CHAPTER 7

CONTEXTUALIZATION OF CRITICAL PUBLIC FINANCE MANAGEMENT ISSUES

7.1 INTRODUCTION:

During the study, research reveals that public finance management system has evolved in the Public Service. It also shows bottlenecks regarding policy implementation and compliance, especially with regard to PFMA and DoRA. Governance matters such as the role of managerial leaders, financial management, expenditure management and ethics also pose threat to South African public finance management system. This section provides an analytical review and critical contextual issues of public finance management in the Public Service. Moreover, the section provides key findings on the following:

7.2 PARLIAMENTARY OVERSIGHT, EFFICIENCY AND EFFECTIVENESS

It is evident that the capacity of parliaments as discussed in chapter 6 both in South Africa and the rest of Africa, could affect the parliamentary oversight role because ineffective oversight could affect governance. For example, call by the Benin and Chad for establishing a relationship with universities for training and research for parliamentary staff is an indication and acknowledgement of the fact that within parliaments in Africa there is a problem with capacity on research and training and universities are called to assist.

Learning from the report on governance forum cited in chapter 6, the South African National Parliament is also faced by these organisational deficiencies which could affect governance, both in Parliament and the Public Service. It is therefore essential that the executing authority and accounting officers take moral responsibility in ensuring that public accountability is not undermined.

A move by South African Parliament to have an induction course for Scopa committee members is a positive step towards supporting democracy and governance in government. Scopa is indeed a technical committee, and it demands technical skills and conceptual skills as well. Pakathi in chapter 6 supports that parliamentary oversight is negatively affected and public monies could not be accounted for. It is because the poorer the systems within an organisation, the poorer the governance and administration, Parliament in this case.

The findings of the research indicate that almost all the parliamentary interviewees, including the former chairperson of Scopa and the APAC chairperson acknowledged the 'very close' working relationship of Scopa with the office of the Auditor-General. Provision of technical assistance and working relationship between Scopa and the AG could not be a problem, but the nature and processes regarding such working relationship should be managed professionally in ensuring independence of the AG. The latter is independent; such independence should not be compromised. The AG is accountable to Parliament in a similar manner as Scopa. Therefore, lines of accountability and nature of independence must be managed properly in support of good governance in the Public Service.

7.3 ASSET MANAGEMENT

The managing of assets should be seen within the context of financial management. It should not just be a separate exercise for asset managers or the supply chain management unit, but it should be within the broader financial management framework. Official reports reveal that assets are not managed properly in the South African Public Service and such inefficiency in the management of assets could be attributed to a failure of systems or an absence of internal controls.

The report by the AG discussed in chapter 6 suggest that with regard to asset management there is a growing prevalence of non-compliance with the PFMA as a fundamental document with regard to financial management. Asset management is a component of financial management because mismanagement of assets could expose a department and the government in general to extreme financial risks that could hamper service delivery. For example, incorrect valuing, poor registering, poor financial reporting, lack of skills, poor understanding of relevant accounting systems, misuse of assets and absence of policy framework, including non-compliance with a legislative framework, such as the PFMA, could both negatively affect economic growth of the country and the governments' financial position and budget.
Table 6.4 in chapter 6 indicates a range of weaknesses on internal control like the absence of an inventory list for assets, the absence of measures to access computer equipment, poor

record-keeping, absence of asset numbers, inability to monitor internal controls, poor update of an asset register, poor systems to manage the movement of assets, inability to safeguard assets due to incomplete or inaccurate fixed asset register, no asset management policy and non-compliance with the PFMA regarding submission of information as required by section 42 (3) of the PFMA. The above deficiencies on asset management, including weaknesses on internal controls, could also expose an organisation to financial and economic risks. With regard to systems not complementing each other, Table 6.4 reflects that the Government Communication and Information System (GCIS) was reminded for the second time about very crucial matters. There is an incomplete asset register and the reconciliation between logical information system (LOGIS) and the basic accounting system (BAS) was not done. These deficiencies regarding asset management have a negative effect on financial management in general, applications of financial systems in particular, because for systems like LOGIS and BAS to be effective and impact positively on financial management, they have to complement each other. The importance of the systems approach was explained in previous chapters, chapter 2 in particular.

This approach is also applicable to governance because it is critical that systems are co-ordinated. As cited earlier in the text Capra (1982) explains that systems thinking is process thinking, associated with processes and there is an interrelation with interaction, and opposites are unified through oscillation. The inclusion of financial systems such as BAS and LOGIS should be structured in such a way that there is correlation and interaction with each other in order to effectively manage assets. However, there must be a skilful ‘hand’ behind the effectiveness and efficiency of systems. Some of the weaknesses like absence of inventory, poor record-keeping, non-compliance with the PFMA and the poor asset management skills are just basic management principles and responsibilities which need to be attended to by the management. Additionally, an incomplete asset register affects financial reporting and asset management in general, especially annual reporting of a department. For example annual financial statements (AFS) could not provide complete information containing assets and liabilities and this incidence could undermine the whole notion of fiscal accountability and good governance in general. Managerial leaders should play a very significant role in ensuring that these fiscal hiccups are minimised and financial management is improved in the Public Service.

According to the Table 6.1 in chapter 6, the Department of Provincial and Local government had no approved policy and this signals a lack of internal controls because a policy becomes a living document once it is approved. Policies within departments serve as internal control systems to protect government assets and resources. Even in the Department of Public Works, reconciliation differences existed in the finance section and property information system, with an incomplete register on movable assets. Again, this is a matter of systems not complementing each other in thereby not improving financial management in general and a lack of fiscal information due to incomplete asset register. In most situations, an incomplete asset register could be attributed to the inability of asset managers to update asset register accurately and timeously. The said situation could affect transparency because valuable information might not be provided so that further decisions are taken about departmental assets. Table 6.4 illustrates that the problems at national departments revolve around poor internal controls, inadequate financial systems and poor financial management.

Evidence, especially Table 6.4 and 6.3, chapter 6, show that the Public Service in general is faced with similar problems as reported above like the inadequacy of financial systems and lack of internal controls. However, at a provincial sphere, the Auditor-General (2004) also reported matters relating to the inability to verify existence of assets, assets not recorded, no control of assets, disposal of assets not performed properly and no numbering of assets with unique numbers. The above issues could also be attributed to poor systems of recording and data capturing of assets, and the absence of basic managerial skills if disposal of assets cannot be performed properly. Figure 6.3 also reflects that asset registers that are not updated and in some situations there are no asset registers. The absence of policies as internal control measures is tantamount to neglecting organisational responsibilities and non-compliance with PFMA by both accounting officers and other officials by not ensuring that internal controls are in place within an organisation as previously reported regarding section 38 and section 44 of the PFMA.

7.4 ETHICAL DIMENSIONS

7.4.1 Financial misconduct and disclosure of financial interests

Based on the study, especially the section concerned with asset management, it was noticed that internal controls are poor and this could expose a department to fraud and corruption risks. As a result, departments commit financial misconduct cases, adverse financial losses are also prevalent and could be very costly for the state. Officials both at provincial and national departments commit adverse of financial losses. For example, in chapter 6, Table 6.7 shows the number of officials charged with financial misconduct in the different financial years. Table 6.8 also shows number of cases of financial misconduct, both at national and provincial departments. Table 6.9 reports on the loss by government due to financial misconduct in the Public Service. Table 6.9 signals that financial management and fiscal discipline need to be taken into consideration. As a matter of priority the South African Public Service in general, and managerial leaders in particular, have to ensure that a culture of good governance is indeed inculcated within state institutions. The state of affairs reported in Figure 6.4 and Table 6.9, chapter 6 confirms that systems regarding aggregate fiscal discipline or application of principles of public expenditure management are lacking in the in the Public Service. Therefore, there is a need to have a balance between skills of managerial leaders and financial management, including basic managerial functions. This type of balance also assists in determining if an institutional environment is able to deal with the evolving South African public finance management system. Loss due to financial misconduct as reflected in Table 6.9 is high and indicates that the Public Service is exposed to financial risks that could also expose the Public Service to economic and reputation risks too. These risks originate from the fact that some departments are confronted with wasteful expenditure and unauthorised expenditure, which is described as financial misconduct in terms of the PFMA. These costs could impact negatively on the economic growth of the country in general and development of infrastructure in particular.

Figure 6.4 also reflects cases of financial misconduct, regarding unauthorised, wasteful expenditure and fruitless expenditure. This is an indication of lack of ethics or and prevalence of corruption in the Public Service. Figure 6.2, in chapter 6 also shows a culture of non-compliance with Public service regulations where SMS members do not disclose consistently about their financial interests as required by the regulations. This poor reporting by this senior echelon undermines elements of good governance, especially transparency, accountability and responsibility. Lack of ethics and poor reporting by SMS members could also be attributable to lack of managerial leadership in the Public Service. Lastly, it is normal that once an institution is confronted with complaints on corruption and fraud that come from the public as customers and within the institutions themselves, the reputation of the institution could be affected. The public might develop a lack of trust, and the sense of organisational ownership by the staff could be affected and they could decide not to actively participate with enthusiasm and pride in departmental programmes because they could see taxpayers' money is wasted.

7.4.1.1 Unauthorised, irregular, fruitless and wasteful expenditure

In the Public Service, official reports continue to reflect incidents of unauthorised, irregular, fruitless, and wasteful expenditure. This particular trend continues to be of concern, both to the public and Scopa. Poor expenditure management, particularly fiscal discipline in the Public Service, could hamper economic growth and service delivery, including financial irregularities management.

These fiscal irregularities need to be minimised by setting up effective internal controls and linking planning with budgeting in order to avoid the financial abnormalities or irregularities. As indicated in the thesis, these financial problems could affect the government's ultimate objective of delivering services to the people. Figure 6.4 explains the matters relating to unauthorized, irregular and wasteful expenditure as in the Public Service, showing unauthorised expenditure as high. This signals weak internal controls and ineffective managerial leadership without the ability to manage public expenditure. To improve public expenditure management, it is important that incidents of unauthorised and irregular expenditure be treated when discovered by an Accounting Officer, if proper internal reporting is done, see annexure D, E, & F for details. Additionally, PEM, fiscal discipline in particular, could also be improved by managerial leaders, particularly the AO to discover fruitless and wasteful expenditure. Effective reporting could take place if managerial leaders show courage and communicate the above procedures throughout the department, see annexures D, E & F. Poor communication could undermine good governance and managerial leadership, including compliance with the PFMA as model of governance in the Public Service.

7.5 REPORTING STANDARD

In the research, it was noticed that some departments, both national and provincial, did not submit information regarding financial misconduct to the PSC (see Table 6.6 in chapter 6) as required by the Treasury regulations. Yet, the same information is reported in an annual departmental report, in terms of Treasury guidelines on annual reporting. As a result, departments do not provide any input to the PSC or do not respond when information on financial misconduct cases is requested. Such a situation could undermine good governance.

A well-established framework or guidelines is needed to report on financial misconduct cases in order to inculcate a culture of accountability and responsibility in the Public Service. The proposed framework could improve the quality of information submitted to PSC and departmental reporting standards and processes developed to cover these issues.

7.6 FINANCIAL TRANSFER

Transferring funds from a department to an entity or from a national department mostly takes place within a legislative framework like Division of Revenue Act (DoRA), PFMA and supported by Treasury regulations. Hence, non-compliance with the above legislative frameworks and regulations are sometimes qualified by the AG. It is also important that departments, both national and provincial comply with fiscal transfer regulatory or policy frameworks, as it may undermine elements of good governance, especially accountability and transparency.

It is important that transferring departments are in line with the Division of Revenue Act. For example, in terms of Treasury Regulation 8.5.1, accounting officers of departments transferring funds to other spheres of government in terms of the annual Division of Revenue Act must comply with the provisions of the Act (Treasury Regulations, 2005:23). In some cases, departments do not comply with Division of Revenue Act.

Similarly, Section 38 of the PFMA also states that when transferring funds in terms of the annual Division of Revenue Act, an accounting officer must ensure that the provisions of that act are complied with (Public Finance Management Act, 1999:46). Therefore, compliance becomes crucial to ensure that governance in state institutions is improved because non-compliance could be costly or have financial risks for government. As a result, the state experiences a lot of money through non-compliance with Public Service prescripts. Therefore, it is paramount that transferring or receiving departments are in compliance with legislative framework, such as Division of Revenue Act, Public Finance Management Act, 1999 and Treasury regulations (Auditor-General, 2004, 14).

Most importantly, non-availability of supporting documentation during fiscal transfer and the transfer itself not being approved could result in what is called ‘fiscal dumping’, not fiscal transfer as originally planned and anticipated. *Fiscal dumping* means that the public purse or departmental funds are transferred and used by a receiving department, non-government organisation or public entity without reasonable proper procedures and planning, funds are just transferred to be used, especially towards the end of each financial year.

In the research, it has also been found that monitoring and evaluation, including controls are ineffective, as indicated in Table 6.2, the same situation appears to be a problem with fiscal transfer. In Table, 6.2, one of the worst situations is the evidence of poor expenditure management by provincial departments where proof of spent and utilised funds could not be obtained as the supporting documentation was not available. This situation also undermines good governance, financial management and could lead to fraud and corruption. This could be attributed to lack of managerial leadership in the Public Service. There are other different forms of irregularities regarding fiscal transfer. As reflected in the same table, these irregularities originate from the use of fiscal transfer which was not approved; the inability to prove how money was utilised; and investments not disclosed in financial statements of the controlled entity. The above situation undermines financial management and expenditure management in particular, as these are fundamental in governance processes, PFMA in particular.

7.7 RISK MANAGEMENT AND INTERNAL CONTROLS

On the basis of Tables 6.1 (findings on internal audit), 5.1 (non-compliance with PFMA, as well as 5.2 (Department of Water Affairs and Forestry case study), it has been noticed that the culture of risk management is very low due to ineffective internal controls, non-functional of internal audit units and audit committees in the Public Service. As a result of poor internal controls, government assets are exposed and sometimes not managed properly, procurement procedures are not followed, public finances are not managed properly, debt management policy is not in place or debt not recovered, writing-off of debt is not procedurally followed and internal auditing is not functioning well and there is an absence of audit committees. If an internal audit or audit committee are not functional, there is a likelihood that systems and internal controls become non-operational and an organisation or a department could become exposed to various forms of risks. By nature, risk management is a management tool. Therefore it is the responsibility of management to manage risks and set up internal controls.

The internal audit unit, and the management in co-operation with the risk management unit within a department should ensure that risks are profiled and reported on time so that risky areas are identified and treated by financing risks if budgeted for. This implies that risk management can only be effective if budgeted for.

An Accounting Officer with the assistance of the CFO should ensure that an internal audit is effective in order to evaluate the efficiency of internal controls so that risks are managed properly and effectively. This includes compliance with legislative framework like the PFMA and its regulations in order to effect governance in the Public Service.

Once an audit committee and internal audit are not performing, transparency and accountability could be undermined, because the audit committee reviews internal controls, risk areas and accuracy in financial information within a department. The latter is crucial in order to ensure that performance information is accurate and reliable so that external reporting to the legislature is of a high quality. For example, an illustration of ‘poor governance’ as opposed to ‘good governance’ is reflected in Table 5.1 where non-functionality of audit committees and internal audit units is reported. Inability to appoint an audit committee and institute internal audits units could be attributed to lack of managerial leadership and strategic management, planning and technical skills. Audit committees and internal audit units are established so that organisations or departments are able to ensure that goals and objectives are attained and any threat facing an organisation is dealt with systematically and improve governance in the Public Service.

Based on the above analysis of audit findings on internal auditing and audit committees, it is evident that government departments need to be coached or advised on the importance of financial systems and governance in general. For example, institutions of governance like the National Treasury, the Auditor-General and the Public Service Commission should work very closely to advise provincial and national departments in order to improve governance in the Public Service by cross-checking and analyse both financial and non-financial information. It is because working in silos could negatively affect effectiveness of systems and performance of departments. As indicated earlier the constitutional independence must be maintained and preserved but strategic partnership is crucial.

7.8 NON-COMPLIANCE WITH THE PUBLIC FINANCE MANAGEMENT ACT, 1999

Non-compliance with any policy framework could be detrimental in an organisation or a department, even in government in general. The South African Public Service is no exception. Non-compliance with policy sometimes is attributed to a theory or practice. The central question is whether the problem is the application of theory or theory itself. The former refers to practice and the latter refers to theory and this suggests that theory and practice are inseparable. Therefore, technical skills to implement the PFMA are necessary because it could be argued that it is the PFMA that is a problem. But it could be the application of it in the Public Service and the environment in which it is applied. Non-compliance with government policies, Public Service regulations and the PFMA could be costly as indicated in the study, namely ineffective internal control, poor culture of risk management, indecisive managerial leadership particularly on audit queries, including Public Service regulations on conflict of interest.

Most importantly, Table 5.1 in chapter 5 also shows a high level of indecisiveness on the part of the managerial leaders because certain concerns or audit queries from the Auditor-General were raised twice, both in the 2001-2002 and the 2002-2003 financial years. This trend of inability to make decisions by the managers at SMS level has a negative effect on financial management and governance in the Public Service in general. The main problems concern dysfunctionality on internal auditing due to non-compliance with auditing standards set by the Institute of Internal Auditors. As a result, there was no reliance on internal auditing sections. When the audit unit is not functional, audit work could not be conducted. A fraud prevention plan was not in place as stipulated by PFMA and irregular expenditure and a risk management strategy were not in place in terms of Treasury regulations and the PFMA. In some situations, annual financial statements (AFS) were submitted late with no supporting documents.

The above picture regarding non-compliance with the PFMA has an effect on governance in the Public Service, particularly systems, internal control, risk management and financial management. With reference with Table 5.1, it is evident that non-compliance with the PFMA in the Public Service is high. Non-compliance on matters relating to systems and financial management in general could also have an effect on good governance. It becomes the managerial leader's responsibility to ensure that systems are effective so that organisational risks are managed promptly. Late submission of AFS without supporting documentation also negatively affects transparency and fiscal accountability, including public accountability. It is therefore important to note that non-submission of annual financial statements and documentation by departments is not just a non-compliance with the PFMA but undermining the public as taxpayers and as contributors to the public purse who have a right to information.

7.9 CONCLUSION

In the previous chapters, theoretical analysis and review of public finance management, governance, including risk management have been captured. Such a review and analysis provide a contextual analysis of critical issues in public finance management that need an attention of managerial leaders and public servants in general. To illustrate such a contextual framework, a micro-macro examination of public administration, public finance management in particular is vital. The process of reviewing and scrutinising public finance management generates ideas about the ‘art or science’ of public administration. As reported in the preceding chapters, both ‘art and science’ are at the heart of public administration. Therefore, managerial leaders should apply both art and science when managing public finances

For any public finance management system to be successful, institutions of governance must be efficient and serve their purpose accordingly and support the vision and mission of government. For example, good governance could be far fetched if parliamentary oversight is questionable due to dysfunctional internal processes and systems within parliament and Scopa in particular. In the same vain, the Scopa should have capacity to fulfil its mandate completely and have ability to manage and process audit queries of the spending departments.

From the systems point of view, LOGIS and BAS have to support each other because both have quality information that could assist in assessing institutional performance. What is also imperative is the expenditure management within the spending departments, especially its principles (Allocative efficiency, operational efficiency and aggregate fiscal discipline) are maintained because poor management of expenditure negatively affects service delivery. With regard to the above, the challenge is on managerial leaders to make decisions that support both individual and institutional performance in order to support service delivery. Indecisiveness could be detrimental in public finance management and service delivery in general. Hence, the ‘art’ of management is crucial in the public administration

CHAPTER 8

CONCLUSION AND RECOMMENDATIONS

8.1 CONCLUSION

One of the objectives of the study was stated in chapter 1 as an analysis of governance and managerial leadership, as well as an analysis of the public finance management system in the South African Public Service. On the basis of the main objective, a theoretical analysis of governance and the elements of governance were provided. The PFMA was used as a case study in order to illustrate that the PFMA could also be used as a governance model in the Public Service.

The second objective was to contribute and generate knowledge on the science of Public Administration, particular in terms of the PFMA. Regarding the second objective, a theoretical analysis of Public Administration as a science was provided so that arguments and assertions in the study could be understood within the context of Public Administration, and the PFMA provisions were also discussed within this context.

On the basis of the above objectives, a governance model was provided so that matters raised regarding governance were recommended in the form of a proposed model for the Public Service. Such a model contributes in developing governance systems in the Public Service.

The hypothesis was as follows:
With reference to public finance management system in the South African Public Service, governance elements in public finance are negatively affected, like expenditure management, risk management, decision-making, ethics, oversight function of Parliament and compliance with PFMA. As a result, leadership challenges could be addressed by dealing with the above governance elements as they emerge in the Public Service.

Research revealed that governance and managerial leadership in the South African Public Service are faced with various forms of organisational problems or challenges, ranging from ineffective internal controls, the inability to implement the vision and mission of a department, lacking a culture of risk management, poor analysis of both organisational (internal) and external environment, ineffective parliamentary oversight, low ethical conduct, poor level of compliance with the PFMA, inability to manage transformation and inability to align evolving public finance management systems with managerial leadership's skills base. The above deductions are made on the basis of findings recorded from interviews, official reports, and international studies. With regard to financial misconduct, information should have been forwarded to the PSC, not merely reported in the annual reports.

Environmental factors such as transition after the post-South Africa have put pressure on the Public Service to change from a rule-bound approach to a flexible approach. It is in this context that managerialism is promoted under the NPM model. These demands forced the Public Service to introduce new policies and regulations, like the PFMA and Treasury regulations. These policy changes also demand changes in the public finance management system in the Public Service. In the process of transformation, the balance between transformation and availability of skills, especially at a managerial leadership level, was not reached. For example, enormous delays on making decisions on financial matters could be attributed to poor technical skills at managerial level. The evolving public finance management system in the Public Service is faster than the skills that the Public Service has, especially in financial management. For example, the introduction of GRAP and accrual system in the Public Service demands a lot of skills. A lack of systems in the Public Service also contributed to poor financial management and governance in general. Therefore, it could be deduced that poor systems, unethical managerial leadership and the inability of the same leadership to analyse the environment in which they are working, poor technical and conceptual skills and poor culture of integrated risk management in the Public Service have been identified as having a negative effect on governance and financial management in particular.

The study has shown that governance in the South African Public Service is faced with some serious problems that originate from both micro and macro levels. At a micro level, the problems generally originate from poor internal controls and systems, poor managerial leadership that is not able to take a department to a desired direction based on the vision and mission of a department. At a macro level, based on the findings, there is an indication that there is inability by the managers to take into account the political, social, economic and technological environments when planning and budgeting. At the same time, there was an indication of problems originating from departments regarding the indecisiveness on financial matters, unethical conduct, planning and budgeting or financial management and governance in general. The above macro-micro problems could be attributed to the evolving public finance management system in South Africa. For proper analysis, implementation of PFMA as model of governance in the Public Service is seen as a fundamental problem, financial management, as one of the components of governance, is also one of the elements that is negatively affected service delivery due to a lack of systems on budgetary control and the application of expenditure management principles. Based on these deficiencies, in terms of the findings, a governance model has been recommended for the South African Public Service, see Figure 8.1. The model could be used as a basis to improve governance in the South African Public Service.

8.2 RECOMMENDATIONS

The evolving public finance management system in South Africa also demands skills that will match organisational and administration dynamics within the South African Public Service. In dealing with organisational and administration dynamics, such as policy analysis and implementation, planning and budgeting, accountability and responsibility, managerial leadership responsibilities, skills base, compliance with legislative frameworks and matching the environment with institutional mandate, the managerial leaders in the Public Service have a vital responsibility to both technically and conceptually respond to such a dynamic environment. The introduction of the Constitution creates an environment and a culture in which institutions of governance should operate in support of good governance. The introduction of the PFMA as governance model reflects a doctrine of governance in ensuring that financial management and general organisational values are uplifted. However, it is the responsibility of the managers to inculcate a culture of good governance to individual departments and share departmental vision and mission with other officials by ensuring that effective governance is central in the Public Service. To carry forward the vision entrenched in the Constitution and the PFMA, a skills base Public Service must be able to deal with challenges originating from the public finance management system and governance in general.

The following recommendations are provided to improve governance in the South African Public Service:

8.2.1 Balance between evolving public finance management system and public service skills base

There must be a balance between the developing public finance management system in the Public Service and the skills of the public servants in general, particularly officials within the SMS category. These senior managers are normally charged with the responsibility of managing enormous tasks and large budgets and providing leadership in government programmes and projects.

These leaders have to analyse their operating environment which demands skilful personnel and expected to understand and implement with the government's performance budgeting system, PFMA prescripts, GRAP and the accrual accounting system and its implications on asset management, financial reporting and financial management in general. These are technical aspects that go with the developing public financial management system in the South African Public Service. Therefore, a balance between transformation and skills base is crucial to support effective governance. The managerial leaders should be able to balance the two, namely skills and transformation.

8.2.2 Ethics in the Public Service: Conflict of interest

The OPSC has to take into account external factors that could influence an internal or institutional environment, especially the management of conflict of interest. This has to be managed properly in order to promote ethics effectively in the Public Service. The external environment could be political like amended Public Service regulations, the constitution of the Republic of South Africa (political), and the demands from the public or non-government organisations (social) calling for an end on corruption.

In assessing a potential conflict of interest, specific problems could be anticipated like striking a balance between conflict of interest and cultural issues. For example, if a traditional leader has given an SMS member a gift like sheep or traditional attire with both parties not knowing the value in monetary terms, how do you attach monetary value to those items and how will potential conflict of interest be analysed? It is important also to balance conflict of interest and human rights, particularly a right to privacy entrenched in the Constitution. It is because SMS members are expected to disclose information regarding their assets or other financial benefits and gifts that some believe is privileged information and personal. Another anticipated problem could be based on perceptions rather than factual analysis from the SMS members themselves, namely that relying on Public Service regulations, not legislation or an Act, could result in SMS members not complying fully with financial disclosure regulations as stipulated in the Public Service regulations. Therefore, these perceptions and beliefs are crucial during information analysis in order to detect a potential conflict of interest.

Based on the above analysis, as a recommendation, a piece of legislation on conflict of interest should be drafted so that cultural issues and human rights should be attended to in order to apply holistic approach when dealing with matters of governance in the Public Service. The proposed piece of legislation could also cater for a ‘cooling off’ period once SMS members have left the Public Service. Once a piece of legislation is drafted, conflict of interest guidelines must also be drawn up in order to perfect the systems. Relying only on Public Service regulations could be seen as an ineffective system of managing conflict of interest.

In order to comprehensively and holistically deal with conflict of interest in the Public Service, it is recommended that a fully-fledged directorate within the OPSC that deals with conflict of interest must be established so that the it is able to investigate and analyse potential conflict of interest in the Public Service, in terms of the constitutional mandate of the PSC.

Centralisation of capturing and managing financial disclosure forms by the PSC could affect the efficiency and competency in dealing with conflict of interest in the Public Service. Therefore, the process of submission of forms should not be centralised with the PSC but should be a responsibility of departments themselves. The PSC can just co-ordinate the process and put systems in place for compliance. Therefore, head of departments (HoD) or accounting officers of both national and provincial departments must take responsibility for the collection and submission of the forms to the PSC. The PSC should have conflict of interest officers in each department for co-ordination purposes, preferable within the office of each HoD as an accounting officer. To promote good governance in the Public Service and ensuring accountability and transparency in particular, disclosing of assets or financial interests could be the responsibility of each SMS member and be included in his or her performance contract.

8.2.3 Systems approach and environmental analysis for effective governance and financial management

It is essential that managerial leaders take the initiative in ensuring that systems, especially financial systems within an organisation complement each other just as programme managers. Programme managers working in silos affect the systems within an organisation. The managerial leaders also have the responsibility of scanning an environment (social, political, technological and economical) in order to shape departmental vision and mission. It therefore recommended that:

(a) Improving the public finance management systems and governance in general, depends on the culture of an organisation and the style of the managerial leadership. Additionally, for financial systems to function effectively systems approach should be applied or the so-called ‘wholism’ in systems should be the driving force.
(b) The managerial leaders should be supportive of connectedness and the interrelationship of financial systems, including risk management and internal controls. However, what is important is to study the environment carefully.

8.2.4 Financial management and governance

A multidimensional approach or a matrix approach in financial management is crucial in the Public Service. A disjointed approach does not create a culture of governance and financial management in particular. For example, there must be an understanding that procurement, asset management, budgeting and planning and debt management are central in financial management. It is also important to note that the application of cost-benefit analysis while making financial decisions is vital in ensuring sound financial management in the Public Service.

It is of paramount importance to ensure that a culture of financial management is instilled in the Public Service and there should be interconnectedness or ‘wholism’ between the above elements of financial management. However, research shows that policies and processes regarding to the above are not interrelated. For example, there must be co-ordination or relationship between asset management, debt management, risk management and revenue management in order to perfect financial management systems within a department. Research also shows that such a relationship, namely connection or the ‘systems approach’ mechanism, does not exist in the Public Service. As a result, a department finds itself exposed to financial risks and poor governance in general.

Simultaneously, effective governance is undermined through ineffective institutions of governance like Parliament, Scopa in particular, a lack of a culture of risk management and internal controls, unclear lines of accountability and reporting within departments, poor functioning of internal audit committees, poor systems and unethical conduct in the Public Service and non compliance with PFMA and public service regulations.

These aforementioned governance deficiencies could negatively affect the functioning of the Public Service and implementation of service delivery programmes. In the above analysis, *governance,* especially *financial management* are the main problems that have been identified and deduced throughout the study, as reflected in the model. To improve governance in the Public Service, it is recommended that the Public Service analyse both macro and micro environments. However, in dealing with micro-organisational issues, understanding organisational culture becomes central because the implementation of any organisational advice or opinion does not apply to a 'one size, fits all' approach because it depends on the proper analysis and understanding of organisational culture and departmental mandate in delivering services to people.

In ensuring that there is effective governance in the Public Service, the managerial leaders have to comprehend evolving public finance management system in the Public Service. The proposed model on governance (see Figure 8.1) recommends the following:

8.2.4.1 Strategic planning and budgeting

From the findings, it has been deduced that matters like underspending and overspending could be attributed to poor planning but more explicit is the poor linkage between strategic planning and budgeting. It is sometimes observed that departments struggle to plan properly because in some situations, planning becomes the responsibility of certain people within a department or strategic level and budgeting becomes the full responsibility of the finance section. Once planning is centered on the few individuals without the full participation of programme and responsibility managers, such a planning could be labelled as 'imposed

planning or strategic plan.' Budgeting, which is only delegated to financial managers or the finance section, could be regarded as 'imposed budget'. To ensure that the strategic plan is linked to budgeting, it is recommended that there is a need for proper consultation within a department by engaging both financial and non-financial managers in the process. It is also further recommended that strategic planning or sessions should be used to review such link between budget and strategic plan in order to check that what has been planned is budgeted for and there are sufficient funds to finance departmental activities so that quality outputs can be delivered.
Therefore, a link between strategic planning and budgeting should be seen as an organisational process that has to be reviewed and monitored periodically in order to check if funds are still in line with departmental needs or plans.
It is also recommended that funds within a department must be monitored against the departmental strategic plan in order to avoid underspending and overspending.

8.2.4.2 Auditing and accounting

From the study, it has been deduced that there are some problems on auditing, particularly on internal auditing where non-compliance with the PFMA becomes a problem, for example, where internal auditing standards and processes are not in line with the Institute of Internal Auditors. In some situations, an internal auditor reports directly to the CFO instead of an accounting officer, like HoD or the Director-General. Such poor lines of accountability could undermine transparency in the Public Service because the independence of an auditor is compromised in the process. The chairperson of the PSC, Sangweni (2004:2) also comments that this reporting requirement based on the PFMA has not been functioning as expected and it could be that most of the accounting officers are not entirely comfortable in dealing with financial matters.

Auditing is also evolving towards 'value for money auditing' or performance auditing rather than just focusing on inputs by strictly counting the amount spent for each financial year. It is therefore recommended that external auditors and departmental officials share information regarding value for money auditing in order to minimise non-compliant standards from the departments and for departments to understand what is expected of them, especially an explanation regarding the impact caused by continuous submission of qualified reports to the same department. Institutions of governance like the Auditor-General should develop a very close relationship with government departments, without compromising its independence in order to improve governance by explaining processes and procedures that could promote compliance and accountability in the Public Service, not only the technical side of auditing.

Some technical problems on accounting standards have been reported in the study. These problems are based on GRAP and the accrual system. For example, some departments are reported to have submitted financial statements that are not in compliance with GRAP and the accrual accounting standards. Consequently, it implies that useful information is not provided to both the public and to institutions of governance like the AG, and Parliament for accountability purposes. Such a situation could undermine good governance.

The above situation could be caused by the fact that public finance system in South Africa is still under transformation where GRAP and the accrual system itself have not been internalised by departments. As indicated earlier there is no balance between transformation and skills base in the Public Service.

8.2.4.3 Customer and value for money oriented service delivery

Within the New Public Management model, the public is treated with respect and as a customer. The concept of *customer* implies that the needs of the public come first and a relationship between government and citizens, as customers, should be maintained. However, what is important is that people come first like any customer in a business environment. The managerial leadership has the responsibility to deliver services to people through government resources. What is crucial is that the value for money (VFM) principle must be applied while using government resources. In this context that the managerial leadership should maintain the VFM principle at all times. In the process of delivering services to people, the managerial leadership should be able to ascertain whether resources within a department have been used efficiently and economically. Therefore, the public as customers will receive a quality service that is VFM-oriented. It is therefore recommended that all levels of public servants, from lower, middle to the top level within a department, are trained in the value for money principle, especially the front-line public servants, because once it is undermined it impacts negatively on expenditure management. The latter will be discussed later and such relationship between VFM and expenditure management will be provided.

8.2.4.4 Internal and external reporting

Internal reporting is just as important as external reporting. The former ensures that everybody within an organisation is accountable through reporting about his or her projects to the immediate supervisor. It is not only about projects, but also about how the budget has been used and allocated with different units within a department. During this process certain responsibilities are delegated to some officials to perform certain duties. However, an official who delegated the responsibilities or duties remains accountable because accountability cannot be delegated, only responsibilities can be delegated. Within the context of the PFMA, section 38 outlines the responsibilities of an accounting officer (AO). For example, an AO delegates financial management responsibility to a CFO, but an AO remains accountable for financial management, like Supply Chain Management and asset management. Section 44 of the PFMA also outlines the responsibilities of other officials, meaning that everyone within a department is responsible for financial management and fiscal discipline. Therefore, internal reporting could not only focus on projects but on matters relating to fiscal discipline and financial management. For example reporting on the occurrence of fruitless, wasteful expenditure, an unauthorized expenditure is permitted in terms of PFMA and Treasury regulations and they need to be reported internally to the AO first. These internal processes encourage a culture of transparency, responsibility, ethical conduct, a culture of financial management and good governance in general.

Obviously, to ensure accountability and transparency, government departments report to Parliament through their relevant parliamentary portfolio committees, that is external reporting. It is through external reporting that public accountability is ensured, because the public also need to know how much has been spent on service delivery programmes, based on the MTEF and MTDF in terms of government deliverables and milestones. External reporting is one aspect, but providing useful information is another. This implies that government departments should provide useful information that will assist parliamentarians in making financial and political decisions. Therefore, annual reports, including their financial statements, should reflect useful information, for example, assets and liabilities within a department. On the basis of the above, it is recommended that departmental officials (internal reporting) should be encouraged to not only focus on reporting on their projects but also on reporting on the occurrence of wasteful, fruitless and unauthorised expenditure. However, it depends on the culture of an organisation whether the internal environment is conducive to reporting such occurrences and it is the duty of the managerial leadership to create such an environment if it does not exist. Failure to create such an environment could be tantamount to non-compliance with the PFMA.

8.2.4.5 Public expenditure management

The process of public expenditure management (PEM) could be best analysed from the stage of budgeting and strategic planning. PEM is best applied if all the officials, especially the responsibility and programme managers, are expected to understand the basic principles in which it is applied. As briefly discussed in the preceding chapters, these principles are about fiscal discipline, allocative efficiency and technical or operational efficiency. Without detailing and repeatedly analysing these principles, it is important that the managerial leaders perfectly understand these principles because they deal with processes, internal controls and systems that *'make or break'* the efficiency of an organisation.

Research findings indicate a lack of financial discipline, a poor link between budget and planning, and an inability to cope with the evolving public finance management system in the Public Service due to a lack of technical and conceptual skills. Practically, these three principles seek to ensure that overspending, fruitless expenditure, irregular transfers and wasteful expenditure are minimised, budget and planning is correctly linked by taking into account other factors or the environment and to ensure that a department has the relevant skills to deliver departmental outputs. In this context PEM principles should be part of an organisational culture. It is up to the managerial leadership to inculcate that culture so that services to people are delivered efficiently and effectively. For example, a departmental HoD or AO could ensure that the above principles are applied by all responsibility and programme managers that the PEM philosophy and principles should be seen as a management tool not just a matter of complying with PFMA. Because it is observable in the Public Service, some public servants operate within a 'compliance mind' rather than seeing governance as a managerial responsibility. Within the same context, the PFMA is also used as a compliance tool rather than a management tool.

It is recommendable that public expenditure management is prioritised as an area that is crucial for skills development for public servants in general, managerial leaders in particular. Once PEM is prioritised, governance, especially systems could improve in the Public Service and the managers should understand the principles behind PEM.

8.2.4.6 Monitoring and evaluation

Tracking what is happening within a department is most fundamental through the process of monitoring and evaluation (M & E) in order to instil a culture of good governance in the Public Service. M & E contributes in understanding organisational performance and also the weaknesses, strengths and threats that could affect its vision and mission and the opportunities that lie ahead of a department through a visionary leader.

Strategically, within the results-based management (RBM) approach it is important to conduct a results-based M & E that focuses on the impact of what has been delivered without ignoring the process of producing an output. Therefore, an evaluator should be able to monitor and evaluate the effect (outcome). In this context that expenditure trends of a department could be assessed if there was indeed value for money while a particular service was delivered. Therefore M&E should be seen as central to good governance because it encourages transparency and the accessibility of information and it strengthens accountability.

Therefore, it is recommended that government departments should not only assess, monitor and evaluate what is delivered (outputs) only but also move beyond outputs to the effect (outcome) of an output. This could be in line with the RBM approach or the NPM.

8.2.4.7 Risk management and internal control

Once again, the evolution from public ‘administration’ to ‘management’ has indeed brought about innovative ways of managing the affairs of government in general and the Public Service in particular. For example, the partnership between the government (public) and private sector in delivering services to the public through what is referred to as public-private partnership (PPP), risks could be managed through risk sharing or risk transfer to another party, which is private sector. In that process a risk to be shared or transferred could be human resources, financial, social or reputational. The latter is identified as less critical in the Public Service due to the poor culture of integrated risk management that has been identified in the study.

The example of PPP is just an illustration of an integrated approach to risk management. This suggests that in managing risks, an integrated approach must be applied because the Public Service is dynamic and not static due to political, economic, technological and social reasons covered in Chapter 2 and risks can go as far as the macro environment described above. Therefore, a leader must also be dynamic and be able to apply an integrated approach in his or her own department. For example, in the case study of DWAF, reputational risk is not explicitly identified, yet the department was trapped in a risky situation that might have affected the reputation of a department both from Scopa, Auditor-General and the public in general.

Based on that background, personnel morale (human resources risk) within the department could be affected and the personnel could also decide not to implement department's vision and mission as stated in the strategic plan. It is therefore highly recommended that the managerial leaders should apply an integrated risk approach. This could, however, only work if an organisational culture allows it to happen. To enforce that culture, everyone within a department should be developed to be a risk manager, from the security person at the main door (entrance) to the accounting officer.

For example, the former could provide security risks that could make the department lose its assets and the latter could provide strategic risks that could expose the level of non-compliance with the PFMA, Treasury regulations and other legislative frameworks. It is also important to note that conducting a risk profile or assessing risks within a department should not be done as a matter of compliance with the PFMA because it becomes a matter of 'compliance' rather than using risk management as a management tool.

To encourage a risk management culture within the Public Service, the managerial leaders should encourage risk management committees in all government departments so that these

committees are able to identify risks in their own sections for the idea of an integrated risk management approach.
However, the ideal situation can only happen if public servants are trained in the theory and implementation of an integrated approach to risk management in the Public Service. In ensuring that risks are managed properly, internal controls must be in place. In some situations risks are identified but internal controls are non-existent or poor and therefore the identification of risks becomes a futile exercise. No internal controls could be effective if they are not constantly monitored, evaluated and changed if they are not in line with departmental strategic demands. The stronger the internal controls, the more risks are managed effectively. It is therefore managerial responsibility to ensure internal controls are in place and effective in a department.

8.2.4.8 Decision-making and compliance

Decision-making is important for organisational efficiency and for the implementation of the vision of a department and the government in general, as well as the quality of decisions taken during departmental implementation of public polices. What is also important is whether cost benefit analysis or other options have been taken into account in response to both institutional and external environment. Therefore, the most critical questions in decision-making could be: 'what informs a particular decision to be taken, what could be the consequences, is the environment conducive to a decision and when are certain decisions to be taken? The managerial leadership should take these questions into account as they provide a platform for a quality decision-making process and quality on the outcome too. Within the context of public policy and decision-making, in some situations decisions are not taken promptly and governance gets affected. For example, during the PFMA implementation in the Public Service, it was noticed that decisions are not taken on time regarding financial matters or not taken at all, particularly matters of concern from the AG. In most cases, matters of concern are about non-compliance regarding the PFMA and Treasury regulations.

It is therefore recommended that financial decisions should be taken promptly because they might affect financial accountability, transparency, ethics and financial management in general. The above key questions should be asked when financial decisions are to be made in order to deal with quality decision-making and non-compliance with the PFMA and Treasury regulations in the Public Service.

The participative approach in decision-making, where project, programme and responsibility managers become part of a decision-making, becomes an organisational decision process instead of a personal decision-making process. The latter could affect organisational efficiency because in most cases it takes place outside an organisation. When decisions are taken outside an organisation, it serves no value to an organisation but destroys it. Such decisions do not support organisational standards and good governance but pose the risk of corruption and deficiency of organisational design. Once decisions are taken outside an organisation, such decisions are likely to be of institutional design that is based on personalities rather than service delivery programmes. Therefore, the managerial leadership should make sure that personal decisions do not outweigh organisational decisions. The latter are also likely to apply to a consultative approach where matters of an organisation become a priority. What is important is the process of making calculated decisions in order to strengthen financial management and governance in the Public Service.

8.2.4.9 Managerial leadership principles and responsibilities and the three E's

It is important that the managerial leaders display honesty, share the vision and mission of an organisation and promote an ethical conduct and also is exemplary both within and outside a department. A managerial leader has to have principles by abiding by the values and norms of the Constitution and also subscribes to policy frameworks and guidelines such as the PFMA, Treasury regulations and Public Service regulations. Therefore, it is the responsibility of the managerial leaders to ensure that public monies are managed properly, systems and internal controls are in place, and that a culture of risk management is promoted in the South African Public Service.

Figure 8.1: Recommended Governance Model in the South African Public Service