

**Leadership and governance in the South African Public Service: An
overview of the public finance management system**

by

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DEDICATION

I would like to dedicate this PhD thesis to my dear sister Nandipha 'Namhamha', who passed on while I was busy working on my first chapter. *May her soul rest in peace.*

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LIST OF ABBREVIATIONS

AAS	accrual accounting system
AFS	annual financial statements
AG	Auditor-General
ANC	African National Congress
APRM	African Peer Review Mechanism
APAC	Association of Public Accounts Committees
ASB	Accounting Standards Board
BAS	basic accounting system
CBA	cost-benefit analysis
CBAS	cash based accounting system
CFO	Chief financial officer
COSO	Committee of Sponsoring Organization of the Treadway Commission
CPAR	Country Procurement Assessment Review
CIPFA	Chartered Institute of Public Finance and Accountancy
DAC	Development assistance committee
DoRA	Division of Revenue Act
DPISA	Department of Public Service and Administration
DTI	Department of Trade and Industry
DWAF	Department of Forestry and Water Affairs
FFC	Financial Fiscal Commission
FMS	financial management system
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
GEAR	Growth, Employment and Redistribution
GFS	government finance statistics
GRAP	generally recognised accounting practice
HDI	Historically disadvantaged individuals
HoD	Head of Department
LOGIS	Logical Information System
IDASA	Institute for a democratic alternative South Africa
IFP	Inkatha Freedom Party

IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
MBO	Management by objectives
M & E	monitoring and evaluation
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MTDF	Medium Term Delivery Framework
MTEDF	Medium Term Expenditure Delivery Framework
MTEF	Medium Term Expenditure Framework
NACF	National Anti-Corruption Forum
NA	National Assembly
NEPAD	New Partnership for Africa's Development
NERF	New economic reporting format
NP	National Party
NPM	New Public Management
NT	National Treasury
OECD	Organisation for Economic Co-operation and Development
OAG	Office of the Auditor-General
OPM	Office for Public Management
OPSC	Office of the Public Service Commission
PC PSA	Portfolio Committee on Public Service and Administration
PEM	public expenditure management
PFMA	Public Finance Management Act, 1999
POSDCORB	planning, organisation, staffing, directing, coordinating, reporting and budgeting
PP	Public Protector
PPB	Planning, programming, budgeting
PPPFA	Preferential Procurement Policy Framework Act
PPP	public-private partnership
PRC	Presidential Review Commission
PSC	Public Service Commission
RBM	results based management
RDP	reconstruction and development programme
RM	risk management

Scopa	Standing Committee on Public Accounts
SDDS	special data dissemination standard
ScoA	Standard Chart of Accounts
SCM	supply chain management
SMMEs	small, medium and micro enterprises
SMS	senior management service
SOPSR	State of the Public Service Report
Three E's	economy, efficiency and effectiveness
SWOT	strengths, weaknesses, opportunities and threats
UNDP	United Nations Development Programme
VFM	value for money
ZBB	zero-based budget

ABSTRACT

Leadership and governance have been under scrutiny and the object of debate for decades in public and private sector, as well as in Public Administration discourse in general. Such debates are fuelled by theories that seem to be embedded within Public Administration. It is because both practitioners and scholars of Public Administration continue to allude to underpinning theories, even in modern public administration, regarding bureaucracy or organisational design, decision-making, leadership, the human element in public administration, systems, policy and environmental analysis, as well as their importance in public administration.

The aforementioned aspects are regarded as pillars in conceptual analysis of public administration and become useful in understanding the role of leaders in public organisations, the importance of systems to improve governance and understanding of public finance in public administration. This will in turn lead to an understanding of public financial management systems in order to ascertain whether the government departments do apply, understand and comply public financial management systems as crafted within different policy frameworks. Such a conceptual analysis of public administration is crucial to this research as it provides a fundamental theoretical framework for the study. It gives meaning to 'public finance in public administration' and also put the study into the context of public administration. What is to be borne in mind is that public administration does not operate in a cocoon, but is exposed to environmental factors like social, economical, political and technological factors.

It is therefore significant that public servants, the leadership in particular, display a high level of ability to analyse and scrutinise such an environment because the latter has an influence on internal departmental operations, the approach to service delivery and policy frameworks in general.

This research also shows that there is a shift from traditional public administration towards public management. The former is regarded to be focusing on rules, control, strict procedures and inputs instead of results (outcomes) and the latter is known for innovation in service delivery, flexibility and accountability and the promotion of managerialism. The study reveals that the South African Public Service through its reforms has adopted public 'management' instead of 'administration'.

Such reforms are explicitly reflected in its evolving public finance management systems that originate from the South African Constitution, 1996 and implemented by Public Finance Management Act (PFMA), 1999. It is in this context that the PFMA is observed as a model of governance in the Public Service and also used as a case study throughout the research. In explaining governance from the public finance perspective, institutions and structures that support governance are identified, integrated approach to risk management is also identified in order to support the theory of governance and its application in the Public Service. Therefore, the study analyses leadership, particularly the managerial leadership by focusing and scrutinising on senior management service (SMS) in the South African Public Service, as well as governance. The PFMA will be used as a case study by taking into account public finance management systems in the public service.

CHAPTER 1

RESEARCH PROBLEM AND RESEARCH DESIGN

1.1 INTRODUCTION

Leadership is a contentious subject in public administration and private administration discourse. Forms of leadership, such as traditional, political and organisational or managerial leadership, are also generally prevalent in public administration. Respectively, such forms of leadership operate within a particular society. For example, traditional leadership operates within chieftainship and headmen and is mostly found at local government sphere. In the context of this study and research, political leadership is sometimes referred to as the national minister or Member of the Executive Council (MEC) and managerial leadership refers to managers within an organisation or department. Throughout the study, leadership will be discussed within the context of managerial leadership in relation to governance in the South African Public Service. Within a managerial leadership context, the research analysis is confined to the level of director up to a head of department or accounting officer as senior managers.

As with leadership, governance has been an area of debate in the field of public administration and the private sector for decades. Relatively speaking, the focus has been on the definition of *leadership* and the role that has been and will have to be played by leaders, including strategies to improve governance in the public sector. Through conferences and dialogue between various governments both in Africa and abroad, discussion relating to leadership and governance has been and still is the order of the day in an effort to shape the performance of governments.

As a result, both in Africa and internationally, reforms have taken place in one way or another to ensure that governments remain ideal and real avenues for ensuring accountability, transparency, responsibility, and that ethical conduct remains the ethos of good governance. This is proof that managerial leadership is responsible for good governance. To contextualise the study, conceptual analysis in public administration as a field of study is provided because findings have shown that some public administration theorists' background influences their theories on managerial leadership and governance.

In the field of Public Administration, some theorists such as Woodrow Wilson, Marx Weber, Gulick and Urwick, Taylor, Fayol and Chester Barnard influenced paradigm shifts. Theories generated from the above theorists are still under discussion in contemporary Public Administration, for example, Woodrow Wilson explains “political and administration dichotomy” and its implications in public administration. Max Weber also explains how “bureaucracy or organisational design” influences departmental internal operations. Gulick and Urwick explain “managerial role” and its dynamics. Finally, Chester Barnard provides “leadership” functions in organisations. In the context of public administration discourse, issues relating to governance and administrative theory or science become crucial, because the latter could support governance and administration, being the central focus of public administration.

Additionally, governance without effective managerial leadership becomes futile because governance is a means to an end and the end is the provision of services to the public. Therefore, managerial leaders have the responsibility to support governance and ensure that quality services are delivered, processes to deliver these services are in place, risks are managed, systems and internal controls are effective, evaluated and monitored. In the context of the South African Public Service, like other countries, governance and managerial leadership are still a challenge.

In order to analyse governance and managerial leadership, the public finance management system and its evolution in South Africa and the Public Finance Management Act (PFMA), 1999, as a public finance framework of government, have to be assessed, analysed and evaluated, and proposed model is recommended for the Public Service.

In the study, policy formulation and management at a micro level, and policy implementation, monitoring and evaluation at a macro level are crucial. Because policy merits and demerits could be provided. The public financial system in the South African Public Service could ascertain whether managerial leaders are capable of ensuring good governance in the Public Service.

An analysis of a policy, both at a micro and macro level, is crucial to provide policy perspectives, especially to the extent of compliance or non-compliance.

Such policy analysis is also essential in assessing and evaluating whether, among others, elements of governance in relation to public finance, such as decision-making, expenditure management, risk management, managerial leadership, ethics, monitoring and evaluation in the Public Service, are adhered to.

To understand the system of government and the effectiveness of managerial leadership in the Public Service, the study will provide an overview of public finance management system; the PFMA will be used as case study to assess both the effectiveness of managerial leadership and governance in the South African Public Service.

Throughout the study, the role and responsibilities of managerial leaders and government as reflected in the PFMA will be the central focus and will be analysed, especially by taking into account the transformation or evolution of public finance in South Africa. Throughout the thesis, 'the Public Service' refers to the South African Public Service.

1.2 PROBLEM STATEMENT

Transformation has created threats and opportunities in the South African Public Service. Such threats or problematic areas create uncertainty in the Public Service which affect the vision and mission of government. To illustrate some problematic areas, it has been reported that various policies are not properly implemented or that departments lack skills, resources and managerial leadership in implementing policies. Unethical conduct has been identified as of alarming proportions in the Public Service. To deal with some of the aforementioned issues and to ensure that there is good governance and financial management in the Public Service, the government has introduced the PFMA. However, the PFMA and its implementation is affected by non-compliance which could be attributed to a lack of technical and conceptual skills both at managerial level and at other departmental levels, as well as poor decision-making by managerial leaders.

The lack of fiscal discipline, mal-administration, inefficiency, poor planning and budgeting, the weak link between planning and budgeting, poor expenditure management and poor managerial skills could be matters of concern and problematic areas in the Public Service. On the basis of the above, some areas in Public Service governance are severely affected and the role of managerial leaders is also compromised.

1.3 HYPOTHESIS

With reference to public finance management system in the South African Public Service, governance elements are negatively affected, such as expenditure management, risk management, decision-making, ethics, the oversight function of Parliament and compliance with the PFMA. As a result, the challenge of the leaders is how to deal with the above governance elements as they emerge in the Public Service.

To test the aforementioned hypothesis, the researcher has used unstructured interviews with departmental officials, the chairperson of the Standing Committee on Public Accounts (Scopa) and the National Chairperson of Public Accounts Committees.

Furthermore, to test the hypothetical issues discussed above, the official documentation of the Auditor-General, including the scrutiny of the departmental annual reports and other relevant official documents, have been analysed.

1.4 OBJECTIVES OF THE RESEARCH

The study aims to do the following:

- a) provide an understanding and in reference to governance and managerial leadership and also to provide an examination of public finance management system in the South African Public Service;
- b) contribute and generate knowledge on the science of public administration, public finance management systems in particular, with specific reference with to the PFMA;
- c) to review and analyse the PFMA, so that matters related to governance, including managerial leadership, are explained;
- d) to identify threats and prospects that face public finance in the South African Public Service, in particular the implementation of the PFMA; and
- e) to provide a model that could assist in effecting governance and managerial leadership in the South African Public Service.

1.5 RESEARCH METHODOLOGY

The researcher will use various methods in conducting the research. Both qualitative and quantitative methods will be used. The use of these two methods is solely based on the fact that the research seeks to operationalise certain given concepts in order to measure them. To illustrate the significance of the operationalisation of concepts, Mouton (1996:125) records that operationalisation or operational definition consists of linking concepts in the problem statement to the actual environment to be studied. For example, concepts such as *risk management, governance, fiscal accountability and management* are indeed concepts that will be put under scrutiny throughout the study so as to provide some merits and demerits based on the statement of the problem. To test the linkage tools like questionnaires and observations, are very useful in measuring the accuracy and inaccuracy of the hypothetical stance of the study in question.

Furthermore, Mouton (1996:125) also suggests that the above 'linkage' is usually accomplished by constructing a measuring instrument such as a questionnaire, scale, index, test or observation schedule, in which items are formulated to define all the variables in the study operationally. It is in this perspective that operational definition becomes helpful in scrutinising variables and their implication in explaining the statement of the problem in the study.

Furthermore, in order to obtain an in-depth analysis for the study and to operationalise concepts, participant observation will also be explored as it requires that the researcher joins the group of people who are being studied in order to observe and understand their behaviour, feelings, attitudes or beliefs (Bless & Higson-Smith, 1995:43). Therefore, the researcher will be fully involved throughout the study by taking part in relevant or related projects through assessment and participation in departmental projects. This approach could assist the researcher in understanding the approach and attitudes, and observe both conceptual and technical skills of public servants with regard to the PFMA.

The use of these methods will assist in reflecting the profile of a given condition or an activity; both qualitative and quantitative methods will apply. To clarify the application of both qualitative and quantitative research, an understanding of the difference between these research methods is crucial for the study.

In outlining the difference between qualitative and quantitative research, Mouton (1996: 95) states that a variable is *quantitative* if its values or categories consist of numbers and the differences between the categories can be expressed numerically. In contrast, *qualitative* variables have discrete categories which are usually referred to by words or labels, for instance, 'gender' variable has a discrete category as 'male' and 'female' and 'political affiliation' has a discrete category of African National Congress (ANC), National Party (NP), Inkatha Freedom Party (IFP). Thus, quantitative and qualitative research will be central to the study as it will assist the researcher to understand compliance trends with regard to the PFMA, with reference to governance and the effect of managerial leadership as reflected in the PFMA.

Exploratory approach will be used during the study which could allow the researcher to explore public finance as a subject within the field of public administration. It is within this method that the researcher could develop new insights into public finance. In supporting the explanatory method, a qualitative method will be used.

An explanatory approach could also be used so that in-depth analysis of the statement of the problem can lead to the development of new insights, especially on governance and managerial leadership. With reference to exploratory approach, Bless and Higson-Smith (1995:42) explain that the purpose of exploratory approach is to gain an insight into a situation, phenomenon, community or person. In this context, the PFMA, as a case study under scrutiny and analysis is still very new in the South African public sector in general; it became effective on 1 April 2000. To support the use of exploratory approach, Welman and Kruger (1999:24) also believe the movement towards explanatory research could arise out of a lack of basic information on a new area of interest. Exploratory approach is important because the area of study is relatively new and lacks established theories or research findings. Literature shows that research on the PFMA has not expanded significantly in public management discourse.

Interviews, both structured and unstructured will provide in-depth analysis of the research problem given. Field workers will not be used to assist in collecting data.

To illustrate the quantitative approach, the size of a table can be expressed in the number of centimetres, i.e. quantitative data. In contrast, regarding the qualitative method, the colour of a table can be described by its quality of being red or brown, dark brown or white, which

constitutes an example of qualitative data (Bless & Higson-Smith, 1995:100). On the basis of the above analysis regarding the difference between qualitative and quantitative data, the study will assess the positive or negative outcome of the implementation of the PFMA in the Public Service. Therefore, the two research methods will be used as a measuring tool in relation to the role of managerial leadership in supporting governance in the South African Public Service by scrutinising the PFMA and Treasury regulations.

For a qualitative researcher, concepts and constructs are meaningful words that can be analysed in their own right to gain a greater depth of understanding of a given concept. In contrast, a quantitative researcher is likely to choose concepts or even to create words in such a manner that not more than a single meaning can be attached to the word being chosen (Mouton & Marais, 1990:160). Generally, the rationale of using both qualitative and quantitative methods is to get deeper into the study so that the governance and managerial leadership role is understood within the context of the Public Service in general, in particular in relation to the PFMA and the hypothetical issues raised earlier on in the study are tested.

To illustrate the importance of governance and the role to be played by managerial leadership from the perspective of the PFMA, the Department of Water Affairs and Forestry will be used as a case study. A case study is the method of choice when the phenomenon under study is not readily distinguishable from its context (Yin, 1993:3). In this situation, a case study on risk management as one of the elements of governance will be provided by referring to practical situations rather than alluding to some theoretical foundations so that the two concepts are explicitly and contextually analysed. Based on the case study, the role to be played by managerial leaders will be covered. Additionally, the case study is also a way of organising social data and looking at the object to be studied as a whole (Bless & Higson-Smith, 1995:44). Through data gathering, the use of the case study will assist the researcher in gaining insight into the issues raised in the statement of the problem.

1.6 SOURCES OF INFORMATION

As indicated earlier, for this research, information will be gathered through structured and unstructured interviews, and relevant literature will be used.

From the Department of Water Affairs and Forestry, four officials will be interviewed and the officials to be interviewed will be within the senior management service (SMS). In terms of the

Public Service Regulation, SMS includes the director upwards to director-general or head of a department.

The national chairperson of the Association of Public Accounts Committees (APAC) and the chairperson of the Standing Committee on Public Accounts (Scopa) of the National Assembly will be interviewed in order to get an in-depth insight into the merits and demerits of PFMA, with specific reference to the level of compliance by departments in the Public Service, the implementation of the Act, particularly issues relating to the role to be played by managerial leadership on governance and the oversight function of the Parliament. The information gathered from the case study, as well as structured and unstructured interviews would be used simultaneously in order to provide an in-depth analysis of the PFMA, as a policy document that, among others, is aimed at fiscal management and serves as a vehicle for good governance in the Public Service.

The literature study comprises relevant books, published articles, journals, relevant unpublished master's or PhD thesis, government policy documents, Acts, published papers, including conference papers. National Parliament publications such as the Hansard reports and Scopa reports will also be used for the study. Relevant publications from the Office of the Auditor-General will be utilised and analysed during the study.

1.7 SIGNIFICANCE OF THE STUDY

The study could assist in providing a conceptual analysis of public administration in general and public finance in particular. The study will also assist managerial leadership within the Public Service in understanding the weakness of the traditional public administration and the challenges of the new school of thought called the new public management. In this context the study will be of valuable importance in changing the mindset of public officials within the Public Service towards the 'new public management' school of thought.

In reviewing the PFMA, the study could also assist in providing technical information and an understanding in order to ensure that, among other considerations, fiscal management and accountability, the rule of law and responsibility, and the processes are understood and maintained so that governance and service delivery are improved in the Public Service. Additionally, the study could assist in restoring a culture of risk management and compliance in the Public Service. The study could assist public officials, especially managerial personnel,

in understanding the importance of scanning an environment as significant, and in understanding any influence becoming political, economic, social and technological variables. The study could also contribute to some questions in the public administration discourse whether public administration is a science or an art.

1.8 THE LIMITATIONS OF THE STUDY

The study will be affected by time constraints because of the number of issues to be researched, especially on the public finance management system and its evolution in the South African Public Service.

1.9 ORGANISATION OF THE STUDY

The chapter outline of the study is as follows:

Chapter 1 provides an approach of the study by focusing on introduction, problem statement, hypothesis, objectives of the research, research methodology, sources of information, significance of the study, limitations of the study and outline how the study is organised.

Chapter 2 examines and provides the impact of the economic, social, political and technological environment that could affect and impinge on public administration will be examined. Within the text, the socio-economic, political and technological aspects will be analysed so that the public administration-environment discourse is understood within the research context. This examination seeks to provide an insight into the environment when organisational decisions are made either by government officials in general or managerial leadership in particular within public administration. Taking an environment into account is significant as it could have an influence on governance, including systems, especially the process of policy formulation and implementation.

Chapter 3 will explore relevant theories of public administration in order to provide an in-depth analysis and a conceptual understanding of Public Administration as a discipline. The rationale for providing a conceptual analysis of public administration is to provide an insight into the field of public administration and to demonstrate that the study in question falls within the field of public administration. This chapter intends to demonstrate the importance of a

combination between theory and practice in shaping governance and the role of managerial leadership in policy implementation, as practice. This chapter will also demonstrate that Public Administration developed from various theories forming theoretical basis so that issues relating to governance, such as managerial leadership, systems, ethics and political-administrative interface are discussed.

In Chapter 4 attention is given to the finance management systems in South Africa. Public finance analysis and background, as well as policy in terms of PFMA will be studied in order to illustrate policy formulation and management in public administration. A departure from the significance of the change from the Exchequer Act, 1975, to the PFMA, as well as different types of budgeting systems in order to illustrate the budgetary transformation from traditional budgeting that has been an input-process and rule-bound to a performance-based budgeting. The significance of the introduction of the medium-term expenditure framework (MTEF) in South Africa will also be scrutinised. The paradigm shift from the cash accounting system towards the accrual system will be explored; the integration of procurement into a broader public financial management system towards a supply chain management (SCM) model will also be dealt with.

Chapter 5 focuses on the theoretical and conceptual analysis of risk and risk management processes in the public service, and a brief international perspective of risk in the public sector will be provided. This chapter also provides various forms of risks and how they influence government departments and the role of managerial personnel therein. The chapter outlines the importance of analysing external and internal risks and the impact they have on an organisation. Additionally, the chapter will explore any form of risks crucial to the study. The analysis of risk will be of assistance in recommending a particular risk management model within the context of governance in the South African Public Service.

Chapter 6 examines a theory on governance in Public Administration, particularly elements or features of governance in Public Administration. However, it also draws on lessons from the private sector environment, particularly case studies conducted, for example the King Report. Central to this chapter is the comprehensive scrutiny and examination of the PFMA and its regulations in order to provide a comprehensive governance model for the South African Public Service. Among other themes, monitoring and evaluation, compliance, good governance, expenditure management, internal and external auditing, institutions of

governance, both within an organisation and outside an organisation, will be discussed. The chapter will provide a theoretical scrutiny and analysis of accountability and broader analysis of public financial management, fiscal accountability and the role of managerial leadership.

Chapter 7 serves as a major contributor to science within the field of public administration, public finance in particular. As a result, data collected will be reviewed and analysed, particularly governance issues, public finance management in particular. In this chapter, findings with an analysis will be provided.

In Chapter 8, conclusions and recommendations will be made and a proposed model on governance in the South African Public Service will also be provided.

1.10 CONCLUSION

Since the South Africa's democratisation in 1994, transformation within the Public Service took place and is still taking place. At the centre of transformation in general, an evolution of public finance is taking place to ensure that elements of good governance are upheld and service delivery to South African population is improved. Prior to or during transformation, political, economic, social and institutional environments have an influence on the functioning of government in general, departments in particular. Additionally, what is also important is the ability of managers to manage change or the environment in which they are operating within the Public Service. Environmental analysis is crucial in public administration because possible threats or risks can either have a negative effect on a department or on the functioning of the Public Service in general. These threats or risks could interfere with the vision and mission of the Public Service and it should be noted that risk in the public service could take different forms, such as political, economic, social and financial risks.

In ensuring that transformation takes place meaningfully and policies like the PFMA are implemented, skilful managers become a priority. The above concerns take place within a budgeting and accounting system and if not attended to can also affect the implementation of the PFMA and the financial management system in general, including governance in the Public Service. Detailed information about the aforementioned issues will be provided in the following chapters.

1.11 CLARIFICATION OF CONCEPTS AND TERMS

This section clarifies concepts and terms so that the discussions in the text are put into context and understood throughout the study. These key concepts are:

Accounting basis: The body of accounting principles that determine the form of financial reporting. There are two ways in which this can be done, namely cash-based and accrual-based accounting (Institute for democratic alternative South Africa, s.a.).

Accounting officer: Head of a department or a Chief executive officer of a constitutional institution (Public Finance Management Act, 1999:23).

Accounting: The systematic recording of the financial aspects of transactions. This is done according to recognized principles so that expenditures are transparent and accounts can be audited (Hickey & Van Zyl, 2002: 75).

Accrual accounting: An accounting convention by which payments and receipts are recorded at the time that the parties enter into a commitment. For example, this system would record the purchase of naval helicopters when the contract is signed, not when the equipment is delivered and paid for (Institute for democratic alternative South Africa, s.a.).

Assets: Objects such as bonds, shares, houses, cars, furniture that may be owned by government, individuals or private sector companies (Institute for democratic South Africa, s.a.).

Cash based-accounting: This accounting system recognises only cash inflows and outflows. It recognises revenue when cash is received and expenses at the time of payment. Assets are fully expended at the time of payment and no distinction is made between operating and capital expenditure (Visser & Erasmus, 2002: 366).

Cost-benefit analysis: a way of presenting information to assist public sector choice in selecting an appraisal of projects (Abedian, Strachan & Ajam, 1998: 194).

Emphasis of matter: An auditor can add one or more emphasis of matter to the auditor's report to draw attention to a particular issue been discussed in a note to the financial statements. The auditor can report the matter other than those affecting financial statements. Additionally, the emphasis of the matter does not affect auditor's opinion. (Association of Public Accounts Committee, 2003: 116)

Evaluation: An in-depth examination of economic, financial and social effects of a programme or policy initiatives (Allen & Tommasi, 2001: 448).

Fault tree analysis: A systems engineering method for representing the logical combinations of the state and possible causes of various systems which can contribute to a specified event, called the top event (Knight, 1999:55).

Financial management: The legal and administrative system and procedures put in place to permit government ministries and agencies to conduct their activities so as to ensure correct usage of public funds meeting defined standards of probity, regularity, efficiency and effectiveness. Financial management includes the revenue, the management and control of public expenditure, financial reporting, reporting, cash management and asset management (Allen & Tommasi, 2001:450).

Fiscal accountability: This means that the government should account, through its elected representatives, for its intentions, objectives and strategies, the cost of its strategies and actual results (Abedian, Strachan & Ajam, 1998: 194).

Fiscal Transparency: A policy of providing information to the public about the functions and organisation of the government, its economic and fiscal goals and objectives, its financial forecast and public sector accounts (Allen & Tommasi, 2001: 454).

Government finance statistics (GFS): A system designed by the International Monetary Fund (IMF) for the analysis of fiscal policy. It specifies accounting rules, balance sheet formats, definitions and classifications of revenue and expenditure (Institute for democratic alternative South Africa, s.a.).

Hazard: A source of potential harm or a situation with a potential to cause loss (Knight, 1999: 55).

Institution: Sometimes used synonymously with the term organisation or body, for example ministry or government office. However, the term is increasingly used in a different sense, to describe the formal and informal rules that declare behaviour and the enforcement of the rules (Allen & Tommasi, 2001: 459).

Likelihood: It is used as a qualitative description of probability or frequency (Knight, 1999: 55).

Logical information system: A provisioning, procurement and stocktaking system, which is highly adaptable to the requirements of a department (Visser & Erasmus, 2002: 369).

Loss: Any negative consequence, financial or otherwise (Knight, 1999:55).

Monitor: This is to check, supervise, observe critically, or record the progress of an activity, action or system on a regular basis in order to identify change (Knight, 1999:55).

Performance audit: An audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities (International Organization of Supreme Audit Institutions, 1998: 73).

Probability: This is the likelihood of a specific event or outcome, measured by the ratio of specific events or outcomes to the total number of possible events or outcomes. Probability is expressed as a number between 0 and 1, with 0 indicating an impossible event or outcome and 1 indicating that an event or outcome is certain (Knight, 1999: 55).

Public accountability: The obligations of persons or entities, including public enterprise and corporations, entrusted with public resources to be answerable for fiscal, managerial and programme responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities on them (International Organization of Supreme Audit institutions, 1998: 73).

Public finances: The financial affairs of central, provincial and local government (Hickey & Van Zyl, 2002: 126).

Public sector: All institutions owned or controlled by government. These include national, provincial and local government, extra-budgetary governmental institutions and non-financial public enterprises e.g. Telkom, Denel (Hickey & Van Zyl, 2002: 127).

Results-oriented (or performance or output) budgeting: The planning of public expenditures for the purpose of achieving explicit and defined results. These results may be inspirational policy objectives (outcomes), or the outputs of routine public service activities intended to contribute to policy goals, or 'intermediate outcomes' which represent a major stepping stone in the service delivery towards these goals (Roberts, 2003:vii).

Risk acceptance: An informed decision to accept the consequences and the likelihood of a particular risk (Knight, 1999: 55).

Risk analysis: A systematic use of available information to determine how often specified events may occur and the magnitude of their consequences (Knight, 1999: 55).

Risk assessment: The overall process of risk analysis and risk evaluation (Knight, 1999:55).

Risk avoidance: An informed decision not to become involved in a risk situation (Knight, 1999: 55).

Risk control: That part of risk management which involves the implementation of policies, standards, procedures and physical changes to eliminate or minimise adverse criteria (Knight, 1999: 55).

Risk evaluation: The process used to determine risk management priorities by comparing the level of risk against predetermined standards, target risk levels or other criteria (Knight, 1999:55).

Risk identification: The process of determining what can happen, why and how (Knight, 1999: 55).

Risk management process: The systematic application of management policies, procedures and practices to the task of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk (Knight, 1999: 55).

Risk management: The culture, process and structures that influence the effective management of potential opportunities and adverse effects (Knight, 1999: 55).

Risk transfer: shifting the responsibility or burden for loss to another party through legislation, contract, insurance or other means. Risk transfer can also refer to shifting a physical risk or part thereof elsewhere (Knight, 1999: 55).

Risk treatment: the selection and implementation of appropriate options for dealing with risk (Knight, 1999:55).

Risk: The chance of something happening that will have an impact upon objectives. It is measured in terms of *consequences and likelihood* (Knight, 1999: 55).

Transparency: The extent to which openness in governance prevails and the extent to which full information on service cost delivery and performance is made available to the public (Abedian, Ajam & Walker, 1998).

Unauthorised expenditure: Money that was spent for purposes other than for which it was allocated or expenditure in excess of what was allocated (Hickey & Van Zyl, 2002: 142)

CHAPTER 2

PUBLIC ADMINISTRATION: ENVIRONMENTAL ANALYSIS AND SYSTEMS THEORY

2.1 INTRODUCTION

Contextual analysis assists public administrators and political heads of departments to cope with social, economic and political challenges facing public administration. Public administration takes place in the political, social and economic milieu. Against this background the socio-political and economic environment becomes a challenge in public administration. It is important that the managerial leaders take into account the above environmental analysis because ignoring social, political and economic features during the planning and implementing of government programmes could have a detrimental effect on achieving departmental objectives, the mission and vision and government in general. It is therefore essential that the understanding and scrutiny of the environment become vital, especially during transformation of the Public Service in particular. Institutions of governance like the Auditor-General and Parliament could operate effectively if they themselves take into account their own surroundings or environment. For example, for the National Treasury to function efficiently it is expected to take into account its own environment of economic variables such as exchange rate, inflation rate and socio-political demands from the public. In support of governance, the managerial leaders in the Public Service have the responsibility to take into account their surroundings or environment.

In pursuit of environmental understanding and scanning with reference to public administration, governmental activities could also be contextually analysed within a given environmental analysis and understanding. This implies that once the context is properly assessed, organisational efficiency and effectiveness are achieved due to environmental scanning.

As demonstrated earlier, public administration, both in practice and theory, takes place within a dynamic and changing environment, which is determined by political, economic and social circumstances.

It is against this backdrop that environmental analysis of public administration becomes crucial and is indispensable, especially in response to globalisation. Failing to conduct such environmental scanning, the government could struggle to function as envisioned in the South African Constitution and other policy frameworks such as the PFMA. Hence policy-makers need to be well versed with an environment in which public administration takes place or operates.

The researcher considers that the following perspectives illustrate the importance of environmental analysis, especially in planning and implementing government programmes which will be analysed within this chapter:

- a) From a *political* point of view, it is crucial for both the executing authority and accounting officers to understand the government political agenda, vision and mission so that government programmes are put into context.
- b) From an *economic* perspective, forms of budgeting systems, trade between countries, financial management, economic growth and bad governance as opposed to good governance should be analysed and become part of government's economic agenda and the agenda should include the above economic variables.
- c) Similarly, from a *social* perspective, it is imperative for government officials to understand the needs of the public with regard to services. Inability to deal with the above socio-economic and political environments could be detrimental in the functioning of government departments and service delivery in particular.

2.2 ENVIRONMENT IN RELATION TO PUBLIC ADMINISTRATION: DEFINITIONS

With regard to the aspect of *environment* in the field of public administration, awareness of environmental scrutiny and an understanding of it become crucial. As much as the term is elusive, *environment* includes every event in the world, which has an effect on the activities or outcomes of the organisation; for example, 'primary schools' are part of the organisational environment of education in a country (Pfeffer & Salancik, 1978:12). Pfeffer and Salancik's analysis could be based on the fact that in dealing with matters of governance in the public service, the managers should be in a position to be acutely aware of what is happening and also recognises any environmental factors that could influence departmental outputs and outcomes.

The following authors enunciate some of the ideas regarding the *environment*. The definitions could provide an in-depth synopsis of environmental analysis and impact on public administration. Firstly, McCurdy (1977:174) describes *environment in public administration* as the ‘world’ or the whole environment in which the government struggles to function. Secondly, Sharkansky (1978:9) defines the *environment* as the sum total of the existing social, economic and political circumstances which cause problems or challenges for policy-makers. Thirdly, Cloete (1991:85) concurs, that factors such as the policies of political parties, the needs and expectations of the population, the circumstances, such as population growth and urbanisation, international relations, natural disasters, wars and technological developments, represent the *environment of public administration*.

In response to the above definitions, the first definition implies that *environment* is the ‘world’ in which public administration has to be acknowledged, assessed and analysed in order to ensure that government functions properly and governance or systems are in place and function properly. In the second definition, Sharkansky (1978:9) purports that the social, economic and political environment pose threats for policy-makers. However, Sharkansky’s claim lacks a further analysis regarding ‘the how approach’. Sharkansky makes no mention of how these environmental variables cause problems for the government rather than simply exposing them as causes of a problem for policy-makers. As much as the above definitions mirror some contextual synopsis of an environment in which public administration operates, the last definition by Cloete suggests and provides a comprehensive depiction of the *environment of public administration* that could assist in managing any risks if these environmental variables are not understood, contextualised, and managed properly.

2.3 ENVIRONMENT, DEBATE, AND ANALYSIS

With regard to the micro and macro perspectives, the environment in public administration is also analysed from two viewpoints, such as the specific and general environment. Literature reveals that the *general environment* is broadly defined as everything external to the organisation or everything outside of the boundaries of the organisation (macro). In contrast, the specific environment is defined as factors or components that directly and internally influence organisational resources (micro). As a result, the *specific environment* is conceptually categorized as regulators, suppliers, consumers and competitors (Fox, Schwella & Wissink, 1991: 18).

To exemplify and exhibit the linkage between the micro-macro analysis, the micro environment can be envisioned as being made up of three major subsystems akin to the goal and work system; technology, structure, communication, authority; and the power system within an organisation. The macro environment could be related to political, social, and economic situations (Hodge & Anthony, 1979:69).

The above explanation by Hodge and Anthony, demonstrates that micro-macro perspectives in response to the public administration environment are crucial in understanding sub-systems such as technology, structure, political and economic environment or context. According to Katz and Kahn (in Pfeffer & Salancik, 1978:1), it is generally accepted that in context, organisational environments are important in understanding actions and structures.

To take cognisance of an environment helps to support and positively effect managerial decisions, only if managers understand that the environment is able to sway or affect organisational vision and mission. This implies that public organisations should be adaptable to an environment. As a result, an application of rule which is regarded as a mechanistic approach does not yield good quality results. In contrast, an organic approach is regarded as adaptable to an environment in which public administration operates. Hence, it is crucial and significant for managers to be mindful of the fact that an analysis of planning and managing social, economic, political aspects is fundamental in organisational operation or public administration in general. It is also significant to conduct research about an environment or apply environmental scanning which helps to analyse and understand 'hidden factors' that could impinge on an organisation and also affect the organisation's goals, mission and vision.

With regard to environmental scanning, Kast and Rosenzweig (1985:147) declare that a proactive approach involves environmental scanning and analysis in order to determine those forces in the society that will be most salient to future operations. In this context, the manager in an organisation or government department has to circumvent a narrow-focus view of how an organisation functions internally without looking further at its surrounding environment.

The unit of survival is not an entity at all, but rather a pattern of organisation adopted by an organism in its interactions with its environment (Capra, 1982:313). Capra's analysis could be based on the fact that the environment in which organisations operate, is important in order to

respond to a given environment to improve governance and administration in public administration, and managerial leaders have to respond, understand and adopt a given environment. Hawley (in Pfeffer and Salancik, 1978:1) also stresses that it has been confirmed that all organisations engage in activities, which have their logical conclusion through an adjustment to the environment. In this instance, Pfeffer and Salancik (1978) also support Capra's analogy regarding environment in relation to an organisation namely that organisational adjustment regarding environment.

It is essential to understand and analyse the environment because it has an indisputable influence on organisational processes such as, an internal process like planning and budgeting for an organisation. Environments of an organisation are critical factors in understanding what functions are performed internally and externally. On the basis of the above statements, it is believed that no organisation is an island unto itself (Schwella & Wissink, 1991:12). For example, from an economic environment perspective, the introduction of the medium term expenditure framework (MTEF) in 1989 and subsequent introduction of the performance budgeting system have indeed led to some drastic changes with regard to departmental planning and budgeting, including clear lines of accountability and responsibility. Furthermore, the inhabitants continue to put more pressure on government, sometimes through interest groups or as individuals.

At this stage, a democratic government, such as in South Africa, has no choice but to take into account the views of the public. It is in this context that a socio-political environment takes shape. Additionally, taking into cognisance the views and ideas of the general public could also impact on organisational planning, the budget itself, and deliverables from government departments.

From a micro perspective, the introduction and utilisation of technology in the public service has an influence both in internal operations or systems and the entire Public Service. The introduction of an electronic system, commonly known as e-governance, to deliver public services is an indication of technological influence that is taking place in the public service. These 'hi-tech' initiatives, in most cases, do inculcate a new organisational culture and compel managers to introduce new systems in response of the technological environment.

In pursuit of the above environmental discourse on public administration, it is crucial to comprehend the micro and macro organisational and managerial analysis. It is for this reason that the environment tends to influence organisational processes and decision-making. As a result, organisations and environment are interrelated.

For instance, other theorists, like Dessler (1980:62), provide a micro analysis, namely that organisations are structures of decision-makers, and this focus on decision-making helps to explain how the organisation and its environment are related. As indicated in preceding paragraphs, a micro perspective deals with internal operations or internal actors such as management or decision-makers so that the internal environment is manipulated for the benefit of an organisation, especially in organisational efficiency and effectiveness. Additionally, politics manipulate organisations in many ways. For example, Parliament, as a policy-authorising institution, is able to influence the South African Public Service and its operations.

In response to a macro perspective, Hodge and Anthony (1979:70) argue that the environment could influence an organisation at political, economic, and technological level. Political, technological, and economic environments have influenced and are still influencing the South African Public Service. Subsequent to South Africa's democratisation in 1994, for example, the country's Constitution, Public Service policies and Acts have changed, and are still changing, organisational structures and the way the departments and government operate. The shift from traditional or classical Public administration to the so-called new public management has an impact locally and abroad on organisations and governments in general.

Evidence signifies that the aforesaid shift from traditional public administration to the new public management could have been influenced by economic, social, technological and political demands. In this regard, the PFMA gives much more prominence to the outcomes-based model that is mirrored in the Act. The introduction of the Act impacts on the structure and organisational planning of various departments in the Public Service.

2.4 THE CLASSICAL AND BEHAVIOURAL APPROACH: CLOSED SYSTEM

2.4.1 Introduction

As indicated earlier, public administration operates within political, social and economic environments. In this context different schools of thought argue differently regarding the importance of the environment on organisations. For example, the classical school of thought focuses on the internal processes and ignores the external environment that might influence the internal decisions and process within an organisation. Focusing on the tasks to be performed and ignoring the behaviour of the person performing the tasks, could have a negative effect on other factors such as decision-making and functioning of an organisation because the personnel might have to respond to the environment or surroundings. Therefore, the classical school of thought limits the scope of operation by focusing on the 'inside' not the 'outside' of the organisation. Therefore, public servants in general, managerial leaders in particular, should perform their tasks by taking into account the 'outside' world. Because public servant's response to the surrounding or outside world could influence the 'closed character' of the classical school of thought and support governance in the public service. Literature records that the classical school of thought believes that there is one best way in dealing with organisational matters or the 'one size fits all' approach. This is confirmed by the fact that (Fox at al.1991: 9) also argue that the classical school of thought believes in the 'one size fits all' approach or one best way in dealing with organisational issues.

In modern public administration, as in ancient public administration, such a narrow focus could negatively affect the internal process, management's responsibilities, leadership, systems, organisational design, service delivery and governance in general. Consequently, the closed system could be harmful with regard to supporting both the organisational and management agenda.

2.4.2 Classical school of thought

In the introductory analysis of the classical school of thought, it has been shown that the school's approach is different from an open school of thought, especially with regard to the organisation and management in relation to the environment. According to Fox et al., (1991:9),

in public administration, there is a distinct analysis with regard to a closed and an open school of thought. They further argue that the 'classical school' originates from the scientific management approach, as well as from bureaucratic theory. As indicated previously, one of the critiques of the school is the main focus on the 'internal' side. On this basis, Fox et al., (1991:10) endorses the point that the school focuses on internal efficiency and does not give attention to the management environment and factors in the environment.

In view of the classical approach, Robbins (in Roux et al., 1997:30) argues that a perfect system would be one that receives no energy from outside sources and from which no energy is released to its surroundings. Robbins's observation implies that the classical school of thought adheres to as a closed system in some situations. To maintain stability this school of thought ensures that an organisation becomes perfect by focusing internally without any external influences and no interaction with the external environment. On the contrary, this could affect an organisation's effectiveness and make an organisation inefficient as opposed to perfection. This is indeed an indication that the classical school of thought is a closed system not an open system.

The following section discusses the open school of thought as opposed to closed school of thought. The latter has been discussed previously, and based on the literature provided the closed school of thought does not provide any significance in modern public administration, especially at the time of evolution in the public finance management system in South African Public Service. Alienating the surroundings or the environment from matters of governance could make it difficult for the managerial leaders to make organisational decisions that are based on the transformational agenda of government.

2.5 THE OPEN SYSTEM

The dissimilarity between an open and closed system signals the view that an external environment is certainly fundamental in an organisation and it could shape both the country's agenda and the organisational agenda. From an organisational analysis point of view, an open system assists an organisation in being effective because of its ability to accommodate political, economic and social variables, especially during policy formulation. An inclusive policy that takes into account its environment could be easily implemented. However, the institutional environment, that is the level of skills within the organisation, could also affect

policy implementation. Therefore, there must be a balance between the institutional environment and the external environment. Hence, in an open system the focus is not only on the tasks to be performed, as in the case of the closed system, but also on what could improve the performance of tasks by taking into account its surroundings.

According to Hodge and Anthony (1979:57) organisations transform within a given environment and receive their inputs from this environment, and people or other systems in the environment use their outputs. In this context, organisations are regarded as open systems due to their adaptability to an environment. Moreover, for an organisation to be able to function interdependently between itself and other sub-systems the environment becomes central and it must be scanned and scrutinised so that deliverables in government are based on a particular environment.

2.51 Characteristics of an open system

The following are the factors that demonstrate features of an open system:

a) Environmental awareness

An institution as an open system acknowledges the interdependence between an institution and the environment within which it functions. This implies that an institution must make certain organisational arrangements to enable it to accommodate the inputs or demands from the environment in a meaningful way. The system provides a framework for a macro perspective of organisation analysis (Fox et al., 1991:10).

b) Feed back

An important feature of an open system is the maintenance of an extensive information network. This means an information system which is constantly able to *feed back* information from the environment to the institution.

c) Cyclical character

An open system lends a cyclical character or appearance to an institution. This implies that contemporary institutions deliver certain results or outputs, which act as a means of obtaining

new inputs. The latter creates a repetition of the internal processing, resulting in new outputs or results.

d) Negative entropy

The term *entropy* originates from physical sciences, specifically physics. The term means decline in energy. This entails that after a closed system has been established, it will gradually move away from a state of order to a state of disorder. Because no maintenance or energy-giving inputs take place, a closed system in essence can become destructive. In contrast, an open system is characterised as negative, this implies that such an institution is able to be self-supportive due to the fact that more energy is absorbed or put in than is lost by means of outputs.

e) Growth and development

Growth and development imply that a more complex or intricate system will try to prevent entropy and by doing so the system will systematically grow and develop.

f) Various actions to achieve the same results

A system can follow a variety of methods or activities in the internal processing, that is, when inputs are converted into outputs. This also implies that open systems are not bound to internal rigid procedures (Botes, Roux, Brynard, & Fourie.1997: 31).

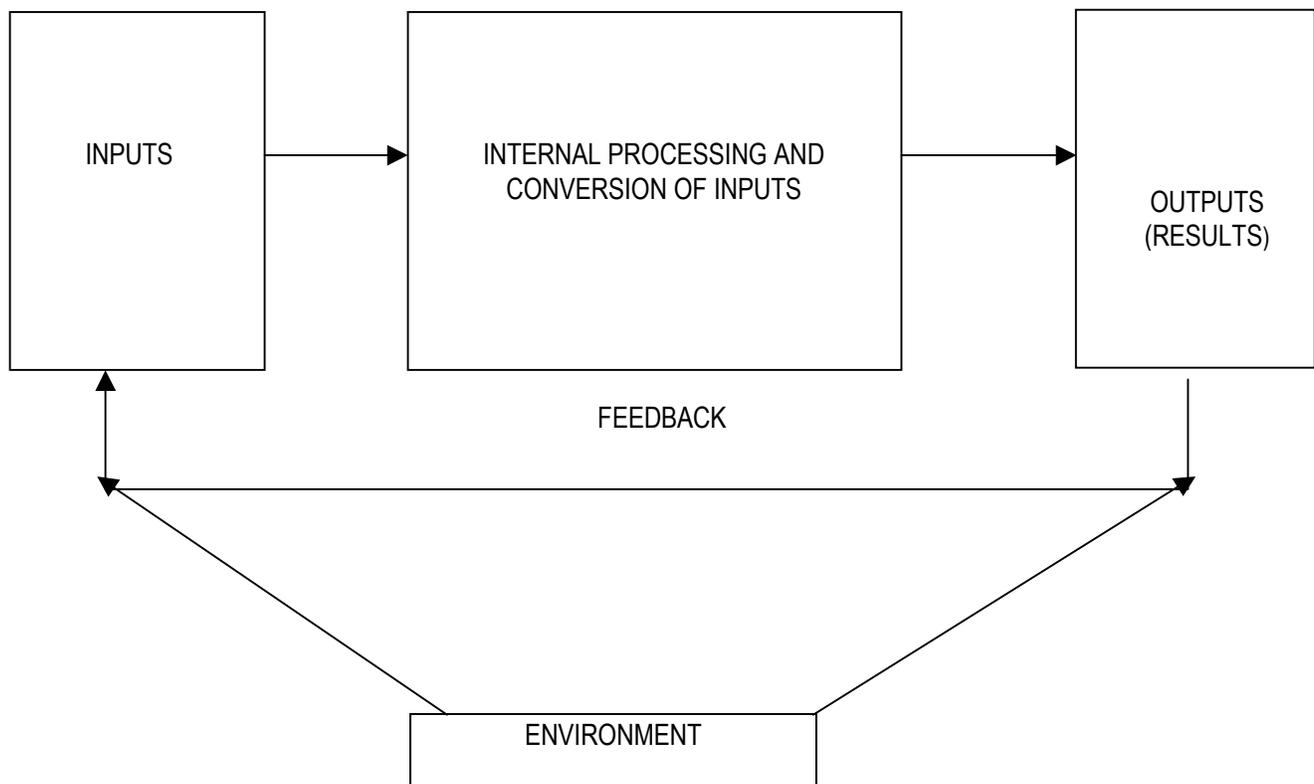
The features regarding an open system present the system as one that crafts institutional environment equilibrium so that an institution could respond to an environment in which it operates. Yet again, the environment becomes fundamental in bringing environmental feedback or information to an organisation. As a result, internal operations and processes are influenced and decisions are made to deliver outputs through the utilisation of inputs. Thus, the input-output model within the systems approach has an impact on an organisation itself through environment-institution interdependency in order to influence an organisation. Environmental dynamics have an influence on the management of the organisation (Fox et al., 1991:10). It is within this framework that managerial leaders in the Public Service have to be observant of public management system dynamics both locally and internationally so that good governance becomes the order of the day. This has to be done because international

trends and policy dynamics could influence the way an organisation or a department is managed.

Robbins (in Botes, et al., 1997:30) also argues that the open system recognises the dynamic interaction of the system and its environment and further asserts that organisations or institutions depend on clients and customers on their environment to absorb their output. Robbins's argument purports that the 'dynamic environment or world' has an influence on an organisation. However, an organisational influence depends on the active participation of the inhabitants, including interest groups, and the participation depends on the context in which they operate.

The diagram below (Figure 2.1) represents an open system and how inputs are converted into outputs. The figure further shows how an environment interacts and influences an organisation or institution, including internal operations in order to produce results or outputs.

Figure 2.1: Environmental influences on an organisation



Source: Botes et.al, (1997:30)

Having specified the significance and features of an open system, the school of thought on environmental influences also emphasises the importance of the environment as a variable in the management of complex organisations (Fox et al, 1991:10). This is in support of the notion that the understanding of a particular environment is important when managing institutions in order to deal with complex situations in organisations. In essence, an open systems school of thought does not accept or believe in the dogmatic approach when dealing with institutions in public administration because of the nature and the context in which public administration takes place. This means that a universal application of rules and procedures has no room in

an open systems approach, unlike theorists such as Weber and Taylor, who strongly believe in the rule-bound approach and 'one size fits all approach' and in the universal application of managerial principles in public administration, as if organisations are the same. As a result, 'universal principles of management' and one 'best way' are rejected by the open systems approach (Fox, et al, 1991:10). Criticism comes from the fact that a closed system, which only focuses on an internal operation or process without taking into account an environment, applies a dogmatic, universal approach to governance.

Keeping an organisation and its management in a state of dynamic equilibrium with its environment is indeed a strategy to make sure that it becomes essential for modern management and the contemporary organisation (Fox, et al., 1991:11). It is therefore crucial for managers to take cognisance of an environment and treat environmental acknowledgement as indispensable in managing the public service and governance matters in general.

2.6 CONTINGENCY SCHOOL

The environmental acceptance in an open system in contrast to the environmental denial in a closed system has been pronounced broadly in the previous debates regarding a comparison between open and closed systems. In dealing with situational analysis before an action, the contingency approach considers that an organisation's relationship to other organisations as well as its environment depends on the situation it finds itself in (Fox, et al., 1991:11). At this point contextual or situational analysis becomes crucial for the management before organisational decisions are reached. This school of thought could assist managers in scrutinising a situation before any action is accomplished or taken. Within the theory of modern management, situational analysis, risk assessment and analysis are crucial in managing the day-to-day activities of an organisation. In most situations, an action and a situation are analysed in order to manage risks if consequences or decisions are not calculated.

In view of the philosophy regarding the contingency school of thought, the following tenets are provided:

- a) First, the contingency approach implies that managers should be adaptable, flexible, analytical and ingenious in their decision-making and management style;

- b) Secondly, management strategies have to be selected or adapted for a particular situation facing the organisation; and
- c) Thirdly, it is argued that the model facilitates strategic management practices whereby strategic decisions are made in terms of an environmental analysis (Fox, et al., 1991: 11).

Given these tenets of contingency school of thought, it is apparent that the focus is on situational inquiry, contextual assessment and evaluation. The flexibility to situations facing an organisation lies squarely on the managers and they have a responsibility to inculcate a culture of environmental analysis to all the levels of a department.

The aforesaid variables regarding the contingency model become crucial for evolving public administration, particularly from a classic or traditional approach to a modern public administration or the so-called new public management approach, which will be analysed in Chapter 3 of the study.

2.7 ENVIRONMENT AND ORGANISATIONAL ANALYSIS: MICRO AND MACRO PERSPECTIVES

Planning within a department by taking the environment into account is progressively becoming more essential in the public service, due to the evolution in public administration and public financial systems in particular. The latter could require the managers to understand and observe micro and macro dynamics. In this instance *micro dynamics* describe internal process and controls and *macro dynamics* describe the 'outside world' that can affect the internal processes with a department. Therefore, the managerial leadership should possess both analytical and conceptual skills so that key aspects regarding governance such as risk management, expenditure management, and decision-making and public financial management, become part of an organisational culture. It is therefore paramount that managerial leaders understand the relationship between public service and its own environment. This suggests that public service by nature operates within a dynamic environment. Therefore, the managerial leaders should be able to scrutinise and understand such dynamic environment (macro) because it could affect budgeting and strategic planning (micro).

2.7.1 Organisational analysis: a micro perspective

In the preceding paragraphs, organisations, systems, and environments have been discussed. To understand micro and macro organisational analysis, the literature differentiates between *task* and *general* environment. The task environment deals with and affects the individual organisation more directly. In contrast, the *general environment* deals with and affects all organisations in a given society (Kast & Rosenzweig, 1985:136). An understanding of the difference between the task and general environment could assist in understanding organisations or institutions both at macro and micro levels.

Micro-organisational analysis is regarded as an internal processing of organisational information or inputs for organisational effectiveness and efficiency. At a stage where information is discussed and analysed by decision-makers, management and policy-makers, the environment should be taken into account.

Through the cognitive process of transforming inputs to outputs, within an organisation, managers should bear in mind that an organisation does not operate in isolation of its surrounding or environment. As indicated previously, organisations should take note of the political, social and economic milieu. In essence, micro organisational perspective shows that its environment, especially in its operations, structure and organisational culture, directly influences an organisation. As a result, Kast & Rosenzweig, (1985:138) emphasise that the *task environment* (micro) is defined as the more specific forces, which are relevant to the decision-making and transformation process of an organisation.

With regard to Kast & Rosenzweig's assertion on task environment, acknowledging the influence on decision-making and transformation becomes crucial to the internal processes of an entire organisation. Kast & Rosenzweig (1985:139) further argue that task environment has an impact on the goals and values, structure, technology, human relationships, and managerial processes within an organisation. The aforementioned statement signifies the fact that task (micro) environment produces or impacts more on the goals, values, structure, including the management, within an organisation.

Pfeffer & Salancik (1978: 2) maintain that what happens in organisations is not only a function of the organisation, its structure, its leadership, its procedures, or its goals, but a consequence

of the environment and the particular contingencies and constraints deriving from that environment. This implies that a broad understanding of micro organisational perspective is crucial, as it is not only a focus on the internal processes and management, but also a focus on the environment that influences organisational internal processes.

2.7.2 Organisational analysis: macro environment variables

Having provided a synopsis on micro organisational analysis, outlining the general (macro) environment is vital as it demonstrates how macro-environmental variables affect an organisation, management, policymaking and implementation. Theorists like Hodge and Anthony acknowledge that political, economic and technological environments exert some influence on organisations and the public service in general. Macro analysis and forms of environments are discussed below:

a) Political environment

Based on the political environment, it means that any political system that is introduced has a bearing on the functioning of the state and its institutions. For example, the apartheid or segregation policy that was introduced by the South African Government had an influence both on public officials and the composition of the government. Under the apartheid period, public servants were rule-bound at operational level without any culture flexibility, transparency and accountability. In contrast, the new government who came into power in 1994, led by the African National Congress (ANC), introduced a democratic system which introduced an ethos of democracy namely openness, transparency, rule of law, accountability and responsibility. Even the public servants are expected to act according to the above ethos so that the state and its institutions are transformed and services are delivered to the public. The influence of the above ethos is such that in 1994, the ANC produced a policy framework entitled *The reconstruction and development programme (RDP)* which later became the government's White Paper on the reconstruction and development programme.

Among other issues, the RDP introduced a number of reforms in order to set up a transformational agenda in South Africa, as follows: meeting basic needs, developing human resources, building the economy and democratising the state and society (African National Congress, 1994:7). Against this background the political agenda of the ruling party could influence and shape the functioning of government and administration, including the vision

and mission of public servants in general, governance in particular. Therefore, public servants and the leadership in general in the public service should understand the political environment in which they are operating, especially the managerial leadership so that government programmes are contextualised.

b) Economic environment

The economic system is the way in which a society creates and distributes wealth. Further, it should be noted that the economic system allocates limited resources to competing individuals and groups. This necessitates the government's fiscal and monetary processes to stimulate or restrict the demand for goods and services. Any economic developments can influence public administration. Administrators and managers need to know about economic matters and implications of such decisions on the economy. In 1995, the South African government introduced Growth, Employment and Redistribution (GEAR), a macro-economic strategy. Among other elements, GEAR provides a renewed focus on budget reform to strengthen the redistributive thrust of expenditure and commitment to the implementation of stable and coordinated policies (Growth, Employment and Redistribution, 1995:2).

Against this background, reforms such as performance budgeting system, medium term expenditure framework (MTEF), Public-Private Partnership (PPPs) in delivering services, together with PFMA, have taken place in the South African Public Service to date. This supports the point that economic policies and the environment create a new culture in government in general, and thus bureaucracy too. Therefore, an emerging culture or environment is essential because it becomes part of a system. It is important for strategic leadership to understand the culture that is emerging and to respond to it effectively.

At the economic level and at the corporate governance level, African leaders under the New Partnership for Africa's Development (NEPAD) view it as crucial to create conditions for development and economic growth. As a result, NEPAD, within Africa, seeks to promote concrete and timely programmes aimed at enhancing the quality of economic and public financial management, as well as cooperative governance (The New Partnership for Africa's Development, 2001:190). Again, NEPAD as an 'economic driver' within Africa sets an agenda or is able to influence governments in Africa on effective financial management, economy and governance in the region. NEPAD's commitment to corporate governance indeed has an

influence on the public sector within the region through its African Peer Review Mechanism (APRM).

For example, on the basis of economic governance and management objectives, APRM seeks to promote sound public finance management in Africa (African Peer Review Mechanism, 2003:55). Additionally, with regard to public finances, Pillay (in the United Nations Development Programme (UNDP) Report, 2003:58) also provides an advice that a 'non-spending' mindset and underspent funds negatively impact on service delivery. Referring to UNDP report on 'non-spending' and under-spending' this has indeed had economic effect on governments therefore, the inability of government to spend as planned and to under-spend as a result of poor planning both have negative economic effects, on economic growth. Additionally, APRM is also of the view that to achieve good economic and corporate governance, transparency in financial management is a prerequisite. This will also promote economic growth and reduce poverty. APRM also acknowledges the fact that to achieve economic and corporate governance, the following codes and standards have to apply:

- a) code of good practices on transparency in monetary and financial policies;
- b) best practice for budget transparency;
- c) guidelines in public debt management;
- d) principles of corporate governance;
- e) international accounting standards; and
- f) International standards on accounting (African Peer Review Mechanism, 2003:13-14).

The above statements by APRM regarding the economic environment suggest that the managerial leaders in the Public Service should understand the change that originates from NEPAD and APRM because such change impacts on the public financial management system in general. Therefore, the managerial leaders in particular should also take into account any organisational or policy developments so that governance is improved in the Public Service.

In the same vein, managerial leadership within the South African Public Service has to be mindful of the fact that there is a need for environmental analysis so that the Public Service itself is able to cope with demands and developments, especially the above codes and standards by APRM. This will help to support good governance. However, there must be a balance between economic environmental analysis, developments regarding public finance

management system and the skills profile within the Public Service to support the ideal form of governance, including the ability of the managerial leadership.

c) Technological environment

Technological developments must be taken into account in order to ensure effective governance and administration in the Public Service. The use of technology influences the management of information within organisations and the delivering of services to its customers. Technology influences and uses electronic machines and processes to produce and distribute goods and services (Hodge & Anthony; 1979:70). It is in this context that technology influences the way services will be delivered to people as well as the management of organisations. The managerial leaders in the Public Service have to understand technological developments because they have an influence on organisations.

d) Institutional environment

In most cases, constitutions, policies, people and their behaviour, processes, regulations, norms, values, and codes of conduct govern institutions. In this context, institutional environments are analysed. However, it is equally important that an organisational culture is understood in order to perfectly analyse institutional environments.

Manning, Mukherjee & Gokcekus (2000:4) describe *institutional environments* by emphasising that *institutions* are humanly devised constraints or set of related contracts that guide public officials' activities. These activities consist of formal constraints, such as rules, laws, including constitutions and informal constraints like norms of behaviour and codes of conduct. Manning et al. (2000) also believe that for public officials formal, rules are laid down in codes of conduct, manuals, budget documents, and within directives and instructions through policy. On the other hand, informal rules are what the officials collectively understand as appropriate behaviour, like 'how we do things around here' and this institutional environment could shape the expectations of public officials.

Although it is important to look at the institutional environment of informal and formal rules, policies, behaviour of personnel and codes of conduct, the above institutional environment analysis by Manning and others are silent about the skills of personnel within an institution and

the organisational design of an institution itself. The skills profile within an institution provides a sense of direction based on the institutional vision and mission and the ability of an institution to deliver quality service to people. Organisational design influences service delivery, the lines of accountability, transparency, management responsibilities and organisational effectiveness. The latter depends on how an institution is designed and the understanding of an institutional environment outlined above. Within the context of a public finance management system, budget and policy imperatives become central but budget and policy have to be supported by an institutional environment that is conducive and compliant to legislative framework, norms and standards. Kusi (2004) also argues that improving the institutional environment such as rules, customs and incentives, in which the budget and policy process operates, will greatly enhance accountability. The latter is crucial in enhancing and improving governance in the Public Service.

From the NEPAD perspective, in ensuring that its dream, vision and mission are attained, the environment within institutions or governments in Africa is properly analysed and understood. For example, the NEPAD policy argues that in ensuring political governance and other commitments, a target must be based on capacity-building initiatives and institutional reforms, such as administrative and civil service, strengthening parliamentary oversight, promoting participatory decision-making, adopting effective measures to combat corruption and embezzlement and judicial reforms (The New Partnership for Africa's Development, 2001:18). In this context, skills become important when analysing the institutional environment. The above initiatives by organisations like NEPAD and APRM seem to have an influence on institutions in order to promote good governance and South African Public Service is not immune from such African reforms. Additionally, the leadership within the Public Service has to understand or conceptually and technically deal with the paradigm shift. Understanding the paradigm shift could assist other managers to deal and cope with the political, economic and technological environments. Any influence or change that takes place within an organisation has to be managed by a competent workforce, therefore an institutional environment has to be analysed and scrutinised.

Given the above macro analysis, it is apparent that political, economic and technology could be prime factors or significant variables in influencing the public service and internal organisational systems. As a result of this macro analysis, both organisational culture and organisational design could be affected.

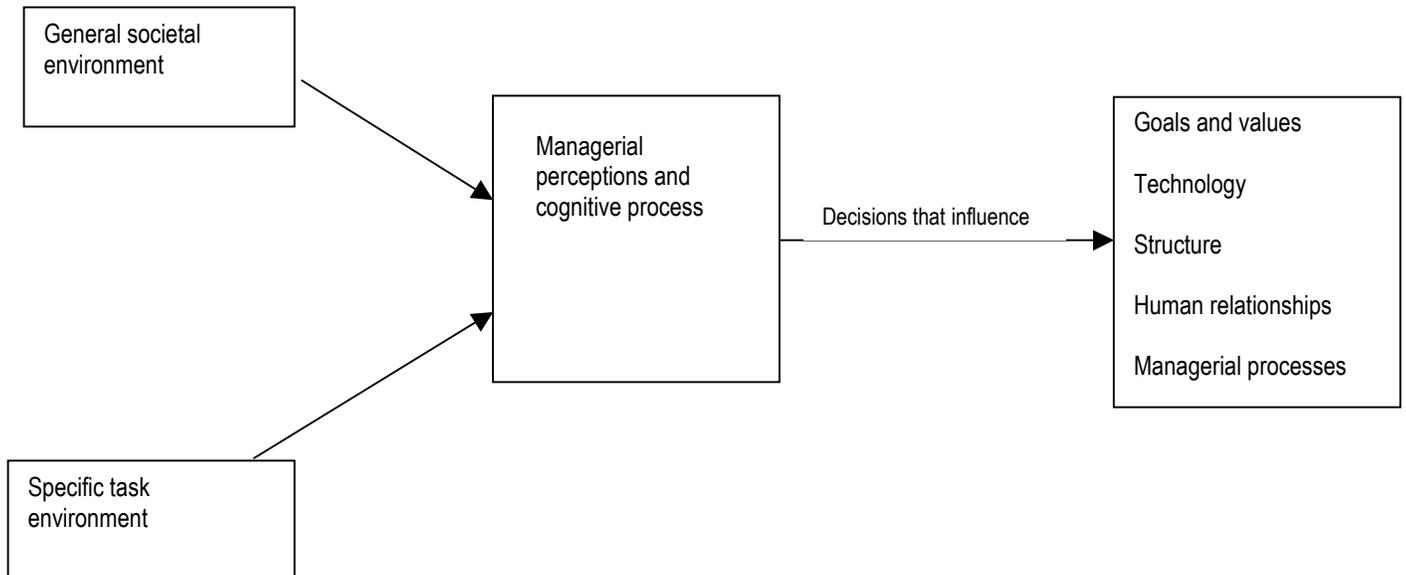
An input-output model by David Easton (in Cloete & Wissink 2000:39), which focuses on the response by the political system to the demand and needs of interest groups, attests to the above macro environment by implying that demands from interest groups influence political environment and need to be recognised. It is indicated that such demands enter the (political) system as inputs and through the political process via channels of debates, cabinet memoranda, proposals, and counterproposals including decisions or conversions (Cloete & Wissink, 2000:39).

Pfeffer & Salancik (1978:12) comment that the external basis for judging organisational effectiveness makes the concept of the environment important. Therefore, the environment should not be neglected or avoided as it impacts both positively and negatively on public administration.

Environmental analysis helps to shape both an organisation and government's vision and mission because the environment is taken into account during the policy planning, formulation and implementation.

Figure 2.2 below signifies that an organisation as a system should also take into account other factors or subsystems in order to have a comprehensive approach to environmental or situational analysis before any pronouncement is made. The diagram shows the effect or impact of both general and task environment on managerial cognitive processes. It also shows that managerial thinking results in decisions that could influence governance within an organisation. This diagram identifies decision-making as one of the elements of governance which influences values, goals, structure or organisational design, human relations and managerial processes of a department, and the Public Service in general. It is therefore important that the managerial leadership ensures that decisions reflect the dynamics both within and outside an organisation or a department.

Figure 2.2: Influence of general and task environment



Source: Kast & Rosenzweig (1985: 141)

2.8 SYSTEMS APPROACH: PUBLIC ADMINISTRATION ENVIRONMENTAL ANALYSIS

2.8.1 Definition and approach

The systems theory is based on the fact that a system comprises the interrelation and interconnection between subsystems or components in order to reach a particular objective or aim. It can be based on the notion that the 'closeness' or synergy between subsystems could impact a given organisation. An *analysis of a system* is an analysis of parts which interact with each other for some purpose or reason (Hodge and Anthony, 1979:49). Shall (1999:10) notes that in systems analysis, the part is always viewed in relation to the whole. Furthermore, Shall's analysis and comment about the performance budgeting system is that the integrated components which make up the system of performance budgeting include financial planning, expenditure management and performance management (Shall, 1999:10). Shall's viewpoints are correctly placed in the context of systems theory because research shows that proper functioning or implementation of performance budgeting depends on the effective functioning of the components mentioned above, such as financial planning, expenditure management

and performance management. Therefore, the latter parts of the 'whole' contribute significantly to the budgeting system in particular and the service delivery framework or strategy in general.

In terms of the above systems analytical framework, Henry (1975:151) defines a *system* as an entity in which everything relates to everything else or systems comprise components that work together for the objectives of the whole. To analyse it further, the 'whole' as described in the previous paragraph, could mean an organisation and its agenda. It is against this backdrop that dysfunctional elements of any sub-system could have a negative influence on the functionality of other subsystems. The dysfunctionality of subsystems that originate within a system could also affect the functionality of a system as a whole or itself. It is therefore crucial to understand a system and its components, merely for the success of an organisation and its stability. Henry (1975:151) concludes that the systems approach is merely a way of thinking about these components and their relationships. Centrally to Henry's above contribution and analysis is the relationship of components in a system; it is this relationship that could support organisational objectives, efficiency and effectiveness.

According to Capra (1982: 288), systems thinking is process thinking, associated with processes, interrelation with interaction, and opposites unified through oscillation. Capra's argument could be based merely on the fact that interrelation and interaction with the process within a system are crucial in order to create a culture of co-operation in order to respond positively to an environment in which an organisation, including managerial leadership is exposed.

Having provided an input regarding the systems approach and systems components, it is evident that the understanding and analysis of subsystems within an organisation, that is how these subsystems interact to form a complete system, have aided in the integration of administrative theory. The latter will be discussed in another chapter. Additionally, this has also aided in the perception of organisations as dynamic and complex systems that must compatibly interact with a larger system or environment (Robbins, 1976:45).

Additionally, Robbins (1976:44) explains that an organisational system could be envisioned as being made up of the "independent factors, including individuals, groups, attitudes, motives, formal structure, interactions, goals, status, and authority". For example, to improve governance in the Public Service, systems approach could be applied by making sure that an

organisation as a system functions very well through connectedness and interrelationship with its subsystems such as organisational culture, transparency and responsibility, internal and external reporting and fiscal discipline. Through a synergy between subsystems and the system itself, the aforesaid subsystems are crucial in building up an effective and efficient organisation.

As a result, one dysfunctional subsystem could have an effect on the entire organisation, which is a system. As specified earlier, connectedness and interrelationship between a system and subsystems are vital for an organisation.

To illustrate the objective and aim of a system, Dessler (1982:10) argues that a *system* is any entity, like a hospital, a city, a company, and so on, that has both interdependent parts and a purpose. Dessler further states that a systems approach advocates the belief that viewing an organisation as a system helps one to realise that the different parts, departments, or 'subsystems' of an organisation are interrelated and that they all must contribute to the organisation's purpose.

Based on this analysis, the scrutiny and understanding of an organisation as a system, including its subsystems, are significant in the functioning of an organisation *per se*. Experience has shown that the management in most organisations fail to analyse and understand the functioning and ability to adapt to a specific environment at a given period. As a result, organisational objectives are unattainable. Attainability could stem from poor linkage between an organisation and its objectives (system), various components and tasks (subsystems) and the environment in which it operates or intends to function. This disjointed situation could cripple the mission and vision of both an organisation and the government itself. This will happen because, in most cases, departmental mission and an objective are based on the government's vision and mission.

As outlined earlier in the thesis, politics or economics could have an impact on organisation and public administration in general. Hence, change imposed by politics and economics in a country or department could pose an environmental change and dynamics. This implies that managers have a responsibility to scrutinize, understand change and respond to it vigorously so that a system and its subsystems could function properly. In his analysis of the influence of change in an organisation and its components, Robbins (1976:45) stresses that the systems

approach advocates and recognises that a change in any factor within the organisation has an impact on all other organisational or subsystem components. Robbins (1976:45) further notes that within a larger system, a subsystem or its components are social, legal, physical, technical and economic in nature. An argument by Robbins could authenticate the fact that public administration, by nature, functions within political, social and economic subsystems, including other subcomponents such as legal and technical.

However, noting or acknowledging the dynamic nature of public administration due to its economic-political and social aspects is not enough. However, this presents a challenge for the managerial leadership and public servants in general to take into cognisance the evolving nature of public administration.

Having discussed systems analysis, it is evident that the systems approach or theory has implications for an organisation or public administration in general.

The implications regarding the systems theory are:

- a) *Interdependency*: the parts that make up a system are interdependent. If a change occurs in one part or set of parts, it affects all other parts of the system
- b) *Wholism*: changes in parts of the system and in the functioning of elements of the system should be considered from the standpoint of the system's overall performance.
- c) *Synergy*: this refers to interactive parts of the system working together. The key concept is that as each part of the system performs its role, it enhances the performance of other parts and hence the total performance of the system (Hodge & Anthony, 1979:49).

If using a systems theory implies synergy or interconnectedness, risk management as a component of governance could be implemented. As a result, the South African Government believes in the integrated governance approach such as planning the framework of the government where government priorities are outlined, for instance in Cabinet meetings, director-general's forums and government clusters meet to co-ordinate government policies and activities (Department of Public Service and Administration, 2003:34). Central to systems theory, among other things, is the interdependency or 'working together' between units and subunits within an organisation or the public sector in general. However, it takes a visionary leader to apply or implement such interconnectedness. The government also believes that the basic principle underpinning the integrating approach is that the work of the government impacts on the totality of the lives of the citizens in an integrated way (Department of Public

Service and Administration, 2003:34). It is therefore important that the systems approach or an integrated approach is applied by the government in order to improve governance and administration because once departments work in silos, good governance can be undermined and 'bad' governance could be the order of the day and the life of people could also be severely affected.

Most importantly, it is crucial for a system to be effective in order to contribute to building an effective organisation. This will in turn affect or positively impact on other subsystems within an organisation. Therefore, the stronger the system or an organisation and other subsystems such as organisational structure and culture, management, risk management and compliance, within an organisation, the more effective an organisation it becomes.

As discussed earlier, Capra's definition and conceptual analysis of systems theory, focused on the central argument regarding this theory, namely that of the correlation of processes, and the interrelation by interaction with an environment. The 'states' or conditions regarding the systems theory seek to provide an in-depth understanding of situations or factors that could build up a systems theory in general. Theoretically and practically speaking, the systems theory is based on a particular open environment, an environment that takes cognisance of its surroundings and has the ability to cross organisational 'boundaries'. To illustrate the above point, Robbins (1976:12) confirms that the open system recognises the dynamic interaction with the environment.

However, of critical importance is the ability of subsystems to work together in order to adapt to an environment that is able to challenge an organisation and its strategic management. Therefore, the following stages contain what informs or provides the underlying elements, namely that which makes up a systems theory.

2.8.2 Stages in Systems Theory

According to the systems theory, a system has different states and it is important to understand such states because an organisation is dynamic and operates differently in different situations or environments. People also react differently in different situations, therefore it is important to understand certain states in which a system operates. Public servants and the government have to study and analyse the states and conditions in which

they operate so that flexibility, not a dogmatic approach, becomes the solution to a changing environment which might be influenced by social, institutional, political and economic environments. Hence, it is paramount to identify with the environment in which projects or programmes of the government are to be implemented. Failure to analyse an environment could also result to poor or non attainment of vision and mission of government. Additionally, poor analysis of the systems theory on the basis of poor co-ordination, operating in an uncoordinated fashion without synergy and without 'listening' to an environment, might lead to the managerial leadership not managing the evolution of the public finance management system within the public service. The following states in systems theory explain the importance of 'listening' to an environment:

- a) First, when the system is in a state of continual fluctuation, even when there is no disturbance, such state is known as *homeostasis*. This is a state of dynamic, transactional balance in which there is great flexibility. Thus, the system has a large number of options for interacting with its environment. When there is some disturbance, the organism tends to return to its original state and it does so by adapting in various ways to environmental changes.
- b) Secondly, this kind of adaptation to living organisms is the adaptation of the species in the process of evolution. The changes are brought about by mutation, also know as *genotypic change*. Through genotypic change a species adapts to the environment by shifting the range of some of its variables, and notably of those, which result in the most economical changes. Increasing flexibility and decreasing reversibility characterize these modes of adaptation (Capra 1982:294).

Capra's analysis is used in relation to public administration, particularly in the South African Public Service, a country that is still in a transitional period or undergoing transformation. It is essential that government officials, especially the strategic or managerial leadership are able to understand change, environment, the theory on adaptation and reasonable flexibility in an organisation. Capra alludes to some environmental variables such as economical changes. This particular variable has been raised previously in the thesis as important in influencing public administration, policies in particular.

Mary Parker Follett, a theorist of public administration, in analysing leaders' tasks, believes that a leader must have a thorough knowledge of the job, an ability to grasp the total situation,

the capacity to create as well as direct power, the talent to see future directions and a pioneer's sense of adventure (Fry, 1989:113).

The fact that an environment is significant and helpful should be taken into account so that the managerial leaders are able to scrutinize and understand current and future trends in public administration. Systems thinking could also help public servants and organisations to adapt to a situation or environment and also become flexible.

According to Cloete & Wissink (2000:39), the systems model can provide perspectives on aspects such as the influence of the environment on the political policy and vice versa. Through political demands (inputs) interest groups, in order to influence an environment and conversion of these demands into public policies (output), namely the Public Service Regulations of 1999, the White Paper on transformation of the South African Public Service of 1995 and the Public Finance Management Act of 1999 intend to change (outcome) the Public Service both institutionally and structurally.

2.8.3 Forms of systems

To put the systems approach into perspective and context, it is imperative to provide the following illustrative examples regarding systems, as they are applicable and relevant in public administration.

The following systems are:

- a) **Economic system:** an interdependent set of roles organised to promote and guarantee the accumulation, reproduction and distribution of wealth within a nation state.
- b) **Political system:** an interdependent set of roles organised to regulate conflict over the control of the state.
- c) **Government system:** an interdependent set of roles organised to legally control the administrative organized organisation and functioning of the state.
- d) **Administrative system:** an interdependent set of roles organised to co-ordinate and control the structuring of human activities within a nation state (Jun, 1986:30).

Having given the above forms of systems, it shows that a critical point in systems approach is in the interdependence of components in achieving common goals. What is crucial is the

importance of the environment in which the above systems are to take place. Roles by the above systems could not easily be achieved or could not be achieved at all if environment is not scanned properly for the benefit of both an organisation and government. Therefore, political, economic and institutional environments are important so that the results of government service delivery programmes impact positively and organisations could perform efficiently and effectively.

2.8.4 Effectiveness and efficiency: systems analysis

It is important to understand the effectiveness and efficiency of a system because for a system to survive, it depends on the efficiency and effectiveness of a subsystem or subsystems. To be explicit, organisational ineffectiveness and inefficiency could affect other subunits within an organisation, and that could in turn affect the outputs to be delivered by an organisation.

When a part or subsystem of the system efficiently aids the system in its overall operation, it is termed *functional*. In contrast, when a part or subsystem hinders the overall operation of the subsystem is termed *dysfunctional* since it enables judgements to be made about the efficiency and effectiveness of subsystems (Hodge & Anthony, 1979:52). In this context, the ability for a system and subsystems becomes vital from organisational perspective, because the functionality of both the system and its subsystems is essential.

2.8.5 Systems approach: main advantages and disadvantages

As outlined in the thesis, the systems theory needs to take into account the understanding of the functionality and dysfunctionality of both the systems and subsystems for organisational efficiency and effectiveness. Thus, it is important to provide that which is 'working' and 'not working' when a systems theory is applied.

The advantages and a disadvantage of the systems approach are provided below:

Advantages

- a) The wholism of the systems approach enables one to consider an organisation in its entirety.

- b) The elements of the organisation are clearly defined, and changes in one element can be traced through the system to determine their effect on the system's performance and output.
- c) Organisational interface and its environment are explicitly considered.

Disadvantage

- a) The most common disadvantage is the misunderstanding and misapplication of the approach. Therefore, the users of the approach need to know the pitfalls that exist in its application and how they might be avoided (Hodge and Anthony 1979:60).

The above assertions about the advantages and disadvantage of the systems theory undoubtedly confirm that the organisational environment collaboration between a system and a subsystem, and the application of the systems theory within an organisation are crucial and relevant to environmental analysis in public administration. In relation to the disadvantage, it is important that public servants in general and managerial leaders in particular are technically equipped so that the systems theory does not become a dream but a reality. This will ensure organisational efficiency, especially when the public finance management system is implemented.

2.9 CONCLUSION

Literature on environmental issues indicates that when analysing public administration, the environment becomes central because public administration functions within different environments, notably political, social, technological and economic. Clearly, these different environments influence, among others, an organisation itself, organisational operations, managerial responsibilities, and organisational culture. Hence, it is important to examine public organisations and administration in order to place the environment within public administration. Environmental analysis is central in public administration.

An analysis of the environment should be coupled with an understanding of a closed or open system. Because an open system allows organisational interaction or interrelation and collaboration with an environment as opposed to the closed system. The latter creates boundaries that make it difficult for an organisation to acknowledge the existence of an environment as crucial in public administration. As the closed system focuses more on internal

operations, less on the 'outside' world, it could be difficult for the management within an organisation to be flexible and adaptive to any environment.

A systems theory can assist the management to understand an organisation as a system, which is made up of subsystems or components. For example, the proper functioning of an organisation depends on adaptive management, and the proper application of a systems approach or a system.

CHAPTER 3

CONCEPTUAL ANALYSIS OF PUBLIC ADMINISTRATION

3.1 INTRODUCTION

This chapter provides fundamental issues or ‘building blocks’ in Public Administration. Particular theoretical aspects that are commonly discussed within the Public Administration discourse, are identified. The discourse purports an analysis of some basic elements or theories in the field of Public Administration. The theorists propose and sketch some of the various issues relating to bureaucracy and phenomena in public administration such as management and leadership, governance, decision-making, political and administrative interface, ethics and administrative responsibility.

Analysis of Public Administration and its theories could provide a profound argument for and the basis of what is this ‘phenomenon called public administration’. This chapter provides an in-depth overview and analysis of theories that support and encourage debate on the interrogating approach within the field of Public Administration.

3.2 PUBLIC ADMINISTRATION: AN ANALYSIS

Public administration needs to be analysed in its context. In one way, Public Administration as a field of study is built up by theories that put it in context, particularly for government institutions. In some situations, scholars find it difficult to understand the original terminology or the framework of public administration, and therefore the role and meaning of the state and government as well. It is also important to understand public administration and its meaning properly, as well as its boundaries, because public administration, through its nature, is different from private or business administration. In its original analysis, the term *administration* comes from a Latin word *administrare*, which means to serve, or to attend to someone’s needs. Additionally and to qualify it, *public* refers to something that has to do with general, common and national interest (Lungu, 1997:1).

The above analysis of *public administration* provides some background which encompasses administration and the public. Both administration and people become the cornerstone in the field of Public Administration. What is also critical for public administration is to grow and develop into a co-operative approach between the executive institutions and the public. This co-operative approach in public administration has to be based on a common vision. As Waldo argues (in Sharon 1967:21), *public administration* is 'one phase or aspect of human co-operation'.

From Lungu's (1997) analysis of public administration, it could be deduced that public administration puts an obligation on the official to serve the public. Therefore, an official within a department or agency is obliged to discharge his or her responsibilities in ensuring that services are provided to the society. Therefore, public administration serves the public and is part of or is related to government.

Hanekom & Thornhill (1983:176), in their analysis of the term *public administration* provide a general application of the term *public to function of administration* means that administration is not concealed, it is open to all, it is the opposite of the private administration and affects society. Contextually, the above notion by the two authors imply that the public-administration relationship is brought about by the fact that the public in practice has to do with the delivering of services to people through the performance of administrative functions. Therefore, the output-outcome model as a result of the practical functioning of public administration is necessitated by administrators in their relationship, with accountability to the citizenry. The public and public administration are inseparable, especially in dealing with matters of governance, like accountability, responsibility, transparency and the rule of law. Against this background, public administration, both in theory and in practice, has to be discussed so that public administration's role is understood, as well as practices in public organisations, public service in particular.

P(p)ublic A(a)dmistration is broad-ranging and has a combination of theories and practices designed to promote an understanding of government and its relationship with the society. It also has to encourage the formulation of public policies to be more responsive to social needs and institute managerial practices on the part of the public organisations that are substantially attuned to effectiveness, efficiency, and increasingly, the deeper human requisites of the citizenry (Coetzee 1988:18). Different authors within different contexts constantly raise the

theory versus practice relationship. Within this context, the theory-practice relationship in particular, there is an indication of the importance of theory as one of the components within the Public Administration discourse. However, what is most essential is the fact that public administration is not an end in itself because theory plays a very important role in building and nurturing Public Administration and provides a basis to apply in practice.

In their comment and analysis of public administration, Fox, Schwella & Wissink (1991:2) define *public administration* as that 'system of structures and processes', operating within a particular society as environment with the objective of facilitating the formulation of appropriate governmental policy, and the efficient execution of the formulated policy. From this perspective, public administration establishes a bond between the society, public policy and government as key players by using structures and processes accurately. Therefore, public administration without people's involvement in public policy formulation and implementation, and the government's use of its structures and processes, is a fallacy.

Public administration is influenced by external conditions and also influences societies by solving present and future problems. Additionally, public administration is determined by both objective societal elements, and the subjectivity of public administrators (Jun, 1986:16). In practice, it is stated that interest groups and other external forces could influence public administration. As a result public administrators themselves become influential both in policy making and in institutional changes.

In their analysis of scope and meaning of public administration, Gaus, White & Dimock (1937:1) comment that wherever people associate for common purposes, the problem of administration presents itself. The authors further comment that the execution of agreed policies is a necessary responsibility of all institutional activities. In this context, public administration is not exempted from association for a common purpose. Furthermore, it takes a joint effort to deliver services to people under a government mandate.

Public administration involves the co-ordination of all organised activities, having as its purpose the implementation of public policy. The co-ordination of organised activity is common to all administrative endeavours, private and public, and the implementation of public policy are key factors within this understanding of public administration. Human co-operation and joint effort are seen as critical in implementing government policies in particular (Gortner

1981:5). In this context public administration should be geared towards serving the public by implementing public policies through an organised and skilful administrative arm. Most importantly, is the fact that the implementation of public policy for service delivery purposes should be a joint effort between the public and government.

Shafritz & Hyde (1992:58) define *public administration* as the management of men and women and materials in the accomplishment of the goals of the state. With reference to Shafritz and Hyde, public administration should make sure that the goals of the state are accomplished through the provision of services to people.

However, the provision of services is the ability of management to apply public service prescriptions efficiently and correctly. Additionally, to make sure that public administration achieves governmental goals, elements of good governance must be in place, such as accountability, transparency, responsibility and the rule of law.

Lungu (1997:1) believes that, in some cases, public administration is used synonymously with public policy, public service and government administration. His analysis of public administration as opposed to public policy could be based on the fact that public administration in practice is entrenched within public policy formulation and its management, structuring and policy interventions by the re-structuring of the public service in order to deliver services efficiently and effectively to the public. Additionally, public administration ensures that government structures are structured properly and according to the legal framework to obtain and maintain good governance.

In his analysis, Dror (in Perry: 1989: 98) maintains that public administration is very much a constitutional activity. This confirms that a constitution becomes critical in ensuring that government systems and organs of state function properly in order to ensure that governance is supported by strong and skilful managers. Therefore, public administration within a multidimensional approach, seeks to ensure that the roles of the state and government are fulfilled. It is also essential that a government and its citizenry respect and abide by its constitution.

Referring to South Africa as a constitutional government, in terms of section 2, the Constitution is the supreme law of the Republic (The Constitution of the Republic of South Africa, 1996:3). In this context, government officials have to ensure that the ethos and values

(ethics, economic and efficient use of government resources and developmental public administration) of public administration crafted in section 195 of the Constitution are upheld, including the socio-economic lives of people like housing, land, education and health are also upheld. At the same time, the public must be respected. The concept of the supremacy of the law was an important change because it insisted that the law binds both the rulers and the ruled (Perry, 1989:98). Referring to Perry's argument, the government and the public servants, should serve the public with dignity and respect. The Constitution requires that government should deliver socio-economic services to people and people are also expected to act according to the Constitution in demanding such services. In this context the ruled and ruler have to respect the Constitution in order for public administration to function properly. The above picture signals that managers and other public servants in government should respect and adhere to the provisions of the Constitution and other legal measures, such as the PFMA. It is important that the above is analysed within a particular context or fundamental principles. The following are foundations of public administration and it is important to understand the meaning or elements regarding governance.

3.3 FOUNDATIONS OF PUBLIC ADMINISTRATION

Like other disciplines, both in natural and social sciences, Public Administration is founded on some fundamental principles or tenets. These principles could shape or guide practitioners and political office-bearers, including academics within the field of Public Administration. Additionally, these principles could also instil values and standards within the government, state and society or the public, if applied correctly by taking into account a particular context or environment. The following are the foundations or principles of public administration as an activity within the Discipline.

3.3.1 Political supremacy

Every political office-bearer and every public official in a democratic society should carry out his or her official duties in cognisance of the fact that the legislature has been granted authority over the official's sphere of work. This implies that no public executive institution can change the nature and extent of its functional activities without being authorised to do so by a legislative institution. In the case of financial management, each department must spend public monies on the approval by parliament or legislature.

3.3.2 Public accountability

Generally, every political office-bearer and public official should display a sense of responsibility when performing his or her duties. It means that the official's conduct should be above reproach so that he or she will be able to give account in public, usually in portfolio committees. Thus, it could be stated that in implementing the PFMA, executing authorities and public servants, especially accounting officers of various departments in the public service are accountable to the public. Furthermore, to display a sense of responsibility and financial accountability, it is also expected that annual reports with annual financial statements are also submitted and reported to Parliament or other legislature through portfolio committees.

3.3.3 Tenets of democracy

Within this framework, it is argued that in response to democracy, the government should be arranged in such a manner that they cannot abuse the powers which have been entrusted to them to further their own interests or the interests of only one specific population group. Most important, the activities of public authorities should, wherever possible take place in the open rather than be shrouded by a veil of secrecy. With reference to financial affairs, the budget as an example is presented to Parliament and debated in public through public hearings.

Finally, to obtain sound public administration, individuals and groups should exercise their rights and freedom in a restrained manner. Centrally to rights and freedoms, individuals should not prejudice the rights and freedoms of others and endanger the community, including the welfare of others. Thus, public administration should be conducted in such a manner that the rule of law prevails.

The *rule of law* means:

- a) The executive institutions should not be allowed to exercise discretionary powers that are too wide and unrestrained, nor should they be allowed to act in arbitration;
- b) All citizens should be equal in the eyes of the law and should be treated equally in terms of the law;
- c) The courts should function independently of the legislature and executive and judges and magistrates should act as independent guardians to ensure that the rights and freedoms of the individuals are respected.

3.3.4 Fairness and reasonableness

Public institutions and officials should promote the welfare of the community and should always be fair and reasonable in their dealings with each citizen, regardless of sex, race, language or religion. Every public functionary should treat members of the public in a fair and reasonable manner. The Batho Pele (White Paper on service delivery) is an example of government's commitment to furthering the interests of the South African society, especially the principle on fairness and equality.

3.3.5 Balanced decisions

Decisions taken by a public official will be accepted as being balanced if it takes all aspects of a matter fully into account. The impact of a decision should be taken into account because a decision will affect the public directly or indirectly. Balanced decisions are necessitated by the requirement that everyone should receive equal treatment before the law. In the case of budgeting the Minister of Finance's budget speech in Parliament refers to political, economical and social conditions influencing the proposals on revenue and expenditure.

3.3.6 Thoroughness

It is argued that the activities of public officials should be characterised by their thoroughness. This implies that public authorities have to take action; they should do so timeously. They should maintain a high standard of work and provide quality service. With regard to this principle, public officials should never condone the waste of money and material. For effective good governance and financial management in the Public Service, the Public Finance Management Act (1999) and the South African Constitution (1996), promote high ethical conduct, efficient use of resources in delivering services to the public. Furthermore, public servants are expected to avoid wasteful and fruitless expenditure.

3.3.7 Probity

Political officers and officials should have no ulterior motives when performing their duties. As a result, no public functionary is allowed to use his authority to obtain inadmissible gains either for him or for others or to secure preferential treatment for favoured persons. Each official

should conduct himself in such a manner that he will be able to withstand any test of public scrutiny. To support transparency and improve conduct of public servants, public service regulations (1999), require managers that are within SMS level to disclose any financial gains in order to eliminate conflict of interest and abuse of power and authority for personal gains.

3.3.8 Efficiency and effectiveness

Efficiency in the public sector means satisfying the most essential needs of the community to the greatest possible extent by using the limited resources that are available. It also involves upholding public accountability. *Effectiveness*, on the other hand is more about the impact that has been or will be caused by a service delivered or to be delivered. To improve governance and service delivery, performance budgeting system stresses efficiency (relationship between inputs and outputs) and effectiveness (relationship between outputs and outcomes).

3.3.9 Legal rules and legality

Legal rules, particularly, the tenets of administrative law, provide a normative code of conduct for public functionaries. For example, the legal rules require that:

- a) a public functionary should not exceed his or her powers under the law, meaning *intra vires* not *ultra vires*;
- b) there should be justifiable reason for the act or decision, that is the decision should be *bona fide* instead of *mala fide* and *audi alteram partem* (listen to the other party) should apply. Therefore, a public functionary has to respect the prevailing provisions of laws and conduct himself or herself accordingly (Cloete, 1981:9). For example, every public servant must comply with PFMA, public service regulations and the constitution in order to support good governance in the Public Service.

The above fundamental tenets by Cloete are crucial as they provide the basis of public administration relative to governance. For example, as indicated earlier, the rule of law and supremacy of the Constitution, accountability, effectiveness and efficiency are fundamental in analysing governance in public administration. In this circumstance public administration becomes important in public life and for the institutions within it.

3.4 PUBLIC FINANCE IN PUBLIC ADMINISTRATION

In chapter 4 a theory of public finance is provided. However, an illustration of how public finance fits to public administration is crucial so that the theoretical framework of Public Administration and its conceptual analysis are put into perspective and in the subsequent chapters contextualised as well. Public administration with its different components such as human resources, management and leadership, administrative law, and public finance are building blocks in the field of public administration. Public finance, both technically and conceptually (theoretically), becomes a central point of government in ensuring that services are delivered to society. Therefore, budget preparation and implementation have to be done, individual departments have to make estimates, budget and plan so that resources are available for government projects to be implemented.

This section gives an indication of where public finance 'resides' in public administration. As a result, the following issues provide a distinct outline of financial aspects in public administration or 'public finance in public administration':

- a) Preparation of estimates of revenue and expenditure;
- b) Presenting the budget for approval by the legislature competent to do so;
- c) Execution of the budget, meaning the collection of taxes and other revenues and spending by departments in accordance with decisions and orders of government;
- d) Treasury management, which includes custody of funds, issue of money and expenditure and maintenance of accounts and their audit, as well audit reports (Sharan, 1967:345).

Sharan's sentiments imply that public finance in the field of public administration, among others, consist of budget approval and effective parliamentary oversight, financing of government policies, projects and programmes through collective decisions by both officials and the cabinet and financial management through controls, systems and clear lines of accountability and responsibility. The aforementioned phenomena are discussed in detail in the forthcoming chapters. The importance of public administration in general is discussed below, especially within the framework of providing a conceptual (theoretical) analysis of public administration in the study.

3.5 IMPORTANCE OF PUBLIC ADMINISTRATION

Public administration is created with a sense of purpose and is expected to accomplish specified objectives. In public administration, public agencies are supposed to deliver services as expected, under the conditions of the rule of law (Marx in Cayer and Weschler, 1988:12). Deriving from the above assertion, it is apparent that public administration and its importance are based on its ability to serve the public within the legal framework. The legal and administrative framework require that when a service is provided, public officials must respect the rights of the citizenry based on the Constitution of South Africa by treating the public fairly and on an equal basis and the officials must also conduct themselves and act according to the law. As a result, the fundamental purpose and importance of public administration namely that of delivering services to the people, will be respected. Sharan (1967:19) explains the importance of public administration as follows:

- a) Public administration ensures the daily life of the individual as well as that of the community;
- b) While the police maintain internal peace and order, the army defends the state against outside aggression;
- c) Public administration provides modern amenities such as justice, education, health, improved means of transport and communications, and wider opportunities for employment, as well as an improved life for the common people; and
- d) The courts administer justice, and various government departments render various services to the people.

In analysing the importance of public administration, it is evident that public administration is a catalyst in both external and the internal environment. With regard to the internal environment, public administration ensures that policies and legal frameworks are applied according to prescribed standards and that institutions supporting the government adhere to these policies. Externally, public administration has to respond to political, social and economic situations. Additionally, it has to respond and account to the public it serves. Public administration's importance lies in its efficiency, effectiveness and the way it uses resources efficiency and economically. Issues of governance and managerial leadership become crucial in ensuring that public administration maintains its vision and mission in accordance with the legal and political mandates.

In achieving the above goals, there should be intervention by both the state and government. On this basis, the role of the state and government has to be explained. However, sometimes the terms *state* and *government* are used interchangeably and tend to confuse or shift the main argument or debate within public administration discourse. Therefore, it is of the utmost importance that a line is drawn between *state and government* so that the role of each is understood. Most importantly, at a functional level, both state and government could contribute and impact on governance and service delivery within the country. The difference between the state and government showing their significance in governance in particular and service delivery in general will be discussed as follows.

3.5.1. State and government: a comparative analysis

Summarily, the *state* is defined in terms of a system of authorities which regulate the society; and *government* is a group that controls the state's institutions, the executive branch or cabinet, though it may control other branches as well (Boullé, Harris & Hoexter, 1993:16). Based on the author's distinction between the state and government, it is concluded that the difference is role-based with a particular society because one regulates society (state) and the other (government) controls the state institutions.

Referring to the above, a *state* is believed to operate effectively and has the legal right of existence. It provides rules in a given environment so that inhabitants in a particular area are bound by such rules. Wikipedia Encyclopaedia (2005:1) defines a state as 'an organized political community occupying a definite territory, having an organized government and possessing internal and external sovereignty'. The Encyclopaedia thus agrees that a *state* is a political community within a particular territory with legal status of existence that has a government and ensures that its sovereignty is preserved both internally and externally.

a) Functions of the state

To illustrate the existence of a state and its role in a particular society, its functions are listed below:

- (i) a) The state has political institutions to maintain law and order;
- b) The state provides public services for the maintenance of the community, and
- c) The state promotes welfare and the good life of the population (Cloete, 1998:3).

From the above, it is clear that the state has a political mandate to deliver services to people and with its institutions the state is able to protect the rights of the inhabitants. Kayizzi-Mugerwa (2003:57) supports the view that the state provides public goods and protects property rights.

Van Niekerk et al., (2001: 41) also believe that the main components of the state are the decision-making structures (executives, parties, and legislatures), decision-making institutions (bureaucracies, parastatal organisations and security forces) and decision–mediating bodies (courts, tribunals and commissions of inquiry). Regarding the above structures, it is evident that institutions or structures such as parties, legislatures, bureaucracies and courts, are fundamental to the well-being of inhabitants, and the state has the role of making sure that the above institutions make decisions that impact positively on the public. Decision-making is fundamental in governance because it facilitates to the provision of services to people, if the process is transparent and decision-makers are accountable for their decisions.

b) Characteristics of the state

To understand the state and its fundamental position, Van Niekerk et al., (2001:48) provide the following three basic characteristics of the state:

(ii) a) Territory

The first requirement of the state is geographical and territory is viewed as indispensable.

b) Population

To classify a territory as a state, it must have inhabitants or people living in it. However, the number of people or inhabitants living within a territory is not used as a criterion to determine whether a territory is a state or not.

c) Government

One of the tangible characteristics defining a state is the presence of government.

The above characteristics confirm that a *state* is defined along the lines of inhabitants as dwellers of a particular territory. These inhabitants must have a territory and the functioning of the state happens in the presence of government. On the basis that the state exists in a stable condition, Chazan et al., (1992:39) define state as the organized aggregate of relatively permanent institutions of governance. The argument by Chazan et al., confirm the fact that the

state supports governance and service delivery. The following is a discussion of government and its functions in order to explain the role of government.

3.5.2 Government: Definition and analysis

By definition, *government* refers to a body of persons and institutions that make and apply all enforceable decisions for a society (Van Niekerk, at al., 2001: 49). According to Wikipedia Encyclopaedia (2005:1), the word *government* is derived from the Greek word *kubernites*, which means ‘steersman’, ‘governor’ ‘pilot’ or ‘rudder’. The Encyclopaedia also defines *government* as “the body that has the power to make and enforce laws within an organisation or group and broadly, to ‘govern’ means the power to administer, whether over an area of land, set of people, or collection of assets” (Wikipedia Encyclopaedia, 2005:1). On the basis of the above, *government* has a responsibility to ‘steer’ or to guide the state and its organs on matters of governance through a decision-making process, such as cabinet meetings and legislature.

a) Functions of government

According to Van Niekerk at al., (2001:49), the following are the functions of government:

- (i) a) Government officials are specific occupants of public office who possess power and make binding decisions;
- b) Government consists of three branches, namely the judicial, legislature and executive; and
- c) Therefore, the government is the mechanism that maintains the state’s existence.

It is clear from the above that both the state and government are distinguishable and they serve their purposes differently, and the use of them interchangeably could indeed cloud the existence of each other or their role. In essence, the difference between the state and government is on the basis of authority and scope or mandate to act on behalf of or for citizens. For example, state institutions are established to keep the government accountable or act according to the law so that good governance could be preserved and embraced.

For the functioning of state and government, the existence of an administrative arm is crucial. However, its existence should be guided by a particular theory because public administration operates within certain paradigm shifts or changes, which are mostly influenced by government. Therefore, administrative theory is important as it serves as an engine in service delivery. The following section discusses the importance of administrative theory in public administration.

3.6 ADMINISTRATIVE THEORY: AN ANALYSIS

As in other fields, officials reforming a public administrative function use theory to assert a particular position or to generate a theoretical framework in order to apply a particular model in public administration. In the social sciences, it is imperative to research and understand theory, models and paradigms because an environment can change people's approaches and institutions. As reported earlier in the thesis, people react differently in different situations. Institutions are also affected by human factors. Public administration is not immune to those changes. Through research and theory, guidance has to be provided so that practitioners act from an informed position.

A theory-practice relationship is critical, especially in public policy because in some cases or selected incidents the public may complain about the implementation of policies in government. In this context it becomes crucial that policy analysts look at the environment within which and how a policy will be implemented. This could be termed as *policy environmental scanning*.

Theory becomes crucial in relation to policy implementation because of perceptions about poor or a total lack of policy implementation. The latter does not concern a theory in particular, but it is a policy implementation strategy or instrument that is used in theory-building. In this context theoretical analysis has to be done, both of policy formulation and implementation, so that theory is not the 'scapegoat' in the proper implementation of the public policy. As, Jreisat (1992:9) comments, theory has not failed, but its application.

Jreisat's comment stresses that it is not always a theoretical problem, but rather the application thereof. Therefore, it is paramount that during public policy application, the skill of the practitioner is analysed in relation to policy application and its strategies. The same

arguments apply to the PFMA, namely that concerns relating to its implementation or non-compliance could be a result of the lack of skill of the practitioner or failure in the application of the act, not the action itself or the theory. Theory building and analysis are important so that the administrative arm can apply the policies based on an understanding of the environment.

In relation to administrative analysis, Jreisat, (1992:9) states that theory may seem to fail to solve specific problems, or even aid in their resolution, simply because theory assumes conditions that cannot be met. Some theories and models have to be theoretically analysed and based on proper situational and contextual analysis because the theory provided, as theory is not a panacea. As indicated earlier, people react differently, just like the organisations in which they operate. Therefore, a theory is important in building and implementation strategy or a model, because public administration is theoretically developed and based on fundamental functions, among others decision-making.

Based on the above discussion, like any field of study, both theoretical and practical, Public Administration uses particular theories for its advancement and development. These theories need to adhere to and operate under social, economic and political changes, because public administration operates within such a milieu.

Hanekom and Thornhill (1983:48) explain that theory is derived from a Latin word, *theoria* and Greek *theoreo*, meaning contemplation, speculation and sight. Hanekom and Thornhill (1983:48) state that theory is used to indicate a frame of reference and abstracted generalisation that may stand in lieu of facts. Theory encourages reasoning and an understanding of frame of reference. The latter is crucial in the process of decision-making in order to make rational decisions within organisations and improve governance in the Public Service.

As alluded to earlier, the theory-practice connection is imperative because it produces well-structured practical issues. Hanekom and Thornhill is supported by Lungu (s.a.130), that the theory operates at least in three possible ways:

- a) provides a frame of reference for the practitioner;
- b) a process of theorising provides a general mode of practical events; and
- c) provides the knowledge upon which practical and rational decisions are made.

3.7 CONTRIBUTIONS OF ADMINISTRATIVE ANALYSIS

Given the above administrative analysis, authors such as Jreisat continue to contribute to the debate on the value of theory. Jreisat (1992:12) provides the following functions of administrative theory:

- a) Theory provides a systematic view of existing knowledge and helps to organise insights gained through research and application;
- b) In their contribution to science, some scholars like Kaplan share the view that the basic function of theory is to make sense of what would otherwise be inscrutable or unmeaning empirical findings;
- c) Theory serves as a guide to research by connecting the gaps between existing knowledge and ongoing research;
- d) Theory offers criteria of relevance to the questions under investigation. As a result, it disciplines the process of information gathering and restrains individual bias and perception;
- e) Administrative theory aspires to become a guide to administrative action and behaviour. Parallel to this assertion, administrative theory provides practitioners the means to evaluate performance as it offers academics a balanced perspective in areas of curriculum development and teaching; and
- f) Theory leads to better analysis and understanding of administrative problems, an essential step in the development or identification of problem-solving techniques. It is in this context a relevant theory helps to improve practice.

As indicated in the previous paragraph, administrative analysis draws together the insights of the humanities and the validated propositions of the social and behavioural sciences.

Theory in public administration equally assists to apply insights and propositions to the task of improving the processes of government aimed at achieving politically legitimated goals by constitutionally mandated means (Charlesworth, 1968:129). Charlesworth's comments

suggest that public administrative theory assists in facilitating and enhancing the political mandate of government. The political mandate could ensure that service delivery and institutional development are achieved through proper theoretical analysis and environmental scanning. Administrative theory enables both an individual within an organisation to grow, and supports institutional development taking place in a department or country. It is because theory on its own does not serve any purpose. It has to be supported and understood by an official so that administrative functions are performed and people within an organisation are able to comply with administrative measures with a sense of responsibility. In this context, administrative theory provides a culture of responsibility because officials are able to administer within a clear framework based on a body of knowledge. Administrative responsibility offers some elements of governance such as responsibility and accountability, more especially during transformation. As alluded earlier, administrative responsibility is useful in supporting good governance.

3.7.1 Dimensions of administrative responsibility

Administrative responsibility applies both to the individual and a political system. South Africa is no exception, especially in its transformation into a democratic state. In his inaugural lecture, Lungu (1993:7) provides the following elements of administrative responsibility that have an ethical 'tone' and clarifies the role of public servants in a democratic state:

- a) **Authority:** In a modern state, an individual administrator or departmental agency is authorised to act on behalf of the state. He strongly emphasises that it would be *ultra vires*, for example, for one to sign documents he or she has not been authorised to do, or a government agency to undertake a programme unsanctioned by those competent to do so;
- b) **Accountability:** Democratic accountability implies answerability to several levels of control as well as one's conscience. For example, public administrators are not only answerable to hierarchical superiors in the public service, or to political executives (ministers) to the legislature, but also to subordinates. They are also accountable to the public and answerable to the moral conscience;

- c) Administrative responsibility in a democratic state involves personal judgement or the discretion officials are allowed to exercise;
- d) **Neutrality:** In public administration, neutrality is always a debated concept because it is by definition a political action. Based on some connotations, *neutrality* means that officials should apply rules and regulations impartially when serving members of the public regardless of personal, ethnic, racial or any other considerations that have been explicitly declared irrelevant in a given democratic state. The ideal of neutrality emphasises the essential aspect of *public administration*, namely that it involves the enabling actions required so that a public service could be rendered to the relevant individuals, community or society without discrimination, unless under politically determined circumstances, for example, preferential treatment of a historically disadvantaged group;
- e) **Openness:** Open governance is associated with the notion of transparency. It promotes the feeling among society that the public service is not unduly secretive, that the true basis of democracy requires access to vital information on the critical decisions, actions and inactions of the public servants. For example, a member of the public wants to know from the public servants on what basis his or her application for a passport is delayed or denied or the existing one withdrawn; and
- f) **Virtue:** It is an ideal that public officials must have morals all the time. An offer of employment in the public service is regarded as a form of public trust requiring that officials be committed to principles, morally attuned, trustworthy, honest, dependable and reliable. Additionally, officials are expected to exhibit a high degree of moral integrity.

Regarding administrative responsibility, Mass and Laurence argue as follows (1953: 440):

- a) Bureaucracy as a corps of appointed officials is the very core of constitutional democracy in the sense that modern government cannot operate or maintain service delivery without an efficient administrative organisation;
- b) It is not a question of either democracy or bureaucracy, or of their constitutionalism or efficient administration but a combination of the two, a working balance between them, in short it is a question of a responsible bureaucracy;

- c) An administrative agency should be responsible for formulating as well as executing public policy; and
- d) Administrative hierarchies have a profound influence on policy formulation, especially on the exercise of the discretionary powers allowed in everyday operations and the processing and developing of specific proposals for legislative consideration.

With reference to the above authors, it is important to note that administrative responsibility is crucial because it calls for an efficient public service that is able to deliver services responsibly by executing policies of government efficiently. In delivering public services, an official must be accountable to the public. *Responsibility* implies that duties are assigned to individuals or government officials to deliver services to the society. What is also important from the above analysis of administrative responsibility is the decision-making in relation to discretion. It is important for public servants to make responsible decisions when serving people rather than sticking to the rules because that could stifle service delivery. What is important is for officials to be accountable for discretionary decisions because if it becomes secretive it could result in unethical conduct and affect good governance in the public service.

Having discussed administrative theory and responsibility and contribution to governance, it is important to outline some fundamental theoretical sentiments that are based on certain theorists. These theorists contribute significantly to terms such as, *leadership* and *decision-making*, both aspects are crucial in governance. The understanding of these theories in public administration could serve as the basis of organisational design. The latter becomes effective if the underlying theory is well structured. Some organisations are rule-bound and others are flexible and therefore by taking account of the surrounding environment, decisions can be decentralised. This following section outlines some theories of public administration on the basis of the above analytical framework.

3.8 THEORIES IN PUBLIC ADMINISTRATION

Public administration acknowledges various theories, among others, human behaviour, management and leadership theories and organisational theories. The theorists Max Weber, Mary Parker Follett, Chester Barnard, Mayo, Taylor, Lindblom and Woodrow Wilson have contributed significantly to public administration. Their theoretical foundations have

necessitated scholars in public administration to scrutinise and understand fundamental issues in the field of public administration, such as scientific management, leadership, motivation in organisations, policy analysis and decision-making. Knowledge of the theories by the above authors is instrumental in understanding organisations and personnel within an organisation in order to understand and contextualise other phenomena such as governance and leadership.

3.8.1 Bureaucracy: Conceptual analysis

The term *bureaucracy* means different phenomena to different people, for some the term has negative and for some positive sentiments. As a result, the term bureaucracy is sometimes not placed into context. It is therefore crucial to look at the origin of the term and its proper meaning. For example, Hanekom & Thornhill (1983:117) argue that originally, *bureau* was used as early as the 18th century; the suffix refers to the Greek word “to rule”.

Evidence states that *bureaucracy* has been and is still associated with a number of negative perceptions; namely, red tape, inefficiency, poor performance, and maladministration. In contrast, in other situations, it is seen as a structured system of government with rules and regulations, including too systematic procedures. As indicated earlier, these features are attached to the term *bureaucracy* because the term, in some situations, is not discussed in context. In Albrow's (1970:47) analysis of *collegiality*, as a mechanism to limit the scope of systems of authority generally, bureaucracy in particular, means that at each stage of the official hierarchy, one person, and one person only, has the responsibility for taking decisions. Albrow's comment is based on the fact that *bureaucracy* has an element of centrality in relation to decision-making, meaning that decisions are centralised and other officials simply follow the order or rules.

3.8.2 Bureaucracy: A system

As a system, bureaucracy is discussed in terms of how an organisation should function in relation to rules and approach, including its structure or organisational design. A German sociologist, Max Weber, provided an organisational analysis of *bureaucracy* with his famous essay called *Ideal type of bureaucracy*. His essay provides features of this ideal type of bureaucracy. Stillman (1983:47) comments that three of the most important attributes in

Weber's concept of *bureaucracy* are the "division of labour, hierarchical order and impersonal rules". These three attributes are critical in defining *bureaucracy* so that the 'positivity' element of bureaucracy is contextually understood.

In his analysis of Weber's rational bureaucracy and his outline of some of the 'positive' and 'important' elements of bureaucracy, Albrow (1970:45) provides a series of characteristics such as precision, continuity, discipline, strictness and reliability which made it technically the most efficiency form of organisation. Albrow's analysis provides a crucial understanding of bureaucracy in an organisational context. Weber's characteristics of bureaucracy are the following:

- a) The principles of office hierarchy and levels of graded authority mean a firmly ordered system of supervision and subordination in which there is supervision of lower offices by the higher ones; and
- b) Management of office follows general rules (Shafritz & Hyde, 1992:55).

In addition to the characteristics of bureaucracy by Weber, some authors like Mouzelis add that bureaucracy has a hierarchical authority structure with limited areas of command and responsibility (Mouzelis 1967:38). Weber's ideal type of bureaucracy has an effect on the operation and structure of the public service, the managerial ability to manage and the making of effective financial decisions about departments. It portrays a very centralised institution where delegation of responsibilities is not practiced and the personnel work strictly according to rules resulting in less creativity.

3.8.3 Organisational design and its perspective

In terms of organisational performance, the design of an organisation and its environment are important for delivering services to people effectively and efficiently, for example centralized decision-making, hierarchical as opposed to the so-called flat structure, as well as departmental instead of a matrix-oriented organisation where different organisational units share information expertise and tasks. Therefore, an organisation should be designed in response to its environment and in support of governance elements such as decision-making, accountability and transparency. If the aforementioned are not taken into consideration, governance and systems could be affected. In the case of the National Treasury, guidelines for public financial management are issued in order respond to external environments such as

social, economic and political. In some instances, government departments are redesigned to cope with the external environment.

3.8.3.1 Organisational design defined

Organisational design is a formal, guided process for integrating the people, information and technology of an organisation. Organisational design is used to match the form of the organisation as closely as possible to the goals the organisation seeks to achieve. Through this process, organisations act to improve the probability that the collective efforts of members will be successful (Autry, 1996:1). The above definition suggests that organisational design is a process that integrates people and technology so that its objectives are achieved. Collectivity is an important requirement. Technology and people are seen as 'drivers' for organisational effectiveness and efficiency. Robbins (1990:6) argues that an organisational design is concerned with constructing and changing an organisation's structure in order to achieve its goals.

The theory behind Weber's ideal form of bureaucracy is an organisational structure that is too formalistic and rule bound. The criticism of the type of structure is that it does not take into account outside surroundings or the environment resulting in an organisation that is designed in a manner that excludes other processes and other factors affecting the employees within an organisation and its performance. However, an organisation should be designed or structured in such a way that processes such as calibre of personnel; technological factors can be integrated into the mission and vision of an organisation. An institutional environment is important so that the ability to cope with any change is entrenched within an organisation.

3.8.4 Decision-making: An analysis

Generally, organisations take decisions in order to execute an agreed upon agenda or mandate. These decisions are important in both private and public organisations. Within the context of the study, decision-making is always fundamental in governance if the process is transparent and decentralised. At the same time, poor decision-making could expose the government to risks, either financial or economical.

The manner in which decisions are made and the purpose they serve are important. The manner in which they are communicated within an organisation is also important. A distinction

should be drawn between personal and organisational decisions so that the outcome of a decision is objective. During decision-making, rationality is crucial and the effect or implication of making irrational decisions are equally important. Sometimes, in the process of decision-making, discretion is used. Lungu (1982:342) explains that in Latin *discretio* (discretion) denotes the ability to distinguish, discern, discriminate or separate. It also refers to being discreet and circumspect in making one's judgement regarding unclear issues or confused situations.

Choices and alternatives are the cornerstones of the decision-making process within an organisation. Finally, in the decision-making process, risk assessment of the decisions to be taken is of vital importance to take a calculated risk. Decision-based-risks regarding a department are to be managed in such a way that the people are treated fairly and their human rights are protected. Poor decision-making could be costly to government, exposing government to financial or political risks. A member of the public could decide to sue the government for inefficient service delivery. Revolt against the government, could even develop on the basis of poor decision-making by political office bearers or public servants. The following authors provide various different perspectives on decisions and decision-making because decisions are taken for different purposes and reasons in different context:

- a) Fry (1989: 170) defines *decisions* as “acts of individuals, which are the result of deliberation, calculation, and thought involving the ordering of means to an end”. Individuals, through a process of discussion and deliberation, make decisions so that strategic actions are taken in order to influence line departments to effectively deliver service to the people;
- b) Dubrin and Ireland (1993:80) define *decision* as the selection of a course of action from two or more alternatives and the *decision-making process* as the sequence of steps used to make a decision, that is, to select a particular course of action. Both Dubrin and Ireland argue that *decision-making* is a course of action through the process of selection of an action for of a variety of alternatives. This confirms that a *decision making* is a process, not an end in itself, but the means to an end to improve an organisation's effectiveness so that challenges facing the lives of people are dealt with through a strategic decision-making process;

- c) For Steiss (1989:225) *decision-making* is one of the pervasive functions of management, whether in business or in government. Steiss's comment could be driven by the fact that decision-making is a function of management. It is important that managers are able to take well-calculated decisions because poor decisions could affect an organisation's objectives and mission;

- d) Fry (1989:170) states that decision-making is an integral function in the organisation, being both the means by which the purpose of the organisation is related to the organisation's environment and the means by which the purpose is translated into action. Fry's assertion on decision-making takes into account the fact that authentic decisions are those that originate from an organisation through a process of decision-making. Such internal decisions could take into account both the internal and external environment of the organisation;

- e) Theorists like Simon, Smithburg and Thompson (in Stillman, 1983:263) believe that decisions in political settings can never be wholly rational but rather of a 'bounded rational' in nature. This means that instead of insisting on an 'optional solution' the public policy-maker must be satisfied with what is 'good enough' or must 'muddle through'. These observations by Simon, Smithburg and Thompson could be correct because political parties usually have competing interest and agendas so that one party remains in power or one becomes an effective opposition to the one that rules. However, political competition or interest should not undermine rationality in decision-making so that the expectations of the people are well managed through effective service delivery plans coming from a majority party in government. It is in this context that 'bounded rationality' emerges because rationality in decision-making is affected by 'muddling through' or by poor analysis of alternatives or options or poor cost benefit analysis in making decisions; and

- f) According to Fry (1989:185), Herbert Simon believes that decision premises provide the basis for the process of decision-making, while decisions themselves are conclusions drawn from the premises. Organisations are the best premises for decision-making in order to impact positively on the organisational objectives on the basis of the strategic plans formulated.

3.8.5 Management

3.8.5.1 Brief overview and analysis

Dillions, Feldhaus & Farrell (1984:50) define *management* as an act of planning, organising, directing and controlling the resources and activities of an organisation. Parallel to the above authors, Hanekom and Thornhill (1995:14) explain that management aims at directing an institution towards its predetermined objective(s), by keeping the operations of an institution in equilibrium with its environment. With regard to the above authors organisational objectives and operations in the environment are of vital importance. As stated in the previous chapter, the understanding of the environment or surroundings helps to recognise what could be a threat within an organisation. The management has a responsibility to scrutinise the environment so that the government's objectives in general, and the public service in particular, are attained as planned.

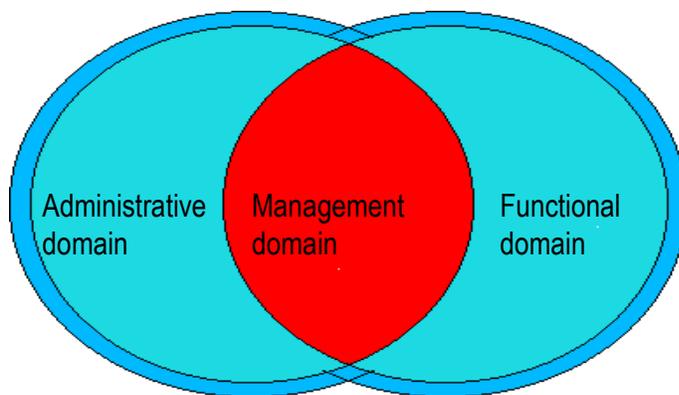
In his analysis of the role of management in an institution, Botes (in Roux et al., 1997: 10) notes the following:

- a) Public officials in high echelons in an institution have management responsibilities, in addition to their administrative and functional activities. It means that officials must have certain people-oriented leadership skills to direct the generic administrative functions;
- b) The management should also have specialized functional processes so that institutional goals are realised. The management gives direction to the administrative conduct;
- c) Management is a social process which involves judgement, decision-making, guidance, integration and motivation;
- d) The aforementioned aspects are not administrative *per se* but they are involved in the process of administration; and
- e) With regard to the above aspects, management is not equal to administration, but part of administration.

Figure 3.1 below illustrates Botes' analysis (in Roux et al., 1997:10) that the management should also be responsible for generic administrative activities and functional tasks. The

implication is that the high echelon within an organisation also has the dual responsibility of ensuring that the administration runs effectively within a department and other functional tasks are performed effectively and efficiently. A manager within an institution should display managerial skills to direct the institutional goals within an organisation through the interaction with all domains within an organisation. It is important that the management should ensure that they are in charge of the functional and administrative processes of a department so that the institutional goals are achieved. Within management, a people-centred leadership should be displayed at all the times.

Figure 3.1: Responsibilities of management



Source: Adapted from Botes, (in Roux et al., 1997:10)

As explained earlier in the text, Botes (in Roux et al., 1997:10) explains integrated managerial responsibilities by including administrative and functional domains and management as a central domain. Gulick and Urwick (in Fry, 1989:86) believe that for administration to be properly executed, an organisation should be structured around specific functions. Gulick and Urwick assign a range of functions to the executive in an acronym namely **POSDCORB** which stands for *planning, organisation, staffing, directing, co-ordinating, reporting and budgeting* (Fry, 1989:86).

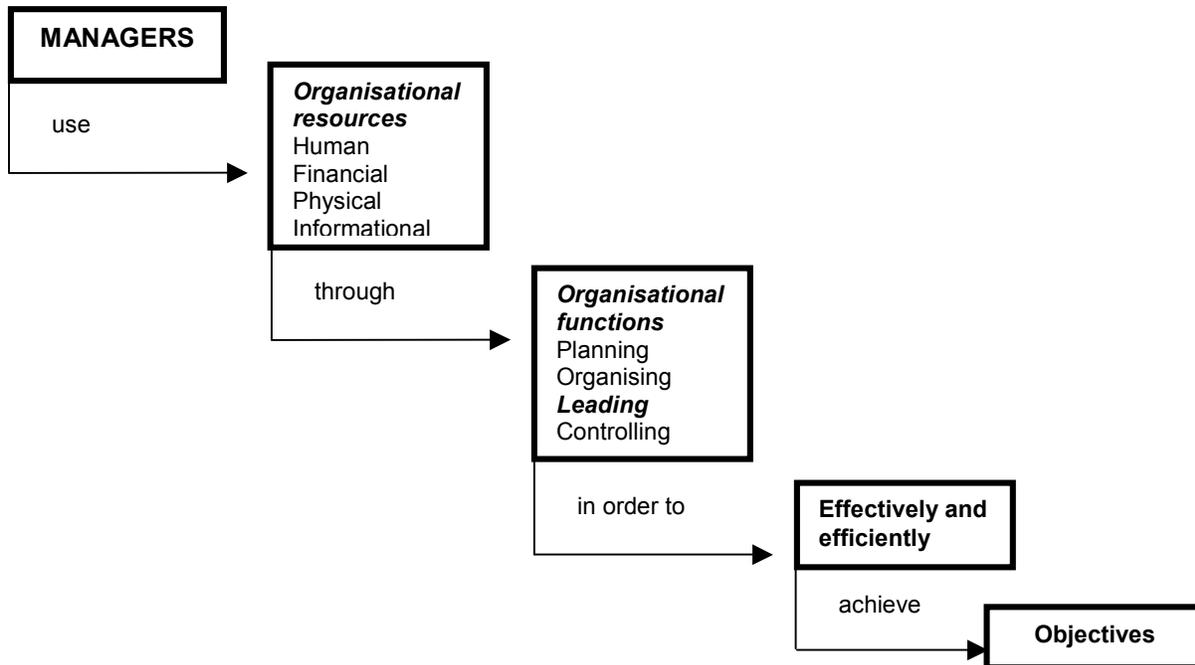
Gulick and Urwick (1977:13) explain the above acronym as follows:

- a) **Planning** is working out in broad outline the things that need to be done and the methods for doing them to accomplish the purpose set for the enterprise;

- b) **Organising:** is the establishment of the formal structure of authority through which work subdivisions are arranged, defined and co-ordinated for the defined objective;
- c) **Staffing** is the whole personnel function of bringing in and training the staff and maintaining favourable conditions of work;
- d) **Directing** is the continuous task of making decisions and embodying them in specific and general orders and instructions and serving as the leader of the enterprise;
- e) **Co-ordinating** is the all-important duty of the interrelation of the various parts of the work;
- f) **Reporting** means the executive is responsible to inform the staff as to what is going on, which thus includes keeping subordinates informed through records, research and inspection; and
- g) **Budgeting** comprises with all that goes with budgeting in the form of financial planning, accounting and record.

On the basis of the above, budgeting is crucial in administrative processes as it ensures that an organisation's financial management position is stable. Budgeting can be viewed good if its objectives attend to the socio-economic problems facing the country and government in particular and the budgeting is linked to government policies and planning. Poor fiscal planning and outdated accounting systems like cash accounting systems, poor or non-functional of information systems and recording of documents could negatively affect the financial position of a department.

Figure 3.2: Functions of management



Source: Dubrin & Ireland, (1993:5)

Figure 3.2 above, explains the functions of management which are also expected in the South African Public Service. The authors state that in achieving organisational objectives, managers use the most vital organisational resources, especially human and financial. However, it depends on whether the human resources are skilful enough and finances are adequate, and financial planning and budgeting are able to achieve the set standards within an organisation. In this regard, organisational functions are also vital, especially the planning and controlling of organisational resources because poor planning and the absence of control measures could result in poor expenditure management, but it takes good leadership skills to ensure that organisational functions are implemented. Finally, the efficient and effective use of organisational resources are vital in order to achieve organisational objectives.

For this study, the above analysis of the functions of management could be placed within the context of the PFMA and the South African Constitution. Successful management requires an ability to manage complexity and diversity in the context of a dynamic policy environment (Mthembu, 2001:2). Therefore, to implement the PFMA and its regulations, the managerial leaders in the Public Service have to understand policy dynamics and complexity, as well as the environment in which the Public Service is structured. These views are discussed in the following chapters.

3.9 POLICY AND POLICY- MAKING

Both in private and public organisations, policy formulation is essential because a policy guides both an organisation and the government in achieving the objectives, mission and vision. Therefore, the PFMA as a public policy document enables the government to ensure that there is good governance and effective financial management in the South African public sector in general. The following are different definitions of public policy in public administration in general, governance in particular, and the role to be taken by managerial leadership in implementing government policies like the PFMA.

3.9.1 What is public policy?

- a) It is a purposive course of action followed by an action or set of actions in dealing with the problem or matter (Andersen, 1979:3).
- b) Policy is classified in four phases, as specified means to achieve goals, authorised means to achieve goals, specified actions taken to implement programmes and the measurable outcome of programmes (Jones, 1977:4).
- c) *Public policy* is defined as the relationship of a governmental unit to its environment (Anderson, 2000:3).
- d) *Public policy* is a proposed course of action of a person, group or government within a given environment providing obstacles and opportunities which the policy was proposed to utilise opportunities and overcome obstacles (Friedrich, 1963:70).
- e) Dunn (in Van Niekerk et al., 2001:87) defines *public policy* as a long series of more or less related choices, including decisions to act, made by governmental bodies and officials.

- f) Van Niekerk et al., (2001:87) state that a policy is larger than a decision and they define a *policy* as a series of more specific decisions, sometimes in a rational sequence.

The above authors present a diverse analysis with regard to public policy and provides different perspectives that relate to policy and some contributions regarding governance in the Public Service. The policy assertions by the above authors significantly contribute in the understanding of the purpose of a policy. To illustrate the above authors' contribution to public administration in general and public policy in particular, the following analysis is relevant to the current discourse of public administration in relation to governance.

Anderson's (1979) assertion maintains a view that has been debated by some policy experts, namely that a policy is an action statement or a statement of intent in order to deal with an economic, political or social phenomenon. Jones (1977) provides a systematic approach to policy. As a statement of intent, Jones' definition of a *policy* holds the particular view that a public policy aims to achieve particular goals by making sure that policy directives are authorised by an institution and the actions prescribed by the policy are implemented and outcomes are measured. Jones' view is similar to the PFMA as a policy that an executive institution must achieve goals outlined by the PFMA. This could relate to asset management, procurement, risk management and the role of an accounting officer.

Anderson (2000) and Friedrich's (1963) view agree with a view that was discussed earlier in the previous chapter on the understanding of the environment in relation to public administration, namely that public administration takes place within a political, social and economic milieu. In this context, public policy forms a relationship between government and its surroundings or the environment and if the policy is correctly formulated it is able to assist the government in responding and adapting to economic, political, technological and social influences. For example, the PFMA enables government to respond to such aforementioned influences or environments so that a department can manage risks or threats that could affect service delivery programmes of the government due to poor financial management or expenditure management. Therefore, a public policy becomes instrumental in safeguarding the government from threats or risks and serves as an internal control measure on some fiscal matters like expenditure management, procurement and asset management. Dunn (in Van Niekerk et al., 2002:88) argue that a public policy is associated with decision-making in

making choices by both officials and the government with regard to the public. Similarly, Van Niekerk et al., (2001) argue that a policy is central to decision-making because in the process of policy implementation, choices are made that involves decision-making.

3.9.2 Public policy as formal legislation

In this particular instance, the government may decide to propose a policy on a particular matter, for example on disaster management or public finances. The process regarding this particular policy is that it originates from Parliament and undergoes a systematic process of scrutiny and analysis by Parliament and the relevant portfolio committee, including the public through public hearings. The outcome of such a process is that the policy becomes a formal legally entrenched framework. This section looks at a particular legislative framework as policy, namely the PFMA.

According to Wissink (1990:2) this form of policy is the formal output of the legislative process, which the representatives of the electorate have debated, and sanctioned, following its formulation and representation by government. Wissink's argument is based on the fact that the public policies, in many cases are outputs of Parliament. As much as it is a legislative framework, the PFMA is indeed a policy. Van Niekerk et al., (2001:88) also argue with that legislation or a national policy is a declaration of intent.

3.9.2.1 Objectives of legislation

- a) Legislation deals with a specific societal problem or need.
- b) It provides certain provisions or statutory guidelines which must be followed in order to realise the set objectives.
- c) Legislative powers are conferred on subordinate institutions. These powers include administrative and legislative institutions.
- d) Legislation prescribes the way in which that objective is to be realised, and grants institutions and individuals the authority, by means of delegation, to carry out a policy (Van Niekerk et al., 2001:88).

With regard to the above, it confirms that legislation like the PFMA is formulated within a particular framework and with a purpose and its provisions must be followed in order to achieve a particular objective, which is financial management, accountability, and

transparency. On this basis, the responsibility to implement the Act is conferred to departments. The Auditor-General is also assigned the responsibility to perform audits regarding the financial management, including compliance with the Act. On the basis of conferred responsibility to other institutions, they are expected to account for their activities to Parliament. Therefore it is important that legislation must be formulated for a specific purpose and an institution that is charged with the responsibility to implement it must be able to account for its implementation.

3.10 MANAGERIAL LEADERSHIP: AN ANALYTICAL FRAMEWORK

A scholarly debate about whether managers are leaders, and about how effective a managerial leader is within modern public and private organisations. The questions are relevant; yet remain unsolved. The research does not intend to provide concrete answers nor to focus on all the questions, but to explain the role of managerial leaders in the Public Service in order to provide quality service to society. The following authors provide different explanations about leadership and a leader and *managerial leadership*:

- a) Gbadamosi and Adebakin (1996) define *leadership* as the process of influencing and directing the activities of an organised group towards the achievement of organisational objectives;
- b) Robbins and Coulter (1999) define *leadership* as the ability to influence a group towards the achievement of goals;
- c) Encyclopaedia Britannica (1975:242) defines *leadership* as that relationship which exists between an individual and a group sharing a common goal or interest;
- d) McFarland (1979) defines *leadership* as a “ the ability of an individual to influence others to work beyond ordinary levels to achieve goals”;
- e) Davis and Newstrom (1985) argue that *leadership* is the process of encouraging and helping others work enthusiastically towards objectives;
- f) *Leader* is what a person does above and beyond the basic requirements of his position, it involves the persuasion of individuals and innovation of ideas and decision-making (Hall, 1999:137);
- g) Gbadamosi and Adebakin (1996) describe a *leader* as one who inspires others to work willingly towards the achievement of a goal through maximum application of his capabilities and qualities;

- h) Davis and Newstrom (1985) further argue that *leadership* is a human factor that binds a group together and motivates it towards goals; and
- i) Stoner et al., (1996) define *managerial leadership* as the process of directing and influencing task-related activities of group members.

According to Hall, Gbadamosi and Adebakin, a *leader* has a responsibility to share organisational goals and vision with members of an organisation, not focusing on the position but on the growth of the organisation with innovations and new ideas within the decision-making process. It is in this context that leader in the Public Service has a responsibility to ensure that correct decisions are made in order to improve governance and public finance management system in general. Therefore, a leader is a person, such as a manager or an individual within a department. Other authors such as McFarland, Davis and Newstrom and Encyclopaedia Britannica view leadership as a characteristic or a trait.

Leaders should maintain authority, power, influence, delegation, responsibility and accountability in their respective organisations or departments and also help to understand the concept of leadership (Brevis, Vrba & de Klerk, 1992:280). Brevis et al., also view a *leader* as an individual within an organisation which encourages mentorship, develops coaching, provides guidance and maintains accountability and responsibility so that both individuals and peers of an organisation grow and deliver services efficiently and effectively. To lead is a management function, which is mostly directed towards people and social interaction, as well as the process of influencing people so that they would achieve the goals of the organisation or the common goals (Skansi, 2000:51). For the purpose of the study, the focus is on managerial leadership as outlined by Stoner and others especially matters of directing, influencing task-related activities of other group members within an organisation. It is in this context that managers in the Public Service should be able to lead, support group members to achieve organisational objectives, direct a department in support of its vision and mission and ensure that agreed tasks are performed efficiently and effectively. What is also important is that a leader understands an environment in which the Public Service is operating.

Additionally, Cuban (in Moline, 2005:5) provides the following assertions with regard to leader-manager dichotomy:

- a) First, a leader influences other's actions in achieving desirable ends;

- b) Secondly, leaders shape the goals, motivations, and actions of others and frequently initiate change to reach existing and new goals. From this perspective, within an organisation, a leader shapes goals, implements goals, and motivates or coaches other employees to be innovative; and
- c) Thirdly, the management focuses on managing and maintaining efficiently and effectively the organisational arrangements and simultaneously exhibit leadership skills.

Managerial efficiency differs depending on his or her leadership style (Skansi, 2000:51). In essence, according to Skansi, leadership is within management or part of management because leadership is not a position but the way in which an official displays a sense of responsibility, directing the vision and mission of an organisation, including coaching or guiding staff to achieve the organisational agenda. With reference to Skansi's comment on managerial efficiency in terms of managerial leadership style, the effective and efficient running of an organisation depends on the leadership skills.

Skansi (2000:51) adds that without high quality leadership and initiation of the member's activities, stimulation of high motivation and the engagement of people, there is no successful organisation. This type of observation supports the fact that without good guidance and necessary coaching from the leadership, there could be no successful organisational effectiveness. Therefore, managerial leadership plays an important role in making sure that organisations are able to deliver services to people by making sure that personnel within an organisation has the necessary skills, and are motivated to produce the results.

Dubrin and Ireland (1993:4) define *management* as the process of effectively and efficiently using an organisation's resources to achieve objectives through the functions of planning, organising, leading and control. Additionally, like Skansi, Dubrin and Ireland's definition of *management* implies that 'leading' is part of 'management'. Therefore, the concept of *managerial leadership* suggests that planning, organising, leading and control lie squarely on managerial leadership within the Public Service.

In their analysis of managerial leadership, Leithwood, Jantzi & Steinbach (1999:14) state that managerial leadership assumes that the focus of leaders ought to be on functions, tasks and behaviours and that if these functions are carried out competently the work of others in the

organisation will be facilitated. Thus it implies that managerial leadership is the art of ensuring that the functions of management as leaders are performed, tasks assigned to the managerial leaders are completed as planned and understand the behaviours of personnel within government departments. Understanding personnel's behaviour within the public or private sector by managerial leadership is essential because it assists in understanding the cause of poor performance, if it exists, or the institutional environment in general.

Middle level leadership centre (2000:1) also argues that managerial leadership promotes procedures and policies and strives for efficiency, sets up procedures in order to ensure that there is efficiency within an organisation, is creative and uses resources efficiently. What is also important for effective governance is the development of procedures, internal controls and systems for organisational efficiency and service delivery. Managerial leadership has a moral responsibility to ensure that an environment is created for effective governance so that quality service is delivered and public financial management systems are effective in the public service.

Managerial leadership in the South African Public Service should strive to make sure that organisational resources are used effectively and efficiently, and ensure that systems and processes are effective in order to promote good governance.

3.10.1 Role of managers as leaders in organisations

Moline (2005:16) argues as follows:

- a) **Communicating expectations:** Effective managers must expend a good deal of energy communicating what needs to be done, why it needs to be done, and the consequences that will follow actions. If people know how their efforts impact and contribute to outcomes, they willingly perform at work;
- b) **Delegating:** effective managers concentrate on explaining what needs to be done and leave employees to make as many decisions as possible. However, when managers delegate they must ensure that employees have the skills or information required to perform the job;
- c) **Observing performance and providing frequent feedback:** Complaints about the lack of feedback are frequently reported in work conditions. Managers must therefore pay attention to employees and get to know their strengths, interests,

aspirations and improvement opportunities. Managers must also provide immediate feedback if there is need to correct an action. Managers must provide performance coaching. Feedback and coaching should be based on observable work performance; and

- d) **Recognising performance:** A sincere, deserved compliment for good performance goes a long way towards demonstrating respect, appreciating and motivating people, and reinforcing the desired performance. Appreciating performance and explaining why it is appreciated is a good managerial skill.

In response to the above, Moline's (2005:16) assertions regarding the producing of results by the managers within organisations has a bearing on governance and the Public Service. Fundamental to the above issues is the decentralisation of decision-making within an organisation because it could improve financial management and boost employee morale and performance in an organisation.

In promoting good governance in the public service, the managerial leader should be competent in caring out its task in an organisation, procedures and policies should be correctly implemented and resources used efficiently.

3.10.1.1 Leadership: Some weaknesses

Literature reports about weaknesses in leadership, both in the public and private sector and such weaknesses affect organisational efficiency in delivering services to the population. On the basis of these comments about weaknesses in leadership, Hill (1960:107) stresses the following advice for a leader:

- a) A leader should have an unwavering courage based upon knowledge of self and occupation and should also have definite decision-making and effective planning skills. This suggests that a leader must understand his or her job, tasks and purpose within the organisation. An understanding of the tasks assigned to an individual should be coupled by having both conceptual and technical skills so that the individual's responsibilities and duties are performed according to an organisational or departmental strategic plan. To implement the strategic plan, it is important that managerial leaders are decisive in implementing government programmes and

projects that are reflected in the strategic plan. Managerial leaders in the South African Public Service has to ensure that efficiency, economy and effectiveness (three E's) are achieved in the process of delivering services to people. Once the three E's are undermined or not achieved within a department, the role or vision of managerial leadership within an organisation becomes questionable, particularly regarding planning and decision-making or governance in general;

- b) A leader should be willing to assume full responsibility, both at an organisational level and in general. It is important that the managerial leader assumes full responsibility and accountability for any departmental deliverables or outputs, including expenses incurred during the process of delivering services. As much as it is organisationally important to delegate some activities to subordinates, accountability remains with the accounting officer because accountability is not delegated only the responsibilities can be delegated;
- c) A leader should not have a lack of a sense of imagination, become disloyal and put too much emphasis on his or her status in the organisational structure. A leader that has no sense of anticipation or vision does not add value to an organisation. In ensuring that there are governance processes and effective public financial management system in the Public Service, the managerial leadership must be able to understand the government's vision and mission, and promote ethical conduct. Too much emphasis on the position the person holds within a department could have a negative effect on the subordinates because they might not feel part of the organisation or view themselves as objects, not part of the establishment;
- d) A leader should not expect to be paid for what he or she 'knows' instead of what he or she does with what he or she 'knows'. This could suggest that it is important that public servants in general, managerial leaders in particular, are not remunerated on the basis of what they know rather than applying what they know in relation to organisation vision, mission and objectives. Therefore, managerial leaders are expected to blend theory and practice at all times because theory alone could not assist an organisation or provide efficiency within the public service; and

- e) A leader should not emphasise authoritarian style of leadership. On this basis, an efficient leader leads by encouraging others, not by trying to instil fear in the hearts of followers. Managing by fear destroys an organisation, including its vision and mission. As indicated earlier, leadership is not a position, but an ability to guide, coach or mentor others within an organisation. However, instilling fear in other employees could affect organisational performance and a leader that manages with fear could be labelled as suffering from an 'inferiority complex' or not trusting himself/herself when performing duties assigned to his/her. Such an organisational deficiency should be avoided, as it does not produce favourable results for both an organisation and the public.

In addition to the above, financial and non-managerial financial managers have to be technical and conceptual skilful. The quest for such skills could be based on the fact that public finance is technical in nature so to be able to deal with its technicality some conceptual skills are needed to support it. Dubrin and Ireland (1993:9) comment that technical skills are required to complete specialised tasks and conceptual skills involve the ability to think in abstract terms, to simplify complex situations, determine a course of action and determine the organisation's mission, including a strategy to accomplish the mission. In the research, the Auditor-General (AG) reports on repetitive organisational problems in one department, see Table 5.1. This could be seen as a reflection on a lack of conceptual and technical skills. As a result, complex and abstract organisational problems are not attended to and the mission and vision might not be attained.

In the government's ten-year-review and of particular reference to governance and administration, the government acknowledges the following as challenges facing the state machinery:

- a) the lack of skills at key technical levels, at both local and provincial government administrations, especially where it impinges on service delivery and financial management;
- b) the improvement with regard to accountability, and contact with, the electorate by all spheres of government;
- c) provision of leadership to social partners through the (re)articulation of an encompassing framework for South African's development in the next decade and beyond (Presidency, 2003: 114).

The above assertions in the ten-year-review in particular, signal the fact that since the introduction of public sector reforms, public financial management system in particular, technical skills, public accountability and visionary leadership have been an impediment to governance. Impediments to governance could be caused by the fact that in the environment in which the Public Service has been operating, the leadership had and still has a responsibility to take into account any political, economic and technological changes in order to improve governance throughout the Public Service.

In an interview the chairperson of the Association of Public Accounts Committees (APAC), (2003) responded to the evolving public administration and public finance in particular, saying that a different quality leadership is needed. The chairperson believes that there is a need for a leader or a financial manager who is not a bureaucrat but a technocrat who understands the value for money principle and ensures that a sound financial planning and management are promoted and who understands cost-effectiveness too. He acknowledges that there is a shift in public administration from 'administration, rules' towards 'management' of public finances. According to chairperson, managerial leaders have a responsibility to understand such a change in order to support governance and the evolving public finance management system in the South African Public Service.

3.11 FROM TRADITIONAL PUBLIC ADMINISTRATION TOWARDS THE NEW PUBLIC MANAGEMENT

3.11.1 Traditional perspectives on public administration

Literature reveals that public administration has evolved and is still, evolving from its traditional approach to the so-called the 'new public management or 'managerial' approach. Some authors label the 'new public management' as a market-based form of public management. Central to traditional public administration is the challenge to and criticism of bureaucracy and its principles regarding public administration. For example, Mthembu (2001:2) expresses that a shift from public administration to management is highly commendable due the fact that South Africa, like other countries, is not immune from the impact of globalisation on the Public Service. Mtembu (2001) further comments that the public management model appears to be a

strategy to meet the challenges of globalisation and to promote professionalism, accountability, transparency and service-oriented Public Service.

These principles are outlined in Max Weber's well-known essay known as *Max Weber's ideal form of bureaucracy*. Weber's principles have been outlined earlier in the text, under Weber's model of bureaucracy. The most fundamental area criticised is bureaucracy, namely that government institutions should organise themselves according to the hierarchical, bureaucratic principles. Morstein and Marx (in Cayer & Weschler, 1988:12) further argue that this form of rationality is referred to as institutional or procedural rationality as it is a foundation of traditional public administration theory. The same model provides a 'one best way' of working and procedures to be followed by administrators (Hughes, 2003:1). Woodrow Wilson (in Starling, 2002:53) writes of traditional public administration, stating that is a political-administrative dichotomy that suggested that politics and administration are two distinct issues. As a result, in his comments, Woodrow Wilson (in Starling, 2002:53) says 'the field of administration is a field of business and it is removed from the hurry and strife of politics'. His assertion was on the emphasis that politics and administration play different roles in public administration and they should be separated. Wilson (in Hughes, 2003:1) states that the administration has to carry out instructions, while matters of policy or strategy were the preserve of the political leadership. Another theorist, Taylor (in Hanekom & Thornhill, 1983:74), viewed a worker as an extension of the machine and stated that the worker should therefore perform just as efficient as the machine he served, hence the 'machine model'. The 'machine model' did not provide room for initiative and flexibility and was emphatic on authority and rule, including procedures (Hanekom and Thornhill, 1983:74).

The above issues are views of the traditional public administration by the above theorists, and these views created difficulty in providing and facilitating quality service speedily, promoted inefficiency and less discretion and left no room for creativity, and were inflexible in managing public affairs in general. Traditional public administration has been widely criticised on the basis of its outdated application in 'modern' governance. Evidence indicates that traditional public administration does not promote a results-based management (RBM) model, a model that ensures that a linkage between input-output outcome is crystal clear and implemented. Under the RBM model, which is central to the 'new public management' (NPM) model, the public sector in general and public officials are also expected and encouraged to be results-oriented.

3.12 THE NEW PUBLIC MANAGEMENT MODEL: SOME PERSPECTIVES

Developments in public administration made it possible for most countries, including South Africa, shift from traditional public administration to the NPM model. As a result, Hood (1999:5) notes that traditional public administration, as an old-fashioned style, typically characterised as rule-bound and process-driven, is being replaced by results-driven, managerially-oriented approaches to public service provision with a particular emphasis on efficient least cost provision.

In support of the NPM model, the Organisation of Economic Co-operation and Development (OECD) argues that “this new management paradigm emphasises results in terms of ‘value for money’ to be achieved through management by objectives, use of markets and market-type mechanisms, competition and choice, and devolution to staff through a better matching of authority, responsibility and accountability” (Hughes, 2003:3). This advocates a results and managerial approach regarding the delivering of services to people, and pronouncements by the OECD share the same value and principles of the South African Constitution, section 195; the Public Finance Management Act (PFMA), 1999; and the White Paper on Service Delivery, especially its value for money principle. The PFMA under review is within the NPM model, including the aforementioned policy frameworks.

Additionally, scholars in Public Administration advocate that the contemporary public administration, within the framework of its normative factors, strives for:

- a) more and better services with available resources;
- b) the spending of less money without impairing the quality of services;
- c) stability in a rapidly changing social, political, economic and technological environment;
and
- d) the development of public institutions to deal with social pathologies (Hanekom & Thornhill, 1983:193).

Regarding the above arguments, the authors raise the fundamental aspects regarding the NPM school of thought, namely that the Public Service should be able to cope with environmental changes taking place in the country, such as economical, social and

political. The NPM management model also maintains that in providing services, resources are used economical and efficiently.

3.13 FEATURES OF THE NEW PUBLIC MANAGEMENT MODEL

Some perspectives of traditional public administration have been provided so that the shift from traditional to the new public management model is contextually understood and its background is known.

Hughes (2003:54) provides the following features of the 'new public management' model:

a) Strategic approach

Governments develop long-term planning and strategic management. This means that governments decide on the organisation's mission, goals and objectives, organisational environment, including strengths, weaknesses, opportunities, and threats that could affect an organisation;

b) Management within administrative framework

The NPM model requires professional management, within and administrative realm. In this model, managers are involved in policy and relatively involved in politics. Managers are responsible for achieving results;

c) Focus on results

The NPM model believes that organisations should focus on outputs or outcomes, instead of strictly or solely focusing on inputs. Fundamentally to the NPM model, is the performance by individuals and agencies. Agencies are expected to develop performance indicators as a way of measuring the progress made towards achieving declared objectives. The general aim is to monitor and improve the progress of staff and agencies towards achieving objectives. With regard to performance, Holmes and Shand (in Hughes, 2003:55) argue that performance orientation is marginally influenced by the existence of performance information. Greater attention has to be given to changing the incentives in the institutional framework, that is the budget, personnel systems, and risk management;

d) Improved financial management

Evidence shows that budget reforms have been successful within public management reforms. The most successful change is on performance budgeting systems by replacing the old-line item budgeting and accounting systems. Under line-item budgeting system, the focus is on inputs rather than outputs or what the agency does and the budgeting systems focus on control with little or insufficient information on actual programme delivery. Under the NPM model, the accrual system replaces cash accounting system. Public management requires increased attention on the best use of resources;

e) Relationship with politicians

It is argued that one of the main characteristics of the NPM model is that managers take responsibility for achieving results. The relationship between managers and politicians, and managers and the public must change. As indicated, traditional public administration was narrow-minded and was typical of a master-servant form of relationship. In the NPM model public managers are involved in matters of policy. The major skill needed for a public manager is how to become an effective adviser to a politician, this means the ability to interact with politicians and with the outside world in a way that is beneficial for both oneself and the organisation; and

f) Relationship with the public

Within the NPM model, there is an encouragement and recognition that managers should have direct accountability with the public. This demands a client focus and responsiveness, which are found in the traditional public administration.

It is also evident that the NPM adheres to a results based management model (RBM). The RBM model provides a coherent framework for strategic planning and management based on learning and accountability in a decentralised environment. The model also aims at improving management efficiency and accountability by defining realistically expected results, monitoring progress towards achievement of expected results, integrating lessons learned into management decisions and reporting performance (Development Assistance Committee, 2000:9).

Fox & Miller (in Minogue, Polidano and Hulme 1998:60) argue that the traditional public administration paradigm, based on the Wilsonian dichotomy, Taylorist scientific management

and Weberian hierarchical control, is dead. The irony is that the separation of politics from administration, the removal of professional discretion over service delivery, and the enhancement of the measurement and monitoring capacity of government over public service delivery, actually lie at the core of the 'new public management' (Minogue, Polidano and Hulme 1998:60). What is most important regarding the above features of the NPM model is the fact that it is also in line with the PFMA and Treasury regulations. It is because the PFMA and Treasury regulations require departments to have strategic plans and encourage managers to be flexible in managing the financial affairs of a department but maintaining accountability. The PFMA focuses on results or is results-oriented as opposed to inputs, encourages financial management and encourages a relationship between an accounting officer and the executing authority. On these grounds, like other countries, public administration in South Africa has evolved towards the NPM model and the PFMA is in line with such change. Therefore, it is clear that public administration operates within political, economic and social environments and evolution had to take place.

An evolution, which is taking place in public administration, is based on an informed background or a position. Even the transformation in South Africa, after democratisation in 1994, was based on an informed theoretical background. Therefore, an evolution from public administration to public management is no exception, it has to happen due to environmental factors. On the basis of the change outlined, many organisations have been redesigned to suit the change and they are informed by the circumstances. The question remains whether public administration is a science or an art.

3.13.1 Is public administration an art, a science or both: an analytical overview

The debate whether Public Administration is an art or science has been profound and important in public administration discourse. The debate is still relevant in contemporary Public Administration and will enable scholars and practitioners in the field to ascertain what is 'scientific and artistic' about Public Administration. Science in this context, in Public Administration in particular, is associated with knowledge or acquired knowledge and art is associated with skill to perform administrative tasks.

Public Administration is not only art or science but both of them and science is characterized by precision and predictability, maintain Berkley, Rose and Begovich (1991: 4). On the basis

of the above authors, it is evident that art and science are inevitable in Public Administration. Research in Public Administration suggests that administration uses scientific data, laws, and theories (Berkley et al., 1991: 4).

According to Mouton (1996: 13) *science* refers to a body of knowledge as ‘product’ and *scientific research* to a ‘process’. In a government department, for an official to perform his or her tasks, knowledge and training are necessary, and his or her tasks require a particular skill or an art. An art presupposes human skill and, although it calls for knowledge, its emphasis is on practice rather than theory. Science is concerned with trained skill and presupposes that it has been acquired by study (Gladden, 1964:23).

It is therefore critical for public officials or public servants to be ‘scientific’ and be ‘artistic’ in order to improve service delivery and in ensuring public accountability. Managerial leaders are also expected to possess both the knowledge and the art of performing government tasks. It is also expected of the managerial leaders to be highly skilled and to have the expertise to manage and implement government programmes.

It is stated that administration is a distinct activity calling for specialist knowledge and techniques and in exercising of an art the administrator needs to enquire more and more knowledge (Gladden, 1964:23). As indicated earlier Public Administration science also assists decision-making so that managers are able to estimate or predict consequences for both the government and an organisation.

Some scholars also attest to the notion that scientific methods can be used in many management situations and can be useful in decision-making process because science as a method of inquiry and body of knowledge may be used to inform managers and estimate the possible consequences of actions (Cayer & Weschler; 1988:7). Thus, to effectively manage governance processes, managers must act from an informed position.

Science is based upon principles, which are of general applicability wherever that science is applied (Gladden, 1964:23). Therefore, even in Public Administration, the application of science should be based on principles but context remains important in the process of application.

Administrators use scientific laws, techniques and data, they do so in ways that help them to tackle particular administrative problems and a creative administration may even devise a new solution. As a result, administrators share traits with the arts as well as the sciences (Berkley et al., 1991: 4). Public administration has a set of 'scientific' principles and structural precepts that ought to govern all administrative activities (Lynn, Jr, 1996:151) The above indicates that science devises new solutions, norms, standards and governance framework to support the Public Service for example, the adoption of the NPM model by many governments.

As discussed above, management is an art and the knowledge within management is a science. As a result, Koontz, O'Donnel & Wehrich (1982:6) argue that management as a practice is an art, the organised knowledge underlying it may be referred to as a science, and art and science are not mutually exclusive but are complementary. The arguments regarding art and science confirm that public administration is indeed an art and science because some authors are of the view that art is at the heart of management and science is the 'information' that informs the management to make decisions, in designing or redesigning an organisation. Therefore, in implementing a public finance management system in the Public Service, the managerial leader has to be 'artistic' so that the underlining policy frameworks are implemented. The leader also has to be 'scientific' so that public servants, especially in public finance, gain knowledge, skills and make departments gain learning and growth.

3.14 CONCLUSION

It is clear from the above that Public Administration is either a complex subject and field of study. It depends on how theory about Public Administration is understood and analysed in order to focus on areas of research or fundamental elements of Public Administration. Some scholars like Cloete, Lungu, Hanekom and Thornhill and confirm in their analysis that Public Administration is not 'a one definition' field of study. It is because its purpose is diverse in response to its society. Like any other field of study, it is based on theoretical foundations that make this a multidimensional area of study, an area that includes leadership, personnel and its behaviour, policy management and analysis, as well as public finance and economics. The latter is crucial and central to the entire research as a whole, as the topic proposes.

Theorists like Herbert Simon, Woodrow Wilson, Taylor, Max Weber, Mary Parker Follett, Chester Barnard and others are central in providing a multidimensional approach to public

administration. For example, Chester Barnard describes the role of the executive as leaders and Mary Parker Follett, advocates functions of leadership in public administration. An analysis of leadership is crucial as it assists to explore and analyse the type of leadership required for the South African Public Service. Once leadership is analysed, based on theoretical foundations by Chester Banard and Mary Parker Follett, it could assist the South African Public Service leaders to respond to challenges facing both organisational and service delivery levels. Decision-making and analysis by Herbert Simon specify personal and organisational decisions, in particular the use and endorsement of personal decisions in an organisation and 'satisficing model'. This could assist in establishing the South African Public Service's leadership's style, ability and strategy in decision-making.

The above theorists endorse the fact that Public Administration is indeed a science and an art. It is because in most situations in government, decision-making, policy development and development of an organisation are based on a scientific exercise, a body of knowledge. In the process, a skill to apply knowledge, namely science, is needed. It is in this context that public administration is both an art and a science.

CHAPTER 4

PUBLIC FINANCE MANAGEMENT SYSTEM IN SOUTH AFRICA

4.1 INTRODUCTION

The public finance management system in South Africa has gone through fundamental changes and is still under transition, especially after South Africa's democratization in 1994. These fundamental changes in public finance are characterised by the fact that public service, in general, in South Africa has evolved as well and is still in the process of transformation. On the basis of the public service transformation in general and public finance in particular, institutional design and the mindset of public servants in general have to respond to the transformation taking place in the Public Service.

Therefore, managerial leadership should be skilful both conceptually and technically, especially in public finance systems and governance in general. It is because a skilful leader should be able to ensure that government objectives, particularly in implementing the PFMA are maintained. Hence, this chapter discusses the theory of public finance and provides differential conceptual analysis of 'budget and budgeting system' as sometimes used interchangeably, which is an evolution of public finance in South Africa, especially with the introduction of Medium Term Expenditure Framework (MTEF). It is because MTEF influences the budgeting system, planning and budgeting, including financial planning and management. This chapter outlines the budgeting system in South Africa and the role-players within the budgeting process in order to explain the dynamic nature of the public finance management system in South Africa.

4.2 EVOLUTION OF THE PUBLIC FINANCE MANAGEMENT SYSTEM IN SOUTH AFRICA

Research indicates that in the past, the South African budgeting system was secretive. There was no open formula for funds allocation for the country. Again, literature reveals that the budget was a matter of the executive, meaning that the executive was at the forefront of compiling the budget, with less role for Parliament. Parliament was simply 'rubber-stamping'

what the executive has compiled. Due to the secretive nature of the budgeting process, it was difficult to analyse and scrutinise service delivery trends and conduct financial analysis because budget documents were not accessible. As a result, accountability and transparency suffered as elements of good governance.

The former Department of state Expenditure and the function Committees determined budget allocations. These committees were responsible for co-ordinating budget proposals and distributed allocations for a given function, like health or education (Walker & Mengistu, 1999:58). This confirms that the executive was the major role player when it comes to budget process, particularly allocations to spending departments and parliament's role was minimal.

Undoubtedly, the budget process or allocation was no two-way process, inclusive and participatory. In essence, the budget process was not inclusive and highly centralised. For example, the function committees were very exclusive in approach and reflected control of funds rather than managing funds for service delivery improvement. As a result in 1995, these committees were disbanded (Walker& Mengistu, 1999:58).

The above description of past processes was based on a traditional form of budgeting, namely the line-item budgeting system. Again, the Exchequer and Audit Act of 1975 reflected the basis for expenditure control because the Act was not intended to 'manage' public finances, but to 'control' them. Additionally, the Act was too prescriptive, meaning that there was no option for flexibility as it was based on rules.

As Abedian, Strachan and Ajam (1998:54) explain traditional budgeting focused on expenditure controls and the aim was simply to keep control over money spent on government. For example, with regard to its objective or aim, the Exchequer and Audit Act states that the Act regulates the collection, receipt, control of state property and monies of the state (Exchequer and Audit Act, 1975:2). Given the objective of the Act, it is evident that the Act was input and control-oriented rather than focusing on results and management. Due to the administrative nature of public finances, accounting officers were not active within an organisation because management culture was not the order of the day, the organisational culture was rule-bound, with less flexibility and delegation. Service delivery was not customer-oriented, as a result value for money suffered. The Exchequer Act operated within a traditional budgeting system like line-item budgeting system, which was not results-focused, but input-

oriented. With regard to the item budgeting system, an input-focused management and budgeting are oriented towards how much resources, staff and facilities, are made available for a programme or ministry (Organisation for Economic Co-operation and Development, 2002:8). The OECD's view on the item-budgeting system clearly indicates that a traditional approach to budgeting as outlined by the OECD was not focused on results or outcome; the latter is crucial in the modern public management.

Since the transition to democracy, the new constitution demands transparency and accountability on matters of governance. In 1998/9, the medium term expenditure framework was introduced in South Africa in order to encourage the participative approach in budgeting process, transparency, accountability and policy-budgeting co-ordination.

The introduction of the PFMA also encourages effective financial management, transparency and accountability. The budget is more decentralised and all spheres of government make decisions about the budget through established forums or structures. Research shows that performance budgeting has been introduced worldwide and some countries such as Australia and New Zealand have introduced it. The introduction of performance budgeting in South African Public Service is important as it introduces a results-oriented approach and encourages the management of government resources with flexibility within the legal framework so that managers remain accountable.

4.3 PUBLIC FINANCE: A THEORETICAL ANALYSIS

Public Administration is multidimensional and multidisciplinary in its approach. It's nature or approach is made up of, among others, governance, management, leadership, public policy, human resources and public finance. The latter is crucial because it supports the government's vision in attaining its goals, as it is the cornerstone of service delivery. It is because once the budget is compiled and distributed efficiently to agencies, departments are expected to ensure that strategic planning, financial planning and management, auditing, debt management, revenue management and expenditure management are central in managing public finances.

The budget becomes fundamental in financing government programmes and service delivery in general. The functioning of any government depends on proper revenue and expenditure

management. Public finances become central through regressive and progressive tax forms and other forms of financing such as borrowing in order to finance government deliverables or the implementation of public policies so that the lives of people are improved.

Herber (in Visser & Erasmus, 2002: 5) suggests that:

- a) the term *public finance* is somewhat of a misnomer for the subject matter at hand; and
- b) finance implies monetary flows as activities of the government's fiscal or budgetary processes as they progress.

The above indicates that public finance as a resource is crucial for financing government activities. Within public finance, the budget is utilised and indicates government policies, as well as financial implication of the implementation of government programmes. The government has a responsibility to provide services to people and financial management becomes critical in ensuring that quality service is provided to the people.

The budget as a fiscal policy document has to distribute and redistribute services among people. The soundness of public finance depends both upon the right policy and good organisation, but a great deal upon the latter (Sharan, 1967:344).

To understand public finance, it is important to note that it relates to the finances of the state in a multi-dimensional way because of the following factors:

- a) Public finance is manifested in the budget, which is financed mainly through taxation;
- b) Taxation implies that monies are collected from the total diversity of moneys available in a country;
- c) The use of tax income by the state results in the government being a role-player in the national economy; and
- d) Government expenditure, meaning the spending of tax income, is returned to the national economy by means of official salaries, the purchasing of stores and equipment from private companies (Visser & Erasmus, 2002: 5).

Taking into account the above factors regarding public finance makes it clear that monies to finance government programmes originate, among others, from the government tax base. It is this tax base that ensures that government delivers services to people. However, there are other avenues for the government's revenue base, like borrowing.

The plan for service delivery is mostly outlined in the country's budget. Budget as a fiscal policy, outlines and finances government projects and programmes. Therefore, fiscal policy performs specific functions in order to meet the country or government's demands.

4.3.1 Fiscal policy defined

Black, Calitz, Steenekamp and Associates (2005:266) define *fiscal policy* as national government decisions, regarding the nature, level and composition of government expenditure, taxation and borrowing, aimed at pursuing particular goals. Additionally, fiscal policy is the budgetary stance of government and is not only concerned with how much revenue is raised, but how it is raised and on what it is spent (Natrass, 1997:191).

The following is an explanation of the functions of a fiscal policy.

4.3.2 Functions of fiscal policy

Natrass (1997:191) explains that fiscal policy should perform the following three functions:

- a) provide public goods and services;
- b) redistribute resources until what is considered an equitable income distribution is achieved; and
- c) attempt to combine strong economic growth with low rates of unemployment and inflation known as allocation, distribution and stabilisation functions.

Natrass's view on budget as fiscal policy is an indication of the fact that fiscal policy plays the role of a vanguard on service delivery, is central to distribution and redistribution and ensures that there is economic stability, monitoring of inflation and reduction of unemployment.

In pursuance of government goals, Black et al., (2005:266) confirm Natrass's functions of fiscal policy, namely the goals classified as macro-goals are economic growth, job creation, price stability, balance of payments, the socially accepted distribution of income and poverty alleviation.

Natrass and Black et al., agree that in public administration, public finance in particular, fiscal policy like other components, becomes crucial in meeting government's demands and expectations.

What is critical is the fact that public finance has to be central in a country's economy and in public expenditure. In public finance expenditure, financial management becomes essential because finances have to be managed effectively to achieve government goals and vision.

Figuratively, public financial administration and its importance are described in different phrases; for example like organisation and personnel, finance is as universally involved in administration as oxygen is in the atmosphere. Secondly, the allocation of finance is the supply of fuel for the engine of administration. Finally some authors define *public finance* as the 'life-blood of government' (Sharan, 1967:343). The above figurative analysis regarding *public finance* implies that the provision of public finances to governance operations, plans and projects is central in ensuring that the government's main goal of delivering services is achieved.

Fiscal policy should therefore ensure that services to people are delivered adequately. Adequate delivery services to people should be based on adequate funding and proper budgeting and planning.

Trotman-Dickenson (in Visser & Erasmus, 2002:5) states that the economics of the public sector involves the study of public finance, government policies and the role in the industrial sector of the economy. Relating to the statement or analogy, this could suggest that understanding, both in theory and in practice, or having an academic background is crucial because it could deal with matters of national economy or public sector economics in general.

From the public financial management perspective, it is clear that public finance is connected to all the activities of government. This means that public finance is concerned with the way public authorities (central, provincial and local) finance their activities, how their expenditure is decided upon and how their revenue is obtained (Sharan, 1967:343). Sharan's view endorses the fact that public finance is the heart and cornerstone of service delivery throughout all the spheres of government.

The PFMA seeks to modernise the system of financial management and encourages managerialism in the public sector. Therefore, public sector managers have a responsibility to manage their budgets effectively so that they become accountable, responsible, transparent, with flexibility, but within a legal framework.

Additionally, evidence shows that some public finance economists do not only concern themselves with revenue and spending, but also with the views of how government should function in the economic sphere and the general attitudes with regard to a relationship between the individuals (public) and the state. The above concern by some public finance economists provide some two approaches with regard to public finance, namely:

- a) *Organic view of society*, individuals are valuable only in their contribution to the realization of social goals and the government determines the goals; and
- b) *Mechanistic view*, government is a contrivance erected to further individual goals (Rosen, 1995:4).

Based on the above, it is clear that in dealing with matters of governance, public finance in particular, the government's role and interaction within a society is crucial as government goals and objectives are attained and people's needs, poverty and unemployment are dealt with.

For example, some macro-economic and micro-economic functions of government are essential in order to understand the effect of the government in allocating resources and the distribution of income (micro-analysis); the use of taxing and taxes; spending or expenditure; and monetary policies that affect the overall level of unemployment and price levels (Rosen, 1995:4). To attend to macroeconomic and microeconomic functions of government, a budget must be in place so that services are allocated to people, tax collection and tax distribution so that the government attends to social and economic aspects. Therefore, careful structuring and formulation of the budget are crucial too attend to macro and micro economic issues and at the same time this will depend on the budgeting system of a given country.

4.4 BUDGET: CONCEPTUAL AND ANALYTICAL SYNOPSIS

The terms *Budget* and *budgeting system*, are sometimes used interchangeably, yet describe two different things serving different purposes. The use of these two terms interchangeably might cause confusion in this study. The difference between the two lies in the fact that the *budget* is process-oriented and *budgeting system* is systems-based. An analysis of *budget* as a financial planning tool to support the service delivery framework will also show how it fits in with broader governance in the public service and how it contributes to the management of

risks through the financing of other programmes within the public sector. Additionally, the budget process should provide mechanisms with regard to transparency and accountability because allocations or fiscal transfers originate from taxpayers. Therefore, the budget has to be transparent and the executive, including departmental officials, has to be accountable. What is crucial is the fact that budget and the budgeting system are interlinked in order to improve governance and service delivery in general.

By definition, a *budget* is acknowledged as a planning tool so that services are delivered effectively, efficiently and resources are used economically. Research indicates that the term *budget* is derived from a French word 'bougette' meaning a small bag or portfolio and other scholars of public finance, such as Gildenhuis who add that the term budget refers to a 'pouch' or 'purse' (in Erasmus and Visser, 1997:160). The most important aspect is that the 'bag' or 'portfolio' that carries the public finances is accountable to people for outcomes.

Regarding to the purse or pouch analogy, Wildavsky (1974:4) defines *budget* as a series of goals with 'price tags' attached to it. Wildavsky's analysis of budget could be based on the fact that governments sets up objectives or priorities in order to link policy, budgeting and planning with regard to revenue and expenditure management and to attend to the macro-economic strategy of a country.

Thus, the budget becomes a document that contains useful information with reference to government priorities, budgeting, costing of policies, expenditure and programme outputs and outcomes. This type of information is crucial in the midst of transparency and fiscal accountability, more especially for parliamentary oversight in general, the Standing Committee on Public Accounts (Scopa) in particular.

With reference to the above analysis and the budget itself, Lee Jr & Johnson (1998: 14) define budget as a document or a collection of documents that refers to the financial condition of government, including information about revenue, expenditure, activities, and purposes and goals. A budget without information relating to revenue, expenditure, activities and goals is not a comprehensive fiscal policy because of the absence of information regarding expenditure trends, and could undermine parliamentary oversight.

Lee Jr & Johnson further argue that a budget is prospective; referring to it as containing an anticipated future revenues, expenditures, and accomplishments that it contains (Lee Jr. and Johnson, 1998:16). The stating of accomplishment is crucial as it helps the public and the government to know or understand the expected outcomes of a project or programme.

What is most important within a budget as a documented policy framework of government is credibility, content and the way information is packaged so that both the inhabitants and government are able to co-assess the budget decisions or outputs through a monitoring and evaluation strategy. What is also most important is the foundation or principles with regard to the budget or budgeting system itself.

4.4.1 Budget principles

As a result, Smith (1994: 81) submits the following budget principles:

- a) **Publicity:** The main stages of the budget process, namely executive recommendation, legislative consideration and action, and budget execution, should be made public;
- b) **Clarity:** The budget should be understandable to every citizen;
- c) **Comprehensiveness:** The budget should contain expenditure and revenues on a gross basis, reflecting all governmental activities without exception;
- d) **Accuracy:** Budget estimates should be as accurate as possible and there should be no 'padding' of expenditure estimates or providing for hidden reserves by underestimating revenues; and
- e) **Periodically:** Appropriations should be authorised for a definite period of time. An appropriation not used at the end of the period should generally lapse or be re-appropriated with the specific amount and purpose detailed.

The above principles indicate that it is necessary that a budget contains the ethos of democracy and elements of good governance, such as accountability, transparency, participatory and responsiveness.

4.4.2 Role-players: budgeting process

Data shows that for an effective budget system, a participatory and inclusive approach and process are essential. This implies that role-players in the budget process must be identified so that the budget process becomes transparent. Once role-players have been identified for the budget process, the process must be within a legal framework so that budgetary systems are strengthened.

With reference to the legal framework, section 215 (1) of the Constitution of the Republic of South Africa states that national, provincial and municipal budgets and processes must promote transparency, accountability, and effective financial management of the economy, debt and the public sector. This supports and endorses the fact that a budget and its processes should be transparent in order to promote financial management in the public sector in general so that any risks originating from poor management of the economy and public sector debt are easily detected.

Additionally, section 215 (2) (c) of the Constitution of the Republic of South Africa also states that the budgets in each sphere of government must show the sources of revenue and the way in which proposed expenditure will comply with national legislation. Additionally, the foundation of a legal framework is also fundamental so that role players are able to operate within parameters to ensure compliance with regard to fiscal norms and standards. Central to the above legal requirements are the ethos of governance, fiscal accountability and revenue and expenditure management. Hence, it is vital to ensure that an inclusive approach is established in order to promote a culture of good governance and it is of paramount importance that the managerial leadership ensures that a culture of compliance with fiscal norms is institutionalised.

To this effect, matters of governance such as expenditure management, parliamentary oversight, accountability, planning and budgeting, policy prioritising and budgeting, political and managerial accountability, risk management, fiscal discipline, monitoring and evaluation should be taken into account and adhered to.

Among others, the role-players in South Africa are the national Parliament and provincial legislatures, parliamentary committees, the Cabinet, including cabinet committees, the National Treasury, the Financial Fiscal Commission and intergovernmental forums. On the

basis of the constitution, Walker and Mengistu (1999:66) provide the following diverse group of structures that are involved in the budgeting process.

4.4.2.1 *Financial and Fiscal Commission (FFC)*

The Constitution of the Republic of South Africa (1996) legally establishes the Financial and Fiscal Commission (FFC). To illustrate the point, sections 220 and 221 of the Constitution establish the Financial Fiscal Commission in order to provide impartial recommendations. Through the Constitution, the Fiscal and Commission Act of 1997 is established. The commission is independent in terms of sections 2 and 3 (1) and makes recommendations and gives advice to organs of state in the national, provincial and local spheres of government on financial and fiscal matters (Financial and Fiscal Commission Act, 1997: 4). In terms of the Act the commission as consultative body and advisory unit is expected to be part of the budgeting process. The commission provides advice, *inter alia*, about how government revenue should be shared among the various tiers of government, fiscal allocations, taxation, borrowing and the criteria used in determining these matters (Abedian et al., 1998:26). Thus, it is relevant and essential that the commission establishes itself within the budgeting process so that expenditure (allocations) and revenue are managed in all spheres of government. This has to be done because revenue and expenditure management are crucial in support to governance in general.

4.4.2.2 *Budget Council*

The Intergovernmental Relations Act No. 97 of 1997 establishes the Budget Council that consists of the National Minister and Members of the Executive Council (MEC) of Finance of each province. Financial and Fiscal Commission chairperson or a representative attends the meeting of the council.

The minister is the chairperson of the Budget Council. Section 3 of the Act makes provision for the functions of the budget council: Among others, the council consults on:

- a) fiscal, budgetary or financial matters affecting the provincial sphere of government;
- b) any matter concerning financial management, or monitoring of the finances of provinces or a specific province; and

- c) any proposed legislation or policy which has a financial implication for the provinces, or a specific province (Intergovernmental Relations Act of 1997: 2).

Most importantly, the Budget Council encourages communication between spheres of government because provinces are unique. Socio-economic and political environments mostly affect the budgeting process and those environments must be taken into account or observed in public administration in general.

What is also crucial regarding the communication between spheres of government is to encourage fiscal management regarding public finances and ensure that a culture of monitoring and evaluation of the public sector is developed.

4.4.2.3 Ministers committee on the budget

This committee involves the political level during the budget process in order to enhance budget prioritisation and policy review. Among others, the committee evaluates the output of the national medium-term expenditure committee, evaluates the MTEF review reports and makes recommendations to Cabinet on the division of revenue and the allocation of the national share between departments. In essence, the committee is also responsible for planning and expenditure management. The latter is essential in ensuring effective governance in the public sector in general because once any expenditure is poorly managed, the vision, mission and objectives of government might not be attained and that could be risky for the government, especially in relation to the electorate (Walker & Mengistu, 1999:69).

4.4.2.4 Medium-term expenditure framework committee

This is a technical committee, responsible for evaluating whether the departments and their spending plans are consistent with government objectives and are economical and equitable. Most importantly, it also has to assist in identifying the spending patterns of departments and by so doing, spending risks are identified. Without identifying and analysing such expenditure patterns it could be difficult to detect possible threats on available resources of government (Walker & Mengistu, 1999:69).

4.4.2.5 *National Treasury*

It should be noted that before the democratisation of South Africa, there has been a national Department of Finance and as well a National Department of State Expenditure. The two departments have merged to form the National Treasury. The latter has the mandate, among others, for the promotion of the national government's fiscal policy framework. It is also responsible for the co-ordination of intergovernmental financial and fiscal relations and managing of the budget process. The National Treasury also monitors the implementation of provincial budgets as per Public Finance Management Act, 1999.

4.4.2.6 *Auditor-General*

In government, the Auditor-General, in terms of Public Audit Act, No. 25 of 2004, is responsible for financial management and control in all spheres of government. The financial control happens through its auditing expenditure at all three levels of government. The main function of the Auditor-General is to ensure that correct accounting procedures and standards are followed with regard to expenditure and revenue reported. It is also stated in the Act that the Auditor-General reports to the public accounts committees, this represents a final link in the chain of accountability (Walker & Mengistu, 1999:69). Such a link is weakened by two critical factors: First, the reports become only available two years after expenditures have taken place. Secondly, inadequate mechanisms exist to take decisive action for the recovery of fraudulent or 'fruitless, unauthorised expenditure (Walker and Mengistu 1999:69). The concerns are still prevalent in the Public Service and they weaken fiscal accountability and undermine good governance.

4.5 BUDGETING AND PROCESSES

As indicated earlier in the study, budget could also be regarded as a planning tool within an organisation, especially financial planning. The following fundamental perspectives are essential so that budgeting in the public sector is placed in a particular context; for example, financial controls and systems, including accounting systems, need to be in place to ensure good governance.

The processes are:

- a) The legislature is responsible for the sanctioning of the overall public sector budget. The legislature is also responsible for authorising the executive to incur expenditure within the overall level of expenditure;
- b) Budgeting is an essential component of the financial planning, control and evaluation process of the public sector. By its nature, budget is a means of allocating resources to achieving the objectives of the public sector;
- c) It is also a management tool for planning and a means of controlling funds to ensure that the stated objectives can be met;
- d) Annual budgeting is most successful if it is linked to a medium-term framework, a plan that usually covers a period of about three to five years. The medium framework contains measurable statements of the objectives and a resource framework to plan for the period, which is revenue projection and ceiling;
- e) To be effective, a budget should be integrated with accounting. If an accounting system has been adopted for budgeting and financial reporting, it will provide a framework for accounting information. This will give a more rational basis for planning and controlling expenditure and decision-making for financing; and
- f) Regular monitoring of the budget is vital. Therefore, revenues and expenditures against budgets need to be reliable and readily available for discussion, management action and projections revised where necessary (International Federation of Accountants, 2001:47).

Budgeting within government is important because it supports government projects and programmes and it involves financial decisions so that departmental goals are achieved such as service delivery goals. These decisions should be guided by other factors or systems like accounting, financial reporting, monitoring of expenditure and fiscal accountability. Most importantly, the effective implementation of a budget depends on the budgeting system within a country.

4.6 BUDGETING AS A SYSTEM

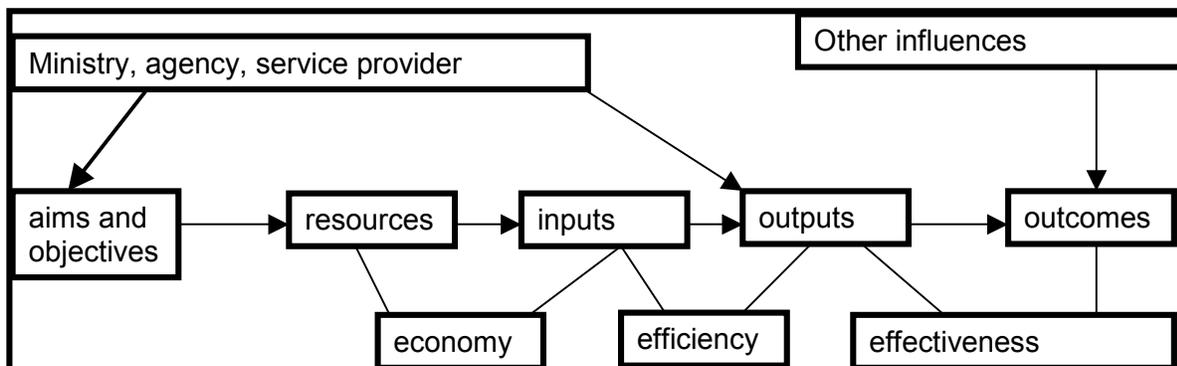
In the previous section (see section 4.4), the theory in relation to the term *budget* was discussed and analysed. Budget is based on certain principles and these principles serve as a guide to ensure that a budget is crafted by an institution and also owned by the public. Therefore, accountability and transparency are entrenched in a budget process.

The budgeting system looks at the process of implementing a particular budget; the process, institutional structures, competing norms and values, actors and relationship among each other also play a role and produce outputs (Lee Jr & Johnson, 1998:16). In addition to the above, it is evident that there is interconnectedness between components so that outputs are produced.

Budgeting as a system means a set of units with a relationship among each other. Budgetary relationships are crucial in a budgeting system, especially in terms of a complex system (Lee Jr & Johnson, 1998:16). This illustrates the relationship between a budget and its systems, especially when dealing with budgetary reforms and the complexity with regards to a budget itself. This also exemplifies a process in delivering outputs and outcomes or results based on government priorities. The performance budgeting system in South Africa emphasises outcomes rather than activities (Shall, 1999:10). What it means is that managerial leaders have a responsibility to ensure that government departments promote efficiency, effectiveness and economy (the three E's) through the application of performance budgeting or a results-oriented budgeting system. The following shows the relationship between efficiency, effectiveness and economy in order to support institutional governance in the public service and government in general. The three E's take place within the context of the NPM approach and is encouraged by the Constitution, section 195 in particular, namely that "efficient, economic and effective use of resources must be promoted". It is therefore important that managers in the Public Service deliver as planned and in time (efficiency), makes reasonable options regarding spending on the basis of value for money and within legal framework or 'do more with less' (economic) and make sure that outputs produced by a department have an impact on the public (effectiveness).

The following diagram shows such a relationship between the three E's.

Figure 4.1: Relationship between the three E's



Source: Adapted from Roberts, J. (2003:4)

Figure 4.1 suggests that a ministry or a department has objectives, aims, a vision and mission on the basis of service delivery. A department or agency must ensure that there are resources like budget and competent personnel (inputs) to deliver the outputs.

Outputs could be 20 000 000 books delivered or the same number of houses delivered. It is important that outputs delivered produce outcomes to the people (effectiveness). Therefore, managerial leadership should be able to ensure that the relationship between inputs and outputs deliver desired results to the public. In delivering the services to the public, the managerial leaders should also make sure that resources like funds are used efficiently, economical and effectively and people should also be skilful and efficient to deliver services (outputs). It is crucial that the managerial leadership ensures that departmental programmes produce results to communities, that is called 'programme effectiveness'. In support of good governance in general and public finance management system in particular, the managerial leadership should understand both external (macro) and internal (micro or institutional) environments in order to deliver services efficiently, effectively and economical.

4.6.1 MEDIUM-TERM EXPENDITURE FRAMEWORK (MTEF)

Before democratic process in South Africa, incoherent or disjointed policies, poor planning, and less linkage between a budget and planning were evident. Research shows that fiscal matters such as underspending and overspending negatively influenced service delivery strategy and policy priorities. However, issues like over pending, fruitless expenditure and

under-spending are still a matter of concern. During the 1998/1999 budgets, the MTEF was introduced as part of budget reforms in order to attend to fiscal matters raised above.

MTEF is a three-year rolling strategy, which sets up spending plans for national and provincial departments. MTEF is the basis for the budget reform initiatives that have taken place in South Africa (National Treasury, 2001:3). With regard to MTEF, the government aims to achieve the following:

- a) The MTEF aims to reinforce the link between the government's policy choices, its budget and the delivery of services. This serves to strengthen political decision-making and accountability;
- b) It is believed that policy choices and trade-offs are made explicit and spending decisions are kept affordable in the medium term; and
- c) Lastly, once the MTEF is introduced and implemented, there will be a better management of public finances (National Treasury, 2001:3).

Even before the MTEF was introduced in South Africa, some discussion and debates regarding budget reforms have been taking place, especially in the international arena. For example the United Nations Development Programme (UNDP) states the following:

- a) The introduction of the MTEF is to make public management more transparent, accountable and results-oriented; and
- b) Most importantly, the MTEF could be used as an expenditure management tool (fiscal discipline) and as a planning tool (United Nations Development Programme Report, 2003:58).

The government and UNDP's views are important as they support elements of governance, like transparency, accountability and responsiveness. It is established that in supporting the MTEF, matters such as the Medium-term delivery framework, government prioritisation and fiscal discipline are fundamental.

Walker and Mengistu (1999:31) add that the primary benefit regarding the MTEF is the ability to link budget and policy, the provision of information on the actual goods and services bought

with money allocated. As indicated earlier, a link between policy and budget is fundamental in the MTEF as it helps to deliver services effectively and efficiently.

The following are the fundamental aims with regard to the MTEF in government:

- a) **Creating certainty in the planning environment:** If forward projections of expenditures and revenues are credible, line departments may have more certainty about resources that are at their disposal in the future.
- b) **Detection of fiscal problems before they occur:** A programme may be affordable in the first few years but become totally unsustainable in the following years. Problems regarding unsustainability and affordability could be easier to foresee and manage within the MTEF.
- c) **Supporting political decision-making:** Policy and programme trade-offs may assist Cabinet in evaluating policy options and setting expenditure priorities.
- d) **Promoting sectoral planning:** Sectoral planning could assist or contribute to the achievement of common goals.
- e) **Enhancing fiscal discipline:** Medium-term fiscal plans may be used as an instrument for translating aggregate expenditure targets into allocations to line agencies and programmes (Abedian et al., 1998:135).

Regarding the above fundamental issues, it is important to note that the MTEF could serve as an 'early warning system', promotes planning and decision, and ensures discipline with regard to funds allocation.

Research has shown that for a country or government to overcome fiscal constraints that impede on accountability transparency, fiscal management and the value for money principle, budgetary reforms must be a prerequisite.

In South Africa the MTEF was introduced in 1998/99 financial years and research shows that other countries in Africa that introduced MTEF are Uganda, Tanzania, Ghana, Rwanda, Cameroon, Burkina Faso and Albania. This shows the commitment of Africa to fiscal planning and budgeting, including aiming for results not just inputs or processes. By committing to the MTEF, Ghana introduced a results-oriented management model that aimed at new management culture whereby focusing on measurable outputs and outcomes as opposed to managing processes (Kithinji & Mlambo, 2001:93). Kithinji & Mlambo (2001:93) also claim that

the MTEF is designed to impose discipline into planning and the management of public resources. The above authors indicate the importance of the MTEF in governance because the MTEF encourages transparency and accountability in the utilisation of resources, including fiscal planning and discipline. However, it is important to note that within the MTEF, policy prioritisation and budgeting are paramount because both assist in setting an agenda for government and spending departments.

4.7 POLICY PRIORITISATION AND BUDGETING

A link between government policies and budgeting is of paramount importance, especially within the culture of the medium-term expenditure framework (MTEF) and performance budgeting. The coordination between policy and budgeting assist long-term strategic planning in order to improve service delivery and foster a culture of transparency and accountability through reporting, monitoring and evaluation strategy. The co-ordination of policy and budget is critical as it is one of the fundamental reasons for introducing the MTEF in South Africa. Once policy and budget is linked. It could guard against overspending, underspending, including fruitless expenditure by the Public Service.

4.7.1 Policy and budget: A linkage

There are various reasons for effective co-ordination between budget and policy, especially for long-term policy objectives:

- a) It helps to establish a comprehensive set of goals and priorities by ensuring that policy proposals fall within set parameters;
- b) The strategic framework can be used as a tool to orient policy development in line ministries. This could involve all the ministers who will be responsible for implementation through sectoral policies;
- c) Budget plays the role of a co-ordinating tool because it affects sectoral activities and provides an annual opportunity to set political and strategic directions for the future;
- d) Through the co-ordination, budget plays a role in defining and setting up government priorities; and
- e) The co-ordination between policy and budget assists in defining relative levels of expenditure for different programmes (United Nations Development Programme, 2003:58).

Given the above reasons, the policy-budget co-ordination reduces risks that could be social (poor service delivery), economic (over spending, under spending), and political (poor or non-implementation of governments priorities, vision and mission).

In order to enhance policy integration and cohesion, Pillay (in United Nations Development Programme Report, 2003:59) explains the process of MTEF planning at Cabinet level. Among other issues, Pillay observes that from the beginning, the process involves Cabinet in order to identify strategic priorities and review progress in the past year. From February to June, Departmental business plans; MTEF and Strategic plans are developed. At the same period, directors-general clusters are also expected to finalise their programme of work and priorities for clusters, including approval by Cabinet. Around mid-year (July) cabinet reviews directors-general cluster's report on progress with priorities and action plans. From July to December, impact is measured through data collected on service delivery and later departmental annual progress review reports to the President's office.

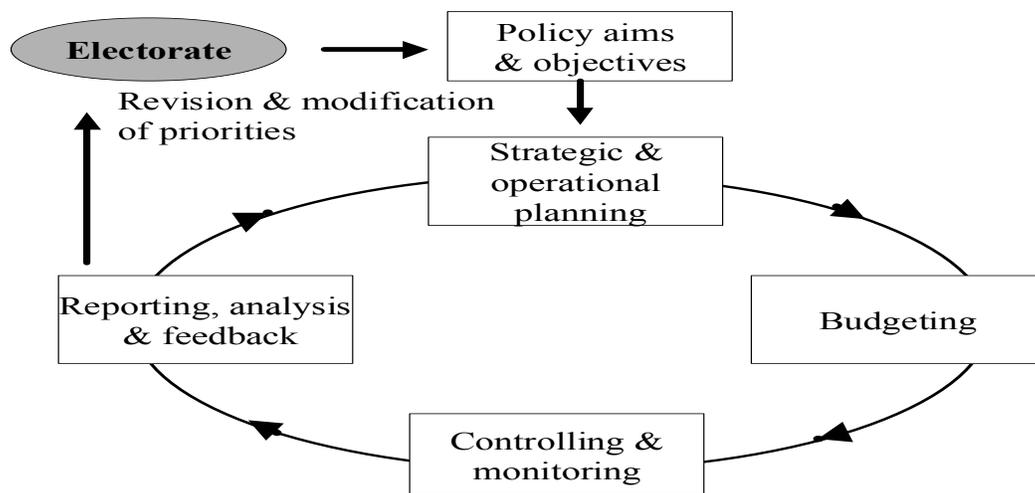
Lastly, Pillay (in United Nations Development Programme, 2003:59) also believes that central to an integrated national planning cycle is the cycle taking place within a three-year medium-term strategic framework cycle. Pillay's view regarding policy integration and cohesion is crucial especially with regard to the medium-term delivery framework (MTDF) in terms of sectoral policy priorities because it enables the government to know what is in the fiscus for service delivery. The linkage is crucial because it helps the government to cluster its programmes according to macro-economic matters affecting the population.

Once the Cabinet has completed the strategic planning, it has to filter down to departments. So the heads of departments (HoD) or the Accounting Officers (AO) have the responsibility to implement priorities set up by the Cabinet. Managers in their own departments should plan and develop control processes within an organisation.

Figure 4.2 below shows the importance of taking into account the views of people or the electorate when setting policy imperatives. The process starts by setting or formulating policy imperatives, aims and objectives. It is argued that policy outline is mostly outside management mainstream because it is a political process. What is important is the formulation of strategic planning, linking it to the budgeting process because in terms of performance budgeting, strategic planning is crucial as it has to link to the MTEF. Lastly, based on the diagram, the

controlling of funds and monitoring of the process of delivery is critical as it helps to provide a feedback to management within a department. Monitoring, feedback and internal reporting are crucial as these aspects support managerial accountability and development, effectiveness of governance and financial systems in ensuring that quality service is delivered with appropriateness.

Figure 4.2: Integrating the planning, budgeting, monitoring and reporting processes



Source: Abedian, Strachan & Ajam (1998:65)

4.8 TYPES OF BUDGETING SYSTEMS

Different governments for various reasons have used different budgeting systems. Research reveals that the introduction of a particular budgeting system is influenced by different reasons. Mostly the influence is based on the political agenda of the government, for example introducing the ethos of democracy and restructuring macro-economic trends of government as in South Africa. Therefore, some budgeting systems improve or undermine accounting and auditing standards, fiscal management and elements of good governance, like transparency and accountability. Lastly, it has been noticed that some budgeting systems focus more on ‘administration and control’ of public funds than on the management of public funds. Discussing and analysing the different types of budgeting systems are important as it helps to

understand the budgeting process and its systems, and the impact on financial management and governance in general.

Henry (1980:208-225) provides the following opinions regarding budgeting systems:

4.8.1 Line item budgeting

- a) Line-item budgeting is associated with, among other things, honesty, efficiency, less propitious attitudes and inflexibility.
- b) Line-item budgeting uses phrases like 'watchdog of the Treasury and balanced budget' and emphasises factors like skilled accountancy and dispersed responsibility for management, planning and the fiduciary role for budgeting.
- c) Line-item budgeting focuses on inputs only meaning that this budgeting system concerns or deals only with what will make the project continue.

Previously, South Africa has been using the line-item budgeting system. However, the criticism has been about its focus on inputs or an internal process rather than results or outcomes. As a result, the performance budgeting system replaced the line-item budgeting system.

4.8.2 Planning, programming and budgeting (PPB)

It is argued that planning programme budgeting (PPB) is associated with budget officers who have skills in economic analysis, as well as in accountancy and administration. Decision-making becomes less incremental and more systematic throughout bureaucracy. Management responsibility becomes more supervisory in nature, while planning responsibility becomes increasingly centralised. PPB is concerned not only with inputs and outputs, but also with 'effectiveness and alternatives' (Henry, 1980:213). Regarding Henry's argument it is deduced that PPB involves a cost benefit analysis (CBA) to make effective financial decisions. This analysis is fundamental in public finance, governance in particular. PPB has the following characteristics:

- a) It is an effort to integrate budgeting formulation with Keynesian economic concepts, as it attempts to consider the effects of government spending on the national economy;

- b) PPB is an effort to develop and use new information sources and technologies to bring more objective and qualitative analysis to public policy-making; and
- c) PPB is an effort to integrate systems-wide planning with budgeting.

Referring to the last point, PPB is recommended for the ability to integrate planning with budgeting. However, it becomes a challenge for some departments (Henry, 1980:213).

On the disadvantage perspective, it is noticed that PPB stresses planning, goal clarification and systematic and scientific decision-making trends to force decisions up the hierarchy (Henry, 1980:21). This could have a negative impact on governance and financial management in general; once organisational decisions are not decentralized, governance could be undermined.

4.8.3 Management by objectives

Within the context of management, Drucker (in Henry, 1980:219) defines management by objectives (MBO) as a process whereby organisational goal and objectives are set through the participation of organisational goals members in terms of results expected. From the definition, it is clear that MBO is participative in approach in order to achieve results.

It is argued that MBO is the process of goal-setting between a supervisor and subordinate to establish performance goals linked to organisational objectives. The genesis of MBO is a management strategy rather than a budgeting technique (Walker & Mengistu, 1999:17). Walker & Mengistu's criticism reveals that MBO could prove more useful in setting organisational strategy, mission and vision rather than linking the former to budgeting and financial management.

To sum up, MBO is an attempt to set up objectives, track the progress of the appropriate programme, and evaluate its results. It is also concerned with inputs, outputs, and effects but not with alternatives (Henry, 1980:220). From Henry's argument it is clear that MBO is able to track progress and results based on the managerial decisions taken or inputs, but it is evident that MBO is not flexible due to socio-economic factors that might emerge. Hence MBO does not take alternatives. It is also noticeable that MBO is compatible with other budgeting systems like performance budgeting because it also aims for targets through participatory

approach or dialogue with managers. What is also featured is the ability of the MBO as a system to track the progress of various programmes within an organisation. This is fundamental for performance budgeting system in South Africa. In essence, MBO also provides performance information to support elements of good governance such as accountability and transparency.

4.8.4 Zero-based budgeting

In essence, zero-based budgeting (ZBB) has the following characteristics:

- a) It considers inputs, outputs, effects and alternatives, and focuses on the decision-making process;
- b) It demands managerial and planning skills for its personnel; and
- c) In contrast, it tends to grossly overestimate an administration's capacity to calculate program effectiveness, and vastly underestimates the importance of political and technological constraints (Henry, 1980:223-225).

On the basis of the above, ZBB is believed to be taking care of the fundamental aspects of a budgeting system like inputs, output and outcome or effects, but underestimating political aspects could be detrimental because an involvement of a political arm or cabinet is important.

4.8.5 Performance Budgeting

Evidence shows that there is an international trend, both in African countries and the Organisation for Economic Co-operation and Development (OECD), on the use of performance budgeting within the context of the medium-term expenditure framework. Performance budgeting provides a results-oriented approach as opposed to an input approach by line-item budgeting.

Figure 4.3 demonstrates that the new budgetary system, namely performance budget system, shows that the MTEF, the PFMA and the South African Constitution of 1996 are embedded or form the basis of the performance budgeting system in South Africa. Due to the culture of public financial management and planning, good governance, accountability, transparency, policy prioritising, policy and budgeting are captured in the country's budgetary reforms.

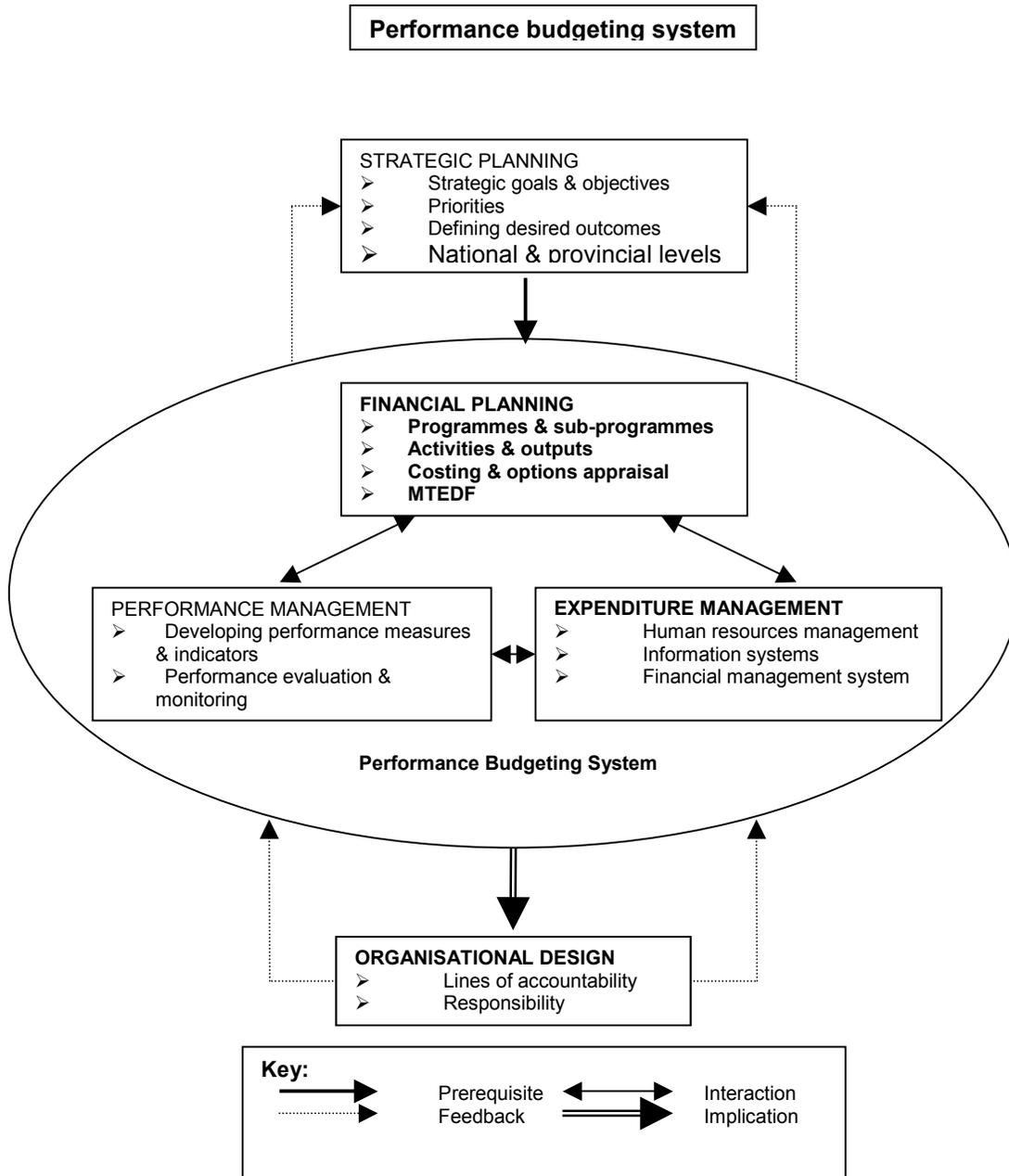
As indicated earlier, a performance budgeting system has a results-oriented approach as opposed to a line-item budgeting system, which is only input oriented, or about inflow and the outflow of public monies. Based on the figure, it is evident that strategic planning is fundamental in order to set strategic goals, encouraging setting up priorities and defining an expected outcome. The cabinet defines expected outcomes both at provincial and national spheres of government.

The figure indicates that in a budgeting system, strategic planning is a precondition for financial planning, which, in turn, outlines activities and outputs of a given department or an entity. It also indicates that Medium Term Expenditure Delivery Framework (MTEDF) falls within financial planning. It is in this context the accounting officer of a department, in terms of the PFMA, is responsible for outputs. Based on the figure, it is also apparent that financial management must interact with performance management and expenditure management in order to support strategic organisational goals and objectives.

Consequently, performance indicators and measures, performance evaluation and monitoring, information systems and human resources, especially, financial management skills, can support governance in the Public Service. What is of vital importance is that financial planning with regard to activities and outputs, costing appraisals and the MTEDF can be used as a feed back to the strategic planning of the national and provincial spheres.

As much as it encourages transparency and accountability *per se*, the lines of the same accountability and responsibility are clarified. For example, section 38 of the PFMA clearly outlines lines of responsibility and also the lines of accountability, especially both for internal and external reporting.

Figure 4.3: Performance budgeting system



Source: Shall (1999: 12)

In terms of the system's theory described in the preceding chapters, budgeting as a system fits well. Therefore, performance budgeting could be described as a 'system' of budgeting which attempts to integrate the process of strategic planning, financial planning and performance management. Furthermore, what is most crucial is that a *system* focuses on outcomes rather than activities (Shall, 1999:10). It is because focusing on activities has been a traditional form of budgeting system that has resulted in an input-oriented budgeting system.

Walker & Mengistu (1999:15) also note that:

- a) Performance budgeting provides information on accountability and efficiency for each responsibility centre.
- b) The control thrust of a performance budget is to arrive at a performance target.

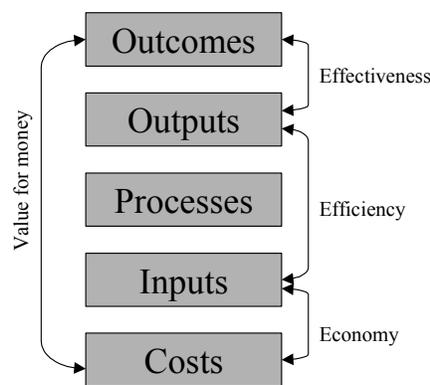
Mengistu & Walker's comments with regard to the performance budgeting system confirm that the budgeting system has elements of accountability, targets for efficiency and effectiveness and is a results-oriented budgeting system. Central to their comments are matters relating to information on accountability, efficiency and performance targets which are important in the modern public management. The forthcoming model on outcome-focused management and budget model sets the tone for the new public management entrenched in the South African Constitution of 1996 and the PMFA. Therefore, the performance budgeting system as embedded in the latter contains sentiments that are outlined in the model. As indicated earlier, the Performance Budgeting system emphasizes the correct use of funds efficiently and effectively, more importantly the economic use of resources during the process of service delivery.

Therefore, the efficiency, effectiveness and economic approach or the three E's put more emphasis on the value for money. The process from input (costs and human resources base) to evaluation of outcomes assists in ensuring that services delivered are value for money. The outcomes-based model or results-based approach is reflected on the Figure 4.4. The model shows a linkage between input-output-outcome to be crucial in service delivery, especially when the MTDf has been finalised and adopted at a strategic level. The model also shows that decisiveness or ability to look for alternatives for the economic use of resources is a process that is efficient so that outcomes (effectiveness) or results are achieved as planned. Within this context the efficient, economic and effective use of resources become one of the basic values and principles governing public administration in South Africa (Constitution of the

Republic of South Africa, 1996:107). Figure 4.9 below also shows the context in which performance budgeting is applied. As indicated earlier in the text that performance budgeting promotes value for money and is outcome or results-based. It becomes a responsibility of the managerial leadership in the Public Service to institutionalise outcomes-based management and budgeting, performance budgeting systems in this instance.

4.9 OUTCOMES-BASED MANAGEMENT AND BUDGETING MODEL

Figure 4.4: Link between inputs, outputs and outcomes



Source: Organisation for Economic Co-operation and Development (2002:9)

After discussion of the term ‘*budget*’ and the different budgeting systems and their effects on public administration, these are shown in table 4.1 with a brief outline of their features, focus or objectives, scope, skills needed to implement a particular budgeting system and the role of a budgeting agency. What is most important is the fact that each budgeting system that is likely to be used or already in use in a particular country has to be analysed or scrutinised in order to execute it effectively; that is, its prospects and consequences have to be examined.

As a result, table 4.1 reflects a matrix or an integrated analysis of the features of the different budgeting systems, especially their impact on organisational ingredients like decision-making, planning, management and decentralisation. On the other hand, the table illustrates some technical skills needed in ensuring that a particular budget is implemented effectively and efficiently. The proficiency in implementing a budget or other programmes is vital in order to deliver on strategic objectives. It is therefore a challenge for officials implementing government programmes such as performance budgeting system that is currently used in the South

African Public Service to be well skilled in order to attend to matters relating to under spending, strategic planning, fruitless expenditure and the ability to link budgeting and planning. It is because, in most cases, personnel skills are affected by a change in the environment, namely in the technological, economic, social or political environment. Therefore, it becomes necessary to upgrade personnel skills in order to guard against the pressure by an environment.

Furthermore, the political, economic, technological and social aspects of the macro environment influence the micro or institutional environment. Hence, it is paramount that institutional or organisational environment is able to sustain external pressures. However, ignoring an environment is not an option in social sciences. What is also important is the ability of the leadership to understand and support public service reforms, particularly the results-oriented approach in budgeting. For example, Perrin (2002:3) suggests that in managing government reforms or initiatives the leadership should take various forms, including top level for a results-focused approach, capacity building, and effective communication. Perrin (2002) also recommends that proponents of results-focused management and budgeting need to lead by example, in particular by undertaking an independent evaluation of reform initiatives. Perrin supports an evolving public finance management system, and states that leadership in general, the managerial component in particular, should manage transformation so that good governance becomes the culture of the Public Service. However, the managerial leaders should be skilful both technically and conceptually in ensuring that public finance reforms are implemented, particularly the results-based management and budgeting. It is also important that once a budgeting system is implemented, the environment becomes central in order to attend to pressures on organisations.

Table 4.1: Features of budgeting systems

Feature	Line-item budgeting	Performance budgeting	Planning-program-budget	Management by objectives	Zero-based-budgeting
Basic Orientation	Control	Management	Planning	Management	Decision-making
Scope	Inputs	Inputs, outputs, effects, and alternatives	Inputs, outputs, effects and alternatives	Inputs, outputs, and effects	Inputs, outputs, effects, and alternatives

Feature	Line-item budgeting	Performance budgeting	Planning-program-budget	Management by objectives	Zero-based-budgeting
Personnel skills	Accounting	Management	Economics and planning	Managerial 'common sense'	Management and planning
Critical information	Objectives of expenditure	Activities of agency	Purposes of agency	Programme effectiveness	Purposes of program or agency
Policy-making style	Incremental	Incremental	Systemic	Decentralised and participatory	Cautiously systemic
Planning responsibility	Largely absent	Dispersed	Central	Comprehensive, but allocated	Decentralised
Role of the budget agency	Fiscal propriety	Efficiency	Policy	Programme effectiveness and efficiency	Policy prioritisation

Source: Adapted from Henry, (1980:226)

Apart from the performance-based budgeting system, the government also introduced the new economic reporting format (NERF) in the Public Service. Introduction of the NERF is crucial and central to the introduction of the new Standard Chart of Accounts (SCoA) to be implemented in the financial systems (National Treasury, 2003:1). The introduction of SCoA also implements section 216 of the Constitution, namely “national legislation must establish a National Treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing uniform expenditure classifications”. The introduction of NERF and SCoA in particular implements constitutional provisions and improves the financial systems in the Public Service and governance.

Additionally, the introduction of NERF ensures that South Africa is in line with international standards and the requirements of the Government Finance Statistics (GFS) classification developed by the International Monetary Fund (IMF), as well as the requirements of the Special Data Dissemination Standard (SDDS). The latter is the minimum reporting standard set by the IMF to which South Africa is a signatory (National Treasury, 2003:2). In this context an environment, both political and economical, influences governance in particular, public

finance management systems in general. Therefore, managerial leadership has the responsibility to analyse the above environmental situations because they have impact on a number of factors such as budgeting, expenditure, quality of financial information and financial accountability and reporting. These aforementioned factors are central in ensuring that there is good governance in the Public Service and improving the public finance management system in general. The SCoA seeks to ensure that financial systems have quality information with standard classification of items so that quality information is produced for reporting; transparency and accountability are also improved. In support and improvement of governance in the Public Service, SCoA's positive contribution is as follows:

- a) It strives towards greater transparency for both reporting and comparative analysis purposes;
- b) It facilitates a standardised process for transacting in all national and provincial departments in order to improve the mobility of finance personnel between various departments;
- c) It facilitates the automated production of financial statements and other reporting information; and
- d) Most importantly, it maintains a 'single version of truth' for all reports, in that the various financial systems used by different national and provincial departments will have the same basis for data classification, ensuring consistency in the financial reporting dissemination into the public domain (New Economic Reporting Format, 2003:13).

The above analysis and advantages of SCoA indicate a step towards improving budgeting and the classification of information within departments and the Public Service in general. What is also important is the fact that SCoA creates an environment where expenditure will be explicitly justified and ambiguity will be avoided with regard to item classification within a department. The introduction of SCoA could also assist in useful information regarding assets and liabilities, which is usually contained in the financial statements. Therefore, SCoA is indeed another vehicle towards good governance and in support of performance budgeting. However, SCoA should adhere to the generally recognised applied practice (GRAP) and accrual accounting systems, which are both discussed in detail in chapter 6.

4.10 FINANCIAL MANAGEMENT: AN ANALYSIS

Financial management is not a ‘once-off’ matter, it is a course of action that is supposed to take place throughout the financial year or it is a continuous process both in government in general or departments in particular. Most significantly, financial management takes place within a particular framework or principles. The World Bank (2005:1) argues that a good public financial management (PFM) system is essential for the implementation of policies and the achievement of developmental objectives by supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery.

Table 4.2 below explains that financial management is a multidimensional aspect; among others it involves cash management, procurement and revenue management.

Table 4.2: Financial management: a matrix

PLANNING	MANAGEMENT	CONTROL
Cost-benefit analysis (CBA)	Cash management	Accounting
Cost-effectiveness analysis (CEA)	Procurement	Financial performance auditing
Option analysis	Revenue administration	-

Source: Abedian, Strachan & Ajam (1998:48)

With regard to the PFMA, financial management is central to improving governance in the Public Service. As pointed out earlier, in its approach and objectives, the PFMA seeks to ensure that financial management becomes central in the Public Service. In the shift from traditional public administration to public management, the latter is crucial in modern public management because it is results-oriented. The PFMA is in line with the ‘new management model’ that is results oriented. The government defines financial management within the context of a results-based model.

The government, the National Treasury in particular, believes that to improve governance in the Public Service, it has to adhere to a results-oriented approach in financial management, namely:

- a) Accounting officers enter into an employment contract with executive authorities supported by performance agreements that include performance standards;
- b) The responsibility of the accounting officer and other role-players should be clearly defined for resources committed and outputs produced;
- c) There should a greater alignment of planning and budgeting processes.
- d) Strategic planning should be introduced;
- e) Accounting officers should be allowed to be flexible in the use of resources;
- f) There should be appropriate internal control, and risk management principles should be followed; and
- g) Accounting principles should be followed, like accrual accounting (National Treasury, s.a. 3).

4.10.1 Elements of financial management

In insuring good governance and public financial management system in the Public Service, certain elements are critical to note, these are:

- a) accounting system, including form of accounts, and accounting classification;
- b) budgetary and expenditure control;
- c) financial planning and reporting;
- d) management of assets and liabilities;
- e) financial control, particularly payroll control; and
- f) procurement policy (Presidential Review Commission, 1998:153).

These elements of financial management suggest that managerial leadership has to understand how to apply them within respective government departments in order to improve the public financial managerial system in general, governance in particular.

4.10.2 Fundamental prerequisites for effecting budgeting and financial management

In public administration, public finance in particular, the PFMA is crucial in ensuring that there is full adherence to or compliance with the rule of law. Financial management ensures that funds are used according to a vote granted. Financial audit, and the proper use of accounting procedures and fiscal accountability are important in financial management.

For effective financial management and budgeting, the following components are fundamental:

- a) *Rule of law*: Budgets are adopted by duly constituted authorities, for example legislatures, Parliament and a council or councils;
- b) *Budget adherence*: Once agreed to, spending and revenue plans are assumed to be carried out as enacted. If remade, the same legitimate authorities that made them in the first place should revise them;
- c) *Transparency*: The government should make information about the budget available to the public. Additionally, there should be a free press that has access to information on government resources;
- d) *Publicly expressed preferences*: The government should have the capability of collecting information on the preferences of the electorate. In the absence of reasonable information on preferences, it is difficult to allocate resources efficiently;
- e) *Avoidance of structural deficits*: Over a number of years, the budget should bring in sufficient revenue to match expenditures. This view recognises that budgeting is a long-term plan rather than a single-year proposition. It becomes a concern if government uses non-recurring revenue (transfers from other funds, short term borrowing) to finance continuing expenditure;
- f) *Timely budget adoption*: Adherence to budget timetables can be an important contributor to effective financial management and government performance. The failure to adopt budgets by the start of the financial year creates uncertainty and therefore may promote inefficiency;
- g) *Forecasting competency and predictability*: Revenue and expenditure need to be estimated accurately. If revenue is chronically estimated or expenditure is underestimated, mid-year corrections are often necessary. This compromises the ability of programme managers and other recipients of government funds to have predictable funding flows;

- h) *An operational/workable accounting system*: At a minimum, a government or government agency should have the ability to establish how much money is available and how much has been spent; and
- i) *Audit capacity*: Governments should have the capacity to ensure accountability through effective auditing. First, a 'pre-audit' capacity should exist. This has to do with controls and pre-planning on expenditures to guard against overspending. Secondly, 'post-audit' capacity should be present and governments should know, after the fact, what money was spent for and perhaps, what was obtained as a result of that spending (Peters & Pierre, 2003: 405).

The above components are crucial as they set the correct tone for budgeting and financial management in the public sector. They instil a culture of fiscal discipline, financial planning and respecting of the rule of law. These also ensure that institutions authorising expenditure, such as legislatures, are respected in terms of their legal mandate.

Based on the above, effective financial management could depend on the type of budgeting system and accounting procedures. For example, in some OECD countries, including South Africa there is a gradual and steady shift from a cash accounting system towards an accrual system of accounting. In an accrual system, the form of budgeting and financial management, such as proper financial techniques, accounting systems and proper asset management is crucial and has to be implemented or applied contextually.

More importantly, policy in general and the budget itself as a policy document are not static; both have to be contextually placed to ensure effective and sustainable application. As indicated earlier with regard to theory and practice, in some cases theory is not necessarily a challenge but its application is. The same analogy of administrative theory applies to budgeting and financial management so that elements applicable to budgeting and financial management are applied correctly.

Like other fields of study, financial management is based on fundamental principles. These principles set the tone and basis of financial management in a democratic state; South Africa is no exception.

4.10.3 Principles of public finance management

Gildenhuis (1993:54) states that financial management is based on certain fundamental democratic values serving as principles in public financial management. Some of these principles are:

- a) Public financial decisions should always aim at a reasonable and equitable manner in which public financial resources can be allocated, as well as at the most effective and efficient way;
- b) Utilisation of public financial resources must satisfy the collective needs of people optimally;
- c) The tax burden must be distributed reasonably and equitably;
- d) The elected political representatives should be responsible and accountable and responsible to the taxpayers for the collection and spending of taxes and income;
- e) With regard to sensitivity and responsiveness, political representatives must be sensitive to and respond to the collective needs of the community;
- f) In satisfying collective needs, the executive authority's responsibilities are to ensure that a programme has been executed effectively and efficiently; and
- g) It is said that all activities regarding financial management and administration must take place in public, and not under cover in secrecy or so-called confidentiality. This principle applies to the openness of financial transactions.

The above principles intend to inculcate a 'financial management culture' that focuses on effective and efficient use of government resources, reasonable and equitable financial management decision-making, equitable and reasonable tax distribution, political accountability and responsibility of tax administration and expenditure trends, efficiency and effectiveness in programme execution and transparency in financial matters, including financial transactions. The aforementioned fundamental financial matters will ensure a sound financial management culture restoring effective governance in the Public Service. Thus, the Public Service should apply financial principles in conducting its financial matters.

The following subsequent issues are also fundamental to financial management:

- a) It is important to oversee and monitor effective and efficient financial management in the public sector;

- b) The objective of a financial management system in the public sector is to support management in their deployment of limited resources with the purpose of ensuring economy and efficiency in the delivery of outputs;
- c) Financial management embraces daily cash management as well as the formulation of medium and long-term financial objectives, policies and strategies, in support of the operational plan;
- d) Financial management supervises the supporting financial and management accounting functions, and the internal control environment, as well as supporting financial systems; and
- e) Financial management is of a higher standard when it has strong high level support, complemented by a strategy of management for results instead of management for compliance (International Federation of Accountants, 2001: 48).

With regard to the last point regarding 'management for results instead of management for compliance', it is observable in the South African Public Service where departments focus on spending without planning because they fear unspent funds will be returned to the National Treasury. The concern for certain managers is to comply with the National Treasury prescripts, not aiming to get results out of spending. The habit is sometimes called 'fiscal dumping' because public funds have just been 'spent' without any form of a plan, so it has been 'dumped'. This state of affairs undermines financial management.

4.11 PROCUREMENT AND ITS EVOLUTION

4.11.1 Supply chain management (SCM) as an integral part of financial management

With regard to procurement in South Africa, there are enabling legislative frameworks that seek to ensure that services are provided through procurement and are of value for money. The process adheres to elements of good governance like accountability and responsibility, including fairness and transparency.

Most importantly is that procurement is done within the broader framework of the government financial management agenda, not just as an isolated exercise for financial or procurement officers within a department. Procurement procedures must be followed and departments must adhere to such procedures, and public money should not to be wasted due to non-

compliance to procurement policies and procedures. Non-compliance could result in a financial burden for government and financial management could also be negatively affected. Procurement has been criticised by general public and bidders. Some criticism is that procurement procedures and processes are tedious and bureaucratic, with unclear responsibilities and levels of accountability, value for money is in most cases undermined or not evaluated, and corruption is prevalent or reported in most cases.

To accomplish its tasks of ensuring uniform standards in procurement, in the 2001/2 financial year, the National Treasury embarked on a Country Procurement Assessment Review (CPAR) with the World Bank. One of the issues raised in terms of CPAR was a need to monitor value for money assessment and to replace the outdated and inefficient procurement and provisioning in government with the Supply Chain Management (SCM) function. Additionally, on the basis of the above state of affairs, the CPAR was of the view that the issues raised above should be fully integrated within financial management processes in government (National Treasury, 2003:2).

On the basis of the above, the government took a firm stand by transforming procurement in South Africa by benchmarking on international standards so that the broader financial management in government is improved. Subsequently, procurement in South Africa has shifted towards SCM. The government views SCM as an integral part of financial management that seeks to introduce internationally accepted best principles (National Treasury, 2003:2).

SCM has to play a significant role in financial management, however, to impact positively and valuably, certain essentials have to be taken into account, because it is believed that to improve financial management and monitor value for money, the following aspects are fundamental:

- a) promotion of uniformity regarding procurement;
- b) devolution of responsibilities and promotion of accountability for procurement –related functions to accounting officers;
- c) replacing outdated provision and outdated procurement with SCM has been one of government's priorities for the public sector in general (National Treasury, 2003:2).

At some level, procurement is also faced with policy-related problems, particularly policy compliance and with regard to procurement itself; the procedure towards tender approval has been tedious and fragmented. In some situations, value for money is undermined. Elements of corruption and fraud are evident through financial misconduct cases that seem to be a problem in the Public Service.

Within the context of SCM, the procuring of services takes place in a well-established ethical environment. Since the devolution of powers to departments regarding procurement, departments are unable to manage such a form of transformation due to lack of skills on procurement. Procurement is a technical process. In some situations some departments are unable to formulate a policy due to the technicality of procurement. The new approach of SCM might be too complicated for some departments, particularly at the implementation stage. The diagram outlining the new approach is attached as Annexure A. The diagram shows the elements of the SCM.

Regarding the introduction of SCM in the Public Service, the departments are expected to do the following:

- a) The accounting officer or accounting authority of an institution to which these regulations apply must establish a separate SCM unit within the unit of the chief financial officer (CFO) to implement the institution's SCM system; and
- b) An official in the SCM unit who becomes aware of a breach of failure to comply with any aspect of the SCM system must immediately report the breach of failure to the accounting officer or accounting authority, in writing (National Treasury, 2003:2).

To implement SCM requirements, the CFO is charged with the responsibility to establish a SCM unit in her or his office so that financial management is promoted. A diagram showing how the CFO's office should be established as a unit is attached as Annexure B.

4.11.2 Pillars for procurement

4.11.2.1 Value for money

On the above pillar, it is imperative that a department is able to justify a procurement outcome. The latter is significant because the best value for money should indicate if all relevant costs

and benefits over the procurement cycle are considered. The procurement function itself must provide value for money and must be cost-effective. Procurement organisations should avoid any unnecessary delays and costs for themselves or suppliers. To adhere to the value for money principle, individual departments should also ensure continuous improvement of the efficiency of internal processes and systems.

4.11.2.2 Open and effective completion

A framework of procurement laws, policies, practices and procedures must be transparent, that is, they must be readily accessible to all parties. The procurement process must be open and encourage effective competition and observance of the provisions of the Preferential Procurement Policy Framework Act (PPPFA).

4.11.2.3 Ethics and fair dealing

In procurement all parties should comply with ethical standards and deal with each other on a basis of mutual trust and respect and conduct their business fairly, reasonably and with integrity. Procurement staff is expected to recognise and deal with a conflict of interest or the potential thereof. The staff should deal with suppliers even-handedly, this means that there should be no bias. They should not compromise the state through acceptance of gifts. The procurement staff should also assist in the elimination of fraud and corruption.

4.11.2.4 Accountability and reporting

- a) This means that individuals handling procurement, as well as organisations are answerable for their plans, action and outcomes. Openness and transparency in administration, by external scrutiny through public reporting, is an essential element of accountability.

4.11.2.5 Equity

Within the context of these procurement guidelines, *equity* means the application and observance of government policies that are designed to advance persons previously disadvantaged by unfair discrimination. Within the South African context, the pillar is relevant

because of apartheid systems prior to 1994. The above pillar also encourages advancement of small, medium and micro enterprises (SMMEs) and historically disadvantaged individuals (HDI's). Therefore, HDIs and SMMEs are able to play a critical role in the economy of the country. To effect participation of SMMEs, the government has implemented the PPPFA as the foundation on which all procurement activities are based. The government declares that no public procurement system should be operated if it is not founded on this pillar (National Treasury, s.a.).

In terms of the above pillars, it is evident that procurement in particular should support or be in line with good governance and be able to manage procurement risks. Failure to set up systems or controls of procurement could result in enormous procurement risks. Additionally, they should be clear, enabling a legislative framework so that well-skilled personnel manage procurement properly.

4.12 FINANCIAL MANAGEMENT AS A SYSTEM

To ensure that standard financial decisions are made, a financial management system becomes a source of financial information so that financial management or expenditure management, including risk management, is properly managed in order to improve good governance in the South African Public Service.

Operationally, a financial management system (FMS) assists departments in ensuring that expenditure patterns in relation to its programmes and projects are done within a budgeted vote, information about the financial stand of a department is known and could be monitored. Abedian et al., (1998:140) argue that at operational level the spending is accounted for through a financial management system (FMS) as a computerised accounting system. Additionally, the FMS also aims to facilitate expenditure management as well as other aspects of financial management such as providing budgetary information (Visser & Erasmus, 2002:10). To draw a synergy between the arguments by the former and latter authors, it is noticeable that FMS serves as a financial information tool so that critical financial decisions are made in relation to expenditure and the management of public finances.

To put FMS into operation, standardised procedures should be established, for example standardised forms are used for internal charges, receipts, petty cash, general payments,

electronic fund transfers and periodic payments (Visser & Erasmus, 2002:11). More importantly, FMS does not only record transactions for accounting purposes, but it is a valuable instrument for fund management because FMS provides a regular updated record of spending patterns through which the following are determined:

- a) Spending to date compared to the budget;
- b) Current expenditure and future commitments compared to the budget;
- c) Deviations from the budget; and
- d) Increased and / or decreased spending (Visser and Erasmus, 2002:11).

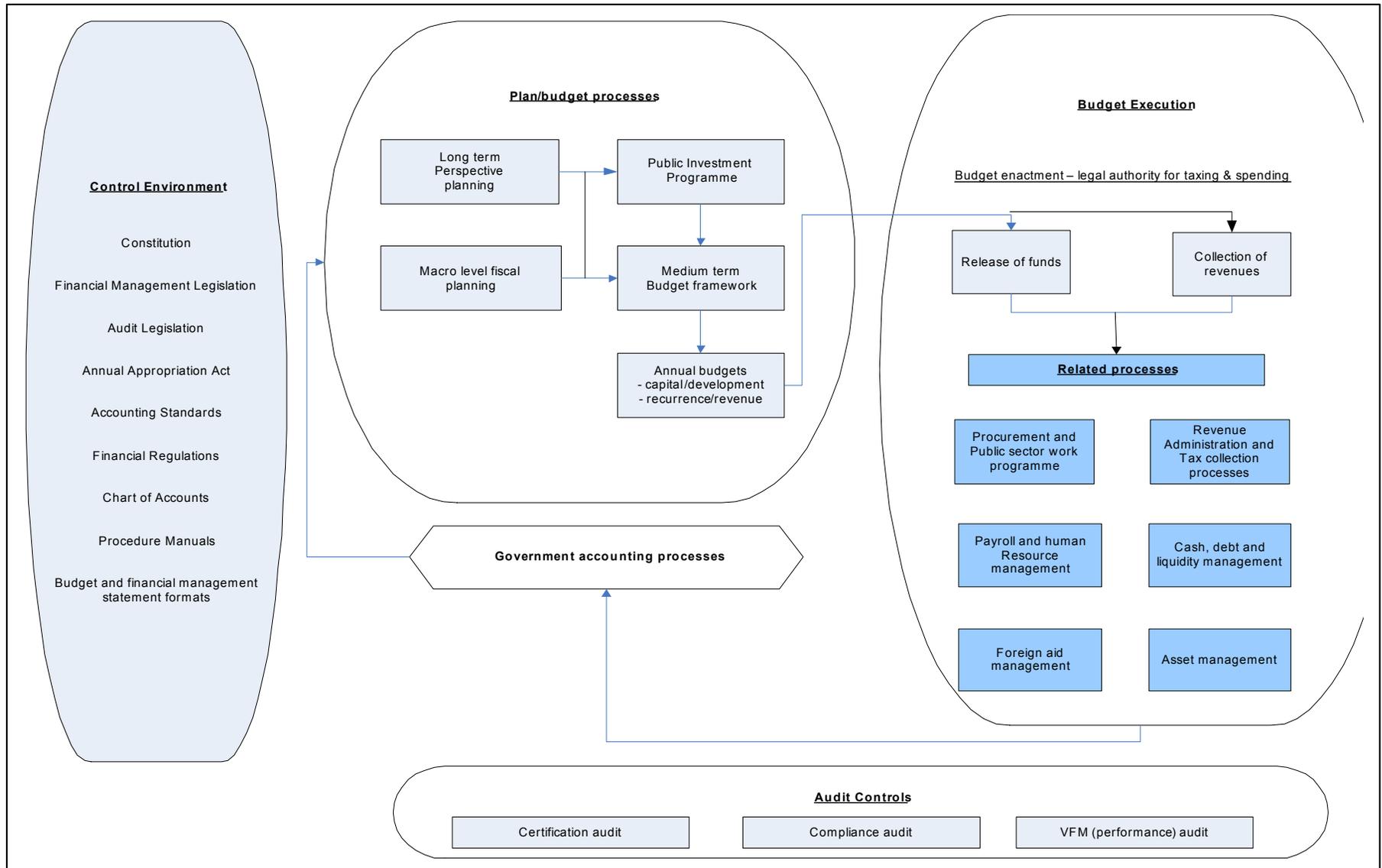
The above statement by Visser & Erasmus signals the fact FMS is crucial in ensuring that spending is done according to an approved budget, this means that expenditure trends are monitored so that deviations are reported. In this instance, matters relating to underspending and overspending, could be detected if early warnings are functional. The National Treasury has a FMS referred to as Vulindlela, which has financial information that could assist departments in carrying out their mandates and also understand the expenditure trends. In essence, Vulindlela collects and manage data to deliver useful, integrated information in order to support financial management in government (National Treasury, 2006:1).

4.13 INTEGRATED FINANCIAL MANAGEMENT SYSTEM

Having outlined issues relating to public finance and financial management, it is also imperative that an integrated financial management system is highly essential in the Public Service and systems are sometimes not linked to each other in some departments. An integrated financial management system improves governance and provides valuable information for decision-making. Figure 4.5 explains that financial systems could easily be affected if a control environment is not created. An effective integrated financial system needs a control environment. In this case the South African constitution, 1996 and the PFMA are fundamental in ensuring that effective systems are in place. An integrated approach could only be effective if departments have the ability to understand, analyse & implement the PFMA, the Public Audit Act (PAA) of 2004 and accounting standards. Most importantly, the budget, systems, financial and non-financial information are fundamental in ensuring that an integrated financial system is in place, functional and complement with other systems within a department.

Accounting processes should be integrated into the planning of a budget by government. A value for money (VFM) is fundamental in financial management, as well as the correct application of the three E's by the managerial leadership in the Public Service. To effect an integrated financial management system, especially in the South African Public Service, control environment should be taken into account, that is the Constitution, PFMA, PAA, annual budget, accounting standards, National Treasury regulations, SCoA, procedure manual and formats for budget and financial management statement formats. Figure 4.5 shows an integrated approach to a financial management system in order to promote governance in the Public Service and the managerial leadership to support the system.

Figure 4.5: An integrated approach to a financial management system



Source: United Nations Development Programme (2001:14)

4.14 CONCLUSION

The public finance management system in South Africa, the Public Service in particular, influences the ability of the leadership to manage such change. The introduction of the MTEF, a shift from the line-item-budgeting system towards performance budgeting system, the introduction of PFMA and Treasury regulations, as well as the Constitution itself have made and are still making a significant improvement in the Public Finance Management System in the South African Public Service. These significant changes also impact on spending agencies or departments whether their institutional environment accommodates or adapt to those changes, more especially in relation to a balance between the transforming public finance management system and the skills profile of the public servants in general, managerial leadership in particular. What is important is the inclusive participation of role-players in the budgeting process so that both the ministries (executing authority) and head of departments (accounting officers) have a shared vision in ensuring that services are delivered to people through linking budget to the policies and priorities of government.

The public finance management system in South Africa has introduced a culture of risk management in the public sector in general, the Public Service in particular, especially the PFMA. The following chapter explains risk management, its processes, how risk should be managed in the Public Service and the legal mandates regarding risk management. Risk management as an element of governance is discussed broadly because the aim is to provide a multidimensional or integrated approach in managing risks in the Public Service. Public administration operates within a political, social and economic environment and such dimensions affect an institution or a department, including service delivery in general. Risk management and internal controls are seen as crucial in ensuring that effective governance is implemented in the South African Public Service and this requires effective managerial leadership.

CHAPTER 5

INTEGRATED RISK MANAGEMENT AND INTERNAL CONTROLS IN THE PUBLIC SERVICE

5.1 INTRODUCTION

Policy reforms, including budget reforms, in public services worldwide demand new perspectives of organisational planning and management. The South African Public Service is no exception. Reforms that initially took place after 1994 necessitated a paradigm shift in the Public Service, especially on public finance in order to support and improve service delivery in South Africa. In the process of budget reforms, the culture of risk management is still questionable. With regard to risk management, the Public Service is facing the challenge of managing risk using an integrated approach rather than a 'piecemeal approach'. Official reports have revealed that failing to apply an integrated approach to risk management has weakened departmental internal controls and severely affected service delivery plans. The new accounting and auditing standards, accrual accounting and performance or value for money auditing formats contribute and part of risk management and effective internal controls which all contributes to good governance.

These Public Service reforms create uncertainty and because of uncertainty a number of risks sporadically emerge from departments; internal controls are either not in place or not effective to deal with the diverse forms of risks.

McCloskey and Smith (1998:41) comment that the public sector is faced with a unique set of problems when dealing with issues of risks, in that it is often a regulator and risk generator. This suggests that the public sector and its leadership should take cognisance of its surroundings and the social, political, technological and economic environment. The above diverse forms of risks create uncertainty and risky situations due to the nature and context of public sector reforms taking place globally, and risk management becomes crucial in managing such reforms.

The Constitution of the Republic of South Africa, section 195 in particular, provides principles for public administration that enforces a high level of responsibility and accountability on public servants. Based on these principles, Public Service regulations, which are promulgated in terms of the Public Service Act of 1994, introduce a new management framework to be implemented in the Public Service.

The new management framework is based on the principles of proper or effective planning and accountability. It is therefore paramount for Public Service and departments, both national and provincial, to develop planning tools. Risk management is also regarded as a planning tool to enhance planning processes for service delivery. Most importantly, risk management will make sure that the Public Service delivers services that are of a high quality standard to the public.

It is in this context that the PFMA gives accounting officers responsibilities, in terms of section 38, namely a legal mandate of ensuring that a trading entity or constitutional institution maintains effective, efficient, and transparent systems of financial and risk management and internal control.

5.2 BACKGROUND AND DEVELOPMENT OF RISK MANAGEMENT IN THE SOUTH AFRICAN PUBLIC SERVICE

The development of public finance in the South African Public Service started with the country's democracy in 1994. As indicated earlier in the research, the South African reforms were introduced by a number of policies or legislative documents, notably the South African constitution, which was adopted in 1996, and the draft White Paper on Financial Management and Expenditure Reform, which was released in June 1996. However, it should be noted that these two documents are not the only key documents to pave the way for a proper public financial management system in the South African Public Service but central to this management.

With regard to the draft White paper on Financial Management and Expenditure Reform, Abedian, Ajam & Walker (1997:105) comment that White Paper proposes and adopts a full accrual basis of accounting which is a transition from a cash-based accounting system towards an accrual system in South Africa. On the basis of the accrual accounting system, the

shift could be a reflection of a record financial system of transactions, income earned and expenditures, as they take place, even if they do not immediately generate cash flows (Abedian, Ajam & Walker 1997:141). This form of accounting system instils a culture of good governance, ensuring effective utilisation of public assets, financial management system, and effective management of public funds and instilling a risk management culture within an organisation.

The above transitional change does not take place in a vacuum; a budgeting system must be introduced to be able to deal with the above budget reforms. The current budgeting system, namely performance budgeting system, can manage these budget reforms in South Africa. Therefore, the performance budgeting system and this shift towards an accrual accounting system enable managers to manage risk effectively.

These budgetary reforms have a constitutional mandate, section 215 (1) of the Constitution, states that national, provincial and municipal budgets and the budgetary process must promote transparency, accountability and the effective financial management of the economy, debt and the public sector (The Constitution of the Republic of South Africa, 1996:121). Against this background risk management becomes central in supporting good governance, particularly elements such as accountability and transparency.

In the process of managing risks, policy formulation and management must be transparent and managers must be accountable in order to identify or detect areas or sections that are exposed to risks within a department. Among other things, risk management is able to manage financial risks that are based on poor financial planning, especially with regard to planning for contingency reserves because that could minimise risk on service delivery plans that normally result in unauthorised expenditure.

The development of risk management in the Public Service can prevent fraudulent activities within the Public Service if efficient internal controls are in place.

5.3 RISK, UNCERTAINTY, MANAGEMENT AND RISK MANAGEMENT: LINKAGE AND CONCEPTUAL ANALYSIS

It is human to manage risks without any academic discussion or a scientifically tested opinion through research. People manage risks in their daily lives. For example, people budget towards month-end or pay day in order to avoid overspending. Some people decide to use a particular vaccine before winter starts to guard against the chance of getting influenza during the winter season. Some people buy material to fence their yards to minimise the risk of theft.

However, from an organisational behaviour perspective, this human factor integrates itself or fuses within an organisational analysis. In one way or another, the human factor influences how departments or sections within a department conduct themselves. Therefore, personnel within an organisation have to be aware of various forms of risks that could be prominent in their respective departments or sections on a daily basis. As a result of risks, uncertainty might emerge based on a particular event or within personnel, and will automatically affect departmental objectives and service delivery programmes negatively within the Public Service.

It is paramount that risk should not be viewed from a negative angle only. For example, a public servant can review a particular process and identify an area where a risk can be turned into an opportunity or to a competitive advantage. Therefore, risks can create some reward for an organisation or a department. In analysing risks in a department, managers must note the relationship between a risk and a reward.

Smith and Young (1995:10) define *uncertainty* as a doubt about one's ability to predict outcomes. They further argue that uncertainty arises when an individual perceives risks and uncertainty is a subjective concept, so it cannot be measured directly. Because they believe that uncertainty is in the state of mind, it varies among individuals.

From a project perspective, Kliem & Ludin (1997:4) describe *risk* as the occurrence of an event that has consequences for, or impacts on, projects. It is important that the definition of *risk* should be based on a particular context, for example the above project risk perspective might be seen as irrelevant for the study. However, the researcher aims to display different contexts in which risk could be detected and managed. Project risks are also important

because without detecting and analysing them, the objectives of organisations could not be attained.

In analysing a risk, it should be taken into account that the likelihood that a risk might occur could be based on prevailing circumstances within an organisation, either a high turnover, absenteeism, poor internal controls or non-compliance with security clearance regulations.

In response to the above analysis and its occurrence, Knight (1999:4) provides an analytical view of risk, on the basis of having three elements, namely:

- a) The perception that something could happen;
- b) The likelihood of something happening; and
- c) The consequences if it happens.

Given Knights' analysis regarding a risk, it is clear that the analysing and profiling of risks within an organisation could serve as a an early warning system that something could happen or of the likelihood that fraud could be rife and result in negative implications within an organisation.

5.3.1 Risk and management

Linking risk and management is essential to understand the managing of organisational risks. Dillon et al., (1984:50) define *management* as an act of planning, organising, directing and controlling the resources and activities of an organisation. In developing a risk management strategy, some management elements such as planning, organising and controlling are important because to implement such a strategy, a planning and organising process involving all the other branches or sections within an organisation is an important step. This has to be done because it affects everybody within an organisation, from risk managers to those who are involved in risk management strategy. It cannot be left to the technical committee to deal with.

Hanekom & Thornhill (1995:14) also explain *management* as aiming at directing an institution towards its predetermined objective(s), namely keeping the operations of an institution in equilibrium with its environment. Their explanation confirms that in managing risks it is crucial to outline organisational objectives in relation to possible risks that could affect the objectives. Then risk management is able to take into account organisational activities, objectives and an

environment both within an organisation and outside an organisation. As indicated earlier, it is important that strategic management shares a risk management strategy with the entire organisation so that the vision and mission of an organisation are maintained through a co-operative approach.

5.3.2 Risk and uncertainty

Fone & Young (2001:2) draw an explicit line between *risk* and *uncertainty*. According to these authors risk is the variation in outcomes around an expectation. They use a dictionary definition for *uncertainty*, namely that “uncertainty is doubt about our ability to know” and they further note that ‘knowing’ or cognition, requires data, a means of receiving the data, and the capability of processing or converting data into information. Finally, these authors believe that, objectively, risk is the variability of outcomes around an expectation while, subjectively, risk is one’s attitude towards or perception of risk, which is influenced by uncertainty, personal, social and cultural factors, and the risk’s relationship to the larger environment.

The Government of Ontario in Canada (2000: 1) defines *risk* as any potential opportunity or threat that may impact an organisation’s ability to meet its objectives. The government of Ontario further explains that risks encompass all potential obstacles, consequences, and opportunities affecting the ability of the organisation to achieve its objectives. The government also argues that risks can be found externally or internally to the organisation, and can be broadly categorised into environmental, operational, strategic, financial and informational risks.

5.4 RISK MANAGEMENT AND APPROACHES

Taking into account the above analytical link between risk and management, and risk and uncertainty, this section deals with the theory of risk management as it is applied in the Public Service.

The King Report II (2002: 73) provides the following three definitions of risk management:

- a) *Risk management* can be defined as the identification and evaluation of actual and potential risk areas as they pertain to the company as an entity, followed by a process of either termination, transfer, tolerance or mitigation of each risk;
- b) The *risk management* process entails the planning, arranging and controlling of activities and sources to minimise the impact of all risks to all levels of an organisation; and
- c) *Risk management* is thus a process that utilises internal controls as one of the measures to mitigate and control risk. Risk, such as political, technological and legislative that cannot be managed through traditional internal control systems, should be dealt with using flexibility, forward planning and similar mechanisms.

Regarding the above, the King committee notes that risk management could serve as a tool to identify risks within an organisation and could be developed in such a way that risks are managed properly. The report also notes that risks occur in different ways, for example they could occur at political, technological and legislative levels. However, in managing these risks, strategic intervention or innovative ways should be used with regard to internal controls, not only focusing on traditional methods that already exist.

The National Treasury (2005:17) defines *risk management* as a continuous, proactive and systematic process, affected by a department's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the department, designed to identify potential events that may affect the department, manage risks to be within its risk tolerance, and to provide reasonable assurance regarding the achievement of department objectives.

Additionally, in his thesis entitled *The development of an integrated model of risk*, Briers (2000:8) states that *risk management* is the process of intervention in economic and behavioural risk dynamics so that the value of the organisation is enhanced. Brier's definition is based on the fact that risk management could serve as an organisational intervention on economic and behavioural dynamics within an organisation, the dynamics could be based on organisational cultures.

Risk management is a process, affected by an entity's board of directors, management and other personnel, applied in a strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risks to be within its risks appetite, to provide reasonable assurance regarding the achievement of entity objectives (Committee of sponsoring organisations of the Treadway Commission, 2004:3). In its analysis of the enterprise risk management (ERM) framework, the committee of sponsoring organizations of the Treadway Commission (COSO) correctly believes that risk management is not a once-off exercise; it is a process that has to be applied across an organisation within the context or understanding of organisational objectives, mission, vision, and its strategy.

Ting (1988:35) defines *risk management* as the general process of planning for, controlling, and reducing the impact of the incidence of risk as well as activities and events that could lead to the occurrence of the risk. Ting also believes risk management would include both preventive as well as remedial actions regarding the risk. This gives an extended definition of *risk management*, namely that integrative risk management is preventive, and it includes actions taken to minimise or even prevent the possibility of the incidence of the risk events. Defensive risk management is remedial, and it includes actions taken to minimize the impact of the occurrence of risks.

5.5 RISK MANAGEMENT AND INTERNATIONAL MODELS

Internationally, some countries manage risk by focusing on a particular methodology or model. For example the Canadian government (2000:2) is of the view that in carrying out risk management, a department needs to do the following:

- a) Explicitly state its objectives;
- b) Identify key risks that affect stated objectives;
- c) Assess the potential likelihood and impact of occurrence for each identified risk;

- d) Develop and document a course of action to reduce or mitigate identified risks to an acceptable level; and
- e) Continuously monitor internal and external environments for risks, and the ongoing effectiveness of action plans, adjusting the plans where necessary.

With regard to risk management, the Canadian model suggests a systematic approach that ensures that organisational objectives are attained through government's approach to risk management. However, the Canadian approach is silent about prioritising risk according to their degree of threat within an organisation because risk prioritisation is important and helpful, especially if an organisation is faced with diverse forms of risks. For example, a financial risk might not be a threat as in the case of political and technological risks.

Additionally, according to the Canadian approach (2000:3), *risk management* is based on the following underlying key principles:

- a) Everyone is responsible for sound risk management practices and is held accountable for achieving the results;
- b) Everyone should have the capacity, meaning the skill, training, knowledge, access to information and resources to carry out his or her risk management duties;
- c) Risk management activities should be fully integrated into a ministry's or an agency's planning, monitoring and reporting process and into the daily management of its programs and activities; and
- d) Open communication across all staff levels using a simple, common risk language is essential to ensure that everyone understands, relates to and uses risk management tools and techniques.

From the above underlying principles, it is evident that risk management could serve as a management tool, has to be integrated into daily organisational programmes and it is the responsibility of every public servant or official. This means that risk management should start from a security officer at the departmental entrance to the head of the department and his or her Minister. Therefore, each and every public servant should be responsible and active in identifying risks from his or her section within an organisation.

5.5.1 Australia and New Zealand risk management model and its analysis

In relation to the Australian-New Zealand model on risk management, as depicted in Figure 5.1, it is argued that to manage risks effectively, the context has to be established. Understanding of a context; a risk analyst must understand his or her environment by also looking at the organisational strengths, weaknesses, threats and opportunities (SWOT) of an organisation. In essence, a risk evaluator must apply a SWOT analysis. Among others, the context or environment itself includes the organisational financial position, competition, public perception or image, cultural and legal side of an organisation. Looking at the above diverse environmental or contextual factors within an organisation indicates the diverse nature of risks that need to be covered if an environment is studied and understood correctly.

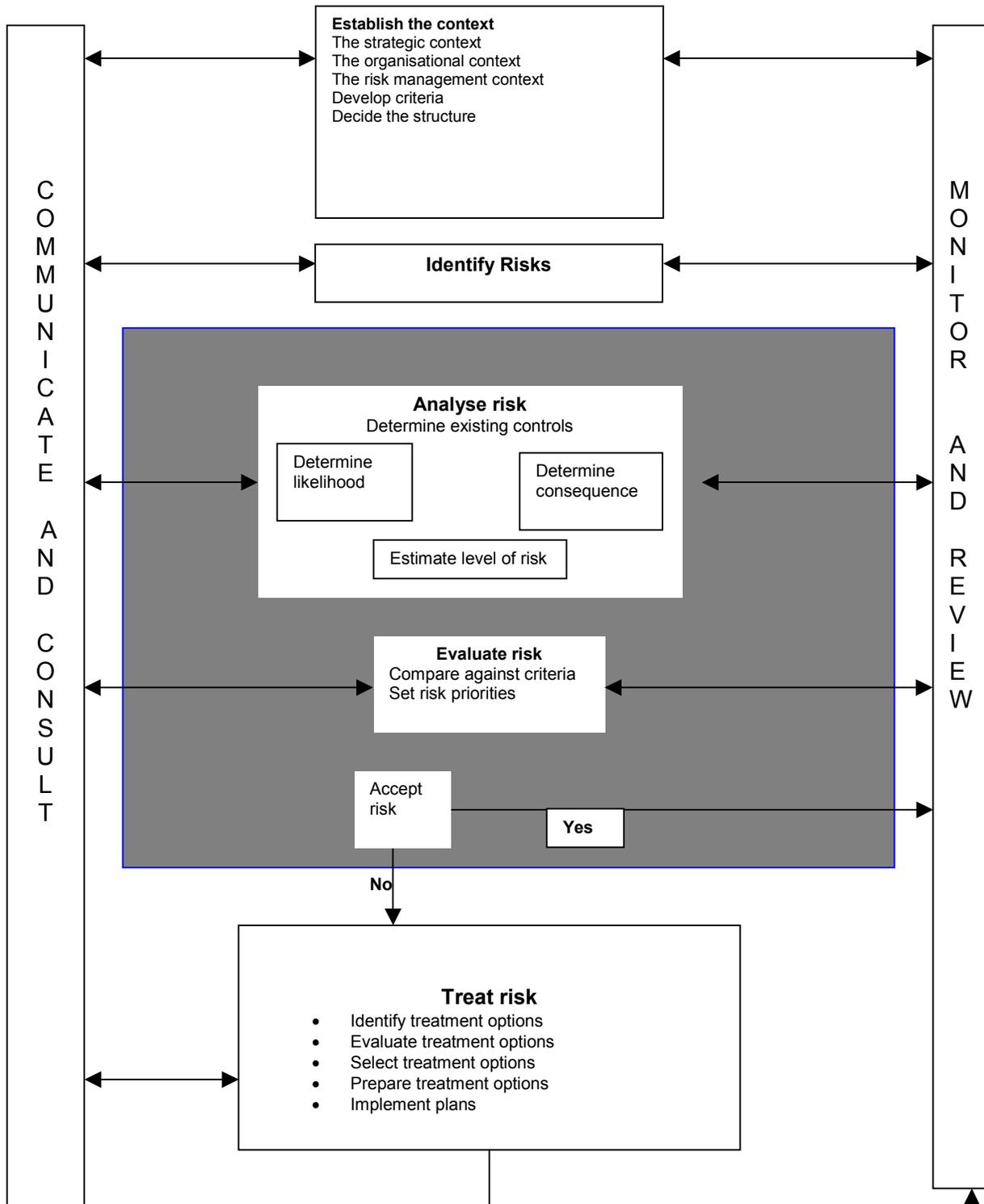
In establishing the organisational context, before conducting any risk assessment or risk management, it is important to understand the organisational ability to manage risks and know organisational goals and objectives and strategies that are in place to such risks. It is in this phase when managers have to be fully involved by identifying their role in contributing to organisational goals, objectives, values and how management decides about managing risks, which is to know managerial commitment in managing risks. Here, the organisational context prevails.

During a risk management process, the risk management context is crucial. During this phase objectives and scope or parameters are crucial because it helps to identify an area or component where a risk management process will take place. In this process, the balancing of costs, benefits, and opportunities become important. It is because a risk management process should be considered whether to focus on the wider organisation or on a specific programme.

Once risks are identified, developing criteria evaluations are also paramount. It is at this stage where a decision is taken as to what criteria to be used against which risk to be evaluated. Decisions are based on financial, operational, legal and technical criteria. The diverse nature of circumstantial decision-making depends on organisational internal policy, goals, interests and interest of stakeholders. At this stage consideration is given to the level of risks the organisation is prepared to accept. Risk criteria are used for the ranking of risks and a decision is taken whether risks are acceptable or not part of risk evaluation. If some of the risks are not accepted, those risks must be treated and implementation plans must be in place

to manage identified risks. Risks identified in the organisation must be communicated and the relevant components and stakeholders must be consulted. Managing those risks is everybody's business. After the identification and treatment of risks have taken place, the monitoring, evaluation and reviewing of the level of risks identified must be in place.

Figure 5.1: Australia-New Zealand risk management model



Source: Knight (1994: 14)

The above model illustrates that during risk management, an in-depth analysis of risk should be done; otherwise risks within an organisation and outside organisation will not be effectively identified, and treated if that is an option. There are authors who differ somewhat in their approach to risk management, but not that different from the model sketched above. The following perspectives provide an in-depth analysis of risk identification and risk assessment.

5.6 RISK MANAGEMENT STRATEGY

Other authors provide some insights and comments on risk management strategy, risk assessment in particular because it is a stage where the strengths and weaknesses of an organisation are identified and dealt with on the basis of risk assessment. The three elements of risk assessment, these are:

- a) Risk identification: determining what is at risk and from what sources;
- b) Risk measurement: determining the consequences of the risk; and
- c) Risk prioritisation: determining the appropriate resources to manage the risk (McNamee, 2000).

The above elements support the fact that identifying a source of risks is vital to understand the external forces that impact on an organisation. What is also important is the prioritisation of risks identified. In some situations, an organisation could spend much more time trying to treat a risk than simply accepting the risk as a very low risk. This poor analysis and prioritisation could be detrimental for both an organisation and the Public Service because risky areas could not be treated urgently.

With reference to a risk management process, Pike (2001) maintains that during risk management, risks can be evaluated and assessed. Failure to evaluate and monitor organisational risks could affect the service delivery plan and programmes of government in terms of government objectives, mission and objectives.

5.7 TOWARDS AN INTEGRATED RISK MANAGEMENT MODEL IN THE PUBLIC SERVICE

Various sources such as Presidential Review Commission (1998), Public Service Commission (2004), Exchequer and Audit Act (1975), Mthembu (2001) and the White paper on the transformation of the Public Service (1995) reveal that prior to the South African democratisation in 1994, policy or legislative frameworks and the state of public administration were secretive, non-accountable and not responsible. A culture of financial control rather than financial management was the order of the day. Focus on rules and procedures rather than managerial responsibility and accountability was also prevalent. Departmental weak systems exposed the Public Service to various forms of risk such as social, political and financial risks. As a result of the above, service delivery could be severely affected.

Generally, after 1994, significant transformation took place, Public Service has been and still is in the process of transformation. Due to the transformation agenda in the Public Service, departments tend to develop organisational cultures on the basis of change. Due to the country's history and legacy, in some departments organisational change is very slow; in the process some public servants resist change on the basis of wanting to maintain the status quo. For example, within an organisation, issues like race, people with disabilities and gender tend to form part of an organisational culture and the latter has an influence on governance and service delivery.

Several government policies have been implemented. One of the concerns regarding these policies is poor implementation due to a lack of capacity by officials. In response to the above, particularly matters of governance, risk management became an issue of importance in the Public Service through the introduction of PFMA. Risk Management is also becoming a topical issue and the area of necessity across the public sector, including the local governments.

In South Africa, in terms of the PFMA (1999:45), section 38(i) "an accounting officer must ensure that a department has and maintains effective, efficient and transparent systems of financial and risk management and internal control". Subsection 38 (ii) also states "an accounting officer must ensure that a department has and maintains a system of internal audit under the control and direction of an audit committee". From a private sector perspective, the King report (2002:73) also states that risks as uncertain future events could have an influence

on the achievement of company objectives which could include strategic, operational, financial, and compliance-based objectives. The report is indeed applicable across the public sector, especially in the context of the 'new management model', which has customer or private sector connotations, including the PFMA approach. In this context the mandatory section regarding risk management could be applied, including the lessons from the King Report.

Risk management is fairly new in the South African Public Service. As a result, it has been narrowly based on financial risks. It should be noted that the government's mandate differs from that of the private sector. Departments can differ operationally, but most of them deal with finance, policy or legal framework, regulations, economic factors, technology and information. Without an integrated approach to departmental activities on risk management, the government could be exposed to various forms of risks.

As has been stated in the thesis, public administration takes place or operates within a political, social and economic milieu. Therefore, in managing risk in the Public Service or in public administration in general, an integrated framework and contextual understanding of a particular department is central. Without limiting the scope to the economic, political and social aspects, other elements central to public administration as a discipline are also important, notably finance or public finance, technology and information, economics and legality.

The public sector has a much greater opportunity to have a holistic approach to risk management (Cowans, Deborah and Shalowi, 1997:3). This could enable a risk manager to understand a source of risk in the Public Service and develop a sense of co-ordinated approach to risks. In the Public Service, an integrated approach to risk management has to be viewed as a strategy to enhance management skills because risk management itself is a management tool. During transformation in the South African government in general, in organs of state in particular, a proactive approach management style is critical as it might limit or minimise the chances of exposing citizens to risks. In actual sense, risk management could assist in improving the lives of people through proper planning or reinforce the government's political mandate of improving service delivery.

Simultaneously, a well-co-ordinated and integrated approach could minimise corrupt or fraudulent activities in the Public Service through putting in place strategies entailed in the

PFMA and Treasury regulations promulgated in terms of the Act. It is well documented that risk management in the Public Service must be in place to deal with improper budgetary planning, wastage of assets and other elements that stifle service delivery challenges facing the South African Government. Risk Management cannot be exclusively assessed on financial aspects. As it is a management tool, risk management seeks to ensure that the objectives of an organisation are attained efficiently, as planned. Kloman, (2002:1) alludes to the biggest problem: how to measure all these risks in terms of their potential likelihood, their possible consequences, their correlations and the public perception of them.

In an environment that has diverse risks, COSO believes that an integrated response to multiple risks is of importance because in its analysis, processes carry many inherent risks, and organisational risk management should enable integrated solutions for managing risks (Committee of sponsoring organizations of the Treadway Commission, 2004:3). Therefore, organisations should also apply an integrated approach to the treatment of risk.

It is important that the risk assessment process be based on an integrated approach so that almost all organisational components are able to benefit from such a holistic approach. In his article entitled *integrated risk assessment: current views on risk management*, Kloman (2002:1) argues that:

Watch a piano player, its keys moving up and down with no visible evidence of control. Risks are like that. They don't appear to be connected, but like piano keys controlled by an unseen paper roll; they produce music when coordinated, and a cacophony when not. Striking a single key produces a single tone. Striking several blindly means dissonance. But striking a group of keys in a coordinated way produces a chord. This is the goal today of managing organisational risk: creating harmony instead of atonality.

Based on the aforementioned piano analogy, it is evident the managing of risks within an organisation demands an integrated approach, especially in identification and assessment of risks so that treatment becomes effective for the benefit of the organisation.

COSO further notes that ERM is interrelated to corporate governance by providing information about risks to the board and also interrelated to performance management by providing risk-

adjusted measures, with internal controls, which are an integral part of enterprise risk management (Committee of sponsoring organizations of the Treadway Commission, 2004:3).

Departmental performance measurement becomes effective if risk identification and assessment in relation to projects and programme are integrated in order to achieve programme objectives, vision and mission. Therefore, risk management has to be part of the culture of a department or Public Service as a whole. Once it is an organisational culture, it becomes the responsibility of everyone in the organisation or department to manage risk.

In his article entitled *'towards an integrated risk management strategy for the public service'* McNamee (2002:2), is assertive of the fact that integrated risk management requires a flexible approach to management and emphasises the critical importance of effective strategic management for the success of organisations in the contemporary world. He also argues that risk management highlights the importance of the adage 'the learning organisation', which must be an organisation that monitors environmental changes and acts decisively to learn and implement the necessary organisational changes. His analysis illustrates the fact that managers in the Public Service have got a responsibility to strategically plan for the threats and weaknesses, enhance and harness strong points in a department and engage in futuristic planning in order to manage risk efficiently and effectively. The purpose of risk analysis is to make better decisions about future actions in an uncertain world (McNamee, 2002:2).

Additionally, managers must be able to act from an informed position that requires them to constantly learn new ideas, as it is critical in public administration, because public administration does not operate in a static environment. Correct information is essential in risk management both in the public and private sector, especially in this era of globalisation and new technological advancement. A learning organisation could be a flourishing one in this evolving public administration. It is essentially correct that managers must be able to assess and monitor these changes more effectively as they emerge so that any risk that may prevail could be detected or identified.

Kloman (2002:1) maintains that integrated, or holistic, or enterprise risk management is the new objective. He looks at financial, market, political, regulatory, legal liability, and operational risks together, rather than separately, as has been done in the past. This approach challenges risk managers and other officials in national and provincial departments to measure diverse

risks in an integrated approach in the Public Service. Risk management could be used as a way of improving service delivery, public financial management, and enhancing principles of good governance, like ethical standards, accountability and responsibility in the Public Service.

With regard to an integrated approach to risk management, the Audit Commission (1999:7) provides an international model with regard to an integrated approach to risk management. The commission explains different forms of risks and draws a line between strategic and operational risks in order to illustrate the possible hazards that could face an organisation. The commission's analysis is as follows:

5.8 FORMS OF RISKS

There are number of risks in an organisation. The following are examples:

5.8.1 Strategic risks

- a) **Political:** Those risks associated with a failure to deliver either local or central government policy, or meet the local or people's administration's manifesto commitments;
- b) **Economic:** Those risks affecting the ability of the council, central government or a department to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance cover, external micro level economic changes such as inflation control, interest rates and exchange rates or the consequences of proposed investment decisions;
- c) **Social:** Those risks relating to the effects of changes in demographic, residential or socio-economic trends on the council (local government) or central government's ability to deliver its objectives;
- d) **Technological:** Those risks associated with the capacity of the local or central government to deal with the pace/scale of technological change, or its ability to use technology to meet changing demands. They may also include the consequences of internal technological failures or the government's ability to deliver;
- e) **Legislative:** those risks associated with current or potential changes in national or provincial and local law. Non-compliance is also prominent in legislative risks;

- f) **Environmental:** Those risks relating to the environmental consequences of progressing the government's strategic objectives, in terms of energy efficiency, pollution, recycling and landfill requirements; and
- g) **Customers/citizens:** Those risks associated with failure to meet the current and changing needs and expectations of customers and citizens.

5.8.2 Operational risks

- a) **Professional:** Those risks associated with the particular nature of each profession, for example housing service concerns as to the welfare of citizens;
- b) **Financial:** Those risks associated with financial planning and control, for example underspending and overspending;
- c) **Legal:** Those risks related to breaches of legislation or non-compliance with a particular legislative framework or policy;
- d) **Contractual:** Those risks associated with the failure of contractors to deliver services or products to the agreed cost and specification;
- e) **Environmental:** Those risks relating to pollution, noise or energy efficiency of ongoing service operations; and
- f) **Technological:** Those risks relating to reliance on operational equipment, for example, IT systems or equipment and machinery.

Ultimately, both the strategic and operational risks need to be integrated organisationally or departmentally in a co-ordinated manner, as outlined above by the commission. The different forms of risks indicated above, namely strategic and operational risks, confirm the fact that focusing only on financial risks is not a practical solution for the Public Service. As a result, a paradigm shift from a financial perspective to a service delivery risk management orientation is important for both the government and citizens. As indicated earlier, the government's role is to provide services to citizens as opposed to the private sector, which is focusing on profit. Some risks could impact on each other during day-to-day operations. For example, political risks could cause uncertainty about the coefficients of sensitivity of cash flows to macroeconomic disturbances (Oxelheim & Wihlborg, 1987:115). Therefore, risks have to be identified and managed daily so that the impact does not become severe and affect the government's plans, vision and mission.

For example non-compliance with PFMA is a legal risk. A department can have unplanned expenditure due to non-compliance with the Act. Such expenditure continues to appear unnoticed and could also be regarded as ‘hidden expenditure’ and could be costly to a department. Rosen (1985:15) also believes that issuing regulations *per se* is not very expensive, but compliance with the rules can be very costly. Non-compliance with the PFMA could also expose a department to financial risks and ‘hidden’ costs could prevail if not identified in time and analysed properly. Therefore, Rosen’s assertion could suggest that public servants should comply with the PFMA in order to improve governance in the Public Service. However, other policies like Public Service regulations and Treasury regulations, including the constitution, must also be used as compliance measures. Table 5.1 illustrate the level of non-compliance with the PFMA in the Public Service, with specific reference to certain provisions stated in the PFMA, which is used as a governance model in the Public Service.

Table 5.1: Departmental non-compliance with Public Finance Management Act (1999) provisions

NATIONAL DEPARTMENTS	AUDIT REPORT (Year-End 31 March 2003)
Environmental Affairs and Tourism*	Internal audit function: in terms of the Treasury regulations, an internal audit must be conducted in accordance with the standards set by the Institute of Internal Auditors. Work evaluated did not comply with these standards. As a result the contract of the head of internal audit was terminated on 31 March 2003. Accordingly, no reliance was placed on the internal audit section.
Health *	No reliance could be placed on the work of internal audit as the internal audit component did not fully comply and execute the audit plan and the audit work was based on ad hoc tasks which were the result of a fraud line.
Housing	The internal audit function: no reliance could be placed on the work of internal audit as no internal audits were finalized and presented to the audit committee. Fraud prevention plan: Non-fraud prevention plan had been compiled in terms of the requirements of the PFMA, 1999.
Independent Complaints Directorate*	Limited reliance was placed on the work of the limited audit due to different focus areas. Non-compliance with the PFMA, 1999. An amount of R1,587 million appropriated for capital expenditure was utilised to defray current expenditure.

NATIONAL DEPARTMENTS	AUDIT REPORT (Year-End 31 March 2003)
Land Affairs*	The internal audit section was not functioning effectively and did not comply with PFMA requirements and reliance could not be placed on the work of internal audit.
Presidency	Disclosure of unauthorised and irregular expenditure: Contravention of section 43 (4) (c) of the PFMA: this contravention related to an amount of R1,4 million savings on capital expenditure in programme 1 which was used to defray current over expenditure on the same programme.
Provincial and local government	Internal audit function: No reliance could be placed on the work of internal audit as no reports were finalised and presented to the audit committee.
Public service Commission	The audit committee that was instituted did not function effectively and was basically non-existent for the financial year.
Statistics South Africa	Risk management strategy: No formal risk management strategy as required by Treasury Regulation 3.21 submitted for the year under review.
Safety and Security*	Due to the limited extent of work performed by internal audit, limited reliance was placed on the work of internal audit.
Science and Technology	Internal audit: No internal audit work was performed at the Department of science and technology for the period 1 August 2002-31 March 2003. This is due to separation of Science and Technology between department Arts, Culture, Science and Technology on the 1 August 2002-31 March 2003.
Sport and Recreation	The internal audit reports were not issued on the planned dates, as management did not submit management comments on the findings timeously.
Water Affairs and Forestry*	Late submission of financial statements and supporting documentation represented non-compliance with PFMA, 1999. Reliance on internal auditors due to the different focus areas.
Communications	Limited reliance was placed on the internal auditors due to the different focus areas.
Correctional services*	Reliance could not be placed on the work performed by internal audit.

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

Source: Auditor-General: General audit outcomes Report (2003)

As indicated in the research methodology, the Department of Water Affairs and Forestry is used as a case study, risk management in particular as an element of governance. The

following section in Table 5.2 reveals some deficiencies with regard to governance, such as risk management and internal controls, managerial leadership, decision-making, financial management and compliance with PFMA and Treasury regulations.

5.9 DEPARTMENT OF WATER AFFAIRS AND FORESTRY: RISK MANAGEMENT AS AN ELEMENT OF GOVERNANCE

5.9.1 Risk assessment

The table below (Table 5.2) displays risks identified by Department of Water Affairs and Forestry (DWAF) in its risk assessment review and long-term audit plan report (2003).

Table 5.2: Risk assessment: Department of Water Affairs and Forestry

	STRATEGIC RISKS	SPECIFIC RISKS
1.	Inability to provide basic water services	<ul style="list-style-type: none"> ➤ Changing global climate including droughts and floods ➤ Cholera epidemics and toxic spills in the water supply or sources
2.	Water service delivery strategies are not cost-effective	<ul style="list-style-type: none"> ➤ Pricing strategy is not implemented effectively (includes non-payment for services)
3.	Environment	<ul style="list-style-type: none"> ➤ Changing global climate including droughts and floods
4.	Lack of internal capacity and direction	<ul style="list-style-type: none"> ➤ Clarity in terms of roles and responsibilities ➤ Strategic development of HR capacity in conflict with Labour Relations Act ➤ Lack of human resources capacity ➤ Lack of skills and capacity to deliver services, especially at regional level
5.	Lack of co-operation with all spheres of government and role-players and stakeholders.	<ul style="list-style-type: none"> ➤ Dependency on other institutions to achieve department's objectives ➤ Relationships with external stakeholders are not managed
6.	Non-compliance with legislation	<ul style="list-style-type: none"> ➤ Court or constitutional challenges to the National Water Act, National Forests Act, National Veld and Forest Act, Public Finance Management Act of 1999

	STRATEGIC RISKS	SPECIFIC RISKS
		and Public Service Regulations of 1999.
7.	Changing strategic direction and policy	➤ Possible changes in policy direction resulting from 2004 national elections
8.	Procurement	<ul style="list-style-type: none"> ➤ Reliance on consultants ➤ Lack of value for money ➤ Lack of effective skills transfer ➤ Ineffective management of consultants by DWAF, for example, fleet management procurement
9.	Expenditure control	<ul style="list-style-type: none"> ➤ Lack of financial management skills ➤ Government not seen as a business resulting in a 'spending' mentality. ➤ Individual level of skill and experience required does not match size of budget controlled and managed. ➤ No financial analysis, for example, cost-benefit and feasibility analysis.
10.	Asset management	<ul style="list-style-type: none"> ➤ Ineffective internal systems and procedures ➤ Lack of discipline ➤ Lack of control over assets (physical and value) ➤ Duplication of acquisitions ➤ Lack of tracking of issues, particularly deductions and queries
11	Internal systems	Policies and procedures Unclear delegations Poor division of responsibilities Lack of tracking of issues /decisions/queries

Source: Department of Water Affairs and Forestry (2003:10)

Regarding the above risk assessment, it is clear that the department is faced with a number of diverse risks and the above picture could easily affect service delivery and governance in general. The above table shows that its strategic mission and vision are not geared towards

departmental objectives so that the departmental internal operations could take place within the mandate of the department. For example, the inability of a department regarding the lack of internal capacity and direction could be attributed to a lack of leadership and basic management skills. Again, poor management of the restructuring process resulting in conflict with unions, duplication of activities and loss of assets, could also be attributed to lack of strategic planning, as the management is unable to anticipate threats facing the organisation.

Regarding financial management, procurement is ranked as high risk because the value for money principle is poorly applied. There is an inability of the department to manage consultants and there are no transfer skills. This poor management of consultants has a bearing on the financial management because continuous hiring of consultants without transferring skills could raise personnel expenditure or costs and lower employees' morale. Again, internal controls are ineffective because there are unclear policies and procedures, unclear delegations, poor division of responsibilities and inability to track issues and decisions. This state of affairs could affect departmental daily operations because a poor or lack of policy and unclear delegations are indeed the management's responsibility. The management has to establish internal control and monitor those internal controls.

Expenditure control and asset management are also faced with a risky environment. For example, with reference to expenditure control there is a gap between the skill and size of the budget and there is poor financial decision-making. As a result, there is poor financial analysis or application of cost benefit analysis and due to such situations financial decisions could lead to poor financial management. Assets are also poorly managed, there is no control and the fact that there is duplication of acquisitions is an indication of the absence of internal control.

It has been noticed that non-compliance with a procurement system, no detection of fraud, under-collection of revenue and a lack of asset management could be attributed to the inability of management to manage the affairs of a department. It is reported that non-compliance with a procurement system, non-detection of fraud, under-collection of revenue and asset management are high risk areas and represent 60% of the total inherent risk identified during the risk identification process. Specifically, non-detection of fraud, lack of asset management and under-collection of revenue represent 50% of the total risk identified (Department of Water Affairs and Forestry, 2003:10).

The procurement system could be regarded as a high risk as the researcher identified that there was no precise and clear policy on procurement except fragmentation and unclear procedural procurement guidelines. In the period of the study there was no policy on debt management, yet the department is mandated among others to deliver water to the public and manage forestry and most of those activities are at local government level.

The department should have noted that in some cases the local government is unable to collect services from the people. The department should have had a strategy to overcome such a situation with the spirit of co-operative governance between spheres of government. It is clear that the department lacks risk management skills, there are poor basic management skills, poor financial management and a very poor control environment. The above risky areas could have a negative effect on service delivery.

In the study, almost all the respective departmental interviewees (SMS officials) from DWAF reported some organisational problems forming the basis of governance matters that are related to institutional deficiencies.

The deficiencies originate from risk management, non-compliance with legislative frameworks, organisational instability, lack of vision from managerial leadership, poor decision-making, especially on financial matters, poor planning and budgeting, poor management and overuse of consultants, poor lines of accountability, poor management of risks, non-compliance with procurement legislative procedures and inability to track and identify 'hidden costs' during the financial year. The above governance matters exposed DWAF to various forms of risks and most risky areas are reflected in Table 5.1 above. During the research the interviewees reported the following:

- a) The culture of risk management within the department was minimal and not everybody participates in risk management. They only participate when requested by internal audit unit just to comply with PFMA and Treasury regulations. This implies that the department does not look at the PFMA as a 'management tool' but as a 'compliance tool'. This means that the department does not use PFMA as a vehicle towards financial management, improving accountability, responsibility within the public service but as a tool of 'compliance' to avoid organisation crisis rather than managing organisational risks. It is because risk management is a management tool.

- b) DWAF faced organisational instability which was caused by the fact that the department was involved in ‘endless transformation’ by focusing on organisational design and later redesigning the same departmental structure. As a result, departmental officials were not sure about their future and reported that, that had an effect on organisational performance.
- c) A lack of vision from the strategic level within the department was reported as a major problem and it was linked to the ‘endless transformation’ because the interviewees strongly believed that departmental vision and the mission and might not be attained. Summarily, the departmental vision and mission read as follows:

Vision

“We have a vision of a society in which all our people enjoy the benefits of clean water and hygienic sanitation services. We have a vision of a land in which our natural forests and plantations are managed in the best interests of all”.

Mission

“Ensuring that water services are provided to all South Africans in an efficient, cost-effective and sustainable way and managing and sustaining our forests, using the best scientific practice in a participatory and sustainable manner”
(Department of Water Affairs and Forestry, 1:2006).

On the basis of the above, interviewees were pessimistic about the attainment of both the vision and mission if ‘endless transformation’ is not effected. It is in this context that leadership has to share an organisational vision and mission with the entire organisation. It could be deduced that transformation within DWAF took place without other members or officials of the department. In some situations, once other members or officials of an organisation or department feel detached from the organisational plans and processes, a culture of non-compliance with the legislative framework could emerge because they feel that they are not part of the organisational strategy. This can expose a department to various forms of risks like the ones mentioned in the text.

It is important for the managerial leadership to ensure that services are delivered efficiently, effectively and economically, by the effective implementation of policy frameworks like PFMA,

procurement policies and their guidelines. This will result in achieving the government's broader mandate of delivering services to the people. Therefore, implementing the vision and mission of an organisation becomes paramount. This serves as a broader strategy of a department, and managerial leadership has the responsibility to implement such a strategy alongside all the members of an organisation.

The interviewees also reported on poor decision-making, especially on financial matters. This was reported as a major problem and was confirmed by a number of qualified reports from the Auditor-General reporting about the same matter for two or three consecutive years without any action from the department. Such indecisiveness regarding financial matters does not only impact negatively on the department in terms of poor financial management, but it also affects the image of both a department and its personnel, and exposes a department to reputational risk.

Poor decision-making in an organisation could originate from a lack of skills or a lack of strategy to manage organisational affairs, absence or poor systems for financial management. The latter is crucial because in the process, public monies are wasted and not accounted for. Overuse of consultants was also reported and during research there was no clear policy framework, taking into account the evolving procurement system in the Public Service along the lines of SCM policy or framework. The departmental internal audit unit also confirmed the poor management of consultants. Poor management of consultants could be as a result of human resources deficiency if skills are not transferred to the department. The research reported that the lines of accountability were undermined and this effects on governance. The research indicates that the departmental head of the internal audit unit reported directly to the chief financial officer (CFO), such reporting lines are not in line with Treasury regulation 3.2.9, which states that *"an internal audit function must report directly to the accounting officer and shall report at all audit committee meetings and the function must be independent of activities that are audited, with no limitation on access on its access to information"* (Treasury Regulations, 2005:10).

The situation at DWAF, regarding the lines of accountability and reporting was also not in line with what is called 'corporate governance' principles encouraged and supported by the PFMA.

Based on the above organisational matters, it is clear that the department lacked systems of governance and managerial leadership to implement for its mission and vision. At the same

time the evolving public finance management system in the public service and the PFMA principles were not upheld, especially accountability and sound financial management.

Fone & Young (2001:42) in their model on risk management, argue that an organisational risk management model has to enable an entity to progress towards its goals in the most direct, economical and effective path. In response to Fone and Young's observation, it takes very a strong and committed managerial leadership to effectively implement the mission and vision of an organisation without exposing an organisation to all forms of risks due to a lack of managerial skills, and the inability to integrate organisational goals and objectives within the strategic plans of a department.

Therefore, a risk management culture must be inculcated throughout the organisation so that the management of risks becomes everybody's responsibility and every individual becomes a risk manager. In this way the so that different forms of risks are easily identified and accessible.

As the King report (2002:74) on corporate governance suggests, "risk management should be practised throughout the company by all staff in their day-to-day activities". Once risk management becomes a daily exercise of all employees within an organisation, almost all forms of risks could be easily identified and managed effectively in an integrated approach, not in silos.

5.10 INTERNAL CONTROLS AND THEORETICAL ANALYSIS

Internal control is defined as a process designed to provide 'reasonable assurance' regarding the 'achievement of objectives' in the following categories: reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Changchit, Holsapple & Madden 2001:438).

The above definition suggests that internal controls within an organisation function as a 'process', measure and an organisational tool in providing a 'reasonable' control in making sure that an organisation accomplishes its obligations, objectives and mandate, particularly reporting on authentic and reliable financial information, inefficiency and effectiveness of organisational operations and compliance with relevant laws and regulations.

With regard to internal control, reasonable control suggests that internal control could not provide absolute control over an organisation. Among others, it could depend on the culture of an organisation and human element. With regard to organisation culture, the effectiveness of internal controls could depend on management commitment and zeal to take strategic decisions in order to maintain an effective internal control system within an organisation. As a process, internal control is a means to an end not an end itself. It is in this context that internal controls should be monitored and evaluating. Such an evaluation and monitoring should be periodically applied so that internal control's weaknesses and strong points are assessed on interval bases.

The government defines *internal control* as a process put in place by management and other stakeholders, which are designed to:

- a) provide reasonable assurances that the organisation's objectives are achieved effectively and efficiently, in compliance with applicable laws and regulations; and
- b) ensure reliable financial reporting. Effective internal control ensures that an organisation delivers service efficiently and effectively based on its strategic objectives. Effective internal controls also support accountability by assisting in providing reliable financial information through effective accounting standards (National Treasury, 2002:28).

Most importantly, any weakening aspect regarding internal controls should be attended to, because it might expose an organisation to risky situations, like fraud, corruption and organisational reputation risks.

The International Organization of Supreme Audit Institutions (INTOSAI) also adds that internal control, or management control, helps to provide reasonable assurance that the organisation:

- a) adheres to laws, regulations, and management directives;
- b) promotes orderly, economical, efficient and effective operations and achieves planned outcomes;
- c) safeguards resources against fraud, waste, abuse, and mismanagement.
- d) provides quality products and services consistent with the organisation's mission; and
- e) develops and maintains reliable financial and management information and fairly discloses that data through timely reporting (International Organization of Supreme Audit Institutions, 2005:1).

Research also shows that an internal control system encompasses the policies, processes, tasks, behaviours and other organisational aspects in order to:

- a) facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed;
- b) help to ensure the quality of internal control and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation; and
- c) help to ensure compliance with applicable laws and regulations, and also with internal policies (Pickett, 2003:184).

The government also defines *internal controls* as systems, procedures and processes that are implemented to minimise the risk (any financial consequences) to which the department might otherwise be exposed as a result of fraud, negligence, error, incapacity or other cause (National Treasury, 2002: 28). Clearly, the government believes that internal controls should minimise risks in government due to other factors like fraud and incapacity.

5.10.1 Objectives of internal control

Applegate & Wills (1999:1) state that according to the committee of sponsoring organizations of the Treadway Commission (COSO), the three primary objectives of an internal control are to ensure:

- a) efficient and effective operations;
- b) accurate financial reporting;
- c) compliance with laws and regulations.

The above internal control objectives are critical because they strengthen governance. Once internal controls become effective, they assist a department in running its own day-to-day operations effectively and a department is also able to clear accounting operations and comply with legislative framework.

5.10.2 Characteristics of internal controls

- a) **Timeliness:** An internal control system should detect potential or actual deviations early enough ensuring management can take corrective action timeously and limit unnecessary cost.
- b) **Economy:** Although an internal control system should provide assurance that the objectives of an institution are achieved, this should also ensure minimum cost and the least undesirable side effects as possible.
- c) **Accountability:** An internal control should ensure that staff is held accountable for their assigned responsibilities and tasks. This is achieved by applying prescribed procedures.
- d) **Flexibility:** Changing work environments are inevitable, particularly as politics dominates the approach to service delivery in the public sector. Internal controls are preferably designed to accommodate changes without themselves requiring change.
- e) **Appropriateness:** Internal controls should be designed to meet the needs of management in achieving objectives. Internal controls should fit into the personnel and organisational structure of the institution (Visser & Erasmus, 2002:294).

The management should make sure that systems are in place to safeguard department's assets and assist a department in attaining its objectives.

5.10.2 Internal control: Public Finance Management Act, 1999 and Treasury regulations provisions

The following PFMA provisions have been discussed earlier in parts of the research. Alluding to them is not a repetition of the assertions stated earlier, but a more relevant and contextual-based discussion that should emphasise internal controls especially and the role of managerial leadership in implementing the PFMA.

In insuring good governance and the management of risks in the Public Service, Treasury Regulation 3.1.10 states that the audit committee must:

- a) review the effectiveness of the internal control systems;
- b) review the institution's compliance with legal and regulatory provisions (Treasury Regulations, 2005:8).

Similarly, in terms of section 38 (i) the accounting officer for a department, trading entity or constitutional institution must ensure that the department, trading entity, or institutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control (Public Finance Management Act, 1999:45).

The above PFMA provisions support the governance philosophy, especially on risk management and internal controls. The relationship between an accounting officer and an audit committee is very crucial especially on the basis of the sharing of valuable and credible information on organisational systems. The relationship between the two is also at the accountability levels because an audit committee is accountable to an accounting officer. For example, Treasury Regulation 3.1.12 states “an audit committee must report and make recommendations to the accounting officer, but the accounting officer retains responsibility for implementing such recommendations” (Treasury Regulations, 2005:9). Additionally, an accounting officer can also work together with a chief financial officer (CFO) on the basis of Treasury Regulation 27.3.2 that an accounting officer may delegate specific responsibilities to the CFO (Treasury Regulation, 2005:82). However, the accounting officer remains accountable for the delegated responsibilities such as financial management because accountability cannot be delegated.

5.10.4 Components of internal controls

With reference to internal control system, the system consists of five components that are interrelated to each other. For these components to be effective, they have to be integrated to organisational objectives, vision and mission. Of paramount importance is the fact that they have to be integrated with basic managerial processes and principles, like planning, organising, leading and evaluation.

King committee on corporate governance and committee of sponsoring organizations of the Treadway commission (COSO) provide the following components by explaining their contribution in managing the risks within an organisation:

a) Control environment

The *Control environment* sets the tone of an organisation and influences people within an organisation. In this particular component, internal control is displayed, discipline and structures are provided. Within this component, integrity, ethical values, competence of the

personnel, management philosophy, operating style and the way management assigns authority and responsibility are important.

On the basis of compliance and eagerness to create an environment that support regulatory frameworks and create a culture of good governance, strategic managers or top management must establish a control environment because it reflects the following:

- (i) a) It sets the tone and provides the necessary discipline and structure. This is seen as the foundation of all other components of risk management and control;
- b) It should include factors such as the integrity, ethical values, organisational culture, competence of the company's people, authority and responsibility; and
- c) The control environment must have some common applications that include a written code of conduct for all employees, training programmes that meet management's expectations and corporate values (King committee, 2002:78).

b) Control activities

At this level, policies and procedures that help to ensure management directives are carried out. They are formed to offset risks that help an organisation to achieve its objectives. The control activities occur throughout an organisation, at all levels and all functions. These activities include approvals, authorisations, verifications, reconciliations, reviewing operating performance, security assets and segregation of duties;

c) Information and communication

It is paramount that relevant information regarding the controls is shared within an organisation at periodic intervals so that people are able to carry out their responsibilities. It is very important for organisations to have effective information systems that are able to produce reports, contain operations information and compliance-related information. Personnel must continuously get information from top management that the control responsibilities must be observed at all times. People within an organisation must be motivated and informed of their role in the internal control system and how individual activities relate to others. This form of communication needs a strong, effective communication and information system; and

d) Monitoring

The internal control system must be monitored. This is a process that assesses the quality of the system's performance over time. To accomplish the monitoring process, there should be

ongoing monitoring activities and separate evaluations or both. The monitoring process should be on going and should also take place in the course of operations. Monitoring includes regular management and supervisory activities and other actions personnel take in performing their duties. Any scope and frequency of separate evaluation will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Once internal deficiencies have been identified, they should be reported to the top management or the board (Committee of Sponsoring Organisations of the Treadway Commission, 2005:2).

COSO acknowledges the fact that the above components of internal controls, link to each to form an integrated system that is able to react to dynamic conditions. Therefore, all the above components must be present and functional in order to make sure that internal controls over operations are effective. To have a risk management strategy, effective internal controls within an organisation must be instituted and supported by a positive organisational culture and a strong team of visionary managerial leadership that is prepared to inculcate a culture of risk management.

Fundamental to the above components is the fact that internal controls should be established in an environment that is conducive for them to function effectively. It is in this context that a control environment must be established. It takes basic management skills and leadership in developing internal controls. The most important aspect is the fact that internal controls must be monitored.

As a result, Changchit, Holsapple & Madden (2001: 437) comment that the evaluation and design of internal control systems is of crucial importance to management and yet, it is a subject that receives too little attention in the management literature.

The management of internal controls should be at a reasonable acceptable standard by making sure that the integrity of an organisation is not undermined in order that internal controls will also have standards.

5.10.5 General standards of internal controls

According to Apostolou & Crumbley, (1992:17.6, 17.12) the standards for internal control are:

a) Management attitude

Management and employees should maintain and demonstrate a positive and supportive attitude toward internal controls at all times. If employees sense a lenient attitude toward procedures and controls, then the effectiveness of these controls is weakened;

b) Competence and integrity

Personnel should have and maintain appropriate education and experience to perform assigned duties. Employees and managers should have personal and professional integrity;

c) Audit resolution

As evidence of its supportive attitude toward internal controls, management should ensure that audit findings and recommendations are promptly and appropriately resolved; and

d) Organisational structure

The function must be organised to facilitate the work. Lines of responsibility and communications should be clear so that people know who is responsible for what and how to report deficiencies;

On the basis of the above standards, it is important that internal controls must be checked whether they are still of acceptable standard or effective. Risks could be easily detected and managed if internal controls are effective. Management must be active in setting up internal controls;

Locatelli (2002:13), cautions that a company, department or agency without management interest and support and regular communication to the rest of the organisation, is unlikely to have adequate internal control. Locatelli's comment regarding managerial commitment is crucial because the stronger the managerial commitment towards internal controls, the stronger the organisation and its systems.

To have effective standards of internal control, the managerial leadership must be supportive of internal controls within an organisation. It is important to have competent staff to perform the job, otherwise internal controls will also be affected or not implemented. This could affect systems in an organisation, be it financial or organisational systems in general.

5.10.6 Internal control assessment

In an assessment of internal control, either by internal or external auditor, the failure of controls could be detected due to the following:

- a) lack of segregation of powers;
- b) poor communication and poor discussion about rules and consequences of rules and laws about fraud;
- c) lack of audit trail;
- d) ineffective supervision;
- e) lack of transaction authorisation;
- f) poor accounting records; and
- g) breakdown of procedures, for example inappropriate computer access and ineffective physical inventories (Hillison, Pacini & Sinason 1999:354).

Regarding the above aspects, it is important to assess internal control to see if they are reasonably effective. Failure to assess internal control could lead to organisational ineffectiveness, poor performance and poor financial management.

5.10.7 Limitation of internal controls

Research reveals that internal controls can only provide reasonable, not absolute, assurance in achieving organisational objectives and maintaining standards within an organisation. As a result, the International Organization of Supreme Audit Institutions (INTOSAI) provides an outline of some of the limitations of internal controls:

- a) An effective system of internal control reduces the probability of not achieving the objectives. Therefore, there will always be the risk of internal controls being poorly designed or failing to operate as intended;
- b) Internal controls depend on the human factor. Therefore, it is subject to flaws in design, errors of judgement or interpretation, misunderstanding, carelessness, fatigue, distraction, collusion, abuse and override;
- c) The design of an internal control system faces resource constraints. Personnel must consequently consider benefits of controls in relation to jobs. Maintaining an internal control system that eliminates the risk of loss is not realistic and would probably cost more than is warranted by the benefit derived; and

- d) Organisational changes and management attitude can have a profound impact on the effectiveness of internal control and the personnel operating the system. It is therefore important that management is continuously reviewing and updating controls, communicating changes to personnel, and setting an example of adhering to those controls (Internal organization of supreme audit institutions, 2004:12).

The human factor has been a major problem regarding the limitations of internal control. It is because people within an organisation sometimes prefer a short cut at operational level by undermining internal systems or procedure. It is important to monitor internal controls because the human factor is able to affect internal controls negatively and this becomes detrimental to an organisation.

It has been deduced that risk management and internal controls are not seen as management responsibilities but the function of an internal auditor or a risk management unit if it exists within a department. Internal organization of supreme audit institutions (2005:5) also adds that internal control should not be looked upon as separate, specialised systems within a governmental organisation, but rather as an integral part of a system that management uses to guide its operations.

Furthermore, managers are responsible for establishing an effective control environment in their organisation and this is part of their stewardship responsibility over the use of government resources (Internal organization of supreme audit institutions, 2005:1). However, within the South African Public Service, it becomes evident that risk management and internal controls are not becoming a culture of management on daily operations and this creates very poor monitoring of internal controls and management of risk management in general. In its observations, the PSC (2003) believes that risk management cannot be a success if other management systems are not co-ordinated and integrated together with it and cautions that risk management is not something that has to be undertaken in isolation with other organisational systems. PSC's analysis also suggests that co-ordination of activities within a department or in government generally is of paramount importance because working in silos could affect an integrated approach in risk management. Therefore, PSC supports the systems approach in improving governance.

5.11 CONCLUSION

Risk management as a management tool is fundamental within a department to early detect any form of risk that could affect departmental operations. It is the responsibility of everyone in a department to manage risks because risks could be found in almost all components within a department. Risk management is a skill, therefore risk managers and other officials within a department must have a skill for risk management. It should be noted that risk management should not be an exercise for the finance management unit only or a tiny specialised unit within a department that is only charged with the responsibility of managing risks within a department. Sometimes, internal controls are poorly managed because there are no systems for monitoring and evaluating them. Changes in government policies and other changes like redesigning an institution could change internal controls too. Therefore, constant monitoring and evaluation of risks and internal controls are necessary because it assists an organisation to cope with the environment that could affect a department and service delivery programmes in general. The public finance management system in South Africa and its evolution are beginning to shape towards an integrated approach to risk management, but such culture has to be inculcated within government departments. Risk management as a component of governance could assist departments to develop a culture of good governance in the Public Service and it is the managerial leadership's responsibility to ensure that 'good governance culture' is maintained.

The following chapter provides conceptual and theoretical perspectives and elements of governance. The analysis of governance is within the context of public finance, taking into account the evolving public finance management system in the South African Public Service and the role of the managerial leadership in ensuring that governance and systems are maintained.

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.

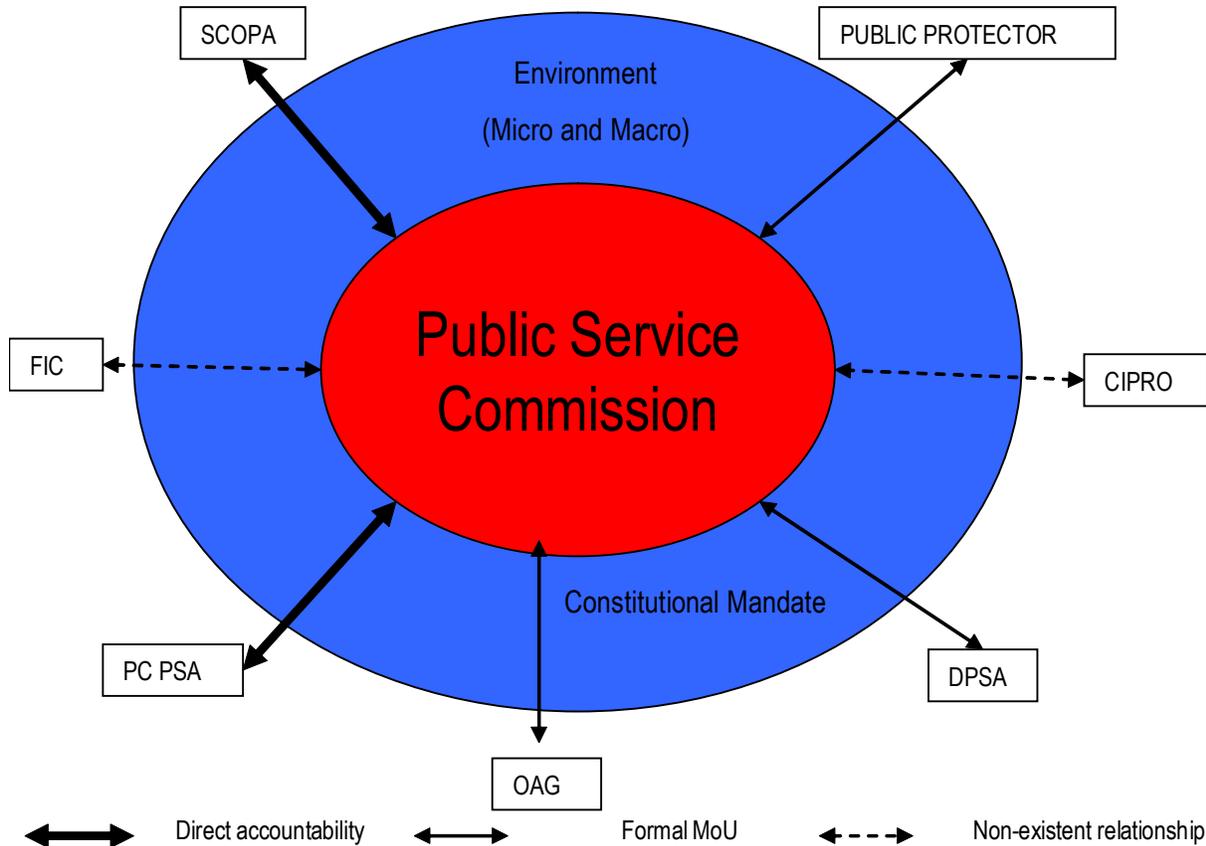
Currently, matters relating to conflict of interest in the Public Service are left to the Public Service Commission. This is because Senior Management Service members submit financial disclosure forms to the PSC. However, once forms are submitted, the PSC does not simultaneously investigate the possibility 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.

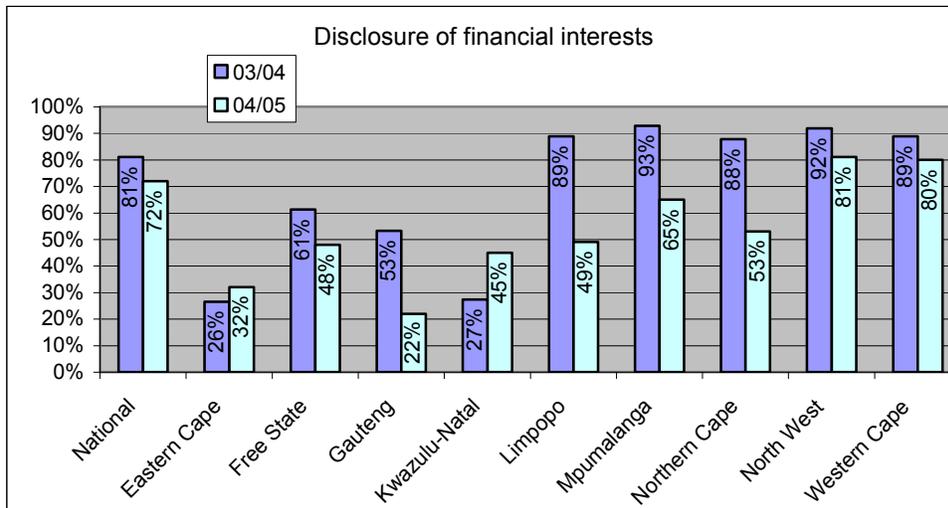
In applying the integrated approach, the aim is to make sure that any fraud or corrupt practice in the Public Service is detected promptly after disclosure of financial interest. Fraud and corruption have financial implications and could pose both financial risks and economic risks to the state. Hence, 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.

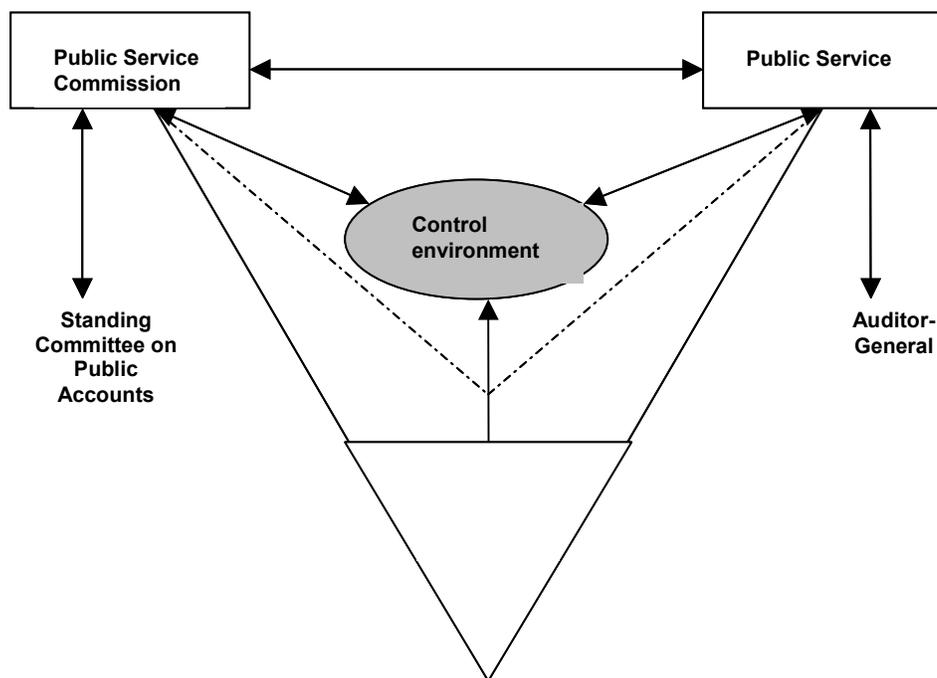
Figure 6.5 below shows such co-operation in order to promote institutional integrity and ethical culture in the Public Service. At the same time, the institutions should aim to improve the quality of work and produce the expected results or outcomes as individual units. These institutions are also expected 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.

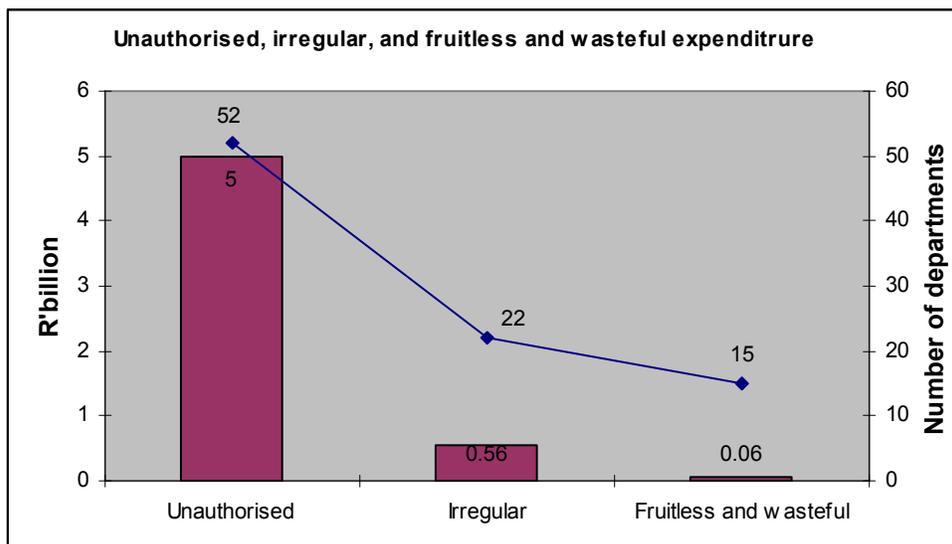
SECTIONS	NATURE OF THE PFMA PROVISIONS	OBJECTIVES OF THE PROVISIONS
Section 42	Accounting officer's responsibilities when assets and liabilities are transferred.	This section is about responsibilities of accounting officers with regard to transference of assets and liabilities. Assets and liabilities 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.

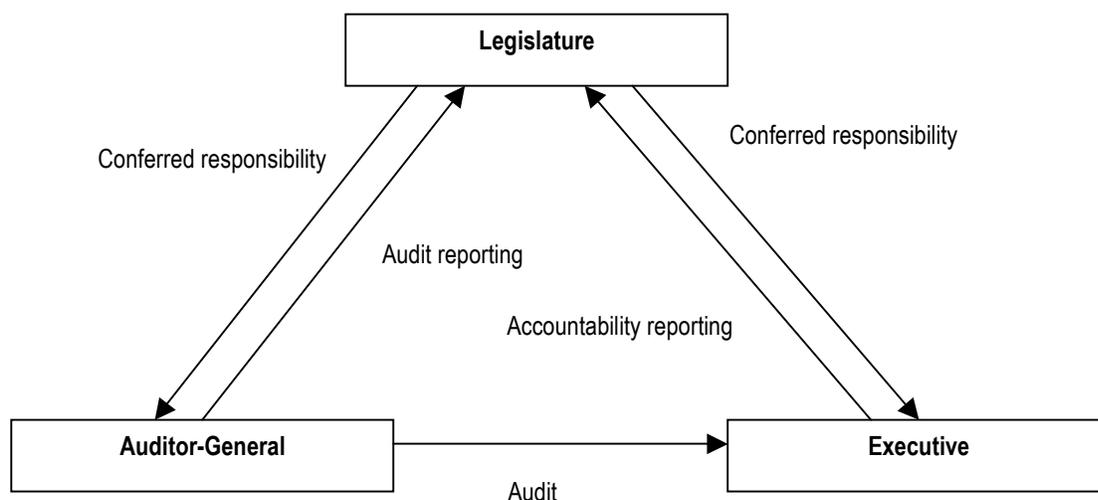
After South Africa's democratisation, in a report Scopa submitted and adopted by Parliament, the South African Government acknowledged the weaknesses of parliamentary committees and their effect on accountability. Additionally, the White Paper (1995:108) on the transformation of the Public Service also 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

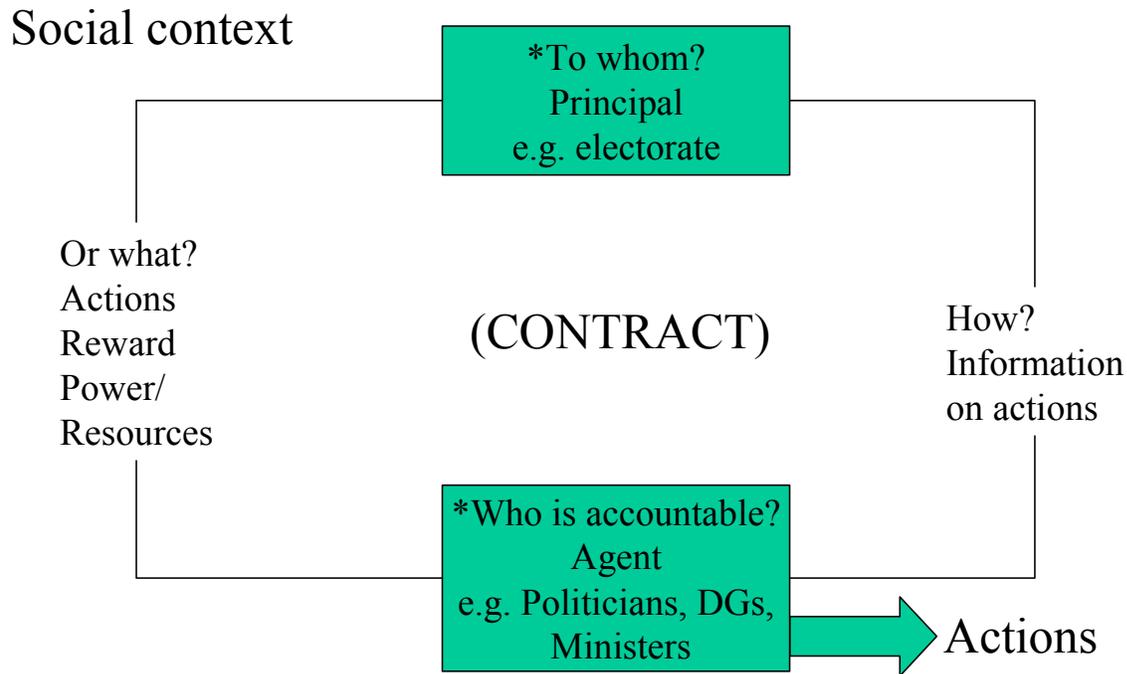
Decision-making by the managerial leadership seems to be a major problem in the South African Public Service. During the study, it has been detected that there are national and provincial departments which are reluctant to make decisions on financial matters. In some situations, it would appear that 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 alternative 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 transform from a cash-based accounting system towards an 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".

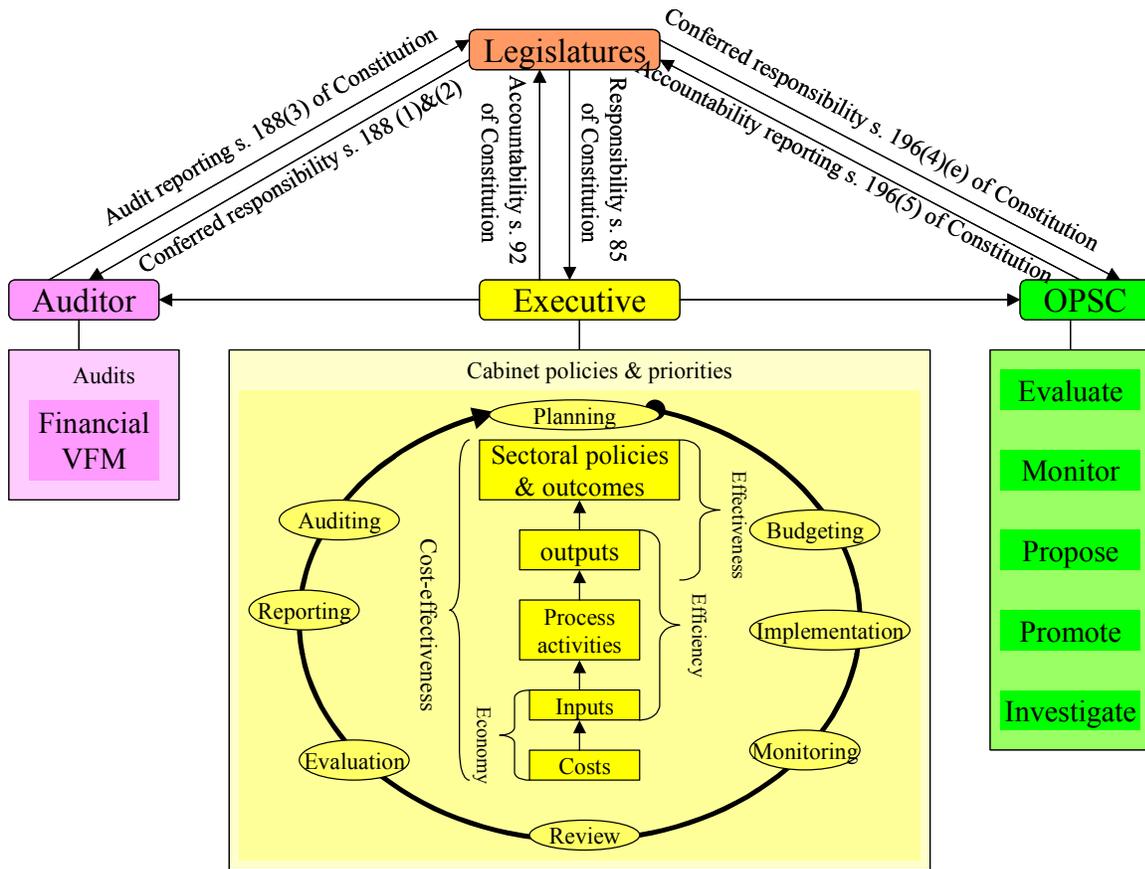
In its state of the Public Service Report, the Public Service Commission (2004:18) comments that assessing whether government is performing efficiently, economically and effectively is a complex task that needs to be linked to strategic planning, budgeting, performance management and service delivery. 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.

CHAPTER 7

CONTEXTUALIZATION OF CRITICAL PUBLIC FINANCE MANAGEMENT ISSUES

7.1 INTRODUCTION:

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

7.2 PARLIAMENTARY OVERSIGHT, EFFICIENCY AND EFFECTIVENESS

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

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

A move by South African Parliament to have an induction course for Scopa committee members is a positive step towards supporting democracy and governance in government. Scopa is indeed a technical committee, and it demands technical skills and conceptual skills as well. Pakathi in chapter 6 supports that parliamentary oversight is negatively affected and

public monies could not be accounted for. It is because the poorer the systems within an organisation, the poorer the governance and administration, Parliament in this case.

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

7.3 ASSET MANAGEMENT

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

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

Table 6.4 in chapter 6 indicates a range of weaknesses on internal control like the absence of an inventory list for assets, the absence of measures to access computer equipment, poor

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

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

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

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

7.4 ETHICAL DIMENSIONS

7.4.1 Financial misconduct and disclosure of financial interests

Based on the study, especially the section concerned with asset management, it was noticed that internal controls are poor and this could expose a department to fraud and corruption risks. As a result, departments commit financial misconduct cases, adverse financial losses

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

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

by the staff could be affected and they could decide not to actively participate with enthusiasm and pride in departmental programmes because they could see taxpayers' money is wasted.

7.4.1.1 Unauthorised, irregular, fruitless and wasteful expenditure

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

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

7.5 REPORTING STANDARD

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

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

7.6 FINANCIAL TRANSFER

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

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

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

Most importantly, non-availability of supporting documentation during fiscal transfer and the transfer itself not being approved could result in what is called 'fiscal dumping', not fiscal transfer as originally planned and anticipated. *Fiscal dumping* means that the public purse or

departmental funds are transferred and used by a receiving department, non-government organisation or public entity without reasonable proper procedures and planning, funds are just transferred to be used, especially towards the end of each financial year.

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

7.7 RISK MANAGEMENT AND INTERNAL CONTROLS

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

The internal audit unit, and the management in co-operation with the risk management unit within a department should ensure that risks are profiled and reported on time so that risky

areas are identified and treated by financing risks if budgeted for. This implies that risk management can only be effective if budgeted for.

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

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

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

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

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

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

The above picture regarding non-compliance with the PFMA has an effect on governance in the Public Service, particularly systems, internal control, risk management and financial management. With reference with Table 5.1, it is evident that non-compliance with the PFMA in the Public Service is high. Non-compliance on matters relating to systems and financial management in general could also have an effect on good governance. It becomes the managerial leader's responsibility to ensure that systems are effective so that organisational risks are managed promptly. Late submission of AFS without supporting documentation also

negatively affects transparency and fiscal accountability, including public accountability. It is therefore important to note that non-submission of annual financial statements and documentation by departments is not just a non-compliance with the PFMA but undermining the public as taxpayers and as contributors to the public purse who have a right to information.

7.9 CONCLUSION

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

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

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

CHAPTER 8

CONCLUSION AND RECOMMENDATIONS

8.1 CONCLUSION

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

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

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

The hypothesis was as follows:

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

Research revealed that governance and managerial leadership in the South African Public Service are faced with various forms of organisational problems or challenges, ranging from ineffective internal controls, the inability to implement the vision and mission of a department, lacking a culture of risk management, poor analysis of both organisational (internal) and

external environment, ineffective parliamentary oversight, low ethical conduct, poor level of compliance with the PFMA, inability to manage transformation and inability to align evolving public finance management systems with managerial leadership's skills base. The above deductions are made on the basis of findings recorded from interviews, official reports, and international studies. With regard to financial misconduct, information should have been forwarded to the PSC, not merely reported in the annual reports.

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

The study has shown that governance in the South African Public Service is faced with some serious problems that originate from both micro and macro levels. At a micro level, the problems generally originate from poor internal controls and systems, poor managerial leadership that is not able to take a department to a desired direction based on the vision and mission of a department. At a macro level, based on the findings, there is an indication that there is inability by the managers to take into account the political, social, economic and technological environments when planning and budgeting. At the same time, there was an indication of problems originating from departments regarding the indecisiveness on financial matters, unethical conduct, planning and budgeting or financial management and governance

in general. The above macro-micro problems could be attributed to the evolving public finance management system in South Africa. For proper analysis, implementation of PFMA as model of governance in the Public Service is seen as a fundamental problem, financial management, as one of the components of governance, is also one of the elements that is negatively affected service delivery due to a lack of systems on budgetary control and the application of expenditure management principles. Based on these deficiencies, in terms of the findings, a governance model has been recommended for the South African Public Service, see Figure 8.1. The model could be used as a basis to improve governance in the South African Public Service.

8.2 RECOMMENDATIONS

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

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

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

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

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

8.2.2 Ethics in the Public Service: Conflict of interest

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

In assessing a potential conflict of interest, specific problems could be anticipated like striking a balance between conflict of interest and cultural issues. For example, if a traditional leader has given an SMS member a gift like sheep or traditional attire with both parties not knowing the value in monetary terms, how do you attach monetary value to those items and how will potential conflict of interest be analysed? It is important also to balance conflict of interest and

human rights, particularly a right to privacy entrenched in the Constitution. It is because SMS members are expected to disclose information regarding their assets or other financial benefits and gifts that some believe is privileged information and personal. Another anticipated problem could be based on perceptions rather than factual analysis from the SMS members themselves, namely that relying on Public Service regulations, not legislation or an Act, could result in SMS members not complying fully with financial disclosure regulations as stipulated in the Public Service regulations. Therefore, these perceptions and beliefs are crucial during information analysis in order to detect a potential conflict of interest.

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

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

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

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

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

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

8.2.4 Financial management and governance

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

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

mechanism, does not exist in the Public Service. As a result, a department finds itself exposed to financial risks and poor governance in general.

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

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

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

8.2.4.1 *Strategic planning and budgeting*

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

planning or strategic plan.’ Budgeting, which is only delegated to financial managers or the finance section, could be regarded as ‘imposed budget’. To ensure that the strategic plan is linked to budgeting, it is recommended that there is a need for proper consultation within a department by engaging both financial and non-financial managers in the process. It is also further recommended that strategic planning or sessions should be used to review such link between budget and strategic plan in order to check that what has been planned is budgeted for and there are sufficient funds to finance departmental activities so that quality outputs can be delivered.

Therefore, a link between strategic planning and budgeting should be seen as an organisational process that has to be reviewed and monitored periodically in order to check if funds are still in line with departmental needs or plans.

It is also recommended that funds within a department must be monitored against the departmental strategic plan in order to avoid underspending and overspending.

8.2.4.2 Auditing and accounting

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

Auditing is also evolving towards ‘value for money auditing’ or performance auditing rather than just focusing on inputs by strictly counting the amount spent for each financial year. It is therefore recommended that external auditors and departmental officials share information regarding value for money auditing in order to minimise non-compliant standards from the departments and for departments to understand what is expected of them, especially an explanation regarding the impact caused by continuous submission of qualified reports to the

same department. Institutions of governance like the Auditor-General should develop a very close relationship with government departments, without compromising its independence in order to improve governance by explaining processes and procedures that could promote compliance and accountability in the Public Service, not only the technical side of auditing.

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

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

8.2.4.3 Customer and value for money oriented service delivery

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

on expenditure management. The latter will be discussed later and such relationship between VFM and expenditure management will be provided.

8.2.4.4 Internal and external reporting

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

Obviously, to ensure accountability and transparency, government departments report to Parliament through their relevant parliamentary portfolio committees, that is external reporting. It is through external reporting that public accountability is ensured, because the public also need to know how much has been spent on service delivery programmes, based on the MTEF and MTDF in terms of government deliverables and milestones. External reporting is one aspect, but providing useful information is another. This implies that government departments should provide useful information that will assist parliamentarians in making financial and political decisions. Therefore, annual reports, including their financial statements, should reflect useful information, for example, assets and liabilities within a department. On the basis

of the above, it is recommended that departmental officials (internal reporting) should be encouraged to not only focus on reporting on their projects but also on reporting on the occurrence of wasteful, fruitless and unauthorised expenditure. However, it depends on the culture of an organisation whether the internal environment is conducive to reporting such occurrences and it is the duty of the managerial leadership to create such an environment if it does not exist. Failure to create such an environment could be tantamount to non-compliance with the PFMA.

8.2.4.5 *Public expenditure management*

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

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

managerial responsibility. Within the same context, the PFMA is also used as a compliance tool rather than a management tool.

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

8.2.4.6 Monitoring and evaluation

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

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

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

8.2.4.7 Risk management and internal control

Once again, the evolution from public 'administration' to 'management' has indeed brought about innovative ways of managing the affairs of government in general and the Public Service in particular. For example, the partnership between the government (public) and private sector in delivering services to the public through what is referred to as public-private

partnership (PPP), risks could be managed through risk sharing or risk transfer to another party, which is private sector. In that process a risk to be shared or transferred could be human resources, financial, social or reputational. The latter is identified as less critical in the Public Service due to the poor culture of integrated risk management that has been identified in the study.

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

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

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

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

committees are able to identify risks in their own sections for the idea of an integrated risk management approach.

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

8.2.4.8 Decision-making and compliance

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

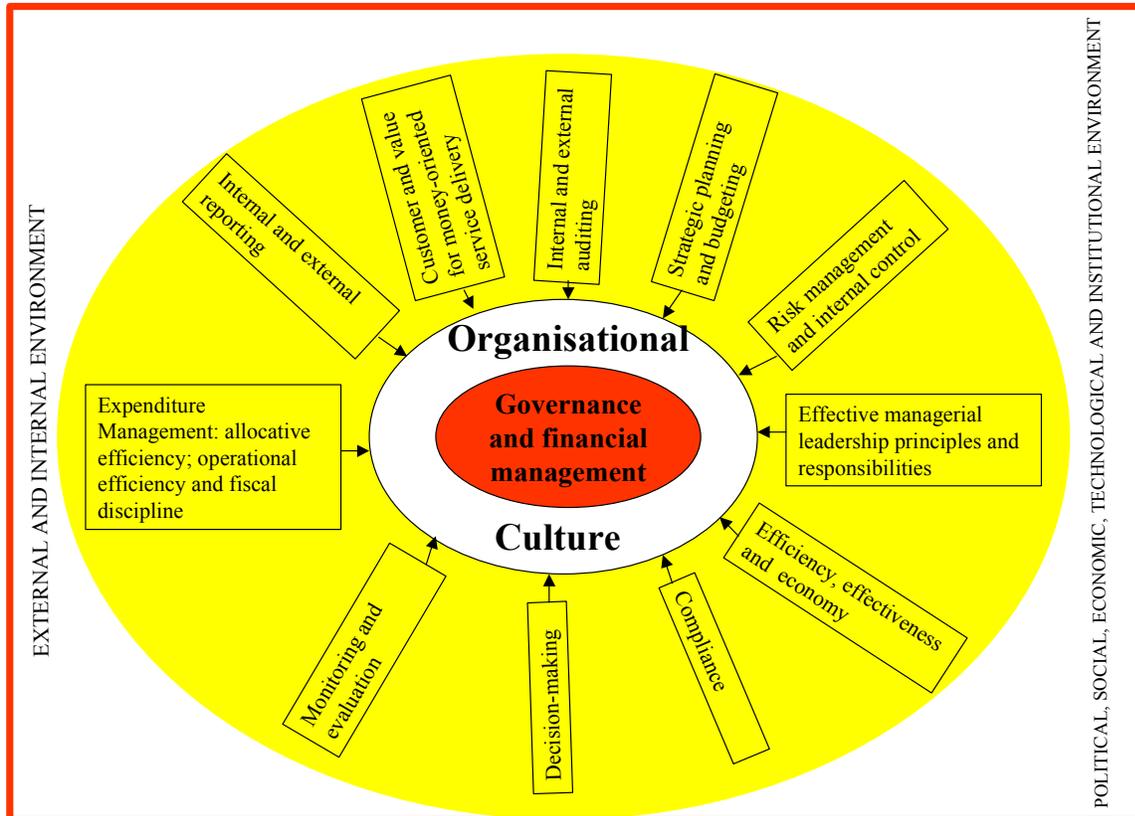
It is therefore recommended that financial decisions should be taken promptly because they might affect financial accountability, transparency, ethics and financial management in general. The above key questions should be asked when financial decisions are to be made in order to deal with quality decision-making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

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

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

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

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



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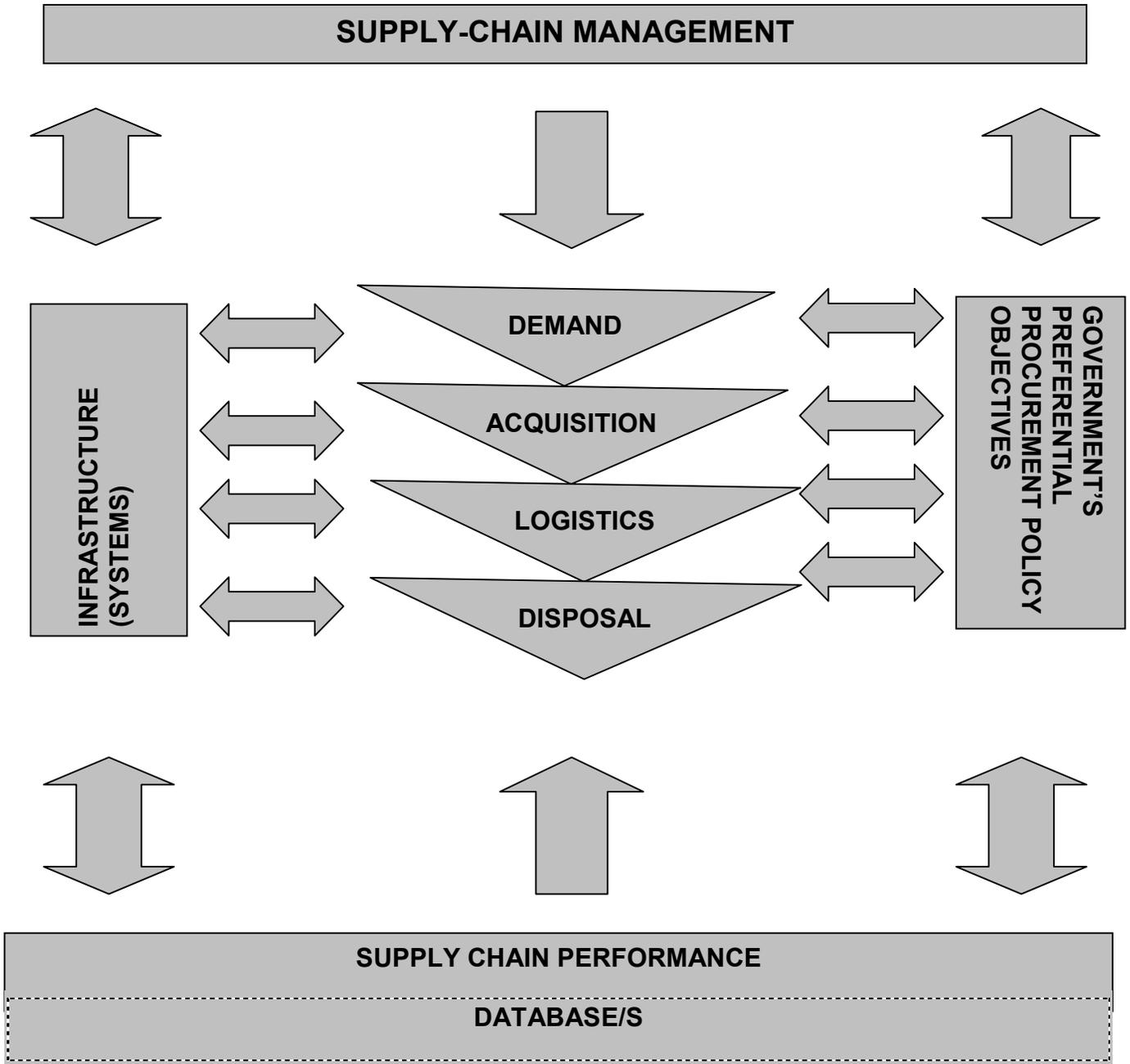
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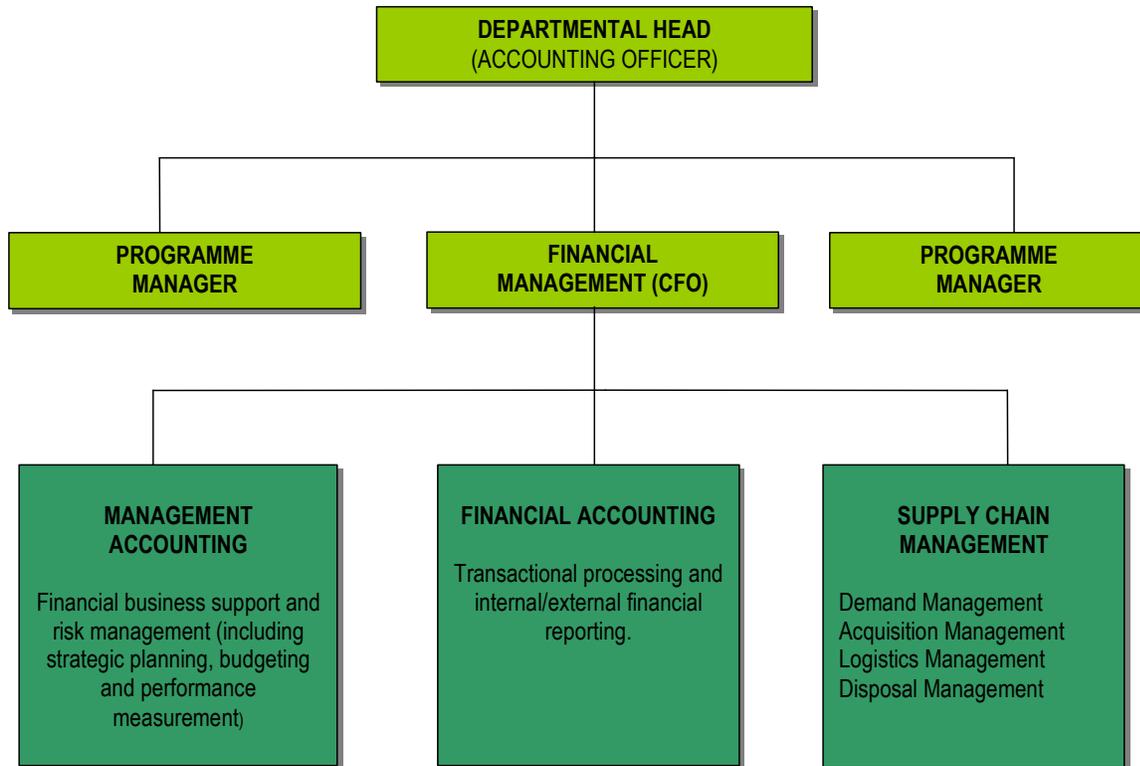
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ANNEXURE A: SUPPLY-CHAIN MANAGEMENT MODEL (SCM)



Source: National Treasury (2004)

ANNEXURE B: FINANCIAL MANAGEMENT



Source: National Treasury, 2003

**ANNEXURE C: STATISTICS ON FINANCIAL DISCLOSURE FORMS SUBMITTED
BY SMS MEMBERS AS PER PUBLIC SERVICE REGULATIONS**

**NUMBER OF FINANCIAL DISCLOSURE FORMS RECEIVED FOR THE FINANCIAL
YEAR: 2003-2004**

NAME OF DEPARTMENT	NUMBER OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Department of Agriculture	45	0	45
Department of Arts and Culture	28	0	28
Department of Communications	24	24	0
Department of Correctional Services	133	120	13
Department of Defence	275	233	42
Department of Education	75	71	4
Department of Environmental Affairs and Tourism	63	43	20
Department of Foreign Affairs	186	178	8
Department of Government Communications and Information System	27	20	7
Department of Health	77	65	12
Department of Home Affairs	39	0	39
Department of Housing	26	0	26
Department of Justice and Constitutional Development	153	0	153
Department of Labour	57	25	32
Department of Land Affairs	68	59	9
Dept of Minerals and Energy	64	64	0
Department of Provincial and Local Government	50	50	0
Department of Public Enterprises	26	26	0

NAME OF DEPARTMENT	NUMBER OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Department of Public Service and Administration	59	51	8
Department of Public Works	91	49	42
Department of Safety and Security (SAPS)	625	625	0
Dept of Science and Technology	47	44	3
Dept of Social Development	45	26	19
Dept of Sport and Recreation	4	3	1
Dept of Trade and Industry	147	123	24
Department of Transport	41	41	0
Dept of Water Affairs & Forestry	128	112	16
National Intelligence Agency	Not available	Not available	Not available
National Treasury	178	178	0
Office of the Public Service Commission	37	37	0
Presidency (including Youth Comm.)	60	44	16
South African Management and Development Institute	17	17	0
Statistics South Africa	93	93	0
Independent Complaints Directorate	12	12	0
South African Secret Service	Not available	Not available	Not available
TOTAL	3000	2433	567

PERCENTAGE RECEIVED 81%

EASTERN CAPE PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL YEAR 1 APRIL 2003 TO 31 MARCH 2004

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: Eastern Cape (Office of the Premier)	31	6	25
Department of Agriculture	18	13	5
Department of Economic Affairs, Environment and Tourism	17	0	17
Department of Education	63	0	63
Provincial Treasury	23	21	2
Department of Health	119	0	119
Department of Housing and Local Government	14	5	9
Department of Public Works and Roads	20	16	4
Department of Safety and Liaison	3	1	2
Department of Sport, Arts, Culture and Recreation	13	12	1
Department of Transport	21	10	11
Dept of Social Development	21	12	9
TOTAL	363	96	267

PERCENTAGE RECEIVED 26%

FREE STATE PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL YEAR 1 APRIL 2003 TO 31 MARCH 2004

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: Free State (Office of the Premier)	18	15	3
Department of Agriculture	10	0	10
Department of Education	26	0	26
Department of Tourism, Environmental and Economic Affairs	13	0	13
Department of Finance and Expenditure (Prov. Treasury)	15	14	1
Department of Health	104	82	22
Department of Local Government and Housing	12	0	12
Department of Public Works, Roads and Transport	17	17	0
Department of Social Welfare	17	11	6
Department of Safety, Security and Liaison	6	6	0
Department of Sport, Arts, Culture, Science and Technology	5	4	1
TOTAL	243	149	94

PERCENTAGE RECEIVED 61%

GAUTENG PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL YEAR 1 APRIL 2003 TO 31 MARCH 2004

Name of the Department	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: Gauteng (Office of the Premier)	22	21	1
Department of Agriculture, Conservation & Environment	21	21	0
Department of Development Planning and Local Government	9	0	9
Gauteng Shared Services Centre	27	0	27
Finance and Economic Affairs	31	25	6
Department of Education	48	3	45
Department of Health	266	171	95
Department of Housing	28	18	10
Department of Transport and Public Works	32	1	31
Department of Safety and Liaison	7	0	7
Department of Social Services and Population Development	25	20	5
Department of Sport, Recreation, Arts and Culture	12	1	11
TOTAL	528	281	247

TOTAL PERCENTAGE RECEIVED 53%

KWAZULU-NATAL PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL YEAR 1 APRIL 2003 TO 31 MARCH 2004

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: KZN (Office of the Premier)	34	26	8
Department of Agriculture and Environmental Affairs	25	0	25
Department of Economic Affairs, Tourism	14	0	14
Department of Education and Culture	83	0	83
Provincial Treasury	22	21	1
Department of Health	138	29	109
Department of Housing	17	4	13
Department of Royal Household	3	0	3
Department of Traditional and Local Government Affairs	31	0	31
Department of Transport	29	29	0
Department of Welfare and Population Development	25	13	12
Department of Works	21	0	21
Dept of Safety and Security	5	0	5
TOTAL	447	122	325

PERCENTAGE RECEIVED 27%

LIMPOPO PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL YEAR 1 APRIL 2003 TO 31 MARCH 2004

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: Limpopo (Office of the Premier)	36	29	7
Department of Agriculture	26	25	1
Department of Education	37	32	5
Department of Finance, Economic Affairs and Tourism	57	50	7
Department of Health and Welfare	86	77	9
Department of Local Government and Housing	21	17	4
Department of Public Works	28	28	0
Department of Safety, Security and Liaison	7	7	0
Department of Transport	22	20	2
Department of Sport, Arts and Culture	12	10	2
TOTAL	332	295	37

TOTAL PERCENTAGE RECEIVED 89%

MPUMALANGA PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL YEAR 1 APRIL 2003 TO 31 MARCH 2004

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: Mpumalanga (Office of Premier)	32	29	3
Department of Agriculture, Conservation and Environment	13	13	0
Department of Education	19	19	0
Department of Finance, Econ. Dev. and Planning	17	14	3
Department of Health	22	21	1
Department of Local Government and Housing	19	16	3
Department of Public Works	10	9	1
Dept of Roads and Transport	13	13	0
Department of Safety and Security	3	3	0
Department of Social Services, Population and Development	13	12	1
Department of Sport, Recreation, Arts and Culture	6	6	0
TOTAL	167	155	12

PERCENTAGE RECEIVED 93%

NORTHERN CAPE PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL
 YEAR 1 APRIL 2003 TO 31 MARCH 2004

NAME OF DEPARTMENT	NUMBER OF SMS MEMBERS	NUMBER OF FORMS RECEIVED	NUMBER OF FORMS OUTSTANDING
Provincial Administration: Northern Cape (Office of Premier)	12	10	2
Department of Agriculture, and Land Reform	6	6	0
Department of Economic Affairs	3	0	3
Department of Education	11	11	0
Department of Finance	4	3	1
Department of Health	21	20	1
Department of Housing and Local Government	11	11	0
Department of Provincial Safety and Liaison	3	2	1
Department of Social Services and Population Development	5	5	0
Department of Sport, Arts and Culture	4	2	2
Department of Transport, Roads and Public Works	8	7	1
Department of Tourism, Environment and Conservation	2	2	0
TOTAL	90	79	11

PERCENTAGE RECEIVED 88%

NORTH WEST PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL YEAR 1 APRIL 2003 TO 31 MARCH 2004

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: North West (Office of the Premier)	34	34	0
Department of Agriculture, Conservation, Environment and Tourism	21	16	5
Department of Education	28	28	0
Department of Finance and Economic Development	25	21	4
Department of Health	39	34	5
Department of Developmental Local Government and Housing	13	13	0
Department of Transport	15	13	2
Department of Public Works and Roads	18	18	0
Department of Safety and Liaison	7	7	0
Department of Social Development	21	19	2
TOTAL	221	203	18

PERCENTAGE RECEIVED 92%

WESTERN CAPE PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL
YEAR 1 APRIL 2003 TO 31 MARCH 2004

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: Western Cape (Office of the Premier)	33	29	4
Department of Community Safety	9	9	0
Department of Agriculture	9	0	9
Department of Education	41	41	0
Dept of Environmental Affairs and Development Planning	10	10	0
Dept of Economic Developm. And Tourism	9	9	0
Department of Cultural Affairs and Sport	7	0	7
Provincial Treasury	14	14	0
Department of Health	108	96	12
Department of Housing	7	7	0
Department of Social Services and Poverty Alleviation	13	13	0
Department of Local Government	7	7	0
Department of Transport and Public Works	21	21	0
TOTAL	288	256	32

PERCENTAGE RECEIVED 89%

NUMBER OF FINANCIAL DISCLOSURE FORMS RECEIVED FOR THE FINANCIAL YEAR: 2004-2005

STATISTICS AS AT 1 NOVEMBER 2005

NATIONAL DEPARTMENT/PROVINCE	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING	PERCENTAGE RECEIVED
National Departments	3309	2379	930	72%
Eastern Cape	407	132	275	32%
Free State	275	131	144	48%
Gauteng	584	130	454	22%
Kwazulu-Natal	496	222	274	45%
Limpopo	355	174	181	49%
Mpumalanga	188	122	66	65%
Northern Cape	119	63	56	53%
North West	277	225	52	81%
Western Cape	299	238	61	80%
COUNTRY AVERAGE	6309	3816	2493	60%

NATIONAL DEPARTMENTS

NAME OF DEPARTMENT	NUMBER OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Department of Agriculture	43	0	43
Department of Arts and Culture	40	38	2
Department of Communications	65	39	26
Department of Correctional Services	154	74	80
Department of Defence	281	227	54
Department of Education	73	67	6
Department of Environmental Affairs and Tourism	73	0	73
Department of Foreign Affairs	212	185	27
Department of Government Communications and Information System	29	27	2
Department of Health	77	0	77
Department of Home Affairs	55	0	55
Department of Housing	29	0	29
Department of Justice and Constitutional Development	175	0	175
Department of Labour	67	0	67
Department of Land Affairs	74	69	5
Dept of Minerals and Energy	74	36	38
Department of Provincial and Local Government	78	78	0
Department of Public Enterprises	47	47	0
Department of Public Service and Administration	55	55	0
Department of Public Works	111	40	71
Department of Safety and Security (SAPS)	651	633	18
Dept of Science and Technology	53	53	0
Dept of Social Development	52	23	29

NAME OF DEPARTMENT	NUMBER OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Dept of Sport and Recreation	4	0	4
Dept of Trade and Industry	125	107	18
Department of Transport	65	62	3
Dept of Water Affairs & Forestry	125	118	7
National Intelligence Agency	Not available	Not available	
National Treasury	196	196	0
Office of the Public Service Commission	42	42	0
Presidency (including Youth Commission)	59	51	8
South African Management and Development Institute	18	18	0
Statistics South Africa	94	94	0
Independent Complaints Directorate	13	0	13
South African Secret Service	Not Available	1 (DG)	
TOTAL	3309	2379	930

PERCENTAGE RECEIVED 72%

EASTERN CAPE PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL
 YEAR 1 APRIL 2004 TO 31 MARCH 2005

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: Eastern Cape (Office of the Premier)	33	22	11
Department of Agriculture	20	14	6
Department of Economic Affairs, Environment and Tourism	19	14	5
Department of Education	63	0	63
Provincial Treasury	24	19	5
Department of Health	139	10	129
Department of Housing and Local Government	20	0	20
Department of Public Works and Roads	15	10	5
Department of Safety and Liaison	6	4	2
Department of Sport, Arts, Culture and Recreation	19	19	0
Department of Transport	22	19	3
Dept of Social Development	27	1	26
TOTAL	407	132	275

PERCENTAGE RECEIVED 32%

FREE STATE PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL
 YEAR 1 APRIL 2004 TO 31 MARCH 2005

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: Free State (Office of the Premier)	22	19	3
Department of Agriculture	18	9	9
Department of Education	29	0	29
Department of Tourism, Environmental and Economic Affairs	11	0	11
Department of Finance and Expenditure (Prov. Treasury)	16	13	3
Department of Health	108	54	54
Department of Local Government and Housing	21	0	21
Department of Public Works, Roads and Transport	16	15	1
Department of Social Welfare or Social Development	18	18	0
Department of Safety, Security and Liaison	6	0	6
Department of Sport, Arts, Culture, Science and Technology	10	3	7
TOTAL	275	131	144

PERCENTAGE RECEIVED 48%

GAUTENG PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL
YEAR 1 APRIL 2004 TO 31 MARCH 2005

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: Gauteng (Office of the Premier)	19	18	1
Department of Agriculture, Conservation & Environment	25	20	5
Department of Development Planning and Local Government	17	9	8
Gauteng Shared Services Centre	31	0	31
Finance and Economic Affairs	41	4	37
Department of Education	40	22	18
Department of Health	283	0	283
Department of Housing	35	32	3
Department of Transport and Public Works	40	0	40
Department of Safety and Liaison (Community Safety)	14	14	0
Department of Social Services and Population Development	27	0	27
Department of Sport, Recreation, Arts and Culture	12	11	1
TOTAL	584	130	454

TOTAL PERCENTAGE RECEIVED 22%

KWAZULU-NATAL PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL YEAR 1
 APRIL 2004 TO 31 MARCH 2005

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: KZN (Office of the Premier)	46	0	46
Department of Agriculture and Environmental Affairs	29	0	29
Department of Economic Development	16	16	0
Department of Education	66	1	65
Department of Arts and Culture	15	0	15
Provincial Treasury	22	18	4
Department of Health	160	92	68
Department of Housing	13	0	13
Department of Royal Household	2	0	2
Department of Traditional and Local Government Affairs	36	32	4
Department of Transport	31	31	0
Department of Welfare and Population Development	31	15	16
Department of Works	19	11	8
Dept of Safety and Security	4	0	4
Department of Sport and Recreation	6	6	0
TOTAL	496	222	274

PERCENTAGE RECEIVED 45%

LIMPOPO PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL
YEAR 1 APRIL 2004 TO 31 MARCH 2005

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: Limpopo (Office of the Premier)	46	42	4
Department of Agriculture	33	16	17
Department of Education	35	35	0
Department of Finance, Economic Affairs and Tourism	60	29	31
Department of Health and Welfare	89	36	53
Department of Local Government and Housing	22	12	10
Department of Public Works	27	0	27
Department of Safety, Security and Liaison	5	0	5
Department of Transport	27	0	27
Department of Sport, Arts and Culture	11	4	7
TOTAL	355	174	181

TOTAL PERCENTAGE RECEIVED 49%

MPUMALANGA PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL YEAR 1 APRIL 2004 TO 31 MARCH 2005

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: Mpumalanga (Office of Premier)	31	27	4
Department of Agriculture, Conservation and Environment	14	14	0
Department of Education	23	22	1
Department of Finance	10	0	10
Department of Finance, Econ. Dev. and Planning	14	14	0
Department of Health and Social Services	33	29	4
Department of Local Government and Housing	13	0	13
Department of Public Works	17	0	17
Dept of Roads and Transport	23	9	14
Department of Safety and Security	3	0	3
Department of Culture, Sport and Recreation	7	7	0
TOTAL	188	122	66

PERCENTAGE RECEIVED 65%

NORTHERN CAPE PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL YEAR 1 APRIL 2004 TO 31 MARCH 2005

NAME OF DEPARTMENT	NUMBER OF SMS MEMBERS	NUMBER OF FORMS RECEIVED	NUMBER OF FORMS OUTSTANDING
Provincial Administration: Northern Cape (Office of Premier)	17	5	12
Department of Agriculture, and Land Reform	6	6	0
Department of Economic Affairs	9	9	0
Department of Education	15	12	3
Department of Finance	5	0	5
Department of Health	25	0	25
Department of Housing and Local Government	12	11	1
Department of Provincial Safety and Liaison	5	4	1
Department of Social Services and Population Development	5	5	0
Department of Sport, Arts and Culture	4	0	4
Department of Transport, Roads and Public Works	11	10	1
Department of Tourism, Environment and Conservation	5	1	4
TOTAL	119	63	56

PERCENTAGE RECEIVED 53%

NORTH WEST PROVINCE

FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL YEAR 1 APRIL 2004 TO 31 MARCH 2005

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: North West (Office of the Premier)	33	33	0
Department of Agriculture, Conservation, Environment and Tourism	22	17	5
Department of Education	39	35	4
Department of Finance and Economic Development	28	26	2
Department of Health	53	37	16
Department of Developmental Local Government and Housing	20	19	1
Department of Transport and Roads	16	12	4
Department of Public Works	17	17	0
Department of Safety and Liaison	7	7	0
Department of Social Development	21	14	7
Department of Sport, Arts and Culture	21	8	13
TOTAL	277	225	52

PERCENTAGE RECEIVED 81%

WESTERN CAPE PROVINCE

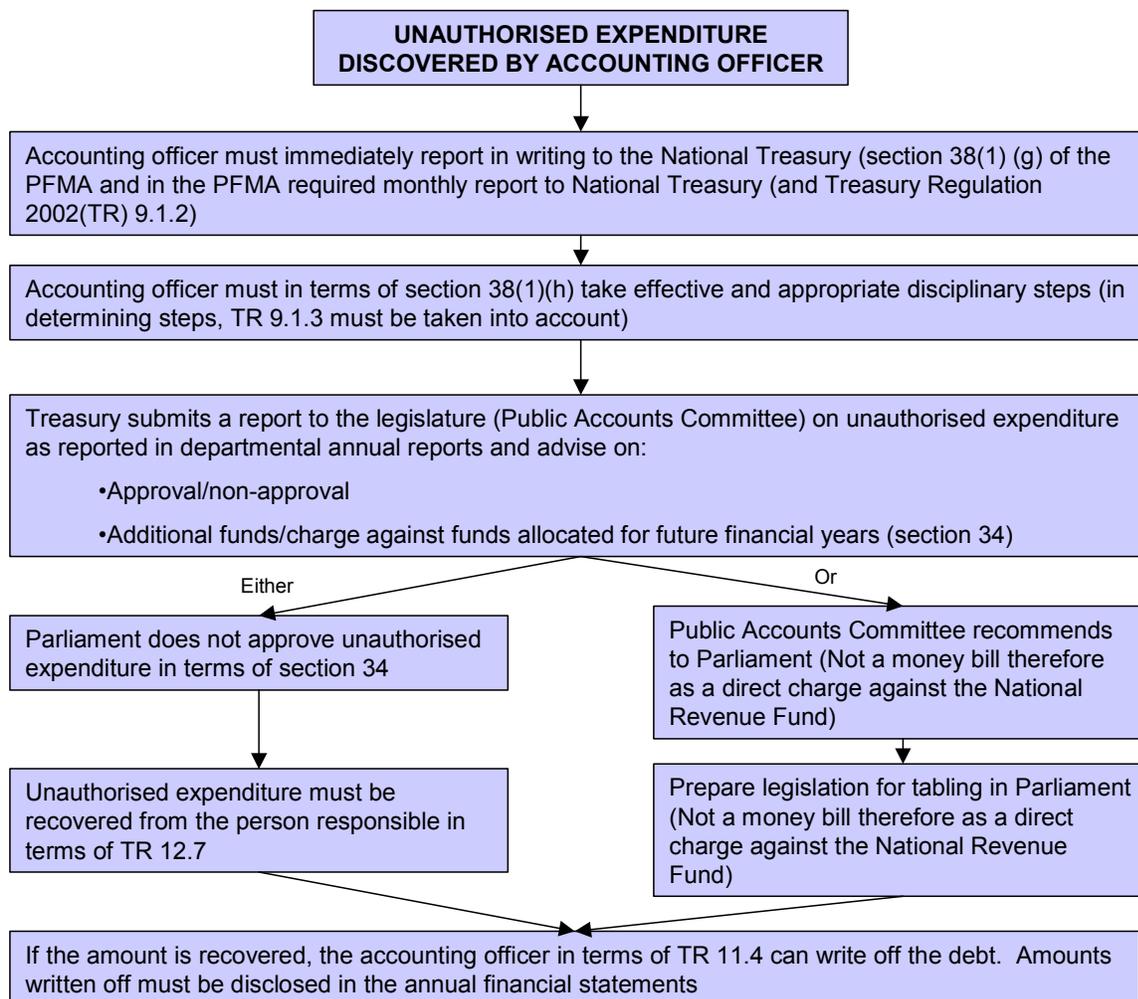
FINANCIAL DISCLOSURE FORMS RECEIVED AND OUTSTANDING FOR THE FINANCIAL
YEAR 1 APRIL 2004 TO 31 MARCH 2005

NAME OF DEPARTMENT	NO. OF SMS MEMBERS	NO. OF FORMS RECEIVED	NO. OF FORMS OUTSTANDING
Provincial Administration: Western Cape (Office of the Premier)	34	0	34
Department of Community Safety	12	11	1
Department of Agriculture	10	9	1
Department of Education	40	40	0
Dept of Environmental Affairs and Development Planning	12	12	0
Dept of Economic Development. and Tourism	8	0	8
Department of Cultural Affairs and Sport	9	9	0
Provincial Treasury	14	14	0
Department of Health	97	96	1
Department of Housing	22	21	1
Department of Social Services and Poverty Alleviation	13	0	13
Department of Transport and Public Works	28	26	2
TOTAL	299	238	61

PERCENTAGE RECEIVED 80%

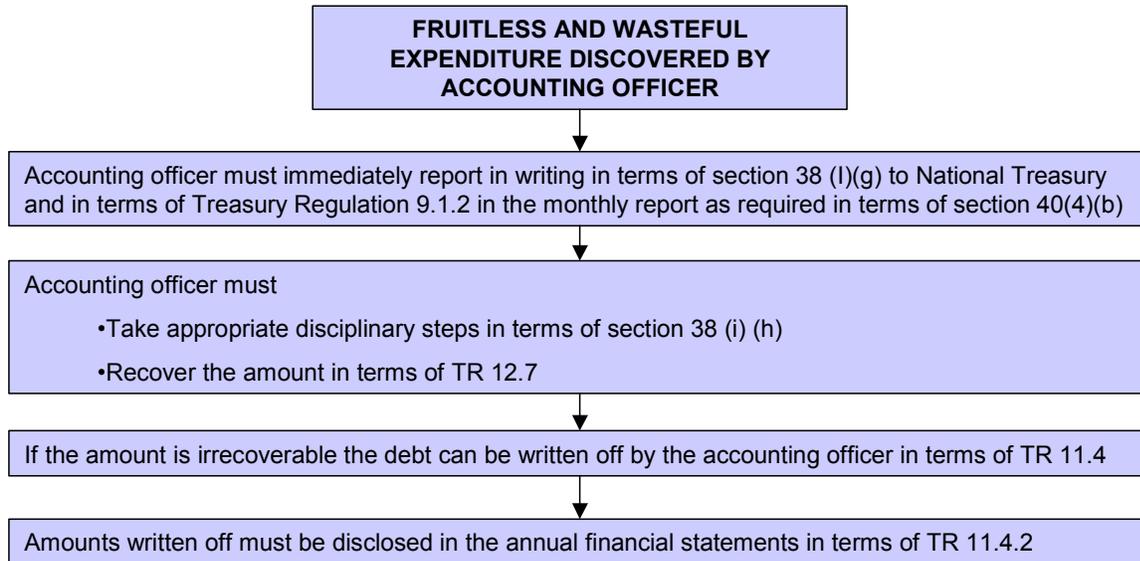
Source: Public Service Commission (2006)

ANNEXURE D: TREATMENT OF UNAUTHORISED EXPENDITURE DISCOVERED BY THE ACCOUNTING OFFICER



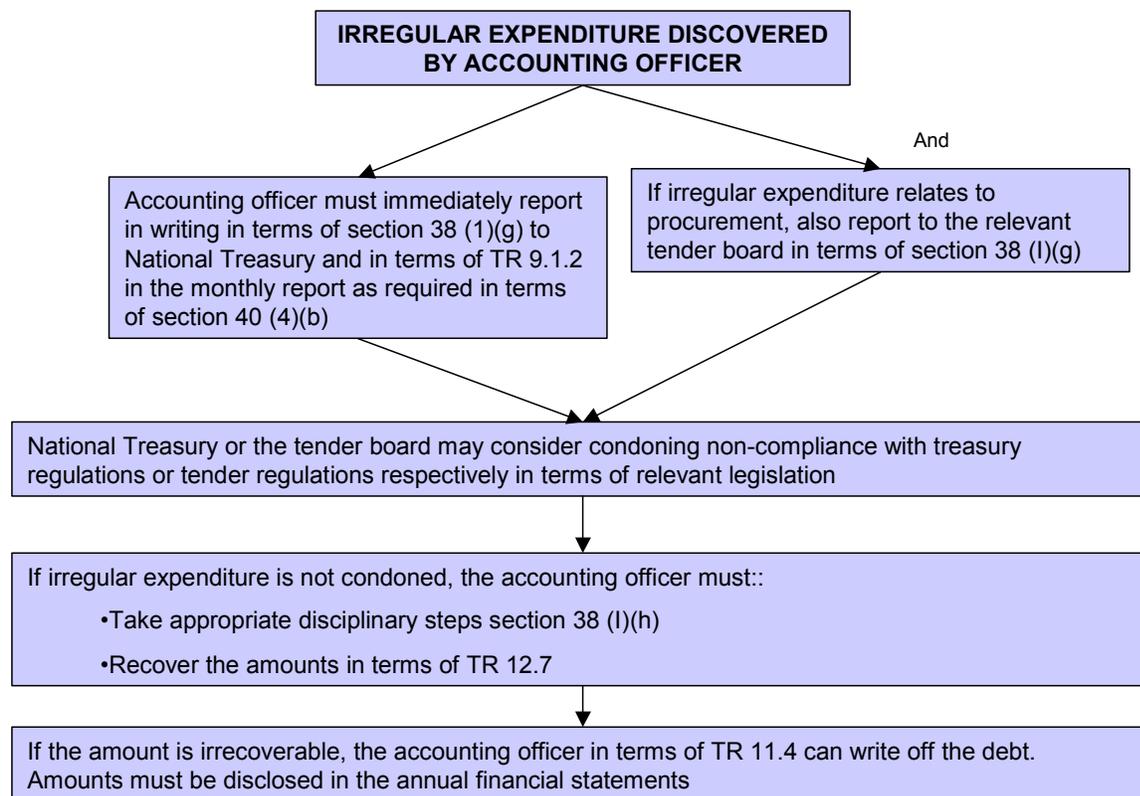
Source: Association of Public Accounts Committees (2003)

ANNEXURE E: TREATMENT OF FRUITLESS AND WASTEFUL EXPENDITURE DISCOVERED BY THE ACCOUNTING OFFICER



Source: Association of Public Accounts Committees (2003)

ANNEXURE F: TREATMENT OF IRREGULAR EXPENDITURE DISCOVERED BY THE ACCOUNTING OFFICER



Source: Association of Public Accounts Committees (2003)