The *Public Finance Management Act:* Challenging the private sector managers

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"South Africa's financial world will not be the same again". This phrase has been repeatedly used after events such as the introduction of the Financial Rand, the reintroduction of South Africa to the international investment community and other critical happenings in the financial sphere. On 1 January 1974, , the then *Companies Act*, No 46 of 1926 was replaced by the *Companies Act* No 61 of 1973, effective still today. In 1974 it was said to herald a new era of financial accountability, by setting reporting standards and broadening the responsibilities of directors and officers of private companies.

The *Public Finance Management Act* shows an awesome display of commitment to accountability and the application of sound management principles. It takes the responsibilities of public financial managers to new horizons and introduces what I refer to as *statutory performance management.*

For the past 26 years the *Companies Act* has served us well and in the absence of other yardsticks, the private sector has congratulated itself and applauded its governance, accountability and reporting commitments. After all, the statutory corporate framework of other countries was "far away" and the South African public sector "far behind", struggling to meet the most basic requirements of reporting, let alone management. The private managers were the only ones around and their standards judged only in terms of comparisons to counterparts in other companies. It was the ideal scenario, providing a platform for the private sector to trumpet their leadership and criticise the public sector for a lack of accountability and the inability to manage what was cleverly described as "taxpayers' money".

The arrival of the *Public Finance Management Act* (Acts 1 and 29 of 1999), however, has changed all that and "South Africa's financial world will certainly not be the same again".

The *Public Finance Management Act* shows an awesome display of commitment to accountability and the application of sound management principles. It takes the responsibilities of public financial managers to new horizons and introduces what I refer to as ***statutory performance management*** (SPM). This commitment places South Africa amongst the world leaders with regard to public finance management and sends strong warning signals to South Africa's private sector. If the *Public Finance Management Act* is successfully implemented, the private sector accountability arrangements will be seen to fall short and the private sector managers be found wanting. The scene is set for a new

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leader in management: the public financial manager who successfully complies with the sophisticated concept of SPM!

Certainly the two Acts referred to are comparable: the *Companies Act* determines the statutory obligations of private company managers, directors and officers, whilst the *Public Finance Management Act* regulates those of public managers and officials.

If we compare the two, we see the quantum leap taken by the *Public Finance Management Act*. The concepts addressed in this Act are far more advanced than those in the *Companies Act*. This article will highlight some of these differences.

Internal control and risk management

The *Public Finance Management Act* requires accounting officers to ensure that their departments have and maintain an effective, efficient and transparent system of financial and risk management and internal control. The accounting officer also has a statutory duty to establish an internal audit system and an audit committee. These responsibilities are further expanded by detailed guidelines and instructions to be published by the National Treasury and have the force of law. The private manager has no such statutory responsibilities. The *Companies Act* does not mention the concepts of efficiency and effectiveness. Neither does it require an internal audit function, nor an audit committee.

Abstruse, as it may sound, the *Companies Act* does not directly oblige directors and officers of companies to develop and maintain a system of internal control and risk management. Let alone does it require such system to be effective, efficient and transparent.

Financial statements

The *Companies Act* does, however, oblige directors and officers to prepare financial statements according to generally accepted accounting practice (GAAP). These statements have to be tabled at the company's annual general meeting. Closer analysis of these requirements and a comparison with the *Public Finance Management Act*, shows that the public sector has surpassed the private sector once again.

The *Companies Act* does not say which GAAP it refers to, allowing private managers to chose the GAAP they want or need; be it a practice adopted by a number of leaders within a sector, German GAAP, UK or US GAAP, GAAP as published by the Accounting Practice Board (APB) in South Africa or any other suitable version of presenting the results in the desired manner. I need not, in this article, describe in detail the circumstances which have led to the SA Institute of Chartered Accountants describing South African accountants (who, we may not forget, act on instructions from their managers) as the "cowboys of the accounting world". The *Public Finance Management Act* does not allow their managers such latitude. It describes adherence to generally recognised accounting practice (GRAP) and provides for the formation of an Accounting Standards Board (ASB) which will set GRAP. Unlike the private sector APB which is really accountable only to itself, the ASB is formed and to some extent regulated by the Minister of Finance. The Auditor-General also has to be consulted on certain aspects. This provides for an appeal mechanism and strong accountability arrangements which are simply lacking in the private sector; a lack which casts a shadow over the credibility of the APB products published by the SA Institute of Chartered Accountants.

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As far as the reporting deadlines are concerned, the accounting officers have to prepare financial statements within two months of year end and submit them for audit. The Auditor-General has two months to audit the statements.

At national level, the National Treasury has to submit audited, consolidated financial statements (of all state departments and entities under the ownership control of the national government) within seven months to Parliament for tabling in both Houses. Taking into account that these statements will be by far the largest consolidation exercise in the country, these are stringent requirements to say the least, and a huge commitment to accountability.

Private managers by contrast, are under much less pressure. Since companies' financial statements have to be tabled at the annual general meeting (AGM), the AGM requirements set the time frame. In terms of the *Companies Act*, a company must hold its AGM within nine months of year end and not more than 15 months may expire between two AGM's.

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I acknowledge that many companies have excellent reporting records. The research done by the School of Accountancy, University of Pretoria shows that listed companies such as Pick & Pay Stores, Bearing Man, Adcock Ingram and Brand Corporation Holdings, all publish their audited statements in less than 30 days. It is, however, one thing to do this if and when possible, but quite another to have 30 days a statutory requirement. Some state departments also report within a month of year end. What therefore really counts is the statutory requirement applicable to all.

Performance objectives

I have already referred to the concept of *statutory performance management* (SPM). My last point focuses on this and will highlight another area which needs serious attention as far as the private sector is concerned. Accounting officers have a statutory duty to stay within budgetary constraints. Needless to say, the *Companies Act* does not require budgetary control at all. But this is not all, Section 27 of the *Public Finance Management Act* requires accounting officers to submit to Parliament (the country's highest authority), *measurable objectives* for each main division within the relevant department's vote. This provides the full circle and allows real performance measurement to take place.

As far as private investment in private companies is concerned, we have to accept boasting statements such as "headline earnings up 40%" as a great achievement when the objective may have been a 60% increase or more. When turnover or margins dip, we are told that "growth is less than expected", but what exactly was expected, is not stated. In any event, as far as private companies are concerned, such objectives are never disclosed to investors beforehand...

Conclusion

To compare and discuss all governance and accountability arrangements between the private and public sector is not possible in an article of this length. The above discussion has, however, provided sufficient basis to support the supposition that the *Public Finance Management Act* has not only introduced a paradigm shift as far as financial management and accountability of the public sector is concerned, but also drawn attention to the fact that the statutory accountability and management duties of private managers are now some way behind those of their counterparts in the public sector. Auditing SA