone must be specifically assigned for this responsibility, which includes the following:

- Keeping and updating an asset register containing at least a description of the asset, manufacturer, serial number, date of acquisition, supplier, purchase reference and cost.
- Ensuring that the number and distribution of assets are as stipulated in the asset register.
- Making sure that maintenance plans are in place.
- Ensuring that there are mechanisms to prevent theft, losses, wastage and misuse of assets.
- Monitoring that stores are managed efficiently and effectively and stock levels are at optimal levels.

7.6 Managing losses

A Loss Control Officer keeps a Loss Register with details of all losses. The Loss Control Officer has to:

- Obtain details and statements related to claims and losses
- Follow up and settle these cases
- Monitor patterns of losses to improve prevention
- Establish procedures for reporting, recovery and review.

Measures and indicators to monitor losses include:

- The number and value of losses compared to similar periods or similar departments
- The average value per loss
- Losses grouped by type and/or possible cause.
Good performance in this phase

The following measures would indicate good performance in this phase:

✔ Spending happens according to monthly expenditure projections.

✔ Services do not experience out of stocks situations.

✔ Purchases are made according to planned activities and equipment lists.

✔ Rate of revenue collection is improving and achieving target.

✔ Frequent, well-run budget management meetings are held.

✔ There is proof of appropriate internal control measures.

✔ There is proof of cost containment initiatives.

✔ Early warning systems are in place.

✔ Regular reporting takes place (see Section 8).