

National Treasury:

Neighbourhood Development Programme:

Grant Financial Management Policy

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| Document Version: | V1 |
| Release Date: |  |
| Review Date: |  |

Document Classification:

Confidential

Document Approval

(Indicate ‘N/A’ where not applicable)

|  |  |  |  |
| --- | --- | --- | --- |
| Action | Name & designation | Signature | Date |
| Approval | David van Niekerk |  |  |
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Document Revision Control

|  |  |  |  |
| --- | --- | --- | --- |
| **Revision** | **Date** | **Author** | **Summary of changes** |
| V1 |  |  |  |
|  |  |  |  |
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Glossary of Abbreviations and Terms

| Abbreviation / Term | Description |
| --- | --- |
| NDPG | Neighbourhood Development Partnership Grant |
| MTEF | Medium Term Expenditure Framework |
| TA | Technical Assistance |
| CG | Capital Grant |

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# Policy Overview

Good governance in general can be seen as the leadership, processes and allocated responsibilities ensuring adequate performance and compliance of a business system. Leadership is an informal dynamic aspect which is best addressed through continuous organisation development interventions and is not further addressed in this document. Articulated business process knowledge relevant to a particular business system supports effective governance. Allocated responsibilities are imperative to good governance as it creates the basis and structure for accountability.

The formalisation of good governance normally results in two instruments, being plans and policies. Each of these instruments exists within hierarchies which will more often than not follow or correspond with the organisation functions, processes or structure. Plans and policies could exist on various levels with various orientations. Examples of levels are strategic to operational and orientations could be specific services or products. Plans and policies should be seen as different sides of the same coin. Plans create the requirement for policies. After policy development and promulgation, policies in turn are implemented through plans and subsequent execution.

The relationship between process, policy and plans is illustrated in the following diagram:



Figure 1: The relationship between Process, Policy and Plans

The specific motivation for the review of a policy on Grant Financial Management can be summarised as:

* The NDP is in the process of realigning the Unit’s current strategy to allow for a new Urban Networks Approach. To this end, the new strategy necessitates a change in the financial policy that supported the previous strategy.
* To lead and operate an organization successfully, it is necessary to direct and control it in a systematic and transparent manner. Success can result from implementing and maintaining a management system that is designed to continually improve performance while addressing the needs of all interested parties.
* Due to the fiduciary requirement in overseeing the spending of conditional grants and the emphasis on sustainable implementation and value for money, the NDP unit needs to have clear financial policies and procedures. The quality management system approach encourages organizations to analyse customer requirements, define the processes that contribute to the achievement of a product which is acceptable to the customer, and keep these processes under control. A quality management system can provide the framework for continual improvement to increase the probability of enhancing customer satisfaction and the satisfaction of other interested parties. It provides confidence to the organization and its customers that it is able to provide products that consistently fulfil requirements (ISO 9000).

# Purpose

This Policy serves as the governance model for **business systems**[[1]](#footnote-1) dealing with the Grant Financial Management within NDP.

# Objectives

This Policy is intended to define and formalise regulatory aspects pertaining to the Grant Financial Management within NDP. The objectives include the following:

* The primary purpose of financial management policies is to provide guidelines for the NDP Unit and staff to use in making financial decisions that ensure sound financial decision making towards the fiduciary duty of the unit.
* In addition, financial policies provide a level of security for the community and external stakeholders by ensuring the principles in financial decision making is applied openly, legally, efficiently and effectively and in a manner that provides insulation from financial crisis and economic disruption.
* To formalise the principles guiding decision making within the Grant Financial Management process.
* To regulate the Grant Financial Management process.
* To regulate internal and external roles and responsibilities related to the Grant Financial Management process.
* To regulate the mechanisms in support of the Grant Financial Management process.
* To define process related risk and controls.
* To regulate supporting procedures.

# Policy Development

## Management Principles

The Grant Financial Management process will be guided by the following principles. These principles should be utilised to ensure management compliance during Grant Financial Management.

### Sound Governance

* **Short Description**: Sound governance is concerned with holding the balance between economic and social goals and between individual and communal goals.
* **Rationale** 
  + The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of these resources. The aim is to align as nearly as possible the interests of both internal and external stakeholders.
* **Implication**
  + This principle ensures adequate controls and management of the controls as well as the identification of risk.

### Transparency

* **Short Description**: There is an obligation on government to be more transparent than other companies: One needs to reconcile the need for public accountability and transparency with the imperative for commercial confidentiality.
* **Rationale** 
  + Transparency ensures that all relevant information is fully and freely available to the public. Transparent information is desirable because they lead to greater [efficiency](http://financial-dictionary.thefreedictionary.com/Efficiency). The laws and [regulations](http://financial-dictionary.thefreedictionary.com/Regulations) applicable to the National Treasury encourages or mandates transparency.
* **Implication**
  + This principle supports the state in which all relevant information is fully and freely available to the public

### Reliability

* **Short Description**: Reliable information requires information that is free from material errors and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.
* **Rationale** 
  + Reliable information lies at the heart of decision making and risk identification and as such should be presented from reliable sources and in a reliable format.
* **Implication**
  + Reliable information will be accurate, understandable and comparable and as such supports the strategic and operational decision making process and ensure good accountability.

### Relevance

**Short Description**: Relevance requires that the financial accounting information should be such that the users need it and it is expected to affect their decisions. Reliability requires that the information should be accurate and true and fair.

* **Rationale** 
  + Relevance and reliability are both critical for the quality of the financial information that supports decision making.
* **Implication**
  + Accounting information is relevant only when it is provided in time.

### Understandability

**Short Description**: Understandability refers to the quality of financial information which makes it understandable by people with reasonable background knowledge of business and economic activities. Understandability requires the information presented in financial reports to be concise, complete and clear in presentation.

* **Rationale** 
  + The information should be presented so as to facilitate the user of the information. However, understandability never prescribes any complex information to be omitted altogether due to its underlying difficulty in understanding. It just requires that the information be disclosed systematically instead of presenting it haphazardly.
* **Implication**
  + Understandable information supports informed decision making and risk mitigation.

### Comparability

* **Short Description**: Comparability is one of the key qualities which accounting information must possess. Accounting information is comparable when accounting standards and policies are applied consistently from one period to another and from one region to another
* **Rationale** 
  + The characteristic of comparability of [financial statements](http://accountingexplained.com/financial/statements/) is important because it allows users of financial data to compare a set of financial statements or related information with those of prior periods and those of other departments / companies.
* **Implication**
  + Information for the NDPG can be compared with other grants and across departments as well as with international players.

## Policy Scope

The scope of this Policy is equal to the scope of the Grant Financial Management process as illustrated in the following figure:



Figure 2: Grant Financial Management Scope & Context

The large rectangle in the middle represents the highest level Grant Financial Management process. The arrows entering the process from the top represent controls which governs the Grant Financial Management process. The arrows exiting the business process on the right represent outputs delivered and arrows on the left entering the process represent inputs required in the transformation to output. The arrows entering the bottom of the process represent mechanisms and personnel required to support the business process.

The business process model is best described as follows:

* The process is performed by staff,
* each of the inputs / controls and mechanisms are provided to stakeholders
* and outputs are received by stakeholders.

Stakeholders are defined in the next part. The Grant Financial Management process also has a decomposition which will be explained under the heading regulated processes.

This scope and interfacing context (stakeholders) represent the total business system requirement on the highest level.

## Stakeholders

The Grant Financial Management process interacts with or is directly supported by internal and external stakeholders. External stakeholders comprise recipients of service and the providers of resources, services and governance. Internal stakeholders imply organisations/personnel with a direct responsibility/accountability to provide Grant Financial Management services on behalf of the NDP. The stakeholders are listed and illustrated as follows:

***Stakeholders External to Grant Financial Management function of the NDP***

* Municipalities (including Municipal IQ)
* National Planning Commission
* Deloitte (Service provider)

***Stakeholders External to the Grant Financial Management Business System but Internal to NT***

* NT Intergovernmental Relations (IGR)
* NT Budget Office
* NT Payments Office
* Public Finance
* Corporate Services
* Chief Financial Officer
* GTAC

***Internally Focused Stakeholders Responsible to perform Grant Financial Management Processes***

* Project Finance Specialist
* Specialist Finance
* Chief Director
* Project Director
* Project Administrator
* Business Support Manager

## Legislative Mandate

This Policy will be guided by amongst others, the following legislation, government regulations, and industry best practices where practically applicable:

***Legislation / Government Regulations / Best Practices***

* DoRA
* Neigborhood Development Partnership Grant Business Plan
* NT Policy and Procedures
* MTSF / MTBPS
* NT Strategic Plan
* NDP Signed Funding Agreement
* NDP Annual Performance Plan
* NDP SOP's
* PFMA
* MFMA
* National Treasury Regulations

This legislation, government regulations, and industry best practices are not necessarily an exhaustive list. As more detail is uncovered during the development and review of NDP policies, this list will be updated.

## Regulated Processes

In order to ensure an effective transformation of required input to required output, the processes as illustrated in the following figure will be executed:



Figure 3: Grant Financial Management

Within this business process model the high level process motivation is as follows:

* Prioritise Pipelined Projects - To have an overview of all submitted projects in the NDPG, whether approved or not approved as well as the stage that every project is in. This produces a pipeline (registry) of projects, prioritised according to certain criteria, that is used during different events of the NDP life cycle.
* NDPG Budget - To have the NDPG’s In year and final 3 year budget figures confirmed with Corporate Services to finalise the municipal in-line allocations that needs to balance to these bottom line figures.
* Compile DORA Payment Schedule - To prepare the information to populate the payment schedule and Schedule 3A for the In Year.
* TA Invoice Payment - To reimburse the service providers on the work done for NDPG for Technical assistance.
* CG Transfer - To report to IGR on the performance of the Grant regarding TA paid and CG transferred and spent by the municipality.
* Retain Unspent Municipal Funds - To manage the rollover of unspent funds by the municipalities and the retention request that emanates to the IGR and to adjust the project and financial impact accordingly.
* PDF Year End Process – These processes are performed to close off the books of the NDP’s Trading Entity and compile the Annual Financial Statements.

# Policy Implementation

The following aspects must be considered during the implementation of this Policy:

* Responsibility and accountability within the NDP Grant Financial Management Policy is formalised as follows:



Table 1: Stakeholders Responsibilities

* The NDP Chief Director is accountable for all NDP processes. The Strategy and Communications Director has the responsibility to ensure the continued quality of all business processes and the Corporate Support Director as the process owner is responsible for accurate functional content of the Grant Financial Management processes.
* The implementation of this Policy requires the development and implementation of the following procedures that forms the basis of the Grant Financial Management Policy:
  + Prioritise Pipelined Projects
  + NDPG Budgets (including MTEF and In Year Budgets)
  + Compile DORA Payment Schedule
  + TA Invoice
  + CG Draw
  + Retain Unspent Municipal Funds
  + PDF Year End
* Managers responsible for the implementation of this Policy need to ensure effective implementation within the different scopes of business.
* This Policy needs to be communicated to all stakeholders.

# Monitoring and Evaluation

This policy is supported by detailed procedures that define the compliance controls. These procedures must be reviewed at least annually as part of the governance review programme. Performance and compliance reports must be provided at least on a quarterly basis to the DG, Audit and Risk Committees and must be used to effect improvements.

# Risk Management

The NDP has an annual Risk Management Cycle where the unit’s risks are identified, assessed and strategies put in place to mitigate or nullify the risks. The two most common tools being used is the SWOT analysis and the PESTAL identification method. The NDP has identified risks on 3 levels: Strategic, Operational and Financial risks.

The NDP engages in a risk assessment on an annual basis in conjunction with the National Treasury’s Enterprise Risk and Security Management unit as well as inputs from the financial service provider, Deloitte. The most recent Risk Assessment report was done in March 2012. Processes and systems have been put in place to address these risks.

# Exceptions and Exemptions

This is one of the NDP core business policies. Management and support aspects are not included in this policy and are specifically addressed within the NDP Management and NT Support policies and procedures.

# Limitation and Conditions

This Policy overrides any other NDP internal policy that is not consistent with its provisions, unless such deviations are within the scope of ordinary activities and in the best interest of the department, and are approved by the accounting officer.

# Non Compliance with Policy

All employees who wilfully or negligently fail to adhere to provisions of this Policy will be held liable for their actions and decisions, and disciplinary steps may be taken against such employees.

# Approval

The NDP Grant Financial Management Policy is hereby recommended and approved.

Recommendation

**DOUGLAS COHEN**

**Specialist Strategic Support / Quality Manager: NDP Unit**

**Date:**

Approval

**DAVID VAN NIEKERK**

**Chief Director:  NDP Unit**

**Date**

1. Business systems within this context comprises of leadership, people, strategy, policy, resources, partnerships, processes and results. The binding factor within business systems are processes. Not to be confused with ICT systems, this should be seen in this context as a component of a business system. [↑](#footnote-ref-1)