

CHAPTER 6

GOVERNANCE AND PUBLIC FINANCE

6.1 INTRODUCTION

Governance is essential both in the private and public sector in order to maintain the organisational objectives, mission, vision and organisational systems and structures are maintained. Some issues that are crucial with regard to governance are based on the quality of leadership with regard to decision-making, ethics, public expenditure management, accountability and transparency. These governance matters serve as a cornerstone for an effective and efficient way in delivering quality service to the public.

With regard to the systems theory in terms of governance, it is argued that interconnectedness between components or systems should be encouraged in order to improve governance and administration in an organisation, public service on the one hand, and service delivery on the other.

It is imperative that these organisational systems are affective in making sure money spent on service delivery is used cost-effectively and accounted for and government resources are used economically. Institutions of governance, such as Parliament, the Auditor-General Office, and the National Treasury, should be effective and capable enough to ensure that fiscal accountability and responsibility, including ethos of democracy are upheld.

Equally important is to ensure that organisational cultures are able to positively respond to social, economic and political environments so that an organisation with managerial leadership assistance is able to contribute to public sector effectiveness. This chapter aims to provide a theoretical and conceptual analysis of governance in the Public Service. An analysis of the PFMA, with specific reference to governance and financial systems within the Public Service, will be discussed extensively in order to demonstrate the importance of the PFMA as a model of governance.

6.2 GOVERNANCE: THEORETICAL FRAMEWORK

The term *governance* is used in both private and public organisations. The term is sometimes used out of context without a particular reasoning based on an environmental context. For example, some people would locate its meaning to various environments, like political, social and economic situations or the institution itself. In many instances, the term *corporate governance* is used to refer to the business sector. The King Report and NEPAD make reference to the term *corporate governance*. According to the King report, and viewed from a private sector perspective, *corporate governance* is distinctively concerned with the structures and processes associated with management, decision-making and control in organisations (Wixley & Everingham 2002:1).

The above is viewed from the functioning and organisational or institutional analysis perspective. Without comparing the above two perspectives, *governance* is analysed on the basis of interconnectedness of structures so that organisational results are achieved. Some authors bring a public administration 'flavour' into the concept of governance by proposing that *public governance* is defined as the way in which stakeholders interact with each other in order to influence the outcomes of public policies (Bovaird & Loffler, 2003:6). Bovaird & Loffler's perspective and analysis have both public management and private sector sentiments. Most important is what will influence the outcome and interaction or interconnectedness of the state with civil society and the public in general as stakeholders.

Governance also comprises the processes and systems by which an organisation or a society operates and people establish a government to administer such processes and systems (Wikipedia Encyclopaedia, 2005:1). Governance also conveys the administrative and process-oriented elements of governing (Wikipedia Encyclopaedia, 2005:1). This implies that governance is about organisational processes and systems that are used to deliver government projects and programmes.

These systems and processes could relate to the PFMA and the Constitution because the South African Constitution sets the framework for financial management and governance in general.

The concept of *governance* incorporates how decisions are made, the balance of power and institutions, and the ways in which politicians and managers are held accountable. It also refers to public policies *per se*, but to the settings within which public policy is decided and executed (Matheson, 2002:37).

Governance refers to the formation and stewardship of the formal and informal rules that regulate the public realm, the arena in which state as well as economic and societal actors interact to make decisions (Olowu & Sako, 2002:19).

Based on the discussion above and definitions given, *governance* is evidently a process in which state institutions and departmental structures co-ordinate government processes and implement public policies by complying with norms and standards set up by the government. Such a process of governance should promote and aim at instilling a culture of providing maximum or optimal service delivery to the public and support good governance in the public service in general. To support *governance*, both political and managerial leadership, should display a sense of stewardship at all times to the population and support ethos of democracy crafted in the Constitution and PFMA, such as accountability, transparency and responsibility.

6.2.1 Fundamental principles: Governance

The International Federation of Accountants (2001:12) provides the following fundamental principles of governance in the public sector:

- a) **Openness:** Openness through meaningful consultation and consultation with stakeholders, providing full, accurate and clear information leads to effective and timely actions and stands up to necessary scrutiny;
- b) **Integrity:** It is based upon honesty and objectivity, and high standards of propriety and probity in the stewardship of public funds and resources, and management of entities' affairs. This is reflected both in the entity's decision-making procedures and in the quality of its financial and performance reporting; and
- c) **Accountability:** Accountability is the process whereby public entities, and the individuals within them, are responsible for their decisions and actions, including stewardship of public funds and all aspects of performance, and whereby they submit themselves to appropriate external scrutiny;

The above principles are crucial as they support fiscal responsibility, improve financial management and ensure that public funds are accounted for and government resources are used efficiently, effectively and economically. In the Public Service, the above principles are also important because they support both external and internal auditing so that fiscal scrutiny is conducted. This results in transparency, accountability and responsibility being embedded within an institution and governance in general.

To support these principles and matters of governance, Heinrich and Lynn Jr. (2000:2) explain that *governance* refers to a means of achieving direction, control, and co-ordination of wholly or partially autonomous individuals or organisations on behalf of interests to which they jointly contribute.

Based on the above view by Heinrich and Lynn Jr, it is evident that *governance* is a system and a process that seeks to provide organisational direction through structures and processes, and maintain a control environment with the assistance of individuals within an organisation in order to attain organisational interests and objectives. As much as other governance principles are important, in most instances, accountability becomes very crucial. Aucoin & Heintzman (in Peters 2000: 21) describe the term *accountability* in a democratic political system as follows:

- a) to control for the abuse and misuse of public authority;
- b) to provide assurance in respect of the use of public resources; and
- c) to promote learning in pursuit of continuous improvement in public management.

Thus, the above analysis of the term *accountability* indicates that accountability ensures that an unethical conduct is detected on the basis of the abuse of power. Accountability is advantageous for both an organisation and a country because it helps to improve governance.

6.2.2 Elements of good governance

Linked to the theory of governance, is the notion of *good governance*, and sometimes when the standards are not set and conduct is not satisfactory, it is referred to as bad governance.

What is paramount is that the two incidences (good or bad governance), do not happen simultaneously; in most cases bad governance manifests itself when systems or structures

are not functioning or do not exist at all. Therefore, in improving and promoting good governance, the systems and structures must complement each other, including the human element. It is often said that bad governance leads to corruption and in turn produces disastrous results on the public finances (Boncodin, s.a). Madjid (1997:3) provides the following elements of good governance:

a) Participation

With regard to the above element, the public should have a voice in decision-making, either through people's forums or directly. Such a broad participation is built on human rights, like freedom of association and speech. Most importantly is to acknowledge that the public is able or capable of participating constructively on matters of governance or in policy formulation and making;

b) Rule of law

Legal frameworks should be fair and enforced impartially, particularly the laws on human rights. The OECD (1997:6) also states that that the rule of law helps to strengthen and provide assistance in improving and reinforcing the legal, judicial, and law enforcement systems, and ensuring their effective application in all parts of the country and at all levels of society;

c) Transparency

Transparency is built on the free flow of information. To be transparent means that processes, institutions and information are directly accessible to those concerned with them, in this case, the public. It is also important that enough and relevant information is provided and understood so that the public is able to monitor government progress, including weaknesses;

d) Responsibility

It is important that institutions and processes are able to serve all stakeholders;

e) Equity

Equality between men and women is crucial and paramount in ensuring good governance because both have an opportunity to improve or maintain their well-being;

f) Effective and efficiency

In this context, processes and institutions should produce results that meet public needs while making the best of resources;

g) Accountability

Decision-makers in government, private sector and civil society are accountable to the public, as well as institutional stakeholders. This accountability differs depending on the organisation and whether the decision is internal or external to an organisation; and

h) Strategic vision

Leaders and the public should have a broad and long-term perspective of good governance. It is very important that both leaders and the public are aware or have an understanding of the other dimensions, like social, political, and economic complexities.

To improve governance within the public sector and management, Development Assistance Committee (DAC), the principal body through which the OECD deals with issues related to co-operation with developing countries (Organisation for economic co-operation and development, 2006:1). DAC maintains that the following are crucial as elements of good governance. According to DAC, transparency, accountability, *inter alia*, help to:

- a) improve the following accounting practices;
- b) improve budgeting and public expenditure management and public reforms; and
- c) control corruption by supporting anti-corruption strategies and reduce corrupt practices and encourage and facilitate the exposure of corrupt practices, including the media (Development Assistance Committee, 1997:6).

In a democratic state, the media plays a crucial role as it promotes transparency and supports good governance in a country or organisation. It is clear from research that corruption could negatively affect a country and its people socially and politically. Socially, corruption could

cause poverty because public monies that should have been spent on government projects go into individuals 'pockets', not to the entire population.

Economically, investors could feel threatened and choose not to make any financial commitments in any country that is not committed to developing systems and the curbing of corruption. Corruption can also affect the economic growth of a country or its gross domestic product (GDP). Therefore, it is important to understand elements of good governance and ensure that there is adherence to governance principles in the Public Service showing a conducive or a control environment within an organisation. Taking into cognisance the above economic and social threats, the Public Service should note that corruption can expose an organisation or a country to the above economic and social risks.

Good governance takes place within certain principles. These principles are significant in improving governance in general and reducing risks where they are visible and where they could be destructive in an organisation.

6.2.3 Propositions for governance

The setting of goals and priorities are crucial elements in order to guide the policy of an organisation and attain organisational objectives in general. What is also crucial with regard to governance is accountability, which demands openness about government activities, funds and its operations. Accountability, therefore, also instils a sense of responsibility about government programmes and activities in order to supply both the public and the legislature with relevant information. Both the former and the latter should have access to such information. However, in a democratic state or country, the rights of individuals and organs of state are preserved. As a result, accessing information from the government or government departments should take place within the parameters of law or a policy. Further to the above elements of governance, Peters (2000: 48), provides the following fundamental elements of governance:

- a) **Goal-setting:** One of the most utilised elements of governance is goal-setting or priority determination. In governing, priority-setting becomes central. One of the most important elements is the sense of priority-setting and co-ordination of policies in governance; and

- b) **Public accountability:** This means to create structures for accountability and transparency in the public sector. Structures could be independent audit agencies, an ombudsman and access to government information.

The above propositions are also fundamental to matters of governance, such as fiscal planning, accountability, budgeting, policy prioritisation, co-ordination, expenditure management and control. In the South African context, the Public Protector, office of the Auditor-General and the Promotion of Access to Information Act of 2000 are supportive of governance and its processes. For example, Cabinet meetings on policy formulation and the medium-term expenditure framework and the medium-term delivery framework are strategic meetings for goal-setting and policy prioritisation. Then, the structures of accountability and transparency ensure that the process serves the interests of people and maintain the value for money principle.

With specific reference to public service reforms in Australia, Barrett (2001:10) notes that governance framework is concerned with structures and processes for decision-making and with the controls and behaviour that support effective accountability for performance outcomes or results. Therefore, governance is supported by structures and systems to function or assist an organisation to attain its objectives. These structures and systems could work together or link together in order to support governance. For example, the office of the Auditor-General or Parliament should support each other in order to promote governance within institutions of governance themselves so that government objectives are achieved.

According, to Heinrich & Lynn Jr (2000:3) *governance* may be defined as ‘regimes of laws, administrative rules, judicial rulings, and practices that constrain, prescribe, and enable government activity, where such activity is broadly defined as the production and delivery of publicly supported goods and services’.

The above governance analysis or framework supports the fact that governance is based on a particular regulatory or legal framework or standard or ‘regime of laws’ and norms and standards so that the government is able to delivery quality service to people. Quality in service delivery could be achieved if there is adherence to laws, policies and co-ordination between governance structures.

Further, the International Federation of Accountants (2001:1) also supports the fact that governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the top of organisations. As much as it is important to concentrate on the effectiveness of structures, control of processes and leadership when dealing with governance, effective decision-making is very important.

Poor decision-making could negatively affect the fiscus and pose some financial risks within an organisation on procurement processes, petty cash management and social grants. For example, some decisions could be based on procurement favouritism, tender irregularities or unethical conduct. Managerial leadership indecisiveness on tender processes could negatively affect the value for money principle and good governance in a country. In this particular context the managerial leadership will be tested whether options or alternatives are taken on the basis of cost-effectiveness or the institutions are economical and whether the service delivered is economically justifiable. The OECD (2005:41) argues that procurement should be considered as an integral issue in governance and accountable, transparent and ethical procurement practices and processes should help to reduce inefficiencies and corruption. In this particular view by OECD, it is clear that governance systems could be negatively affected if procurement processes are secretive and ineffective, and that could affect governance within the Public Service.

In other instances costs incurred on the basis of poor decision-making could make an organisation ineffective or the organisation could find itself continuously receiving qualified reports from, the office of the Auditor-General and in the process the culture of risk management and financial management within the Public Service is undermined.

Van der Waldt (2004:3) supports the view that *governance* is the acquisition of and accountability for the application of political authority to the direction of public affairs and the management of public resources. Regarding Van der Waldt's view, it is observable that governance is improved by encouraging a strong and effective working relationship between the executing authority and accounting officer so that the public is guided by a particular shared visionary and organisational agenda.

6.2.4 Benefits of accountability as a governance principle

To improve governance in the public service, public servants must be accountable and responsible about their departmental activities. Government departments should have systems that support accountability. That implies that a department should have a reporting system to support good governance, especially accountability and adhere to any legislative framework such as PFMA. Making sure that public servants are skilful and able to implement departmental vision and mission could also enhance accountability and improve governance in general. Below, Younis & Mostafa (2000:14), explains the benefits of accountability:

- a) **Official authority:** Both political leaders and public servants are expected to conduct themselves in a responsible fashion and provide services required of them. Clear and specific sets of guidelines, rules and regulations are required in order to facilitate accountability, and to encourage responsible conduct;
- b) **Official supervision:** Accountability requires effective official supervision. An accountability officer supervises his or her officials (s) in a similar fashion;
- c) **Administrative competence:** Accountability in government facilitates administrative competence. Where accountability exists in the system, adequate training systems appear to exist for officials, which improve their competence;
- d) **Corruption:** Where accountability operates fully, officials are unable to use their positions for personal gain, particularly monetary gain;
- e) **Management information:** The existence of accountability helps to provide information on the progress-reporting system. Where accountability exists and is part of an organisational culture, there is a reduced likelihood of an 'expectation gap' between performance and actual targets;
- f) **Performance evaluation:** Accountability improves the performance of government through measuring and assessing the achievements of subordinate officials in their assigned duties. Furthermore, the effect of improved performance is a commitment on the part of government to implement policies;

- g) **Administrative culture:** When government retains accountability, an administrative culture develops in which public servants serve the public and are answerable to its elected representatives;
- h) **Centralisation:** Accountability prevents the concentration of power into only a few hands, and therefore facilitates the deconcentration or devolution of authority. Among other things, decentralisation ensures popular participation in state affairs and reduces delays in decision-making;
- i) **Rule of law:** Accountability strengthens the rule of law. Officials must justify the legality, or otherwise, of their actions, nor can they take decisions within the confines of rules, regulations and working procedures; and
- j) **Responsiveness and responsibility:** Strong accountability strengthens responsiveness and responsibility on the part of ministers and public servants. To be accountable is to be expected to give a satisfactory account of the execution of responsibilities.

The above benefits of accountability could assist in understanding the broader analysis of governance in terms of the significance of accountability as one of the elements of good governance. However, accountability alone could not bear positive results in governance; synergy with other elements is paramount.

Broadly, *governance* implies an arrangement of distinct but interrelated elements, such as statutes, including policy mandates; organisational, financial, and programmatic structures; resources levels; administrative rules, guidelines and institutional rules; and norms that constraints and enables tasks; priorities; values that are incorporated into regulatory framework, service production and service delivery processes (Heinrich & Lynn Jr, 2000:4).

Equally, in governance theory and practice, it is fundamental to locate its logic and framework by understanding political, economic and institutional culture. Towards implementing a governance model, an understanding of both political and economic culture becomes crucial because research reveals that these cultures have an influence on any organisation. As a

result, a new organisational culture emerges through an outside environment or surroundings that sometimes originate from the political and economic milieu. Hence, it is important to scrutinise and analyse an organisational culture, especially regarding managerial leadership style, and organisational norms and standards. These subcultures influence an organisation as a whole, particularly on its effectiveness, including its strategic plans. Similarly, accountability becomes central within the 'new public management', especially in financial management discourse (Kusi, 2004:18). Kusi's assertion notes the importance of accountability in ensuring that taxpayer's money is accounted for and institutions have systems that support accountability.

According to Kaufmann (2003) *governance* is a process and institution of authority which is exercised by the following:

- a) the process, by which governments are selected, held accountable and monitored;
- b) the capacity of government to manage resources and provide services efficiently, and to formulate and implement sound policies and regulations; and
- c) the respect for the institutions that govern economic and social interactions among themselves.

In analysing the above definition, it is evident that it is important that the process of accountability must be monitored so that government institutions that are entrusted with responsibility are closely monitored both by the public and parliament.

In the same vein, for effective governance, policies must assist the process and system of governance. These policies should be supportive of good governance *per se* and its institutions so that elements of good governance such as accountability, transparency and responsibility are maintained. In order to instil a culture of good governance, the South African Government through section 195 of the constitution, support the culture of governance outlined above. For example the Constitution states that public administration must be governed by democratic values and principles, such as:

- a) The promotion of efficient, economic, and effective use of resources;
- b) Transparency must be fostered by providing the public with timely, accessible and accurate information; and

- c) Public administration must be accountable (The Constitution of the Republic of South Africa, 1996:107).

The above values and principles confirm that good governance has to be underpinned by democratic values and principles and these values must support the legislative framework and institutions of governance must be able to utilise and implement them.

Summarily, in his foreword to the PFMA, the Minister of Finance (1999) notes that the key objectives of the Act are:-

- a) to modernise the system of financial management;
- b) enable the managers to manage, but at the same time be more accountable;
- c) to ensure the timely provision of quality information;
- d) to eliminate waste and corruption in the use of public assets.

The above sets the tone for effective governance and systems in the Public Service, particularly on expenditure management or fiscal discipline, responsibility, accountability, transparency and ethical conduct. For example, accountability and transparency as principles of good governance are affected mostly if quality on financial information is not submitted in time in Parliament by an organ of state. The modernisation of financial management is important in order to improve, among others, financial management, especially procurement or a supply-chain management system and improve budgeting forms and reporting systems and standards.

Additionally, effective governance in the public sector can also encourage the efficient use of resources, strengthen accountability for the stewardship of those resources, improve management and service delivery, and thereby contribute to improving people's lives (International Federation of Accountants, 2001:1). Any legislative framework that supports governance in the Public Service, such as the PFMA and the South African Constitution, should be seen as paramount as they serve as contributory factors to the lives of ordinary people. In his foreword, the minister (1999) further notes that "the Act will lay the basis for effective corporate governance framework for the public". This signals the government's committed to governance principles by ensuring that fiscal transparency and financial management become central in ensuring good governance.

In dealing with the logic of governance, Heinrich and Lynn, Jr (2000:5) state that the logic of governance could be located along, among others, the *ex ante* and *ex post* controls. The former is designed to preclude non-compliant decisions and actions and the latter is designed to detect and punish non-compliance after the fact. The above analogy regarding the *ex ante* and *ex post* controls is crucial, especially in ensuring the effectiveness of governance systems. A culture of good governance is inculcated within an organisation, including a risk management culture by focusing on non-compliance based on poor decision-making across the Public Service.

6.3 PUBLIC FINANCE MANAGEMENT ACT OF 1999: A GOVERNANCE MODEL

6.3.1 Institutions and structures of governance: A constitutional and PFMA mandate

Structures, legality and rules are fundamental in governance. The challenge therefore is their effectiveness so that governance and its systems are qualified as good governance. Once the systems collapse, good governance is referred as 'bad governance'. The shift from traditional public administration to public management also strengthens governance systems in the Public Service. The narrow focus on 'administration' and 'rules' created a public service which had no capacity to manage and to be flexible in decision-making. The 'new public management' promotes managerialism, flexibility in decision-making but still accountability for actions and devolution of powers. In essence, the PFMA is moving towards the outcomes-based model, managerialism or new public management model.

To implement such a new model, a new approach regarding governance should also be supported by the following structures to make sure outcomes are achieved effectively and efficiently. The Act and its provisions support the outcomes model. The following structures aim to support the results approach and ensure that a culture of risk management is inculcated and a value for money-oriented service delivery in the South African Public Service is achieved.

6.3.2 National Parliament and provincial legislatures: Role of standing committee on public accounts (Scopa)

National and provincial parliaments have a responsibility to support governance in the public sector in general. Through parliamentary committees, Scopa in particular, fiscal scrutiny ensures that the executive is accountable for its activities. Therefore, Scopa is charged with the responsibility to ensure that the executive both at national and provincial level account for public monies, including resources they use on a daily basis. To ensure that Scopa's mandate is fulfilled, their operations must be within a particular framework.

With regard to Scopa activities, the National Assembly has the following rules:

- a) The committee must consider financial statements of all executive organs of state and constitutional institutions.
- b) The committee must also consider any audit reports issued on those statements.
- c) The committee must consider any reports issued by the Auditor-General on the affairs of any executive organ of the state and constitutional institutions or a public entity; and
- d) It may initiate any investigation in its area of competence (Association of Public Accounts Committees, 2003:5).

On the basis of the above Public Accounts Committee rules, it is evident that the committee is mandated to ensure that accountability, transparency and responsibility, as elements of good governance are central in the Public Service. In ensuring that good governance is attained and the committee functions efficiently, the technical skills of both committee members and managers in the Public Service must be able to cope with the dynamics of the evolving public financial management as captured in the PFMA.

Scopa should ensure that it functions or acts accordingly in order to govern functions well so that public finances are managed properly and both the executing authorities and accounting officers are able to account for the use of public funds and resources. What is most important is for Scopa to assess if the value for money principle is applied in the Public Service and there is compliance with the PFMA.

To support governance, accountability in particular, the National Assembly must provide for a mechanism to maintain oversight over the Auditor-General in terms of section 55 (2) (b) (ii) of

the constitution (The Public Audit Act, 2004:25). It is on these grounds that the national Parliament has a responsibility to ensure governance elements, like accountability and responsibility, are supported in order to make sure that fiscal transparency and financial management are improved in the Public Service.

6.3.3 Auditor-General

In terms of section 188 of the Constitution, the Auditor-General must audit and report on the accounts, financial statements and financial management of:

- a) All national departments and provincial state departments and administrations, including all municipalities; and
- b) The Auditor-General may audit and report on the accounts, financial statements and financial management (The Constitution of the Republic of South Africa, 1996: 103).

Because auditing also takes place in the public sector and there are also public sector reforms that take place globally, the South African Public Service is no exception. Auditing has also taken a shift in terms of its application. Auditing as a profession has gradually moved from its traditional approach towards the 'new public management' approach. Perrin (2002:28) claims that in the past the role of auditors has been to attest to the integrity of the financial accounts and expenditure. The author further explains that here has been a gradual shift towards performance auditing or Value for Money audits. This form of auditing goes beyond the examination of financial data (Perrin, 2002:28). This shift is crucial because it indicates that auditing shifts gradually from an input-focused approach towards an outcome or results approach.

It should be noted that auditing in the public sector is guided by the current budgeting system in a country. For example, research shows that most of the OECD countries have moved from traditional budgeting towards a performance budgeting system, including South Africa. Therefore, Perrin's argument on the paradigm shift in auditing is of significance, especially in public sector reforms. Once more, all these technical changes or developments in the public sector in general have to be understood by both the public servants in general, especially managerial leadership. Failure to understand these technical changes limits the chances to implement the PFMA as a guiding policy document for good governance in the Public Service. To support accountability and responsibility, the Auditor-General must submit the annual

report, financial statements and the audit report of financial statements within six months after the financial year to which they relate to oversight mechanism and to the National Assembly (The Public Audit Act, 2004:67). Organs of state are therefore accountable to Parliament for their activities so that public scrutiny can be instituted and by doing so good governance is promoted.

6.3.4 Public Service Commission

The Public Service Commission (PSC) is also a significant structure in supporting governance in the Public Service. With regard to section 195 of the Constitution, among others, the PSC has to promote ethics, ensure that resources are used efficiently, effectively and economically and promote transparency and accountability in the Public Service (The Constitution of the Republic of South Africa, 1996:107). On the basis of the constitutional mandate, the PSC is also charged with the responsibility to put into place systems to support its mandate. In fact the constitutional principles and values entrenched in the Constitution or in section 195 are in line with institutional or corporate governance.

In terms of section 196, among others, the commission is expected:

- a) to promote the values and principles set out in section 195, throughout the Public Service;
- b) to investigate, monitor and evaluate the organisation and administration, and the personnel practices of the Public Service; and
- c) to propose measures to ensure effective and efficient performance within the Public Service (The Constitution of the Republic of South Africa, 1999:108).

Therefore, the PSC and its legal mandate purport that governance in the Public Service could be improved through the promotion of ethics, monitoring and evaluation (M&E), management and measurement of performance in the Public Service. Additionally, regarding performance measurement, the PSC can forge links with the Auditor-General in order to assess if value for money is not undermined in the Public Service.

6.3.5 National Treasury

As a fiscal policy-formulating department, it is charged with the responsibility to formulate the PFMA so that good governance and financial management are improved in the Public Service. On these grounds, National Treasury as a department or an institution seeks to ensure that governance is at the heart of the Public Service.

To support its mandate, National Treasury is responsible for the promotion and enforcement of transparency and effective management in respect of revenue, expenditure, assets and liabilities of departments, public entities and constitutional institutions. Most importantly, National Treasury is expected to monitor and assess the implementation of the Public Finance Management Act (1999), including norms and standards and Treasury regulations so that financial management in the Public Service is at the optimal level (Public Finance Management Act, 1999:16).

Strategically, National Treasury has to among others, encourage accountability, transparency, and expenditure management, improve accounting standards and incorporate a culture of ethics and risk management in the public sector. Most importantly, National treasury's role is paramount in making sure that governance is implemented by both departments and officials themselves through drafting risk and fraud plans for departments. This department also has to monitor that budgeting and accounting systems are well structured so that assets and debts are managed properly, and expenditure is managed so that services for people are delivered qualitatively.

6.3.6 Public Protector

The Public Protector is both instrumental in supporting democracy in South Africa and governance on the other hand. The Public Protector is charged with the responsibility to investigate public complaints on irregularities about the improper functioning or dysfunctionality of the public sector, particularly on service delivery matters and prejudice.

Based on the above assertion, the Public Protector has specific functions to perform in terms of the Constitution. Among others, section 182 (1) of the Constitution states that the Public Protector has the power to investigate any conduct in state of affairs, or in the public

administration in any sphere of government, that is alleged or suspected of improper action or to result in any impropriety or prejudice (The Constitution of the Republic of South Africa, 1996:100). Regarding the above constitutional mandate of the Public Protector, it implies that government departments are under scrutiny and observance by the public in support of good governance so that the rights of the public are not undermined. It is in this context that the population is able to request an investigation if public monies are not used properly or accordingly by spending departments. It is therefore important to ensure that governance is intact. Institutions of governance should work as unison or complement each other rather than working in silos. In this particular instance, the Auditor-General and the Public Protector can identify areas of common interest or share relevant information in cases of missing information on specific projects.

For example, a special report with findings submitted to Parliament, the Public Protector (2002:7) noted, among others, that:

- a) the service delivery in public administration is not at an acceptable level;
- b) service delivery principles are not applied properly;
- c) the lack of skills and appropriate experience of many employees of the public administration are impediments to service delivery;
- d) portfolio committees of the National Assembly and the respective provincial legislatures have a constitutional obligation and the authority and mechanisms to ensure that political and administrative heads are called to account when and where a failure to provide public services in accordance with legislation and government policies occurs; and
- e) ultimate responsibility for effective and efficient service delivery in public administration is that of Parliament and the provincial legislatures.

Regarding the above state of affairs, the Public Protector is charged with the responsibility to support and improve governance in the Public Service.

The above-mentioned issues by the Public Protector are fundamental as they can pose threats or risks to the public and the state itself if not attended to. Therefore, it is important that institutions of governance like the Public Protector become active participants in making sure

their legal mandate is exercised vigorously so that other institutions like Parliament operate efficiently and effectively to support accountability.

6.3.7 Audit committee

On the basis of the PFMA, the audit committees' systems on governance should operate efficiently and effectively in order to make sure that internal auditing functions effectively and efficiently as well. Once internal audits are evaluated properly, financial management could be improved because internal auditing assesses the fiscal transfers from one department to another with the context the Division of Revenue Act.

Audit committees, among others, are responsible for the following:

- a) the effectiveness of the internal control systems;
- b) the effectiveness of the internal audit function;
- c) the adequacy, reliability and accuracy of the financial information provided to management and other users of such information;
- d) any accounting and auditing concerns identified as a result of internal and external audits;
- e) the institution's compliance with legal and regulatory provisions; and
- f) the activities of the internal audit function (Treasury Regulations: 2005:8)

To improve governance, systems must be developed so that fraud, corruption and non-compliance are minimised and a culture of risk management is improved in the Public Service.

6.3.8 Internal Audit Unit

As with the audit committee, the internal audit as a governance structure, assists in scrutinising and assessing the effectiveness of organisational internal controls. However, the most important part is the assessment of risk management within an organisation, especially the preparation and assessment of risks based on a three-year strategic internal audit plan, as stipulated by the PFMA. However, the assessment of institutional risks is one thing and treating of such risks is another. Therefore, the institution should develop a risk appetite so that what has been identified as risky must be attended to because risky areas affect an institution's vision and mission.

In terms of section 38 (ii) of the PFMA accounting officers have to make sure that there is a system of internal audit under the control and direction of an audit committee (Public Finance Management, 1999:45). This provision clears accountability levels between an internal auditing and audit committees so that an accounting officer knows exactly what the lines of his or her responsibilities are. Audit committees also ensure that fiscal transfers are done properly or within legislative framework. What is most important is the fact that audit committees should be directly accountable to an accounting officer to guarantee independence of their work. To fulfil its mandate, an internal audit has to perform certain functions that relate to risk management and effective internal controls.

An internal audit, in consultation with and by approval of the audit committee, should:

- a) prepare a rolling three-year strategic internal audit plan based on its assessment of key areas of risks for the institution;
- b) assess the operational procedure and monitoring mechanisms over all transfers made and received, including transfers in terms of the Division of Revenue Act;
- c) report directly to the accounting officer and on all audit committee meetings; and
- d) assist the accounting officer in maintaining efficient and effective controls by evaluating those controls to determine their effectiveness and efficiency (Treasury Regulations, 2005:10).

Additionally, internal controls should encompass the information systems environment, safeguarding of assets, reliability and integrity of financial and operational information and compliance with laws, regulations and controls (Treasury Regulations, 2005:10). It is in this context that the internal controls become important in managing government departments effectively; however, the human element should not be taken for granted in weakening controls or systems.

During the research, it has been noticed that there are alarming discrepancies, at provincial sphere, on internal audit units. Sometimes, internal audit units are not functional either for a year or part of the year and audit committee is not appointed. These discrepancies impact negatively on internal controls. The Auditor-General identified and reported such matters as 'emphasis of matter'. 'Emphasis of matter' means that the Auditor-General is of the opinion that the findings regarding internal audit in this instance are of public interest and could lead to

adverse effects like corruption or fraud if not reported. They are reported as ‘emphasis of matter’ even if a department has reported about them in its annual report because the matters are of public interest. Table 6:1 below provides such discrepancies on internal audit units. This suggests structures that support governance do not function automatically, they need to be supported by effective managerial leaders.

Table 6.1: Audit Findings on Internal Audit

Reported Matters	Emphasis of matter
Internal audit not functional for the year/part of the year	7
An effective and efficient internal audit function ensured	17
No internal audit performed	18
Audit reports not submitted to the audit committee	7
No reliance could be placed on internal audit	13
No audit committee appointed	5
Work not performed according to annual internal audit work plan	14
TOTAL	71

Source: Auditor-General: Provincial audit outcomes (2004)

Besides the institutions of governance highlighted above, the Act is also supported by some fundamental elements that are critical in ensuring that there is governance in the Public Service, in terms of the PFMA. With regard to the Act, such fundamental elements are supportive of governance in ensuring that performance is achieved and accountability and responsibility, including financial management become central in the Public Service.

However, performance in the public sector becomes critical especially if understood and applied within the context of the new managerial approach. For example, focusing on performance and accountability within the context of the new managerial approach has led to some positive results in the Public Service. However, this also carries some challenges that might have been created by the subsequent shift from traditional public administration to the

'new public management'. Therefore, the development of a performance culture transforms the traditional control culture rooted in the process of control into one that focuses on conservation and the utilisation of resources. The latter focuses on economy, efficiency and effectiveness in the delivery of services to the public.

6.4 ELEMENTS OF GOVERNANCE: PUBLIC FINANCE PERSPECTIVE

6.4.1 Strategic planning and budgeting

It is also important to note that an understanding of the term *strategy* and its origin could assist government officials to honour its significance and its application in the Public Service.

The term strategy originates from the Greek word *strategos*, meaning a 'general'. In a military sense *strategy* involves the planning and directing of battles or campaigns on a broader scale, that is the responsibility of generals. In an organisational perspective, it means a course of action pursued to achieve major goals and objectives (Steiss, 1998:225).

To put it into perspective, Osborne and Gaebler (in Hughes, 2003: 138) note that a strategic plan, *inter alia*, has the following basic components:

- a) The development of the overall mission and goal statements, which are formulated by an organisation's executive management and provide the framework with strategy.
- b) The environmental scan or analysis, consisting of the identification and assessment of current and anticipated external factors and conditions that must be taken into account when formulating the organisation's strategies.
- c) The internal profile and resource audit, which catalogues and evaluates the strengths and weaknesses of the organisation in terms of a variety of factors that must be taken into consideration in strategic planning.

It is therefore important that strategic planning within a department take into account the above issues, particularly the scanning of an environment because it assists in understanding other factors both internal and external that might affect the mission and vision of an organisation. In implementing a strategic plan, funds allocated to a department should be analysed and linked according to departmental activities.

For example, treasury regulation 5.1.1 states that the accounting officer of an institution must prepare a strategic plan for the forthcoming MTEF period for approval by the relevant executive authority. A strategic plan must include the measurable objectives, expected outcomes, programme outputs, indicators (measures) and targets of the institution's programmes (National Treasury, 2005:15). The linkage between the strategic plan and budgeting should be within MTEF and must have targets and indicators so that accountability and performance measurement are maintained.

Goodstein, Nolan and Pfeiffer (in Smith, 1994:20) define *strategic planning* as much more than an envisioning process. To them, it requires setting clear goals and objectives during specified periods in order to reach the planned future activities. Good, Nolan and Pfeiffer (in Smith, 1994:21) also argue that strategic planning concentrates on long-term purpose and direction on the key issues which face the organisation in the longer term.

What Goodstein, Nolan, Pfeiffer (in Smith, 1994) refer to is that strategic planning should entail an organisational vision and mission with precise goals and objectives for future planning. In the process of strategic planning, departments formulate strategic plans that are linked to a departmental budget; the linkage should be within a multi-year budget system, MTEF. It has been observed that some departments struggle to link strategic planning and budgeting. Such a problem regarding the linkage adversely affects service delivery and sometime result to underspending, overexpenditure and unauthorised expenditure. Regulation 5.1 of treasury regulations states that each year, the accounting officer of an institution must prepare a strategic plan for the forthcoming MTEF period for approval by the relevant executive authority (National Treasury, 2005:15). What is also important is that a strategic plan must include the *measurable objectives*, expected outcomes, programmes outputs, indicators (measures) and targets of the institution's programmes (National Treasury, 2005:15).

A strategic plan is a long-term strategic visionary plan that should contain measurable objectives with an indication of outputs-outcome, indicators and targets. Research confirms that the good or bad budget is determined by its objectives. This means that objectives of a budget must be clear. Within the context of strategic planning, the departments within the Public Service should have measurable objectives and a balance between organisational priorities and resources is maintained. Therefore measurable objectives must be *specific*,

measurable, appropriate, realistic and time-bound (SMART). This is commonly known as SMART principle. Therefore, measurable objectives must be SMART. In its state of the Public Service Report (SOPSR), the Public Service Commission (2002:10) reports that while the Public Service focuses on defining their outputs and report against them, comparisons with plans are not always made. The SOPSR also states that budgets need to be shaped by and linked to plans of the state organ concerned (Public Service Commission, 2002:11). The PSC's concern regarding planning in terms of outputs and reporting against them signals poor alignment between planning and budgeting, including reporting. In terms of reporting, the strategic plan must form the basis for the annual reports of accounting officers (National Treasury, 2005:15). Hence, it is important that an accounting officer must be accountable for outputs outlined in the strategic plan.

To ensure that governance is systematically supported, government performance is expected to be managed properly. There should be a link between strategic planning and budgeting so that services are delivered efficiently and effectively. Strategic planning and budgeting should involve a clear costing of government or departmental activities and policies. In its state of the Public Service Report, the PSC (2005:20) notes that sound strategic planning, budgeting, implementation, embedded performance monitoring and evaluation are critical. It is in this context that strategic planning and budgeting need to be understood and implemented properly in order to ensure that governance in the Public Service is entrenched.

6.4.2 Public expenditure management

6.4.2.1 Public expenditure management defined

Public expenditure management includes all the components of a country's budget both at preparation and programming, sometimes called the 'upstream' and it includes 'downstream' elements such as execution; accounting, control, reporting, monitoring and evaluation. It also includes the legal and organisational framework for, among others, forecasting revenues and budget, formulating medium-term expenditure frameworks, linking budget and policy-making, budget preparation, internal controls and audits, accounting and reporting, procurement and asset management, performance assessment, external auditing and ensuring oversight by legislatures and other bodies (Allen, Schiavo-Camp & Garrity, 2004:2).

6.4.2.2 *Expenditure management principles*

With regard to Public Expenditure Management (PEM), Schick (1998:2) further explains the above PEM principles regarding aggregate fiscal discipline, namely that budget totals should be the result of explicit, enforced decisions and accommodate spending demands and these totals should be sustainable over the MTEF.

With regard to allocative efficiency, expenditures should be based on the government priorities and on the effectiveness of public programmes. The Presidential Review Commission (PRC) (1998:155) explains that allocative efficiency aims to achieve the possible level of social welfare, given the needs and demands of the population, and government's political priorities.

Finally, regarding technical efficiency or operational efficiency, agencies should produce goods and services at cost that achieve ongoing efficiency gains and is competitive with market prices. Every public expenditure management system has three desired outcomes, namely *aggregate fiscal discipline, allocative efficiency and technical efficiency*:

- a) *Aggregate fiscal discipline* seeks to ensure that budgets are sustainable over the medium term and fiscal deficits are within aggregate level. This can be done by introducing a medium-term macroeconomic framework into the budget discussions, granting central ministries dominant spending and establishing formal constraints on spending and borrowing.
- b) With regard to *allocative efficiency*, under limited resources, decisions on budget allocation must be consistent with strategic outcomes desired in the medium-term plan. This involves a process that seeks consensus among competing claimants through a set of rules or criteria that acknowledges the need for 'shared sacrifice' to promote the goal. It also involves mechanisms that institute reconciliation of targets and outputs and promote transparency and periodic reporting of outputs and outcomes.
- c) *Technical efficiency*, deals with ensuring that government services are delivered efficiently and in a timely manner. This involves the grant of managerial autonomy to agencies executing certain operational decisions, the predictability of resource flows, and the competence of institutions to carry out programmes and projects, and most importantly, accountability for agency transactions (Boncodin, s.a.)

On the basis of the above expenditure management system, the South African Public Service is faced with the problem of fiscal discipline in the implementing the MTEF. Departments seem to divert from original plans because at the end of each financial year, there are departments who are faced with major unauthorised expenditure, irregular transfers from a department to an entity, and wasteful expenditure. This could suggest that some departments do not have early-warnings systems, systems to monitor expenditure patterns and lack of expenditure management skills.

It is also observed that technical efficiency is a problem in dealing with public finances, especially with regard to fiscal accountability. In some situations there are public monies that are not accounted for at the end of the financial year and the Auditor-General issues a disclaimer and grossly irregular transfers are also prominent.

PEM in the Public Service has not been up to an acceptable standard. Very poor financial systems, poor monitoring and evaluation of expenditure and revenue, poor management of asset management and poor oversight by the legislature could have caused this. The above issues regarding expenditure management pose or expose the public to economic risks and also expose the Public Service to financial risks. With regard to economic risks, development or service delivery could be severely affected. With regard to expenditure management in terms of financial risk, it is observed that organisations experience severe underspending and overspending, and irregular transfers due to non-compliance with financial regulations and legislative frameworks, namely the PFMA and its regulation in most instances.

Regarding the preceding the paragraph, Allen, et al., (2004:2), explain that expenditure management includes budget execution, accounting, control, reporting, monitoring and evaluation including the legal and organisational framework and arrangements for forecasting revenues expenditures, linking budget to policy, management of assets, managing cash and monitoring expenditure, assessing performance, conducting external audits and ensuring oversight by the legislature. It is noticeable that expenditure management is multidimensional as is composed of other financial components or systems such as budgeting, asset management, cash management, auditing and financial oversight and accountability, resulting in the demand for a holistic approach to managing expenditure in the Public Service. To improve public expenditure management in the Public Service, Smith (2003) made the following assertions regarding overspending and poor planning:

- a) Firstly, it is important to take into account of 'unforeseen expenditure' so that an adjustment is made to deal with the unforeseen expenditure;
- b) Secondly, departments should avoid unplanned spending towards the end of the financial year and that is tantamount to *'fiscal dumping'*; and
- c) Thirdly, Departments should be engaged in performance auditing in order to check what the department has been doing within the financial year and how the department has used finances or whether finances have been spent wisely.

Smith's assertions suggest that financial planning is crucial in ensuring that 'unforeseen' expenditure is detected and catered for during the financial year, fiscal dumping is avoided and efficiency, economy and effectiveness become central in ensuring performance and governance in the Public Service.

6.4.3 Fiscal transfer and accountability

In improving service delivery, some departments within the Public Service have their own public entities (agencies) that facilitate service delivery to the public and are directly linked to the population. For these agencies or public entities to deliver according to their mandate, a department in charge is expected to transfer fiscus to them. In ensuring fiscal accountability, a transferring department is expected to develop internal controls or systems and reporting procedures to ensure accountability and transparency. However, in some instances fiscal accountability becomes questionable or a far-fetched expectation from some public entities and in the process, fiscal accountability is undermined. Treasury regulations set a financial accountability framework regarding these fiscal transfers.

For example, in terms of Treasury Regulation 8.4.1, the accounting officer of an institution must maintain appropriate measures to ensure that transfers and subsidies to entities are applied for their intended purposes. Such measures, among others, include regular reporting, internal and external audit requirements, and submission of audited statements, regular reporting measures and monitoring procedures (Treasury Regulations, 2005:23).

In relation to the above regulation, it is evident that internal control and systems are paramount when public money is to be spent. It is because without internal control the accounting system would not function properly (KNC and Associates, 2001:6).

To implement assertions by KNC and Associates, a mandate is given to an accounting officer to develop internal controls so that fiscal transfers are regulated. It is therefore paramount for an accounting officer to make certain such internal controls are adhered to and function reasonably well in an organisation. For example, Treasury regulation 8.4.2 (d) of the Treasury regulations states that an accounting officer may withhold the transfer and subsidies to an entity if he or she is satisfied that:

- a) the transfer and subsidy does not provide value for money in relation to its purpose or objectives; and
- b) the agreed objectives have not been attained (National Treasury, 2005:23).

Fiscal transfer has to be managed within the context of expenditure management. It is therefore important that the fiscus is managed properly and departments have to adhere to public financial prescripts. Examining the above Treasury regulations, it suggests that fiscal transfers must be assessed and audited both internally and externally to ensure compliance with relevant pieces of legislation. A monitoring and evaluation system should be established so that funds are used for an intended purpose and also to encourage financial accountability. Research shows that with regard to fiscal transfers, accountability and transparency become problematic due to the unavailability of supporting documentation, poor monitoring and evaluation controls and poor reporting of the fiscus used. The above problem becomes a threat to government as it undermines elements of good governance and service delivery in general.

Table 6.2 shows a provincial perspective on discrepancies regarding fiscal transfers. At a provincial sphere of government, the Table reflects that there are instances where transfer payments are made without any supporting documentation. Absence of documentation could also be detrimental regarding fiscal accountability and performance information in general. In some situations a transfer was not approved, in this particular situation it could lead to corruption because the transferred amount could be used for other activities, not for the original intended purpose and the level of non-accountability could be high.

Table 6.2: Audit findings on transfer payments

Reported matters	Qualified	Emphasis on the matter
No supporting documentation	-	5
Transfer was not approved	-	2
Payments calculated on outdated information - incorrect payment	-	5
Monitoring and controls were ineffective	-	3
Money spent in excess of agreed funding	-	1
No proof of how money was utilised	-	7
Investment not disclosed in financial statements of controlled entity	1	-
Total	1	23

Source: Auditor-General: Provincial audit outcomes for the financial year ended 31 March 2004

Table 6.2 also shows that controls are not effective in some departments. As a result, monies transferred to public entities by some respective departments are hardly accounted for because systems and internal controls are either weak or do not function at all, yet the accounting officer of a transferring department is legally mandated to ensure that such controls or systems exist.

On the other hand, public monies are allocated to provinces and municipalities thereof. At the same time, departments allocate funds to non-governmental organisations for them to intensify service delivery at local level or some community based organisations. To this effect, it has been continuously reported that systems and controls are weak in ensuring fiscal accountability. In some instances, it is reported that unauthorised and irregular expenditure have occurred. These financial discrepancies are indeed in contravention of the PFMA.

With reference to unauthorized and irregular expenditure, section 38 (2) of the Division of Revenue Act, no.1 of 2005, DoRA states that any transfer made or spending of an allocation in contravention of this act constitutes irregular expenditure in terms of the Public Finance

Management Act, 1999 and the Municipal Finance Management Act (MFMA), 2003 (Division of Revenue Act, 2005: 21). Matters relate to irregular expenditure and authorized expenditure and are also reported as matters of concern in the Public Service and constitute financial misconduct.

In support of the above argument, 39 (1) states that any serious or persistent non-compliance with a provision of the DoRA or a framework constitutes financial misconduct and section 84 of the PFMA and section 171 of the MFMA apply in respect of financial misconduct (Division of Revenue Act, 2005:21). As indicated earlier, some departmental monies are allocated to non- governmental organisations that are mandated by government to provide services to people and have requested government financial assistance. However, the same organisations have to comply with a legislative framework, either the DoRA or the PFMA. What is also important is fiscal accountability. To ensure fiscal accountability, these organisations must comply with all applicable laws and ethical standards like conflict of interest, as well as accounting policies, prepare an annual financial report and ensure that internal controls are in existence (Spitzer, 2005:2). Spitzer's analogy introduces firm and fundamental public financial basic procedures that are supposed to guide these non-profit organisations that are receiving public monies from government in order to promote financial accountability, transparency, improve governance and manage possible risks that may prevail. However, transferring departments should play a leading role in guiding them and ensuring compliance with relevant legislative frameworks because at the end of the financial year a department has to be accountable for its annual budget.

6.4.4 Debt management

To improve financial management in the Public Service, debt should be efficiently managed. Therefore public servants should acquire technical skills on planning, budgeting, financial management, economic analysis and departmental stakeholders should be examined and understood. Lack of skills could have a negative effect on financial management in general. Poor debt management can pose economic risks to the country and also social risks to the public.

To put the issue into context, *debt management* is defined as the process of establishing and implementing a strategy for prudently managing the government's debt in order to meet the government's financing needs, its costs and risk objectives, and any other debt management

goals the government may have set, such as developing and maintaining an efficient market for government securities (Wheeler, 2004:4). With reference to the above definition of debt, it is obvious that debt management is indeed a process that needs a framework or a policy in order to manage debt effectively and efficiently, to manage financial risks properly and to reach government goals as planned. The process of debt management should entail and be supported by the following:

- a) Debt management should be supported by sound governance framework, prudent cost and risk management strategy, an efficient organisational structure, an appropriate management information system and strong risk management culture;
- b) It is also important that all portfolio-related transactions are consistent with the government's debt management strategy and are executed as efficiently as possible; and
- c) It is important to establish reporting procedures to ensure that the government's debt managers are accountable for implementing the debt management responsibilities delegated to them (Wheeler, 2004:4).

In response to the above strategic issues, debt management in some departments becomes difficult if a departmental governance framework is not in place. For example, it becomes extremely difficult to manage debt effectively if there is no procurement policy, asset management policy, cash management policy or write-off policy, poor planning and strategic management, poor accounting and auditing standards, poor reporting lines of accountability and responsibility. These governance elements set the tone for debt management within a department.

Therefore, it is important for an accounting officer to create an environment of debt management through understanding the organisational mandate and its environment. As indicated by Treasury Regulation 11.2.1, the accounting officer of an institution must take effective and appropriate steps to timeously collect all money due to the institution. An accounting officer is also responsible for maintenance of proper accounts and records of all debts, including amounts received in part payment (National Treasury, 2005:30). It is against this background that an accounting officer has to create an environment or systems for fiscal collection due to an institution, and a good recording system that will enable an institution to effectively monitor payment or non-payment of credits. Without an effective management information system, debt management becomes extremely impossible.

6.4.5 Fiscal accountability

To improve good governance, financial accountability is crucial because taxpayers or the public could be eager to know the amount spent from the public purse. In most cases, the information about the latter is revealed through departmental annual reports or formal briefing to a relevant portfolio committee in Parliament or legislature. In this context expenditure trends within a department are explicitly explained, and financial reporting and information are normally done and captured within a standard form of accounting. Hence, the submission of the financial statement is crucial because it contains valuable information about an institution, especially assets and liabilities and ensures that fiscal accountability is achieved.

6.4.5.1 Financial statements and fiscal accountability

Under Generally Recognised Accounting Practice (GRAP), financial reporting should assist the government to be publicly accountable and assist users (Parliament and the public in general) of such information. The information has to be accessible in order to reflect the government's commitment to accountability as one of the elements of good governance. Financial statements should also be submitted to the Auditor-General by the departments or entities (Auditees) to ensure accountability. Section 14 (1) of the Public Audit Act (PAA) states that financial statements submitted to the Auditor-General for auditing by an auditee which is subject to the Public Finance Management Act, 1999 or the Municipal Finance Management Act (2003), must be submitted within the period, be in a format, contain the information and otherwise comply with the requirements determined by those acts (Public Audit Act, 2004).

6.4.5.1 Objectives of financial statements

- a) Financial reporting provides information to determine whether current year revenues were sufficient to meet the cost of providing current year services rendered;
- b) Financial reporting also demonstrates whether resources were obtained and used in accordance with the entity's legally adopted budget and demonstrates compliance with other finance-related legal or contractual requirements; and
- c) It also provides information to assist users in assessing the service efforts, cost, and accomplishments of the entity (Accounting Standards Board, 2005:10).

On the basis of the above, financial statements assist Parliament, and the public in general to ensure that government is able to account for the budget votes approved by Parliament. In this context, government departments must be accountable for funds used in delivering their outputs. It is also in this context where compliance in relation to accounting systems and other legislative frameworks is checked. For example, compliance with the PFMA is crucial and elements of non-compliance with the Act could undermine departmental objectives and mission. What is also critical is the costing of projects or deliverables within a department as poor costing affects the financial record of a department.

6.4.6 Asset management

Likewise, asset management is the core of financial management. To manage assets efficiently, internal controls, asset register must be updated, asset management policy and strategy must be in place.

Asset management is defined as the management of state assets, related to replacement cost, internal control measures, optimal asset utilisation and preventative maintenance programmes (Visser & Erasmus, 2002:365). Examining the above definition, it is clear that it is indeed a comprehensive process that does not only concentrate on financial matters but internal controls and proper management and utilisation of assets as well. Managing an asset within a department should be done within a policy or legal framework for accountability and responsibility purposes. For example, section 38 (1) (d) of the Public Finance Management Act states that the accounting officer of a department, trading entity or constitutional institution is responsible for the management, including the safeguarding and the maintenance of the assets, and the management of the liabilities of the department, trading entity or constitutional institution (Public Finance Management Act, 1999:45). In this circumstance the PFMA serves as a guideline or policy framework for the management of government assets in the South African public sector. Some aspects regarding poor asset management are reflected on tables 6.3 (provincial perspective) and 6.4 (national perspective) below. On the basis of these tables below, asset management is generally poor in the Public Service. There are either no mechanisms for managing these assets or the asset register is not updated as a result of a lack of systems. Asset management has an impact on financial management. Therefore, if assets are poorly managed, financial systems are also affected because asset management is part of financial management and has an effect on expenditure management. The above comments are reflected on Tables 6.3 and 6.4 below.

For example Table 6.4 reports matters ranging from inadequacy on asset registers, financial systems not complementing each other and inadequate information on assets. It is also clear that matters raised by the AG in 2001-2002 were again raised by the AG in the 2002-2003 financial years. That could also be attributed to a lack of capacity on financial matters, and conceptual and technical skills at managerial level. Additionally, in response to the above situation it could be attributed to poor decision-making on financial matters, especially when raised for the second time by the Auditor-General concerning a department.

Table 6.3: Asset management: A review of systems and internal controls

Reported matters			
	Qualified	Emphasis of matter	Total
Asset register not updated	5	34	39
Lack of policy framework	1	9	10
Asset register does not reconcile with annual financial statements	2	4	6
Assets could not be physically verified	-	12	12
No asset register	1	15	16
No asset count performed	1	9	10
No adequate control over assets (safeguarding and maintenance)	-	3	3
Old and obsolete assets not disposed of timeously	-	3	3
Assets not marked with unique numbers	-	14	14
Total	10	103	113

Source: Auditor-General: Provincial Audit outcomes for the financial year ended 31 March 2004

Table 6.4: Asset management: emphasis of matter

DEPARTMENT	AUDIT REPORT
Water Affairs and Forestry	Incomplete asset registers.
Agriculture *	A proper system of internal controls over furniture and equipment had not been fully implemented.
Arts, culture, science and technology	Due to separation of the former Department of Arts, Culture, Science and Technology, the department was required to prepare an inventory of assets and liabilities, which should have been transferred to the newly created department. Subsection 42 (2) of the PFMA refers. Inventory list could not be submitted for audit purposes, which resulted in an inability to confirm the transferred assets.
Correctional services*	Inventories and physical assets counts differed from actual records or were not updated in various instances. There was insufficient control over the access to computer equipment and data backups. Assets could not be identified via a numbering system. Serious deficiencies were revealed regarding the records and general administration of prison pharmacies.
Defence *	The information in the Department of Defence records did not correlate with the information received from the Department of Public Works.
Government Communication and Information System*	Asset registers were not complete. Reconciliation between logical information system (LOGIS) and basic accounting system (BAS) was not done.
Health	The asset register maintained on the LOGIS system was not integrated with the financial management systems (FMS). Internal controls in place were inadequate as assets did not have asset numbers and the system to control the movement of assets was not effective.
Home Affairs	Inadequate monitoring controls regarding capital works projects were evidenced by the difference between actual expenditure of

DEPARTMENT	AUDIT REPORT
	16, 8 million and projected of R50, 5 million.
Justice and Constitutional Development*	Poor management of assets had the result that assets and inventory registers were not updated to reflect disposals, transfers, purchases, damaged assets and obsolete inventory items. Assets were not uniquely marked, resulting in difficulty to identify specific assets recorded on LOGIS.
Land Affairs	Proper control over assets was not exercised regarding the maintenance of a fixed asset register and marking of assets for identification purposes.
Minerals and Energy	Fixed asset registers maintained by the department were not sufficiently accurate or complete to enable effective management and safeguarding of assets.
Communications	The existence of equipment could not be verified as the asset register had not been properly maintained.
Presidency *	Accuracy and completeness of asset registers could not be confirmed due to a lack of reconciliation between the data in BAS and LOGIS.
Provincial and local government	No approved asset policy. No unique identification number was allocated to control assets and their physical locations.
Public Works	Reconciliation differences still existed between the finance system and the property management information system. Inadequate and incomplete asset registers with regard to movable assets.
Safety and Security *	The national housing register of the department was incomplete. The national housing register of the South African Police Service (SAPS) did not reconcile with the housing register supplied by the Department of Public Works. Vehicle management: registration and licensing of vehicles were inadequate. The following <i>were raised for the first time by the AG in the year ended 31 March 2003</i> <i>Shortcomings with regard provincial commissioners, area commissioners, police stations and other units:</i> “Stores for safekeeping of confiscated items were not always effectively

DEPARTMENT	AUDIT REPORT
	<p>controlled.</p> <p>Asset register for government property was not always updated.</p> <p>The weapons register was not completed on a regular basis for the issue and return of weapons”.</p>
Science and Technology	Inventory was not forwarded to this office within 14 days as required by section 42(3) of the PFMA.
Statistics South Africa	Asset register was not complete.
Trade and Industry	With regard to fixed assets the asset register was not complete.
Transport *	<p>No proper fixed asset register was in place at the department to ensure adequate control over the safeguarding of assets.</p> <p>The internal controls surrounding inventories were insufficient due to the inadequate inventory register and lack of access control.</p>

*** Reported by the AG in 2001-2002 financial year**

Source: Auditor-General’s general report (audit outcomes), year ended 31 March 2003

Additionally, Treasury Regulation 10.11 states that the accounting officer of an institution must take full responsibility and ensure that proper control systems exist for assets. Preventative mechanisms are in place to eliminate theft, losses, wastage and misuse. Finally, stock levels are at an optimum and economical level (National Treasury, 2005:29). The regulation supports the fact that control systems or mechanisms have to eliminate theft and damage of assets and exposure to other risks like financial risks. Table 6.3 also reveals that provinces have (39) cases of no updated asset register, (10) cases of a lack of policy framework, six cases of not reconciling the asset register with financial statements, (16) cases of non-existence of asset register, (3) cases where there is no adequate control over assets, like safeguarding and maintenance, were reported (Auditor-General, 2004:10). The above situation indicates that if there are no internal controls such as policy framework and asset register could impact negatively on asset management in the Public Service.

At year-end, 31 March 2003, the Auditor-General (AG) audit outcomes reported that twenty-one (21) departments had audit queries and these twenty-one (21) departments represent 64% of all national departments. (Auditor-General, 2003:18). It is within this framework that financial management becomes severely affected if 64% or twenty-one (21) departments nationally have audit queries on assets. This suggests that financial management in the Public Service is severely affected due to poor management of assets.

Through the inability to manage assets effectively, efficiently and economically, some departments are exposed to various forms of risks like financial risks. Additionally, Treasury Regulation 10.1.2 states that the accounting officer must ensure that processes (manual or electronic) and procedures are in place for effective, efficient, economical and transparent use of the institution's assets (National Treasury, 2005:29). Hence, the accounting officer is responsible for efficient, effective and economic use of resources. Through observation, it is noticed that although the National Treasury proposes systems, departments are unable to implement such systems, asset management procedures in this case. This could be due to lack of skills.

6.4.7 Ethics in the Public Service

It is important that to deal with issues of ethics and conduct, fundamental principles must be clear and precise. These fundamental principles set an ethical tone throughout the Public Service in general and a specific department in particular. To put more relevance to the study, this section will focus only on ethics in relation to financial misconduct in terms of the PFMA and conflict of interest in terms of Public Service regulations. The focus is on Senior Management Service (SMS) and ethics in relation to auditing because unethical conduct in relation to auditing could affect good governance in the Public Service. The more unprofessional and unethical with regard to auditing, the less fiscal transparency, lack of accountability, lack of objectivity and credibility during and after the auditing process.

6.4.7.1 Ethics and conduct

Members of the SMS should apply the following principles, regarding ethics and conduct. They have to:

- a) Display the highest possible standards of ethical conduct;
- b) Set an example to their subordinates and maintain high levels of professionalism and integrity in their interaction with political office bearers and the public; and

- c) Ensure that they minimise conflict of interest and that they put the public interest first in the performance of their duty (Public Service Regulations, 2001:58).

On the basis of the above, the Public Service Commission (PSC) has a mandate from the Minister of Public Service and Administration to draft the financial disclosure framework for SMS members (Public Service Regulations, 2001:58). The PSC is managing the financial disclosure register regarding the SMS officials and is also responsible for updating the register.

The framework among others, states that the designated employees should disclose shares and value of any financial interests held in the provider or public company or any corporate entity. They are also expected to disclose directorship and partnerships in other businesses and they must state remuneration received for such directorship partnership. They should also disclose gifts and hospitality from a source other than a family member. These designated employees are also expected to disclose a description and value and source of a gift with a value in excess of R350 but should disclose gifts that cumulatively exceed the value of R350 in the relevant 12-month period (Financial Disclosure Framework, 2001:4).

With reference to the above, the framework aims to control the conflict of ethics by SMS members and ensures that ethics in the Public Service are upheld.

6.4.7.2 Conflict of interest: A definition

Conflict of interest involves a conflict between the public duty and private interests of a public official, in which the public official has private-capacity interests which could improperly influence the performance of his or her official duties and responsibilities (OECD, 2004:5).

The OECD (2004:5) also notes that with regard to conflict of interest, the matter of post-public office employment by a public official constitutes a special case. The negotiation of future employment by a public official prior to leaving public office is regarded as a conflict of interest.

6.4.7.3 Principles: Code of conduct

Matters relating to conflict of interest must be dealt with in terms of the code of conduct of the Public Service so that it becomes a 'rule book' of all public servants, including SMS members. When principles are drawn on the code of conduct, such principles become the guiding document in relation to an ethical conduct in the Public Service.

The International Federation of Accountants (2001:22) also believes that there must be guiding principles regarding the code of conduct. These principles are:

a) Probity and propriety

It is expected that employees handle themselves in accordance with high standards of behaviour and reflect their organisation's reputation. It is also expected from public servants to be trustworthy in handling public funds. Public servants should demonstrate probity in handling assets and resources entrusted to them. They also have to take care in safeguarding property, assets and confidential information to ensure the assets are not stolen, abused or damaged. With regard to accounting for finances, public servants should observe the organisation's rules and procedures. It is also expected from public servants not to use assets and resources for private use.

b) Objectively, integrity and honesty

In this particular instance, it is suggested that appropriate mechanisms must be established to ensure that public servants are not influenced by prejudice, bias or conflict of interest.

c) Relationships

Public servants should uphold the reputation of an entity by treating the public and people from other organisations in a timely, reliable manner where appropriate. The general public and other people from other organisations should be treated in an open, honest and efficient way. Public servants need to comply with the law, rules and procedures, for example procurement policies and legislation, tendering processes and purchasing procedures. Supplies should be paid within an agreed time frame.

With reference to the above principles, it is important that any public servant should be guided by a code of conduct so that a control environment is established and issues such as conflict of interests are minimised and fraudulent or corrupt activities are curbed.

Additionally, the National Anti-Corruption Forum (NACF), which has membership with the government, civil society, business and non-governmental organisations, has recently noted conflict of interest as a problem in the public sector. As a result, their conference held in 2005 resolved that to combat corruption, there should be a regulation of post-public sector employment to ensure a 'cooling off' period to avoid conflict of interest (National Anti-Corruption Forum, 2005:2). This is an indication and commitment from both government and civil society to combat corruption that could originate from a conflict of interest.

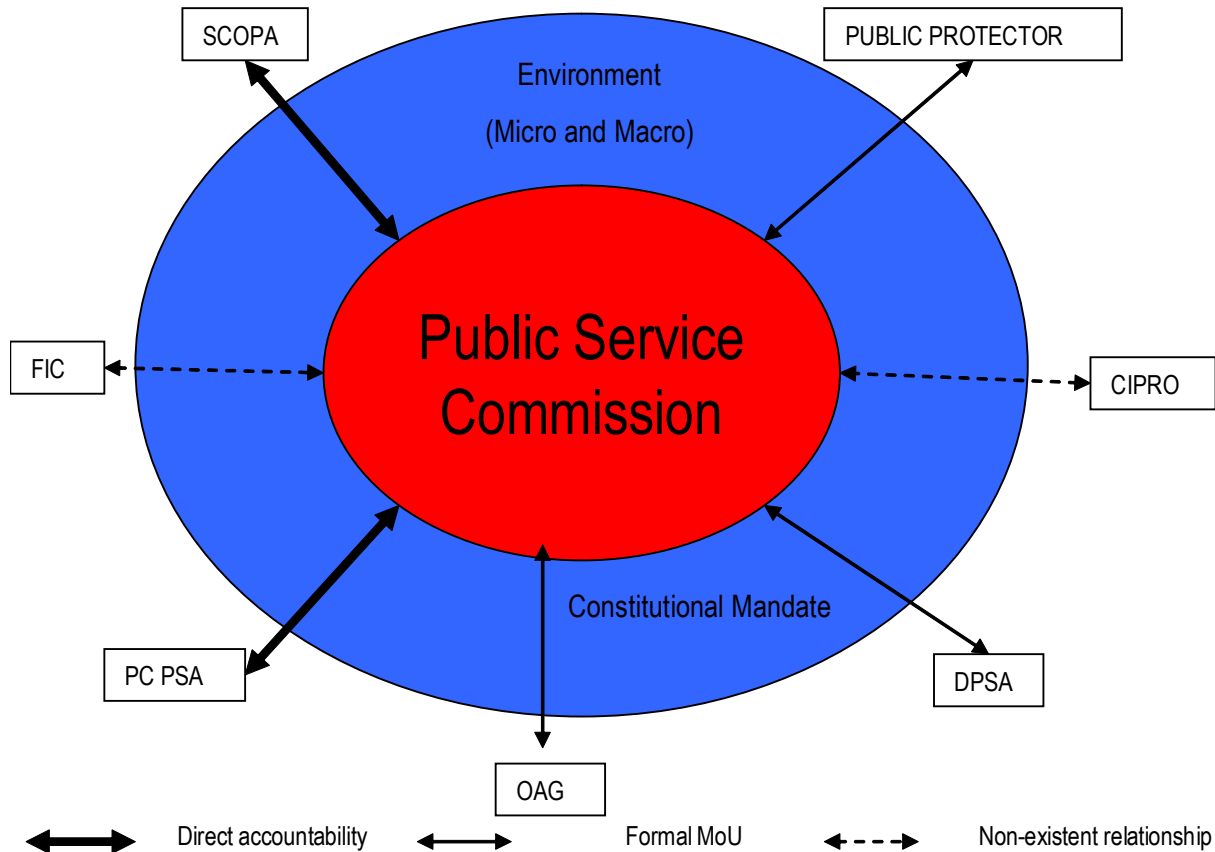
Currently, matters relating to conflict of interest in the Public Service are left to the Public Service Commission. This is because Senior Management Service members submit financial disclosure forms to the PSC. However, once forms are submitted, the PSC does not simultaneously investigate the possibility of conflict of interest. The PSC just manage, monitor and update the database. It could be a lack of capacity because during the study it was observed that only one person was responsible for managing the financial disclosure database for the whole Public Service. However, besides the capacity issues, conflict of interest needs an integrated approach or help from other institutions of governance to assist in the process of combating corruption.

To illustrate how an integrated approach could be applied in the Public Service, in Figure 6.1 the researcher explains this integrated approach in managing a conflict of interest. In the diagram, the PSC as an institution is charged with the responsibility of promoting an ethical conduct in the Public Service. Conflict of interest could be managed through co-operation with other structures or departments. The diagram shows these other structures namely the Financial Intelligence Centre (FIC) and companies and intellectual Property Registration Office (CIPRO), as not having a formal memorandum of understanding with the Public Service Commission regarding detecting and compacting conflict of interest in the Public Service, SMS members in particular. Thus, the PSC has to work with Financial Intelligence Centre through a Memorandum of Understanding (MoU). This could assist the PSC to gather financial information on assets about each member of SMS in order to curb the possibility of conflict of interest. In terms of the Financial Intelligence Centre Act (FICA) no.1262 of 2001, information regarding individuals or the public is submitted to the financial institutions, namely banks. In terms of the Act, the Centre must process, analyse and interpret information disclosed to it, and obtained by it and co-operate with investigations authorities (Financial Intelligence Centre Act, 2001:8).

Therefore, the PSC is able to make use of such information through the Memorandum of Understanding. Additionally, the PSC also needs to work with CIPRO through the Department of Trade and Industry (DTI) by signing a memorandum of understanding because CIPRO has a database about companies owned by the public. Working in silos by public servants and institutions of governance is not encouraged because it undermines good governance. It is paramount that dealing with conflict of interest or disclosure forms, the rights of people, and the right to privacy in particular must be preserved. However, constitutional limitations must also be taken into consideration with regard to the aforementioned right. The relationship between the Public Protector (PP), Auditor General and Department of Public Service and Administration, which have a Memorandum of Understanding, should be strengthened and encouraged towards an integrated approach in dealing with a possible conflict of interest. What is most crucial is the level of accountability, especially for a conflict of interest. The diagram shows that the PSC has a legal or moral responsibility to account the Portfolio Committee on Public Service and Administration and Scopa on conflict of interest especially when an act of corrupt or unethical conduct is detected after SMS members have submitted disclosure forms to the PSC. It is also important that in acting in an integrated fashion, the constitutional mandate of each institution is understood and preserved.

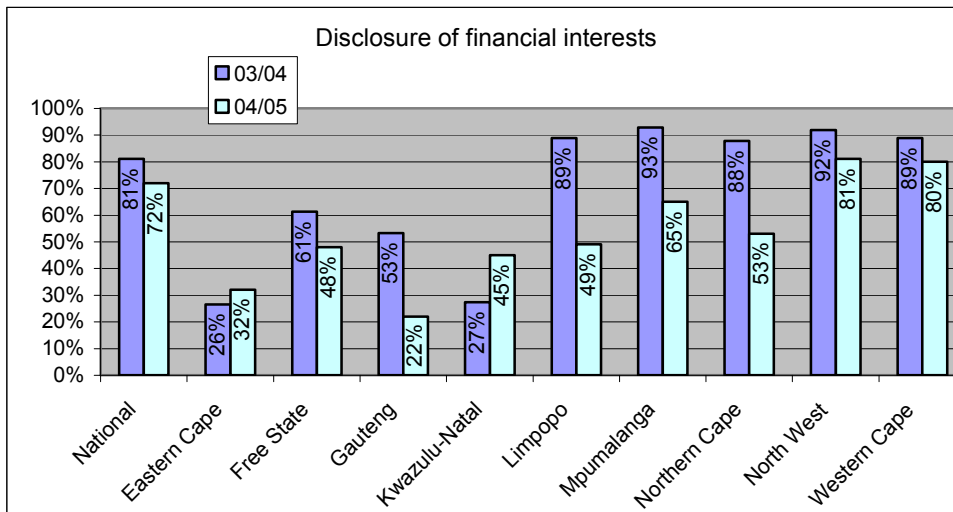
In applying the integrated approach, the aim is to make sure that any fraud or corrupt practice in the Public Service is detected promptly after disclosure of financial interest. Fraud and corruption have financial implications and could pose both financial risks and economic risks to the state. Hence, Scopa has a legal mandate for financial scrutiny and ensure that public accountability as an ethos of democracy and a pillar for good governance is respected at all times. However, it takes a visionary, technical and moral managerial leader to support the above analysis. The integrated approach in managing conflict of interest in particular and working in silos by institutions of governance themselves could undermine governance in general in the Public Service, the researcher illustrates his approach in Figure 6.1. The figure is an explanation of an integrated approach in order to manage a conflict of interest in the Public Service as apposed to 'silos' approach which is not supportive of good governance. In order to have effective systems in the Public Service, institutions of governance must work together.

Figure 6.1: Managing conflict of interest in the Public Service: an integrated approach



Within the debate of ethics in the Public Service, SMS members are required to disclose their assets or financial interests to the PSC. It might happen that non-disclosure of assets or financial interests could also result in fraudulent activities or corruption in general. Figure 6.5 below shows the level of compliance regarding the financial disclosure of assets or financial interest. The 2003/4 and 2004/5 financial years show that the submission of forms containing financial interests of SMS at national departments declined by 9%, which could become a worrying factor with regard to ethics in the Public Service, especially at SMS level or managerial leadership.

Figure 6.2: Financial disclosure –compliance by SMS



Source: Public Service Commission (2006)

At provincial, the 2003/4 and 2004/5 financial years show a significant decline of disclosing financial interest by SMS members. For example, for the Eastern Cape and KwaZulu-Natal, the number of SMS members is higher than for other provinces. For example, by the end of the 2004/5 financial year, the Eastern Cape had four hundred and seven (407) and at four hundred and ninety-six (496) for KwaZulu-Natal (KZN) the rate of submission is relatively low. In the 2003/2004 and 2004/5 financial years, the Eastern Cape moved from 26% to 32% which means the difference is 6% yet they only have four hundred and seven SMS members. That suggests that other members did not submit forms to the PSC in terms of Public Service regulations and that is tantamount to non-compliance with Public Service regulations and also unethical. Between 2003/2004 and 2004/5, KZN shows an increase from 27% to 45%, which means the difference is 18%. This difference is a positive step forward but still shows that there are other departments who did not submit disclosure forms during these financial years which again could be classified as unethical and non-compliance with Public Service regulations. Figure 6.2 shows some decline in other provinces, for example Free State declined from 61% to 48%, Gauteng from 53% to 22%, Limpopo from 89% to 49%. Western Cape and North West provinces seem to display a high level of compliance even if there are departments who do not submit forms. The critical question could be 'what is the problem in relation to non-compliance'. Non-compliance with policy guidelines or legislative framework

could result in corruption and fraud throughout the Public Service, including at managerial leadership level. Regarding the level of compliance in relation to Public Service regulations on the conflict of interest, the submission of financial disclosure forms containing information on financial interests, see Annexure C for details.

6.4.7.4 Ethics and Auditing

With regard to ethics in relation auditing, a code of ethics of the Chartered Institute of Public Finance and Accountancy (CIPFA) encompass the following principles: objectivity, competence, due care, confidentiality, proper conduct and technical and professional standards (Chartered Institute of Public Finance and Accountancy, 2003:5).

The Institute of Internal Auditors (THEIIA) (2003:7) uses the following rules of conduct regarding internal auditing:

- a) **Integrity:** The integrity of internal auditors should establish trust and provide the basis for reliance on their judgement;
- b) **Objectivity:** Internal auditors should exhibit the highest level of professionalism in gathering, evaluating and communicating information about the activity or processes being examined. THEIIA also states that internal auditors should make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in informing judgements;
- c) **Confidentiality:** Internal auditors should respect the value and ownership of information they receive and not disclose information without appropriate authority unless there is a legal or professional obligation to do so; and
- d) **Competency:** Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

The International Organization of Supreme Audit Institutions (INTOSAI) also share the above sentiments regarding ethical conduct in auditing, among others, trust, integrity, independence, objectivity, competency and professional development (International Organization of Supreme Audit Institutions, 2003:5).

6.4.7.5 Institutional co-operation: an ethical conduct, culture and analysis

It has also been observed that institutions or structures that deal with issues of governance, like financial misconduct or unethical conduct, do not have a well-established system where they share information on matters of ethics. In some situations, the relationship between them is on a temporary basis or when there is a specific project.

A close relationship between institutions is essential to support an ethical culture in particular, governance in general, through the sharing of information and co-ordination of their respective activities. To promote governance, it is critical for state institutions that are differently and constitutionally mandated to service the public by sharing relevant information in order to improve good governance and promote value for money in the Public Service. To deliver effectively and efficiently, state institutions should also co-operate or work together. In order to support and improve governance in the Public Service, institutions that are charged with such a responsibility must be able to function or operate where a control environment is established. Therefore, ethics becomes a fundamental element in support of good governance and the sharing of information between institutions in order to support quality decision-making, accountability, transparency and responsibility.

Failing to adhere to the above, institutions could find themselves in an unplanned situation or unintentionally in competition with each other and that could undermine governance in the Public Service, especially financial accountability. Hence, it should always be taken into cognisance that those in public office are not immune to public scrutiny by taxpayers in relation to how operational decisions are made regarding public funds. The legislature, the Public Accounts Committee in particular, might be tempted to understand how the above institutions are structured and relate to each other in order to promote good governance, especially an ethical culture in the Public Service.

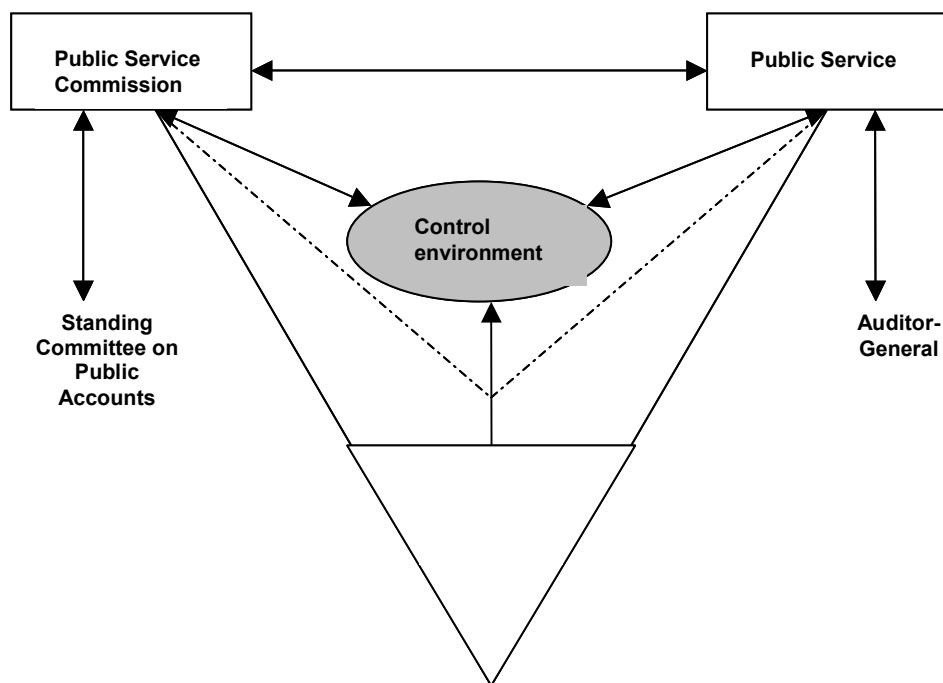
Figure 6.5 below shows such co-operation in order to promote institutional integrity and ethical culture in the Public Service. At the same time, the institutions should aim to improve the quality of work and produce the expected results or outcomes as individual units. These institutions are also expected to promote values and norms that are entrenched in the constitution and to ensure that the norms are respected and implemented. The said values and norms are also captured both in the Constitution and in this research document,

especially section 195 (1) (a) that states that “a high standard of professional ethics must be promoted and maintained”.

The researcher in Figure 6.3 expresses his considered opinion with regard to an expected professional relationship between the Public Service Commission (PSC), the Standing Committee on Public Accounts (Scopa) and the Auditor General (AG) in order to improve good governance in general, organisational efficiency in particular. This could also help to promote organisational ethics in the Public Service. Through observation, the relationship between the Auditor-General and Public Service Commission and Scopa is on an adhoc basis, not in an acceptable standard. As indicated earlier in the thesis that working in silos by these institutions will not be helpful.

The relationship between institutions of governance could possibly happen through a well-established framework or policy framework that will put more emphasis on sharing of information between these institutions. However, such a relationship should not undermine their independence and the doctrine of the separation of powers granted to them by the Constitution.

Figure 6.3: Organisational integrity: Promotion of ethical culture in the Public Service



6.4.7.6 Financial misconduct: The Public Finance Management Act, 1999 and provisions of the Treasury regulations

Financial misconduct could be regarded as unethical conduct. However, in terms of the PFMA, *financial misconduct* entails any material losses through criminal conduct, unauthorised, irregular, fruitless and wasteful expenditure (Public Service Commission, 2005:21). It is observed that the above sources of financial misconduct are commonly found in the Public Service, both provincial and national departments. The above sources of financial misconduct could also undermine good governance and expose the government to financial and economic risks. At an organisational level and in terms of section 81 (1) of the PFMA, an accounting officer for a department commits an act of financial misconduct if that accounting officer wilfully or negligently:

- a) fails to comply with the requirement of section 38, 39, 40, 41 or 42, including section 44 that is briefly outlined in the paragraph. The said sections outline the basis of financial misconduct in relation to the responsibilities of accounting officers and failure to execute such responsibilities properly or professionally in terms of the above sections; financial misconduct could be laid against those accounting officers. Strangely, very few if any of the accounting officers are charged with financial misconduct, yet annual reports continue to report about unauthorised and wasteful expenditure, including irregular expenditure or transfer;
- b) makes or permits an unauthorised expenditure, an irregular expenditure or fruitless and wasteful expenditure; and
- c) an official of a department to whom a power or duty is assigned in terms of section 44 commits an act of financial misconduct if that official wilfully or negligently fails to exercise that power or perform that duty (Public Finance Management Act, 1999:81).

Specifically, in terms of section 38 (1) (c) (h) of the PFMA, an accounting officer of a department must:

- a) take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct;
- b) take effective and appropriate disciplinary steps against any official in the service of a department, trading entity or constitutional institution who contravenes or fails to comply with the provision of this act; and
- c) take effective and appropriate steps against an official in the service of a department, trading entity or constitutional institution who makes or permits an unauthorised expenditure, irregular expenditure or fruitless and wasteful expenditure (Public Finance Management Act, 1999:45).

The above legal mandates suggest that in terms of the Act, *financial misconduct* could be defined as the conduct of an official regarding material loss on the basis of criminal conduct or unauthorised, irregular, fruitless and wasteful expenditure. With regard to the above, it is evident that an accounting officer is charged with the responsibility to develop appropriate and effective systems to prevent unauthorised, irregular and fruitless and wasteful expenditure. Additionally, an accounting officer is also responsible for developing systems in order to prevent losses resulting from criminal conduct by an official. With regard to financial misconduct, summary of section 38,39,40,41,42 and 44 of PFMA is provided below.

Table 6.5: Provisions of the PFMA

SECTIONS	NATURE OF THE PFMA PROVISIONS	OBJECTIVES OF THE PROVISIONS
Section 38	General responsibilities of accounting officers.	Responsibilities given to an accounting officer to put in place effective and efficient financial and risk management systems, including internal control within a department or an entity. Maintains proper expenditure management system and ensuring proper compliance with the act.
Section 39	Accounting officer's responsibilities relating to budgetary control.	Referring to an accounting officer's responsibilities relating to budgetary control. Develops systems to prevent unauthorised expenditure, overspending. Reports to the executive authority about under collection and overspending. Complies with remedial measures imposed by National Treasury to prevent overspending of the vote.
Section 40	Accounting officer's reporting responsibilities.	This section deals with reporting by accounting officers. The section is about the budget control, financial recoding of departmental affairs. Preparation of financial statements according to GRAP. Time frames for submission of financial information or statements to the Auditor-General. Accounting officer's responsibilities provide relevant Treasury breakdown of anticipated revenue and expenditure for the financial year. Accounting officer is bound to report about his or her inability to comply with any responsibilities determined for the accounting officer to the relevant authority or Treasury.
Section 41	Information to be submitted by accounting officers.	The section is about relevant information to be submitted by accounting officers to the relevant Treasury and Auditor-General, including explanations and motivations as may be prescribed.

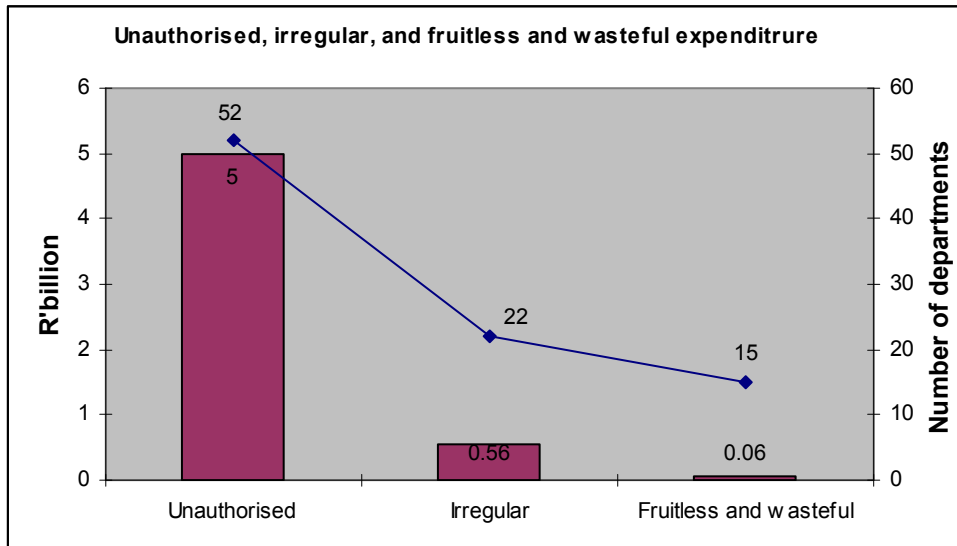
SECTIONS	NATURE OF THE PFMA PROVISIONS	OBJECTIVES OF THE PROVISIONS
Section 42	Accounting officer's responsibilities when assets and liabilities are transferred.	This section is about responsibilities of accounting officers with regard to transference of assets and liabilities. Assets and liabilities are to be transferred on the basis of a legislative framework. The transferring accounting officer is expected to draw an inventory of such assets and liabilities. The receiving accounting officer to be provided with records. Within 14 days of transfer, a copy of the signed inventory must be filed with the relevant Treasury and the Auditor-General.
Section 44	Assignment of powers and duties by accounting officers.	This section is about powers and duties assigned to accounting officers. In essence, the act is about decentralisation or delegation of powers to other officials within an organisation by an accounting officer. However, accountability is not to be delegated under any circumstances. There is emphasis on the fact that any delegation, should be in writing. An accounting officer may confirm, vary or revoke decisions by an official as a result of a delegation or instruction as a result of written delegation given to an official, subject to any rights that may have become vested as a consequence of a decision.

Source: Public Finance Management Act (1999)

The above table outlines the provisions relating to the responsibilities of accounting officers and other officials within the Public Service, particularly financial misconduct. However, official reports, particularly from the Auditor-General, continue to report on poor management of assets, wasteful, fruitless and overspending, but a low rate or non-conviction of accounting officers or public servants is observed. The question revolves around non-compliance with the PFMA and questionable ethical conduct in the Public Service, both at managerial and public officials in general. What is fundamental regarding the above table is that some responsibilities and duties of accounting officers, including other officials, are neglected. This

is tantamount to financial misconduct or unethical conduct because public finances or taxpayers' money is wasted and service delivery is negatively affected.

Figure 6.4: Unauthorised, irregular, fruitless and wasteful expenditure



Source: Adapted from Auditor-General (2004), General Report on audit outcomes

The extent to which the above irregularities occur differs from one province to another and from one national department to another. The high level of unauthorised expenditure signals an absence of early-warning systems within provincial departments in order to detect or anticipate departmental expenditure levels. The diagram (Figure 6.4) shows some level of a trend in which the unauthorised, irregular, fruitless and wasteful expenditure takes place in the Public Service, provinces in this case. In Figure 6.4, the right axis represents the number of departments identified and the left axis represents the amount. On the basis of the above (Figure 6.4), it could be deduced that the higher the unauthorised expenditure as reflected in the above figure, the less the internal controls and poor financial decision with government departments.

It is reported that unauthorised, irregular or fruitless and wasteful expenditure is also prevalent within national departments and is estimated at an amount of R142, 1 million, which is 0,1% of total expenditure is reported. At provincial level, the total amount is R5, 833 billion that is 3,5% of the total expenditure of R167, 4 reported (Auditor-General, 2004:16). This negative situation could be attributed to a lack of public expenditure management (PEM) in the Public

Service and a low culture of risk management and internal controls to guard against abuse of government resources.

On the basis of governance and public management, it is paramount that a public official must at all times be trustworthy, honest and should display ethical conduct. It is also imperative that the managerial leaders act in a manner that promotes a culture of ethical conduct, acts responsibly, develops internal controls and monitors such controls so that any form of corruption is prevented and organisational ethical conduct is promoted and sustained. In terms of reporting cases emanating from financial misconduct, an accounting officer of a department informs the executive authority of the Public Service Commission (Treasury regulations, 2005:12). The commission later reports to Parliament as per its legal mandate reported earlier in the thesis.

It was noticed that there was irregularity with regard to reporting standards by departments on financial misconduct. What was observed was the fact that some departments did not submit reports of financial misconduct to the PSC as required by the PFMA and Treasury regulations. Some departments were simply submitting nil inputs with regard to financial misconduct. 'Nil inputs' means some departments simply did not submit any report of financial misconduct to the PSC. Other departments did not respond (*refers to 'no response' in the research*) to PSC's with regard to reports on financial misconduct. In its research, the PSC also wanted to ascertain whether any of the departments that did not submit reports on financial misconduct and submitted nil inputs and report any disciplinary cases relating to financial misconduct in their annual reports (Public Service Commission, 2005:33). PSC's quest to test the accuracy with regard to reporting by some departments was on the basis of checking the validity and reliability of information or its authenticity and the reporting standard with regard to cases of financial misconduct. The PSC also records that the information provided in most annual reports was insufficient to determine if the cases were indeed financial misconduct cases. Those cases themselves undermined financial management and control systems of departments (Public Service Commission, 2005:33). Therefore, the PSC confirms that the inability to manage public finances could be rooted from poor control systems. It is therefore the challenge of departments to put in place internal control systems so that public finances are not wasted.

The following Table (6.6) shows a number of disciplinary cases that were not reported to PSC as determined by the PFMA and Treasury regulations but were reported in annual departmental reports. Such discrepancy on reporting procedures could undermine transparency and authenticity of performance information regarding financial misconduct in the Public Service. Nevertheless, discrepancy on reporting could affect organisational effectiveness and efficiency due to the lack of an established framework on the procedural issues, for example reporting guidelines and procedures in particular.

Table 6.6: Number of disciplinary cases reported in annual report but not to Public Service Commission

FINANCIAL YEAR	DEPARTMENT	REPORTING TO THE COMMISSION	NO. OF CASES REPORTED IN THE ANNUAL REPORT	TYPE OF MISCONDUCT REFLECTED IN THE ANNUAL REPORT
2002/03	Independent Complaints Directorate	Nil	5	Misappropriation or misuses of public property
	Public enterprises	Nil	1	Fraud
	Agriculture: Eastern Cape	Nil	3	Financial mismanagement and fraud cases
	Health, Western Cape	Nil	4 4	Wilfully or negligently mismanages state finances Bribes, theft and fraud
	Correctional Services	No response	145	Dishonesty
	Social Development: Eastern Cape	No response	32 3 4	Fraud and theft Theft Fraud
	Health	No response		
2003/04	Agriculture	Nil input	3	Theft
	Education	Nil input	1	Fraud

FINANCIAL YEAR	DEPARTMENT	REPORTING TO THE COMMISSION	NO. OF CASES REPORTED IN THE ANNUAL REPORT	TYPE OF MISCONDUCT REFLECTED IN THE ANNUAL REPORT
	Health: Western Cape	Nil input	5	Fraud
	Foreign Affairs	No response	1 2	Unauthorised expenditure Theft
	Correctional Services	No response	213	Dishonesty
	Social Development: Eastern Cape	No response	22 6	Fraud and theft Misappropriation of funds

Source: Public Service Commission: Report on Financial Misconduct, (2005)

Public Service Commission (2005:31) notes that the National Treasury Guidelines for Annual Reporting state that the annual report of a department should, among others, indicate the disciplinary steps taken against employees for, among others, unauthorised, irregular and fruitless and wasteful expenditure. With reference to Table 6.6, there are instances where fraud is reported, the following are strategies to detect fraud:

- a) **Authority for fraud investigation:** To effectively detect and investigate fraud, the management should delegate the authority for all fraud investigations to an internal audit or investigative unit. Written policies should require that management and individual employees notify the internal auditors immediately of any suspicion of fraud, and internal auditors should have access to all records and documents to carry out the investigations;
- b) **Encouraging communicating on potential fraud:** In most situations, employees, often anonymous, discover fraud because of tips. Therefore, it is important that internal auditors become accessible to people who have information about fraud and want to report it;

- c) **Audit staffing and training:** Ideally, internal auditors should be a team that is assigned as specialists in fraud auditing. Fraud investigators should be inquisitive, creative, and persistent and also be able to synthesise missing information or scattered details;
- d) **Auditor alertness to fraud:** Individual auditor alertness to fraud is one of the most important factors in detecting fraud during routine audits. For example, an auditor needs to do the following:
- (i) a) An auditor should be alert to situations or transactions that could be indicative of fraud, abuse, and illegal acts.
- b) If such evidence exists, audit steps must be extended and procedures instituted to identify the effect on the entity or department's operations and programmes.
- e) **Audit principles to improve fraud detection:** The following are principles that could help improve the auditors' chances of detecting fraud. These are:
- i. Assume that anyone can commit fraud: Evidence or research indicates that the typical perpetrator can be anyone, especially the trusted employees. Therefore, auditors must keep an open mind and not automatically rule out the possibility of fraud by certain employees because of their seniority or trustworthy status;
 - ii. Brainstorm the possibilities for fraud: It is important that the auditors should put themselves in the position of a potentially dishonest employee. Auditors must identify control weaknesses that might allow a fraud to occur;
 - iii. Use both statistical and judgmental sampling: Statistical samples should be used to force the auditors to examine documents and transactions they might not otherwise look at. Judgmental samples should be used to examine items that the auditors have a hunch about or that appear unusual. It is imperative to also focus on sampling procedures to ensure that they are valid;
 - iv. Investigate exceptions rigorously: Sampling may only produce a few exceptions in initial tests; exceptions should be cleared with care. When an auditee asserts that a transaction is not typical or gives only partial explanations, the exceptions should be diligently investigated;

- v. Pay attention to the details of the documents: The details of documents often indicate problems like inconsistent numbers, dates and addresses; alterations, different typewriters, pens, handwriting and varying thickness of marks of paper; and
 - vi. Document verification: The auditors should occasionally go beyond the documents and attempt to verify the transactions.
- f) **The special problem of computer fraud:** There is growing use of computers both in the public and private sector for record-keeping and the processing of transactions. With the increased use of computers, there is also computer-related fraud. For example, information in the computer could be altered for fraudulent activities or certain beneficiaries (Apostolou & Crumbley: 1992: 26.7).

The above methods of detecting fraud could be of assistance to the organisation and also could supplement a departmental fraud prevention plan. Public servants should be introduced to a culture of fraud detection and fraud reporting. As much as it is the responsibility of an accounting officer to ensure risk management and measures to prevent fraud in an organisation, it also becomes everybody's responsibility to prevent and report fraud in every section of a department. However, managerial leaders should create such an environment in order to encourage good governance.

Table 6.7: Number of Officials Charged with Financial Misconduct

FINANCIAL YEAR	TOTAL NUMBER OF CASES
2001/2002	434
2002/2003	849
2003/2004	582

Source: Public Service Commission: Report on Financial Misconduct (2005)

Table 6.7 shows an uneven situation regarding the number of officials charged with financial misconduct as reported to the PSC by departments in the 2001/2002, 2002/2003 and 2003/4 financial years. This unevenness illustrated in Table 6.7 shows the highest number of officials reported in 2002/2003 as opposed to other financial years. The statistics provided above suggest that some public servants continue to display unethical conduct in the Public Service regardless of a policy framework like the PFMA. One of the limitations of the above statistics is

that there is no indication of which level of public servants or officials is charged with financial misconduct and number of SMS people charged. Such a limitation makes it impossible to ascertain how many people were charged with financial misconduct at SMS level. However, the statistics show that public servants in general continue to engage in unethical conduct. The question could be whether the PFMA is the problem or its application in preventing some officials to engage in unethical conduct. It could also raise some concerns regarding the theoretical application of the PFMA, the culture of an organisation, the control environment and the calibre of managerial leadership within a department. All the above dimensions regarding the continuing unethical conduct in the Public Service have financial implications and pose budgetary constraints to a department and undermine service delivery. The other aspect that could also be attributed to the above statistics on the number of officials charged with financial misconduct is how effective are the systems or internal controls in response to unethical conduct within a department. The above micro-organisational dynamics need to be attended to because research has shown that a weak control environment like the absence of a code of conduct, risk management policy or framework and the absence of internal controls like policies could pose a high risk of fraud and corruption. Hence, it is important to have effective internal controls and a risk management policy to prevent cases of financial misconduct.

Table 6.8 below shows cases of financial misconduct as opposed to officials charged with financial misconduct in Table 6.7. Table 6.8 shows that financial misconduct prevails in both provincial and national departments. The following statistical or quantitative analysis shows the number of cases of financial misconduct per province and an overall figure of national departments. From the table below, provincial statistics show that cases of misconduct vary from one financial year to another. For example, in 2002/2003, Gauteng had 108 cases, and Kwazulu-Natal with 110 cases were the highest in terms of financial misconduct cases and Eastern Cape has the highest number which is 181 in 2003/2004. Again, the statistics shown in Table 6.8 have limitations with regard to information on the number of SMS with cases of misconduct. However, it does indicate that ethics in the Public Service need attention. The question could be whether to address symptoms like corruption and fraud or the fundamentals like internal controls or systems. The above analysis regarding symptoms versus causes is critical because it goes beyond the symptoms to the effect that institutional environment has on governance and the role that has to be played by the managerial leadership in ensuring that a sound effective control environment is created and corruption is minimised.

Table 6.8: Number of cases of financial misconduct: provincial and national departments

FINANCIAL YEAR	NATIONAL AND PROVINCES	NO OF CASES	FINANCIAL YEAR	NATIONAL AND PROVINCIAL	NO OF CASES
2002/2003	National	355	2003/2004	National	181
	Eastern Cape	54		Eastern Cape	181
	Free State	46		Free State	60
	Gauteng	108		Gauteng	16
	KwaZulu-Natal	110		KwaZulu-Natal	55
	Limpopo	26		Limpopo	9
	Mpumalanga	84		Mpumalanga	19
	North West	56		North West	46
	Northern Cape	4		Northern Cape	2
	Western Cape	6		Western Cape	13
	Total	849		Total	582

Source: Public Service Commission: Report on Financial Misconduct (2005)

Table 6.9 below show the financial loss due to financial misconduct cases in the Public Service. It is recorded that the financial costs emanate from unauthorised, irregular and fruitless and wasteful expenditure, including criminal conduct reported by departments (Public Service Commission, 2005:31). This is an indication of the trend of non-compliance with the PFMA as a guiding document on financial management.

Table 6.9: Financial loss due to financial misconduct

FINANCIAL YEAR	FINANCIAL COSTS
<u>2001/2002</u>	R4 176 757.20
<u>2001/2003</u>	R331 213 430.16
<u>2003/2004</u>	R20 351 101.88

Source: Public Service Commission: Report on Financial Misconduct (2005)

6.4.8 Legislative oversight as an accountability mechanism

Hondeghem (1998:10) explains oversight and review as methods of checking misgovernment that can occur in many different forms. Among others, *inspection*, involves direct observation of the regulated institution by some sort of visit, and *audit* involves primary examination of documents to assess performance in relation to fiscal regulatory or some other criterion. The latter is the mandate of both the Standing Committee on Public Accounts (Scopa) and the Auditor-General. As indicated earlier, performance auditing by the Auditor-General is important especially in assessing value for money. However, Scopa audits the reports submitted by the Auditor-General as to whether the value for money principle was upheld by the executive. The Public Service Commission is constitutionally mandated to monitor and evaluate national and provincial departments.

The definition of the term *accountability* and a description of its benefits on governance, indicate the importance of ‘accounting for actions taken’ either by a politician or all public servants, regardless of the position held in an organisation. Within this framework, the public is equally important as they form part of a contract between the government and themselves. Government has a responsibility to account to the electorate. The government-public relationship based on the contractual agreement regarding the delivery of services, is important as it strengthens good governance and accountability. Therefore, the relationship between the public and government demands public accountability. Thus, public accountability in relation to government institutions, politicians, public servants and the entire population is critical in governance.

Sangweni (2004:1) argues that public accountability can be viewed as the defining relationship by which the public puts its trust in politicians and public servants to make decisions on the kind of society in which they live. Sangweni’s argument supports the fact that the Public Service is indeed accountable to the public. Having provided an analysis of accountability, in contextualising the argument, fiscal accountability focuses on the way public funds are collected, managed and spent (Association of Public Accounts Committee: 2003:1). With regard to public accountability, public servants, ministers and politicians have the obligation to account for fiscal management and service delivery trends.

On the other hand, legislature has to exercise its oversight role so that the executive is accountable for its activities on the basis of public money allocated to the executive to effect

government programmes or service delivery. In the South African context, section 55 (2) of the Constitution states that the National Assembly must provide for mechanisms in the following way:

- a) to ensure that all executive organs of the state in the national sphere of government are accountable to it, and
- b) to maintain oversight of the exercise of national executive, including the implementation of legislation and any organ of state (The Constitution of the Republic of South Africa, 1996:34). The outlined oversight role by the legislature is useful as it captures a process and a systematic approach to public accountability. Most importantly, the above accountability arrangement is also applicable to provincial governments.

With regard to public accountability mechanisms, Parliament has parliamentary committees, question and answer sessions, the annual budget process that involves scrutiny of executive proposals and policy (Association of Public Accounts Committees, 2003:26). With regard to the study, Scopa is the relevant committee in terms of financial scrutiny.

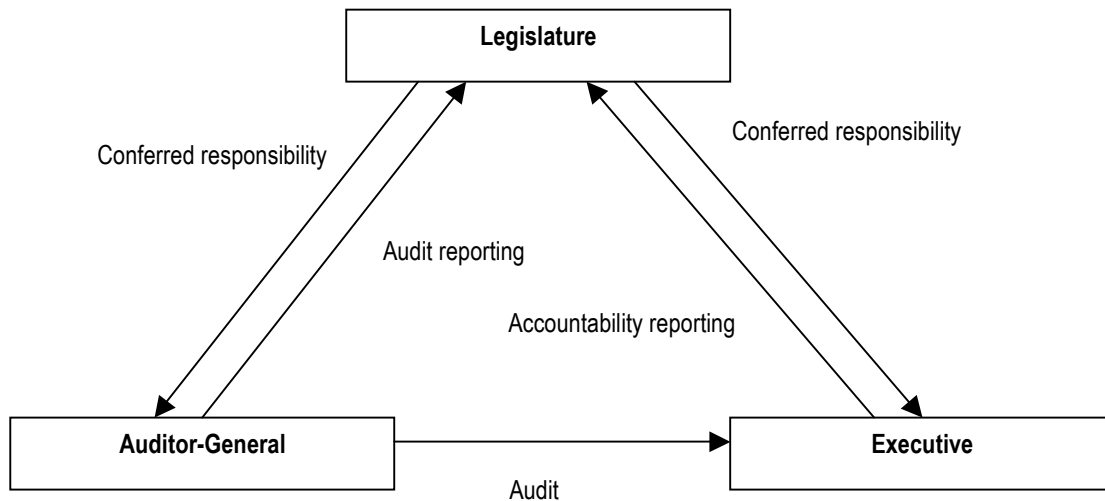
After South Africa's democratisation, in a report Scopa submitted and adopted by Parliament, the South African Government acknowledged the weaknesses of parliamentary committees and their effect on accountability. Additionally, the White Paper (1995:108) on the transformation of the Public Service also states that to improve public accountability, the role and capacity of parliamentary portfolio committees should be improved and strengthened.

Additionally, *accountability* means 'to give an account' of actions or policies, or account for 'spending and so forth'. Accountability requires that person explains and justifies his or her decisions against some kind of criteria. Oversight refers to the role of legislation in monitoring and reviewing the actions of the executive organs of government (Corder, Jagwanth & Soltau, 1999: 2). To exercise oversight and accountability there must be capacity to do so. As Corder at al. (1999:2) state the executive has to account to Parliament for public monies spent, particularly to Scopa. Similarly, to track public monies Scopa has to be technically efficient and apply the constitutional framework, because the process of accountability takes place within a particular constitutional framework and relationship of the spheres of government and other institutions of governance. It is in this context that Scopa has an oversight role over the

legislatures and parliaments but most importantly both conceptual and technical skills are needed.

The following diagram shows the relationship between the executive, legislature and the Auditor-General for financial accountability purposes or auditing.

Figure 6.5: Relationship between legislature, executive and Auditor-General



Source: Adapted from Unpublished KNC & Associates Notes (2001:6)

The following Table also shows the international experience regarding staff components in different countries in relation to capacity issues.

Table 6.10: Profile of parliamentary support staff and quantitative analysis: international experience

COUNTRY	PROFILE
United Kingdom	A clerk of public accounts has a secretarial staff and each member of parliament has a secretary and a researcher.
Norway	The committee is assisted by a secretariat of two. There are two clerical assistants. Three members of parliament share one assistant. All political parties employ a pool of advisers and secretaries. Assistant to members of parliament acts as adviser.
Denmark	Assistants to members of parliament act as advisers. Members of parliament are paid

COUNTRY	PROFILE
	an additional 50% of their parliamentary salaries due to their work in the public accounts committee. This committee consists of six members. The committee employs its own staff and has its own budget.
Brazil	Public accounts has specialised staff and can obtain outside assistance. In parliament, each member has his own staff and he or she may call upon special advisers for committee work. Each committee member has 10 to 15 researchers, secretarial and administrative assistance.
Australia	Public accounts committee has a secretariat of nine people and secondments from other departments, and consultants. This is in addition to the personal staff of each member. Public accounts in New South Wales is supported by a secretariat of eight people headed by a director. There is also a person seconded from the audit office.
Argentina	Public accounts commission has a directorate of twenty people. A lawyer heads the directorate. Each member has at least one personal adviser, in addition to personal assistance. The directorate supports and serves the committee.
South Africa	The committee is assistance from three secretaries and one administrative assistant from the parliamentary committee section. The committee is also receiving assistant from the AG in arranging accounting officers for a hearing. Additionally, members of the committee receive no additional secretarial support or research assistance. Within the committee, the chairperson receives no additional secretariat or research assistance. The committee has two junior researchers funded by the private sector.

Source: Parliament of the Republic of South Africa (1998)

Based on Table 6.10 above, it is clear that the situation internationally is better than in South Africa. The situation in South Africa could be based on the fact that South Africa became independent in 1994. However, the condition has not really changed in order to show the commitment to remedy Scopa's functionality and assist in attaining its mandate. The above table shows that United Kingdom and Norway are well capacitated both at administration and technical levels. Denmark is also capacitated at both levels (technical and administration) level and moves beyond capacity by ensuring that members of public accounts are paid an extra amount due to the technical nature of the public accounts committee. However, there is no report from Denmark regarding paying an extra 50% to its technical staff. If technical staff is ignored in terms of good salaries, the tendency is that they prefer to leave and join other

organisations where their skills will be respected and where they will be financially rewarded. Brazil and Australia are also capacitated. Australia and Argentina's structure or organisational design is able to face the challenges posed by the executive or any public sector reforms. The table also shows that South Africa on the other hand suffers on technical side and relies too much on the office of the Auditor-General. The fact that institutions of governance should work together does not mean that the reliance on technical advice or assistance would improve governance. It might have a negative affect because in both institutions, the constitutional mandate could be undermined, especially the independence of each institution. At the time of the research, assistance of two junior researchers funded by a private company was terminated. It means that there was no additional research support, even by junior researchers; the committee relied on one parliamentary researcher who was also attached to the Finance Portfolio Committee. It is clear that Scopa problems are not only based on capacity and communication between Scopa and office of the Speaker.

The organisational design or structure of Scopa has to be in line with the evolving public finance management system in South Africa, more especially accounting systems because they do impact on auditing and also create problems for Scopa. So, it could be difficult for Parliament to maintain and ensure that fiscal accountability becomes a culture within Parliament and to protect public purse if structural issues like organisational design and operational issues are not solved within Scopa. For example, public accounts committees in Argentina and Australia are structured in such a way that a directorate and secretariat units are created or established in such a way that the committees are able to protect the public purse, manage public sector reforms and deal with technical issues that usually confront public accounts committees in general. The institutional design and capacity of staff and members, effective oversight, resources and attractive financial reward for the staff should be seen as significant in supporting effective governance in Parliament, Scopa in particular.

Pakathi (2005), a committee clerk (supervisor) of Scopa who focuses more on internal processes, also alluded in the interview to the poor follow-up system on audit queries from spending agencies and Scopa resolutions. To illustrate the process, the Auditor-General raises some concerns about certain departments' deficiencies like overspending, fruitless expenditure or some managerial problems and these are captured in the annual report. Scopa makes some findings regarding a spending department or public entity, and then makes a resolution. A report is submitted to Parliament regarding resolutions taken for adoption or

approval. Once it is adopted by Parliament it becomes a parliamentary report not Scopa's. Technically, it becomes the responsibility of the office of the Speaker in conjunction the Scopa to follow up on audit queries. However, such a system to follow up is not in place and the oversight role of Scopa is not utilized thus Parliament loses its opportunity to act on cases of maladministration. To support governance, a well-structured unit with clear lines of communication between Scopa and the office of the Speaker must be established. It is also noted that a system to manage information from spending agencies or capturing responses based on adopted resolutions is not in place and such poor systems affect governance and the oversight role of Parliament by Scopa. As a result, it becomes difficult to measure the time between a delivered resolution to a spending agency and responses received, the analysis of *time spent* is based on establishing efficiency within Scopa and it was established that due to operational and institutional factors, the efficiency and effectiveness of Scopa is questionable.

The above situation undermines the oversight role of Scopa. In an interview, the chairperson of APAC cites that oversight becomes critical in Africa because oversight is a means to an end, and the end is service delivery. The technical staff should also support parliamentary oversight through upgrading skills. Concerns regarding research and capacity, including the efficiency of Scopa were raised. He said the challenge was to attract skilful researchers and develop a retention strategy because the turnover rate was high, particularly for skilful researchers. He also stated that the above challenge had destroyed research in Parliament and the functioning of Parliament. Therefore, parliamentary capacity could be affected. It is also important to take into account international trends as explained in Table 6.1 because these could be regarded as fundamental reasons for inefficiency and lack of research capacity within Scopa and Parliament in general. Scopa therefore has to first scrutinize its internal environment or institutional arrangement in order to efficiently and effectively serve the public according to its constitutional mandate and the rules of the National Assembly.

With reference to institutional environment and analysis of the National Assembly, Scopa in particular, parliamentary oversight could be compromised and the role of Scopa could be negatively affected. One of Scopa's reports submitted to the National Assembly alluded to the following:

- a) Much of the work handled by Scopa is of a complex nature and has to be handled in a very responsible manner;

- b) The workload which members of the committee are required to process is enormous, unmanageable, unreasonable and untenable;
- c) regarding the accountability chain, Scopa notes that the AG's responsibility ceases after reported to parliament, the critical final link in the accountability chain is provided by Scopa in holding people accountable and making recommendations to parliament; and
- d) Scopa believes that its role is critical and as a result, without the above link provided by the committee, hundreds of millions of rands would be wasted, mismanaged and often go unnoticed and unchecked (Parliament of the Republic of South Africa, 1999:2).

Commenting on the above issues, it is evident that Parliament acknowledges that it is faced with operational problems regarding the functioning of Scopa. For example, research shows that Scopa, members in particular, are faced with issues like the technical nature of tasks to be performed by Scopa members, the number of audited reports to be scrutinised in relation to the number of Scopa members and follow-up by Scopa after a report has been presented to Parliament.

The issues raised above stress the fact that oversight is undermined if Scopa cannot technically deal with audited reports from the Auditor-General. Follow-up systems are not in place from both the AG and Scopa in ensuring that government departments are accountable. Governance in the Public Service could be affected if Scopa fails to detect issues relating to poor financial management, fraud, corruption, poor systems and internal controls due to capacity and the technicality of the nature of work and overload within Scopa. Deficiencies within the institutions of governance like Parliament, Scopa in particular, could have a negative effect on good governance on the one hand and institutional integrity on the other.

Additionally, during the study, it was observed that South African parliamentary oversight, Scopa in particular, are faced with operational problems such as:

- a) A lack of research capacity in Parliament, Scopa in particular. During the research, it was noticed that only one researcher was attached to Scopa and was also responsible for the Portfolio Committee on Finance in the National Assembly (NA). It was noticed that the Scopa researcher was overloaded in the sense that financial statements of government department and public entities had to be analysed, provide technical

- advice to most members of Scopa, including the chairperson and still had to provide technical advice to the Portfolio Committee on Finance;
- b) The above situation could undermine the oversight role of Parliament, Scopa in particular. Undoubtedly, one person as a researcher could not cope with the above overload or lack of capacity in Parliament, the Scopa in particular;
 - c) It was noticed that other officials supporting in the committee members were more involved in administration than content and technical advice in the committee. For example, at the time of the research the committee had one control secretary who is more of a supervisor than a technical adviser, one researcher who provides technical advice, two control committee secretaries who are more involved in report-writing and one secretary to the Chairperson of the committee; and
 - d) In total, only five people serving the committee and 99% of them are involved in administration and secretarial, work not on technical issues relating to auditing, accounting or public finance in general.

These observations become crucial to conclude that Parliament, Scopa in particular, is faced with structural problems that are institutional-based. Responding to the nature and form of the Public Service, which currently the public, could solve the above organisational problems. Therefore, paradigm shifts within the Public Service must be understood and Scopa and its staff should respond positively to such evolving Public Service, public finance management system in particular.

Adding to what the South African National Parliament is experiencing, a general African perspective is provided. A fourth Africa Governance Forum (AGF-IV) was held in Uganda, Kampala in September 2000 where most African countries met and discussed issues related to governance. Some of the pertinent issues were identified in relation to various parliamentary systems, especially capacity within parliaments in Africa. The report recorded that almost all the countries recognised a need to train members of Parliament on specific tasks and provide parliament with skilful and adequate support staff, including research facilities. It was also reported that in 1997, the Ugandan Parliamentary Commission is responsible, among others, for research, and each final year assist in preparation of revenue and expenditure estimates for Parliament to facilitate budgetary oversight. Additionally, Benin and Chad called for developing relations between parliaments and universities for both research and training, particularly parliamentary staff. In an interview, Zepe (2006), a

researcher for Scopa, also raised issues relating to capacity, poor technical and conceptual skills particularly with Scopa, due to the fact that committee members change yearly and new members join the committee. However, the new Scopa members undergo an induction course that is aimed to enhance their technical skills regarding auditing. This implies that there is no continuity within the committee and other new members might not have been exposed to auditing, accounting or public finance in general. Beukman, (2005), the former chairperson of the Standing Committee on Public Accounts, also confirmed in an interview, some deficiencies relating to parliamentary oversight, namely research capacity, members of Parliament who also belong to other committees, lack of continuity regarding Scopa members, including chairpersons deployed to Scopa. Beukman (2005) stated that some members prefer to participate in other 'active' committees rather than a technical committee like Scopa. He mentioned the lack of the system regarding follow-up from spending departments and audit queries.

With regard to leadership, Zepe (2006) also noted that once a new chairperson is introduced, the committee starts to learn and adopt a new approach, a new leadership style and vision. In the South African system, the Scopa chairperson is required to belong to an opposition party not from the ruling party. The ANC has to ensure accountability and transparency and both transparency and accountability are crucial as elements of good governance. The above situation with regard to a continuous change of members of Parliament and chairperson is a political issue which could not be easily avoided because Parliament or legislature operates within a political environment. It becomes the duty of parliaments and its members to develop political risk management systems that could guard against such situations. If the political environment is not managed properly it could have a negative effect on the institutional environment or on Scopa itself and undermine the efficiency of the committee and governance in general.

6.4.9 Decision-making

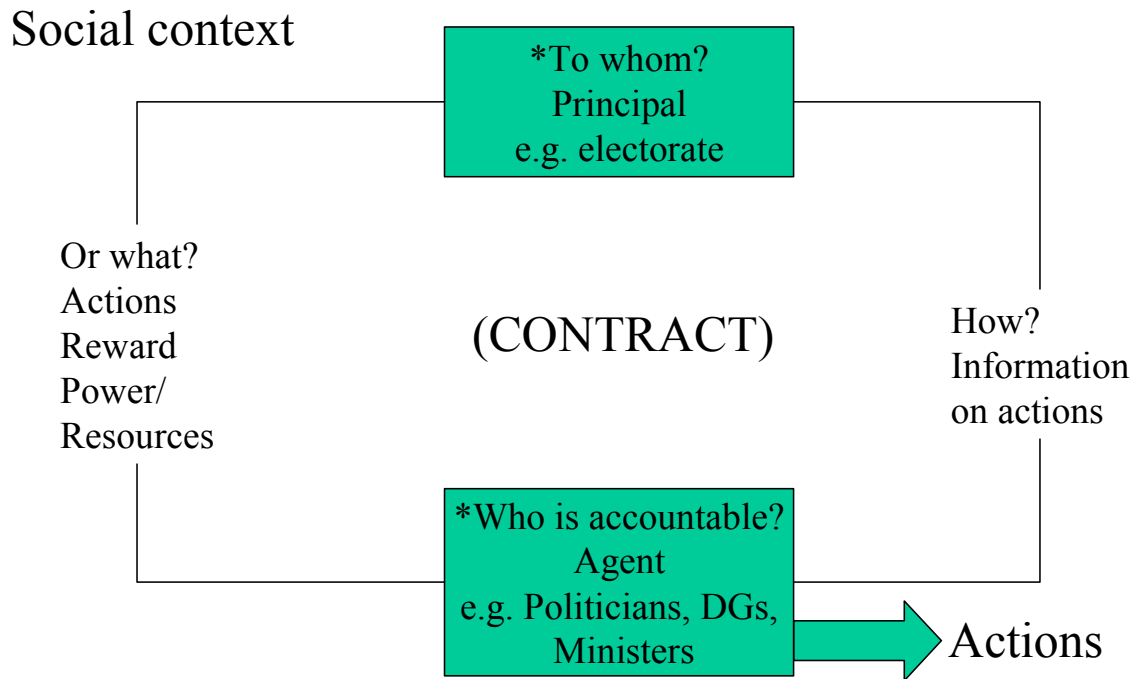
Decision-making by the managerial leadership seems to be a major problem in the South African Public Service. During the study, it has been detected that there are national and provincial departments which are reluctant to make decisions on financial matters. In some situations, it would appear that proper analysis of a decision as a process that demands skills is not done because a decision is taken out of a number of alternatives. Starling (2002:231) states that decision-making involves selecting one course of action from various alternatives.

Therefore, it becomes significant for the managerial leadership within a department to apply some other decision-making techniques like the cost-benefit analysis (CBA) technique to make sure the process of decision-making has been thoroughly interrogated and a constructive decision has been taken. An application of CBA helps decision-makers to choose what could be beneficial or costly and therefore risky for both an organisation and the public. In his analysis of decision-making, Starling (2002:237) explains that in an era of scarcity, there is more interest in weighing costs against benefits. In essence, Starling's view could be based on the fact that sometimes decisions taken do not always result in a positive outcome so that further decision analysis is applied in order to weigh costs against benefits. It is in this context that risks related to a decision could be managed. Therefore, risk assessment should be taken prior to a decision-making process so that any financial, political or social risk is managed effectively and efficiently.

6.4.10 Public accountability

Figure 6.6 shows accountability responsibilities between the public and institutions of governance, particularly Parliament or legislature. However, a contractual obligation between the legislature and the public could only be effective if the members of the executive (MEC's), National ministers and accounting officers become answerable to their respective legislatures or the Parliament.

Figure 6.6: Relationship between the public and institutions of governance



Source: Sangweni (2004:1)

Governance in relation to compliance becomes effective if the public sector entities have a robust corporate governance arrangement, including financial management and control measures, in place (Barret, 2001:5).

Barret's view supports the effective vertical accountability between the executive and legislature in order to support governance with regard to expenditure management, internal controls and performance information. For effective oversight, Parliament has to inculcate a culture of accountability so that it serves its purpose and mandate effectively. Accountability is crucial for effective and efficient service delivery, as well as the establishment of organisational purpose (McNamee, 2002:1).

In most governments, even in the South African government, there is separation of powers that ensures checks and balances between executive and legislature. The function of oversight of the executive is important because the budget is approved by Parliament and the executive is responsible for reporting on the effective use of the budget allocated. This state of

affairs requires an effective and efficient form of oversight that has systems that ensure that financial accountability and transparency are taken into account.

6.4.11 Auditing

McKinney, Jones & Pindlebury (in Visser & Erasmus, 2002:324) provide two different perspectives of auditing. McKinney describes *auditing* as a process concerned with collection and thorough analysis of the underlying information or evidence designed to render an independent, informed and professional opinion about the representation and assertions made in management reports and supporting documents. Jones and Pindlebury define *auditing* as the independent examination of and expression of opinion on the financial statements of an enterprise (institute) by an appointed auditor in pursuit of that appointment and in compliance with any relevant statutory obligation.

The above arguments regarding auditing are essential in understanding fundamental aspects of auditing as a profession that puts more emphasis on credibility, authenticity, examination of non-compliance with regulatory frameworks and presentation of organisational information, including financial statements, and organisational reports as supporting documents during the auditing process.

6.4.11.1 Internal and external auditing

As indicated earlier, namely that good governance becomes effective when internal and external auditing functions effectively, risk management and effective internal controls progressively become a day-to-day culture of an organisation.

Additionally, once materials and personnel are utilised within their limits, activities are executed in an effective, efficient and economical way.

Normanton (1966:113) presents the following comparison between internal and external auditing as an illustration of their significance in an organisation:

Figure 6.7: Difference between internal and external auditing

INTERNAL AUDIT	EXTERNAL AUDIT
1. Internal control	1. Legality of expenditure
2. Fraud detection	2. Determine if expenditure exceeded the appropriation limit
3. Procedural inconsistency	3. Assure compliance with legislative intent
4. Provide a means to recommend final control and agency procedures to management	4. Ensure compliance with acceptable administrative and accounting practices and procedures
5. Provide thorough audit of accepted standards	5. Assess efficiency of the operation and determine programme effectiveness

Source: Adapted from Normanton (1966:113)

According to Chun (1997:247) *internal auditing* is an integrated part of the process of accountability, its general objective is to ensure and promote the effective performance of accountability assumed by the management of an organisation. He further identifies three important conditions necessary for achieving the functions and objectives of internal audit, namely independence, organisational status and objectivity. Lastly, he states that internal audit itself is a special kind of control function over other controls within an organisation.

With regard to *auditing*, audits fall into general classifications that are financial or compliance audits and management or operational audits. Different forms of audits are classified as follows:

- a) Financial audits examine financial statements and accounts as well as documents supporting the financial actions with the primary purpose of assessing the financial position of the organisation.
- b) Compliance audits determine if laws, regulations, or other requirements have been met.
- c) Management or operational audits, however, have as their primary objective the determination of the efficiency and economy exercised in the use of resources and whether desired results have been effectively achieved (Chun, 1997:391).

Jones and Pendlebury (in Visser and Erasmus, 2002:330) define *internal auditing* as an independent appraisal function within an organisation for the review of activities as a service to all levels of management. It is a control which measures, evaluates and reports upon the effectiveness of internal control, financial and other, as a contribution to the efficient use of resources within an organisation.

The above definition illustrates that internal auditing seeks to evaluate an organisation in order to ensure that a department or an entity is managed properly, adheres to government policies and regulations and manages and protects its resources efficiently and effectively.

a) Internal auditing

In their assertion, Jones and Pendlebury (in Visser and Erasmus, 2002:330) believe that the responsibilities of internal auditing is to review, appraise, and report on:

- i. a) the soundness, adequacy, and application of internal controls;
- b) the extent to which the institution's assets and interest are accounted for and safeguarding from losses of all kinds arising from fraud, waste, and inefficient administration; and
- c) the suitability and reliability of financial and other management information generated within the institution.

b) External auditing

External control is concerned with an independent examination of, and expression of an opinion on, financial statements of the organisation. Thus, an external auditor has a broader mandate to examine aspects such as:

- i. a) adequacy of the internal control system;
- b) compliance with statutory, regulatory or contractual requirements;
- c) economy, efficiency and effectiveness in resource use that is value for money auditing; and
- d) environmental practices (Abedian, Strachan and Ajam, 2001:148)

To conduct research or audit and assess a department or an entity using efficiency and economy auditing, Jones & Pendlebury (in Abedian, Strachan & Ajam 2002:149) provide the following:

An auditor may consider if a department or an entity is:

- a) following sound procurement practices;
- b) acquiring the appropriate type, quality and amount of resources when needed at the lowest cost;
- c) properly protecting and maintaining its resources;
- d) avoiding duplication of efforts by employees and work that serves little or no purpose;
- e) avoiding idleness and overspending;
- f) using operating procedures; and
- g) using the minimum amount (staff, equipment and facilities) in producing or delivering the appropriate quality of goods and services promptly.

6.4.12 Accounting systems

Accounting is an 'art' of analysing, recording, summarising, evaluating and interpreting an organisation's financial activities and status, and communicating the results. Accounting is one type of information system which usually contains mostly financial information on the receipt of funds and their expenditure (Lee Jr. & Johnson, 1998:309). This view suggests that for accounting to be effective within an organisation, financial information with proper information systems and effective record management is crucial as the data mostly reflects the financial position of a department about the management of revenue, and illustrates expenditure patterns.

In ensuring public accountability in government, accounting standards require fair presentation and full disclosure (Allen, 2002: 11). Therefore, government departments must provide full and valuable information to the public either through their annual reports or interaction with the public about their activities. This could promote public accountability and good governance.

A sound and transparent budgeting and accounting architecture is a fundamental building block for good public sector governance (Matheson, 2002:37). Meigs et al., (1998: 3) define *accounting* as a means by which economic activities are measured and described. *Accounting* is further defined as consisting of collecting and recording economic data relating to an entity, and processing it to produce useful economic information, communicating and interpreting

information to interested parties (Melville 1997:1). With reference to Melville's analysis, economic data collected regarding assets, liabilities, revenue management and expenditure trends could be relevant for interested parties like Parliament, the Auditor-General and the audit committee. When such economic or fiscal information is publicly known, it strengthens fiscal accountability as one of the elements of good governance.

In terms of section 87 (1) of the PFMA, the National Treasury has established Accounting Standards Board (ASB) in order to set standards of generally recognised accounting practice (GRAP) which is also required for the annual financial statements of, among others, departments, public entities, constitutional institutions and municipalities (Public Finance Management Act, 1999:85). Section 216 (1) (a) of the Constitution also instructs the National Treasury to prescribe measures to ensure transparency and expenditure control in each sphere of government by introducing GRAP (The Constitution of the Republic of South Africa, 1996:122).

One of the functions of the ASB is to set standards of GRAP for the annual statements of the institutions listed above (Accounting Standards Board, 2004:4) The ASB (2005:9) also believes that accountability is the cornerstone of financial reporting in government as the public has a right 'to know', a right to receive openly declared facts that may lead to public debate. To improve accountability, financial statements should be understandable, relevant, and reliable for users (Accounting Standards Board, 2005:15).

6.4.12.1 Benefits of general recognised accounting practices (GRAP)

- a) GRAP aims to achieve consistency and reliability in financial reporting. The consistency of financial reporting will in turn result in comparability of financial information within an entity or department over time and between different entities.
- b) GRAP increases the understandability of financial information, as compliance with GRAP will ensure that financial statements reflect complete and useful information.
- c) Standardisation of financial reporting both in private and public will be achieved.
- d) Implementation of GRAP will result in enhanced management information available for the effective, efficient and economic management of resources.

- e) GRAP will be the basis of financial training and capacity building, as it will define how and when transactions would be recorded.
- f) The ultimate objective is that GRAP could result in the introduction of accrual accounting and perspectives of GRAP are based on the accrual basis of accounting (Institute of Public Finance and Auditing, 2005:8).

Within the context of GRAP, Matheson (2002:44) distinguishes between accrual financial reporting and accrual budgeting as follows:

- a) the budget is a future-oriented financial plan for allocating resources among alternatives uses, both within the government and between governments, and between the government and the rest of the economy; and
- b) financial reporting retrospectively describes the results of an entity's financial transactions and events in terms of its financial position and performance.

Financial statements show the results of the stewardship of management, and accountability of management for the resources entrusted to it (Accounting Standards Board, 2005:10). The South African Public Service is expected to gradually transforming from a cash-based accounting system towards accrual accounting system. This shift has to take place as the budgeting system has also shifted from a line-item budgeting system towards a performance budgeting system. The following is an outline of both accounting systems. An accrual accounting system supports good governance because it ensures that fiscal accountability becomes a reality as the accounting system requires departments or agencies to provide useful information in their financial statements and efficient management of assets in order to improve financial management.

6.4.12.2 Cash-based accounting System

- a) Cash-based accounting system offers simplicity and objectivity in terms of financial reporting.
- b) Cash-based accounting systems fail to show a proper picture of financial position and performance and therefore this system does not enable decision-makers to look ahead to estimate whether governments can continue to afford the services they currently deliver.

- c) Cash-based accounting systems do not provide information about total costs of government programmes and activities undertaken today.
- d) With regard to asset management, in a cash-based accounting system, there is a tendency to focus on whether or not to spend on new assets rather than on retaining or upgrading them.
- e) However, regarding a cash-based accounting system, it is noticed that cash-based information is credited with being useful for assessing compliance with cash budgets and monitoring and estimating government's resources International Federation of Accountants, 1996:2).

6.4.12.3 *Accrual-based accounting system*

- a) An accrual-based accounting system provides information on the total costs of resources used in the delivery of government services, which is essential information for decision-making.
- b) Accrual-based budgets can create incentives needed in government for improved economic performance.
- c) Accrual-based reporting recognises assets and liabilities in existence as a reporting date.
- d) Accrual-based reporting offers the opportunity for governments to improve their management of assets and liabilities.
- e) Under an accrual system the focus is on whether to retain or upgrade existing assets. Hence, the accrual-based reporting assists decision-makers in having a broader range of options available in managing assets.
- f) It is recommended that government does not make appropriate financing decisions without accrual-based information on financial assets, measured using an objective assessment of their recoverability.
- g) On the basis of measuring performance, accrual-based reporting means recognising revenues and expenses that relate to a reporting period.
- h) Accrual-based reporting also helps to focus governments on management by results as well as management of resources.
- i) On application of the accounting system, the consumption of resources can be weighed against performance.
- j) Budgeting and planning based on the accounting system, are essential in enabling governments to realise benefits from reforms.

- k) Adoption of an accrual accounting system can improve financial transparency, improving the integrity and reliability of reported information (International Federation of Accountants, 1996:2)

Regarding to both accounting systems, it is clear there are that there are fundamental differences on matters relating to fiscal information for decision-making and accountability, effective management of assets and a shift from input-oriented towards the results approach.

In this context the cash-based accounting system is seen as an accounting system that does not provide useful information for decision-making because it is too simplistic and very poor on asset management. In contrast, the accrual system ensures that an agency is able to decide about retaining or upgrading assets that are crucial for asset and financial management. The accrual provides totality about an agency or department, especially its financial stance and the latter is reflected in the department's financial statements.

During the research, it was noted that most departments were continuously receiving qualified reports from the Auditor-General on asset management, debt management, procurement irregularities, unauthorized and under-spending. On the basis of qualified reports, it was mostly evident that departments were not complying both with the PFMA but more specifically with the GRAP. It is was also noticeable that the shift from a cash accounting system to a full accrual accounting system might not happen smoothly in departments and relevant training is highly needed.

6.4.12.4 Transition from cash based accounting system to an accrual system: Some lessons

Even with the evolution of South African public finance management system, accounting systems in particular, the South African Public Service is still faced with the challenge of implementing the accrual accounting system (AAS) in government departments. Research records that problems and challenges regarding the implementation of the accrual accounting system also occur in other countries, more especially during a shift from cash-based accounting system (CBAS) towards an accrual accounting system.

At the same time, there are other factors that influence the nature and speed of transition to the accrual accounting system, for example the system of government and political environment (International Federation of Accountants 2003:20). The system of government as a component of the political environment is crucial in shaping and understanding the environment in which the public sector reforms take place in a country. Hence, it is important for the managerial leadership to study and scrutinise the environment in which Generally Recognised Accounting Practice and Accrual Accounting System will take place and be implemented.

During the transitional stage from cash-based accounting system towards AAS, the following lessons are important, especially for the South African Public Service. These lessons could serve as a 'cushion or shock absorber' in order to make sure the process moves smoothly and related risks are identified, especially risks related to the implementation of a legislative framework in an institutional environment, for example, the absence of conceptual and technical skills at the level of public servants as agents of change.

To have success with the implementation, the following aspects are crucial:

- a) There must be a clear mandate from government, which gives relevant officials and entities the power to initiate and oversee the reforms;
- b) To implement the accrual system, there must be political commitment because without this commitment or if it is not established early in the process, inability to overcome problems later in the process may result in scarce resources being wasted;
- c) The implementation of the accrual system also demands and requires adequate resources and a variety of skills in order to manage and maintain a change to the accrual basis of accounting. An agency or department should have individuals with project management expertise; the latter involves splitting the project into separate components that could be managed by individuals with appropriate skills and experience. In managing project-based reforms, the project should have a framework for the shift from CBAS towards AAS detailing the implementation strategy or approach. The approach should serve as a basis for communicating these accounting reforms so that public servants can understand the reasons for a shift or reforms;

- d) Additionally, in relation to skills, there should be key personnel who understand the relationships between the different elements of the reform process. There should also be individuals with an understanding of and experience in accounting policy issues and systems requirements;
- e) There should also be adequate funding for additional resources required, including additional staffing, acquisition of specialist skills and the development and installation of a financial information system;
- f) There should be project milestones regarding the implementation of the accrual system and within the project there must be a monitoring system that will track the implementation and performances of individuals and agencies. For example, it is recorded that other countries such as the Philippines and Thailand developed the so-called 'trigger points', which are series of documented criteria that agencies must meet at certain stages of the project; and
- g) The implementation of the Accrual accounting system should also take into account technological capacity and information systems because change in financial reporting and accrual financial reporting in conjunction with other public sector reforms often involves changes to a wide range of information systems like revenue system, asset management and budget system, and non-financial systems (International Federation of Accountants, 2003:27).

With specific reference to accounting systems, a shift from the cash accounting system to the accrual system has to be managed carefully because it impacts on financial reporting and asset management. Reporting has to be based on the standards set up by the Accounting Standard Board and it is therefore crucial for departments to align their internal operations, particularly planning, budgeting and asset management, and ensure that information contained in the annual reports reflects compliance with the accounting standard board, generally recognised accounting practice and accrual accounting system. What is therefore crucial for the South African Public Service is to ensure that demands posed by developments regarding accounting systems specifically, and public finance management in general, are linked to institutional environments in each government department. Failure or inability to align could result in endless or continuous submission of qualified reports by the Auditor-General to

respective departments and to National Assembly, Scopa in particular. Therefore, the above lessons should be used by the South African Public Service as a basis during the process of shifting towards accrual accounting system. The National Treasury with the assistance of Accounting Standards Board and Auditor-General should lead in the process, as institutions of governance and the managerial leadership should technically support the reforms.

6.4.13 Monitoring and evaluation

Monitoring and evaluation (M&E) of government programmes and systems is beneficial for both the organisation being evaluated and the evaluation entity. The Public Service Commission (2005:58) notes that monitoring and evaluation is a key tool for effective governance and provides the information essential for transparency and accountability.

Kusek & Rist (2004:13) argue that at programmes evaluation level, the fiscal management of the government's systems could be considered. This means that in ensuring good governance, programme evaluation, among others, must focus on financial management and government systems.

Performance measures and indicators provide the vital tools for monitoring and evaluation whether or not organisational objectives are realised (Abedian, Strachan & Ajam, 1998:92).

An evaluating entity could also ensure that government performance provides useful financial and non-financial information for decision-making, planning and administration of public affairs. What is crucial in monitoring and evaluation, especially within the context of the 'new public management' model that has been applied and is still being applied by some countries worldwide, is that South Africa as part of global village is also part of this paradigm shift. The said paradigm shift, among others, proposes a managerial, outcomes-focused and value for money-oriented service delivery. Therefore, what is important is an evaluation and monitoring system that is conceptualised or based on the features of the paradigm shift given above, more especially a shift that is based on an outcomes or results model.

Due to political, economic and social demands, monitoring and evaluation should be outcomes-based or have an impact perspective so that the service delivery framework of a country could be assessed on the basis of whether services to people are delivered

appropriately, effectively and efficiently. Kusek & Rist (2003: 13) agree that the aim is to determine the relevance and fulfilment of objectives, development efficiency, effectiveness, impact and sustainability.

With reference to the comparative analysis of evaluation and monitoring, it is argued that monitoring gives information on where a policy, programme, or project is at any given time, relative to respective targets and outcomes. On the other hand, evaluation gives evidence of why targets and outcomes are not being achieved and causality is central is this particular aspect, that is evaluation (Kusek & Rist, 2004:13). Based on its constitutional mandate, the PSC monitors and evaluates the Public Service; it uses the constitutional values of section 195 as an assessment tool. The second principle deals with efficient, economic and effective use of resources. The PSC has drawn some performance indicators regarding these constitutional principles. The following is an illustration of one of these constitutional principles, which is the second principle in section 195 of the Constitution.

Table 6.11: Performance indicators for constitutional principles

Constitutional Principle	Performance indicator
Efficient, economic and effective use of resources must be promoted.	Expenditure is according to budget. Programme objectives are achieved.

Source: Public Service Commission News Magazine (2004)

Table 6.3 illustrates the commitment of the South African Government to good governance. However, the challenge about the above constitutional principle lies on its application and understanding of these concepts of efficiency, economic and effectiveness by public servants in general and managerial leadership in particular. Technical understanding of these concepts could help the Public Service in general to link input-output-outcome within the daily implementation or operations of government programmes. For example, an evaluator will not be able to analyse any performance indicator or conduct monitoring and evaluation project if the valuator is not conceptually and technically equipped.

6.4.14 Decision- making

Decision-making in governance should serve organisational purposes including organisational strategic direction. Information becomes central in decision-making so that decisions taken are based on authentic evidence. In making such decisions, leaders must be informed because such decisions support appropriate systems in order to ensure that resources are used legally and efficiently (office for Public Management & the Chartered Institute of Public Finance and accountancy, 2004:15). Regarding decision-making, it is important that organisations or departments have reliable or accurate information so that options or alternatives are made on the basis of such credible information. From an organisational point of view, cost-benefit analysis (CBA) is important. In forecasting, it helps to understand if costs related to a particular decision or project are too costly or beneficial for an organisation, and risks related to such a decision. Hence, it is equally important to draw an analysis between personal and organisational decisions. It is because the former undermines good governance and the former promotes organisational efficiency if operational risks are calculated accurately in the process of decision-making. However, organisational decisions are expected to apply CBA but it is not mandatory that all organisations have to apply CBA as a technique. What is crucial is that in delivering services to people based on public budget or public money, choices or alternatives must be made when organisational decisions are made.

6.4.15 Value for money

Value for money is one of the government principles. It is recorded that public services should be provided economically and effectively in order to give citizens the best possible value for money (White Paper on Transformation Public Service Delivery, 1997:5).

The 'value for money' concept focuses on achieving the goals of an institution at lowest cost and utilising the most appropriate resources to attain them (Visser & Erasmus, 2002:327). In its analysis of good governance, the office for Public Management & the Institute of Public Finance and Accountancy (2004:8), agrees that in making sure that taxpayers receive value for money, all organisations that spend public money, either in commissioning services or providing them directly, have a duty to strive for economy, effectiveness and efficiency at work. Regarding the above statements, it is apparent that the 'value for money' principle is

based on three elements, namely economy, efficiency and effectiveness or the three E's. Therefore, governance could be negatively affected if value for money (VFM) is not taken into account as it could serve as a measuring tool for government performance and assists in performance auditing. Measuring public service is always important for day-to-day service management, operational and strategic planning, budgeting, and accountability for the public (Hozer, 1992:161).

6.4.15.1 Value for money: Service delivery framework

Value for money has both qualitative and quantitative dimensions. In the case of service provision, application of a qualitative analysis with regard to a particular service is crucial and relevant. Quantitatively, for public managers, the notion value for money means the number of issues, such as decisions on the type of service to be delivered and decisions on the sourcing of inputs (Abedian et al., 1998:82). Therefore, analysing value for money is crucial because it is fundamental in identifying whether a service that was provided was of an acceptable standard.

Abedian et al., (1998:82) further argue that cost-effectiveness is closely linked with the notion of value for money in the case of public services. Cost-effectiveness analysis requires an examination of efficiency, effectiveness and economy or the three E's in conjunction with quality service. In some instances, in measuring performance in the Public Service, value for money becomes a crucial aspect. Among others, with its performance auditing, the Auditor-General examines whether government resources are used efficiently, effectively and economically. In that context value for money is measured regarding service delivered. However, quality or service standards are not adequately measured by relevant institutions due to the fact that the mandated institutions work in silos, yet poor financial decisions continue to be the order of the day, particularly on procurement and other projects related to unauthorised and wasteful expenditure.

In its monitoring and evaluation system, the Public Service Commission (PSC) is also evaluating value for money through section 195 of the constitution, sub-section 1(a), namely that "efficient, economic and effective use of resources must be promoted".

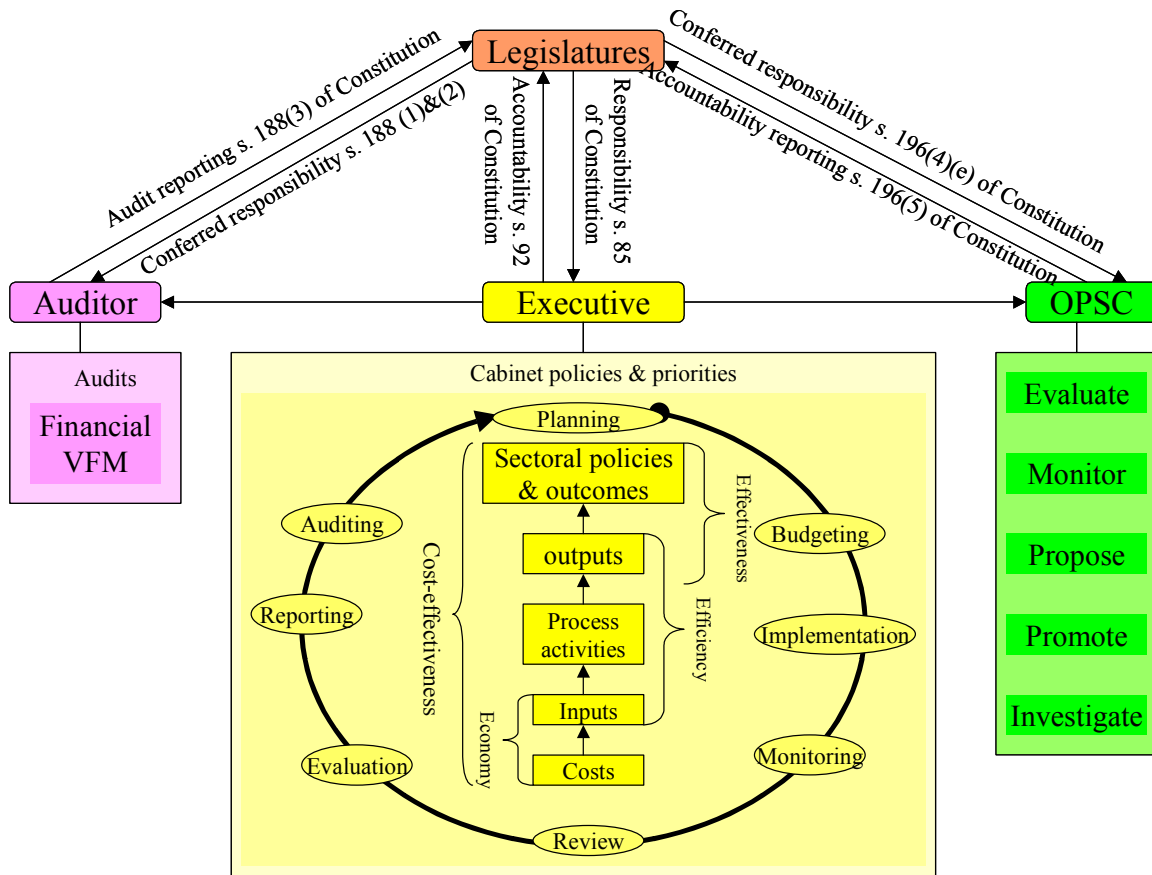
In its state of the Public Service Report, the Public Service Commission (2004:18) comments that assessing whether government is performing efficiently, economically and effectively is a complex task that needs to be linked to strategic planning, budgeting, performance management and service delivery. However, to deal with the PSC's comments a performance measurement framework is critical so that the assessment of value for money in the delivery of services is conducted comprehensively. The diagram below reflects the relationship of the PSC's mandate to assess value for money in the Public Service through the office of the Public Service Commission (OPSC), the Auditor-General and Parliament. Such a relationship is crucial to ensure that taxpayer's money is well spent and a quality service has been provided and government resources are used economically, efficiently and effectively. As indicated earlier that among others, the PSC is constitutionally mandated to evaluate and monitor policies both nationally and provincially. Additionally, earlier in the study it is indicated that the PSC has developed its monitoring and evaluation and it uses section 195 of the South African Constitution. As indicated above, one of the values in the Constitution, in section 195, states that "efficient, economic and effective use of resources must be promoted". In this context value for money is measured and evaluated. Therefore, three institutions, namely the Auditor General, Public Service Commission and Parliament, have the responsibility to make sure that the 'value for money' (VFM) principle' is adhered to in the Public Service.

The promotion of the three E's in utilisation of resources is the one in which performance management and budgeting are integrated and linked to both strategic planning and actual service delivery. Actual performance is independently and objectively evaluated against plans and reported for continuous improvement (Public Service Commission, 2002:2).

To ensure VFM, the Figure 6.8 below shows that the formulation of a strategic plan with the mission, vision, outputs and outcomes of a department and budgeting should be linked to a strategic plan so that service delivery plans are implemented. What is also more important is the monitoring and evaluation of performance of a department in order to ascertain where a department is working according to strategic plans.

Such evaluation should not only focus on financial information but also on non-financial information. Performance measure and indicators serve as an important vehicle for monitoring process (Public Service Commission, 2002:4).

Figure 6.8: Value for money: service delivery framework



Source: Adapted from unpublished Public Service Commission Report (2002:6)

On the basis of the above VFM auditing, performance indicators have been introduced to secure the economy, efficiency and effectiveness (Brown and Jackson, 1978:207-209). Therefore, the Auditor-General performs an audit on the basis of VFM to determine if a department has taken into account the three E's in the delivery of services.

6.4.16 Conclusion

An analysis of governance within public finance is paramount because if such an analysis is not taken into account, good governance elements such as accountability, responsibility and transparency could hardly be reached. However, even the above elements need to be conceptualised, meaning they have to be linked to, among others, budget reporting, budgeting, strategic planning and financial management within the Public Service.

What is most important is the functioning of institutions and structures of governance because governance in general and public finance in particular must be driven and supported by institutions. For systems to be strong and effective, institutions and structures must support governance, especially within the context of the PFMA. For example, audit committees, internal auditing units, the Auditor-General, and the Standing Committee on Public Accounts, are fundamental in supporting governance because the weaker these structures or institutions, the more poor governance and systems in a department. Once systems become weaker, there is a likelihood that corruption and fraud are easily identified. What is outlined also depends on how the department interprets and understands the legislative frameworks so that what is captured is understood and practised, complied with, and implemented. Compliance is crucial in supporting these institutions and structures but it depends on the skill of the public servants in supporting governance. Skills should be both conceptual and technical so that there is a correct application of Public Service prescripts. Therefore, implementation of governance systems is important because they bring about good governance in the Public Service. Elements of governance in relation to public finance have been discussed in the chapter. To have an effective governance system in the context of PFMA, management in the Public Service must be able to plan and budget properly, manage debt efficiently, understand and manage organisational risks, including asset-related risks, develop and monitor systems and internal controls. It is important to support the hypothetical issues raised in chapter 1 by providing findings in relation to how effective governance and leadership in the South African Public Service are. These findings are discussed in chapter 7.