



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria, 0001

**TO: ACCOUNTING OFFICERS OF ALL NATIONAL DEPARTMENTS AND
CONSTITUTIONAL INSTITUTIONS**

ACCOUNTING AUTHORITIES OF ALL SCHEDULE 2 AND 3 PUBLIC ENTITIES

HEAD OFFICIALS OF PROVINCIAL TREASURIES

NATIONAL TREASURY INSTRUCTION NO. 07 OF 2020/21:

**PREVENTATIVE MEASURES IN RESPONSE TO THE COVID-19 PANDEMIC THAT
RESULTED IN THE NATIONAL STATE OF DISASTER**

1. PURPOSE

1.1 The purpose of this Treasury Instruction when dealing with the COVID-19 pandemic is to:

- (a) provide for preventative measures as a result of COVID 19 emergencies and the need to be responsive and flexible, whilst ensuring value for money and minimising the risk of fraud, corruption, negligence, error, incapacity; and
- (b) ensure that internal control systems of a department, constitutional institution and public entity consider, amongst others—
 - (aa) the change in operating activities of the existing control environment;
 - (bb) revisiting risk assessment processes;
 - (cc) designing and/or amending control activities to address new or elevated risks;
 - (dd) identifying information required to support the effectiveness and efficiency of new or existing controls;
 - (ee) reassessing internal and external communication; and
 - (ff) identifying any additional internal control monitoring activities.

2. BACKGROUND

2.1 On 15 March 2020 the President announced the declaration of a national state of disaster following the World Health Organisation declaring the COVID-19 outbreak as a pandemic as well as measures that must be implemented in South Africa.

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- 2.2 Since the declaration of the national state of disaster Regulations under the Disaster Management Act, 2002, regarding steps to prevent an escalation of the disaster or to alleviate, contain and minimise the effects of the Disaster have been issued from time to time.
- 2.3 Accounting officers / accounting authorities are urged to revisit their control environment in a response to COVID-19 to avoid any disruptions this may have on financial management operations of departments, constitutional institutions and public entities (“institutions”).

3. CONTROL ENVIRONMENT DURING THE NATIONAL STATE OF DISASTER

- 3.1 Accounting officers / accounting authorities are required by sections 38(1) (a) and 51(1)(a) of the Public Finance Management Act, 1999 (“the PFMA”) to establish a system of financial management, internal control, risk management and internal audit under the direction of the audit committee and ensure that such systems are transparent, effective and efficient.
- 3.2 Accounting officers / accounting authorities of institutions must consider new risks due to the national state of disaster on their control environment such as-
- (a) remote working arrangements that may result in significant changes to the manner in which internal controls are designed and executed (i.e. a need to rely on electronic submissions rather than manual submissions of information);
 - (b) remote working arrangements may result in changes to the delegations and/or levels of authority or the establishment of new reporting lines;
 - (c) lack of or limited education, training sessions or supervision may lead to the risk of incorrectly executing new and/or existing internal controls or applying internal policies;
 - (d) contingency plans may not be in place for key personnel who execute internal controls;
 - (e) failure to timely assess and subsequently address the impact of changes caused by external environment factors;
 - (f) failure to involve appropriate levels of leadership and stakeholders in the decision-making process could lead to inappropriate or rushed changes in processes and controls;
 - (g) increase in possible risk of error due to remote working arrangements;
 - (h) financial hardships of officials may result in an increase in risk of fraud; and
 - (i) non-compliance with internal policies and legislation.

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- 3.3 Accounting officers / accounting authorities must consider the measures below to assist in addressing possible emerging risks that may prompt for a change in their current control environment including information technology risks. These measures include, but are not limited to:
- (a) establishment of team of officials tasked and empowered to manage operational risks during the national state of disaster;
 - (b) identification of business-critical processes (i.e. disbursements, financial transaction processing system, etc.) to ensure that processes continue to operate unimpeded;
 - (c) development of responsibilities for the established back-up officials for critical processes including software applications to ensure that access rights are provided to the back-up officials;
 - (d) consideration of new or enhanced general information technology (IT) controls to be implemented or existing general IT controls to support the new automated control activities (if such automated controls are developed and implemented);
 - (e) consideration of additional IT controls on confidential data transmitted to or from remote locations (e.g. residences of officials) to ensure protection of such data;
 - (f) use of personal or public unsecured Wi-Fi networks and possible increase on the dependency of cyber security controls including access security, system change control, and data centre and/or network operations;
 - (g) regular testing of software and communications systems for remote operations;
 - (h) protection of systematically important documents and information on a shared drive to ensure its availability to authorised officials;
 - (i) consideration of developing and implementing step-by-step guideline for business-critical operations; and
 - (j) increase monitoring and enhancement of network security, backups and power supplies on remote access.
- 3.4 Treasury Regulations 3.2.1 and 27.2.1, require accounting officers / accounting authorities, respectively, to ensure that risk assessment is conducted regularly to identify emerging risks of their relevant institutions. The revised risk profile must be used to direct internal audit effort and priority.
- 3.5 The risk management strategy referred to in paragraph 3.4 must be clearly communicated to all officials to ensure that the strategy is institutionalised.

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- 3.6 Accounting officers / accounting authorities must consider the effects of national state of disaster on fraud risk and whether new or augmented controls should be designed and implemented to address such fraud risks.
- 3.7 Accounting officers / accounting authorities must consider reviewing previous risk assessments (e.g. enterprise risk assessments, fraud risk assessments, information technology risk assessments, etc.), re-assess risk rankings and modify mitigation plans. Any information resulting from this process should also be recorded in related risk registers.
- 3.8 Mitigation plans referred to in paragraph 3.7 must be assessed for its effectiveness against the business continuity plan and record any remedial action, where necessary.
- 3.9 Identification of governance documentation to be amended and prioritise such changes to best address operational needs, such as introducing the use of electronic/digital signatures.
- 3.10 Amendments of delegations of authority and segregation of duties in response to the national state of disaster.

4. DELEGATIONS OF AUTHORITY

- 4.1 To accord with paragraph 3.10, delegations of authority and the responsibility of expenditure management control must ensure that internal controls are in place to ascertain that expenditure is authorised, valid, complete, accurate and correctly classified.
- 4.2 Accounting officers / accounting authorities must consider developing delegations of authority during the COVID-19 pandemic taking into account the qualitative and quantitative materiality, risk profile to ensure that authority is delegated to the right official within set limitations and conditions as set out in sections 44 and 56 of the PFMA.
- 4.3 Accounting officers / accounting authorities may issue delegations of authority that are specific in addressing the processes to be followed during the national state of disaster as it relates to funding, procurement and expenditure control management and other governance processes.
- 4.4 Sections 45(a) and 57(a) of the PFMA require every official of a department, constitutional institution and public entity to ensure that the system of financial management and internal controls established for the institution are carried out within their area of responsibility.

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5. FINANCIAL MANAGEMENT

Expenditure Control Measures

- 5.1 If delegations of authority have been amended to address the national state of disaster, it must be ensured that the commitment of funds and expenditure spending is approved by a properly delegated/authorised official.
- 5.2 Accounting officers / accounting authorities must ensure that centralised control on handling of invoices is maintained and where necessary improved to guard against the risk of duplicate payment of invoices that may arise specially where manual checks and submission of supporting documentation for payment is not possible.
- 5.3 Due to the national state of disaster, emergency response expenditure is permissible under applicable procurement prescripts. However accounting officers / accounting authorities must intensify checks and balances in this area and ensure monitoring thereof as this may increase the risk of unauthorised expenditure, irregular expenditure or fruitless and wasteful expenditure, as the case may be.

6. BUDGET, REVENUE AND CASHFLOW MANAGEMENT

- 6.1 Accounting officers/ accounting authorities must consider streamlining the finance management processes and controls temporarily to register all budget stages, commitments, payments and accounting of emergency response expenditure.
- 6.2 Accounting officers / accounting authorities must ensure that cash flow is accurately forecasted during the national state of disaster to optimise central cash management responsibilities.
- 6.3 Treasury Regulations 15.10.1.2(c) and 31.1.2(c) provide that prepayments for goods and services (i.e. payment in advance of the receipt of goods and/or services) must be avoided, unless required by the contractual arrangement with the supplier. The risk of requests made by suppliers to institutions to effect advance payments prior to the delivery of goods and/or services and acceding to such requests, may increase and such must be addressed on a case by case through legal advice.
- 6.4 Institutions must—
- (a) regularly review the pace of expenditure in relation to forecasts and operational plans to identify any opportunities to slow down spending;
 - (b) re-prioritise the allocation of resources to unaffected programmes, projects to identify measures of cost savings measures;
 - (c) ensure proper cash flows management; and

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- (d) review existing insurance policies and contracts (where appropriate) to identify any losses or damage incurred as a result of the national state of disaster and recovery through existing terms or whether an adjustment of cover may be required to maximise protection.
- 6.5 The review referred to in paragraph 6.4(d) must be risk based and accord with section 66 of the PFMA that deals with restrictions on indemnity or security and future financial commitment as it relates to insurance.
- 7. PROCUREMENT CONTROL MEASURES**
- 7.1 During the national state of disaster accounting officers / accounting authorities must consider the impact any supply chain disruptions may have on finance management operations and develop control measures to address such.
- 7.2 When accounting officers / accounting authorities consider invoking provisions in contracts related to “force majeure” for suppliers, legal advice must be sought on a case-by-case basis and accounting officers / accounting authorities must guard against the risk of possible fruitless and wasteful expenditure due to payments made for services not rendered or goods not supplied.
- 7.3 Internal controls within the supply chain management (SCM) environment must be reviewed in terms of administrative controls and delegations to ensure required authorisations are done by relevant officials.
- 7.4 Internal control measures must be established to consider and approve any COVID-19 related procurement in the institution. Prior to generating an order in relation to COVID-19 related procurement, the document must be referred to any other relevant function within the institution to conduct checks to prevent any possible irregular expenditure.
- 7.5 Emergency requirements may be addressed through the emergency procurement provisions as stipulated in Treasury Regulation 16A6.4 and National Treasury Instruction 3 of 2016/17 – Preventing and Combatting Abuse in the SCM System and reiterated further in the National Treasury Instruction No. 5 of 2020/21.
- 7.6 Paragraph 8.1 of National Treasury SCM Instruction Note 3 of 2016/17 – Preventing and Combatting Abuse in the Supply Chain Management System states that accounting officers / accounting authorities must only deviate from inviting competitive bids in cases of emergency and sole supplier status. These deviations do not require the approval of the relevant treasury approval. Paragraph 8.2 of the said Instruction states that emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action and there is insufficient time to invite competitive bids.

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- 7.7 The emergency procurement provisions provide for accounting officers / accounting authorities to procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4. The reasons must be recorded and approved by the accounting officer / accounting authority or his/her delegate.
- 7.8 Paragraph 3.4.3 of National Treasury Practice Note No. 8 of 2007/08, requires accounting officers / accounting authorities to report within 10 working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process.
- 7.9 The principles of fairness, equity, transparency, competitiveness and cost-effectiveness must be maintained. Emergency procurement must be limited to goods, services and works that addresses the programme of preventing the spread of the COVID-19 virus.
- 8. INSTITUTIONAL OVERSIGHT**
- 8.1 Accounting officers / accounting authorities must monitor existing control activities to assess the need to modify and intensify IT general controls to accommodate for remote working environment (i.e. increased use of institutional mobile devices and laptops outside of the office).
- 8.2 Accounting officers / accounting authorities may implement specific monitoring activities over newly designed or implemented controls to ensure that such controls achieve the desired outcomes. The nature and extent of these specific monitoring activities must correspond with the risk associated with the new controls.
- 8.3 Sections 38(1)(a)(ii) and 51(1)(a)(ii) of the PFMA require accounting officers/ accounting authorities, respectively, to establish a system of internal audit under the direction of the audit committee.
- 8.4 Governance structures established in institutions must independently decide on the nature, scope and approach to COVID-19 and keep abreast of any potential risk areas and any modification to the finance management processes.
- 8.5 Accounting officers / accounting authorities must ensure that audit of emergency transactions is made a priority to provide assurance on the value for money spent during emergency operations and to identify actions to strengthen controls in emergency transactions.

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8.6 Accounting officers / accounting authorities must identify the extent of business disruption and whether additional oversight procedures need to be established during this period of disruption.

8.7 To maintain oversight, accounting officers / accounting authorities must commit to integrity and ethical values along with existing consequence management policies and/or frameworks.

9. INFORMATION AND COMMUNICATION

9.1 The national state of emergency has resulted in additional information requirements to operate controls intended to address new or elevated risks. There may be a possible reduction in oversight and communication by institutions due to remote working arrangements.

9.2 Accounting officer / accounting authorities must maintain clear and regular communication with officials on matter related to any changes in the financial management system during the national state of disaster.

10. REPORTING REQUIREMENT

10.1 Due consideration must be given to changes in the timing and required disclosure of financial information in monthly, quarterly, interim and annual financial statements.

10.2 Accounting officers / accounting authorities may introduce additional controls activities to be established or enhanced to ensure that financial information is made available and not delayed.

11. APPLICABILITY

This Instruction applies to all national and provincial departments (including national and provincial government components), constitutional institutions and public entities listed in Schedules 2 and 3 to the Public Finance Management Act, 1999.

12. EFFECTIVE DATE

This Instruction takes effect from 1 June 2020 and remains in effect until the national state of disaster declared on 15 March 2020 lapses or is terminated or until this Instruction is withdrawn.

13. AUTHORITY FOR THIS INSTRUCTION AND EFFECTIVE DATE

This Instruction is issued in terms of section 76(4)(a) of the PFMA.

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14. DISSEMINATION OF INFORMATION CONTAINED IN INSTRUCTION

- 14.1 Accounting officers of national departments are requested to bring the contents of this Instruction to the attention of accounting officers of constitutional institutions and accounting authorities of national public entities and chief financial officers and supply chain management officials of such public entities.
- 14.2 Heads of provincial treasuries are requested to bring the contents of this Instruction to the attention of accounting officers, chief financial officers and supply chain management officials of their respective provincial departments and public entities.

15. CONTACT INFORMATION

Any enquiries in respect of this instruction must be submitted to:

**Karen Maree
Office of the Accountant-General
Tel: 012 3155334
Email: OAGqueries@treasury.gov.za**



**DONDO MOGAJANE
DIRECTOR-GENERAL: NATIONAL TREASURY
Date: 26/5/2020**