

CONTEXTUALISING THE MEASUREMENT OF GOVERNANCE IN PUBLIC FINANCIAL MANAGEMENT

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ABSTRACT

Governance is the exercise of authority, direction and control of an organisation to ensure its goals are achieved. It refers to who is in charge of what; who sets the direction and the parameters within which the direction is to be pursued; who makes decisions; who sets performance indicators, monitoring of progress and evaluates results; and, who is accountable to whom for what. Governance includes the structures, responsibilities and processes of the organisation to direct and manage its future operations. Good governance portrays good management, good performance and good stewardship of public money. The purpose of this article is to focus on the financial context of good governance.

INTRODUCTION

Government is a major role player in upholding governance. The rule of law seems to be very prominent as good governance requires fair legal frameworks that are enforced impartially. It requires full protection of human rights, an independent judiciary and an impartial and incorruptible law enforcement system

As South Africa is moving into the 21st century, it is obvious that many administrative practices of the past will not automatically guarantee success in the future. Public institutions can no longer conduct their activities in isolation and public officials cannot continue to ignore the urgent need to transform public service delivery.

In South Africa the future public administration environment will be confronted with more complex and more extensive challenges from the political, economical, social and technological environment than ever before. To address future challenges proactively, public managers will have to address multiple needs and desires with limited resources.

The implications for future good governance in the public administration environment are far more complex. There are two major driving forces that weave their way across all the issues identified. The *first* is the desire for performance management based on key performance areas. The *second* driving force is the desire to find practical strategies that inspire human potential and contribution. Public service organisations and individuals who have been best able to consistently achieve best-practice good governance outcomes are those who have been able to form a strong connection between these two, often opposing, forces.

CONTEXTUALISATION OF GOOD GOVERNANCE

The roots of governance may be traced to an organisational theory developed by Chester Barnard and Herbert Simon. Barnard argues that the functions of a manager are to motivate the everyone who holds resources needed to carry on the business activities to contribute to the actions. In terms of the administrative behaviour analysis, Herbert Simon views an organization, government or business as being in equilibrium when its managers succeed in balancing the contribution from, and the inducements given to its stakeholders (Boviard and Loffler. 2003:106). From the above annotations by Simon and Barnard it could be deduced that *resources or contributions and inducements* are crucial components of the input-output model in public financial management.

Boviard and Loffler (2003:106) suggest that, given Simon and Barnard's knowledge of the input-output relationships, managers are aware of the complementary and substantive resources held by the different stakeholders. According to Van der Waldt (2004:3) governance is the acquisition of and accountability for the application of political authority in directing public affairs and the management of public resources. From the aforementioned it is noticeable that governance is aptly implemented if the political authority pledges or commits itself to its function of service delivery and adhere to obligatory processes. This is only attainable through effective and efficient management of resources and a clear direction and leading aptitude from management. Most significantly, it is mandatory to ensure that accountability is obtained and persistently pursued.

The International Federation of Public Accounts (2001:1) is of the opinion that governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the top managerial echelons of an organisation. The International Federation on Public Accounts (2001) is also of the opinion that effective governance in the public service can encourage the efficient use of resources, strengthen accountability for the stewardship of those resources, improve management and service delivery and thus contribute to the improvement of people's lives.

NEED FOR EFFECTIVE GOVERNANCE

The diverse South African public service requires applicable models of governance. Furthermore, it should be noted that there is a difference between the public and private sectors in the application of good governance. For the public sector the

political environment implies a different mode of governance focusing on the checks and balances and especially the value systems that emphasise the ethics and codes of conduct. The business sector will mainly focus on the returns for its shareholders and the preservation of shareholders' value. The public sector's role is to be cost effective in the implementation of programmes, which must be in accordance with legislation and policies. It should also be noted that in terms of governance, there are also a review process where governance is monitored by Parliament and its committees, and especially by oversight bodies such as the Auditor-General, Public Protector, Public Service Commission. The activities of the coordinating departments such as the Department of Public Service and Administration and National Treasury also make valuable contributions to enhance accountability.

In terms of the improvement of service delivery the public service is allowed, in terms of the *Public Finance Management Act, 1999* (Act 1 of 1999), to operate in a more simplified and flexible manner and public managers have more flexibility and greater devolution of authority. However, market trends and divergent applications for resources are subjected to increasing levels of scrutiny regarding the performance and effectiveness of public sector departments. To manage and administer the responses towards the increased levels of public scrutiny and transformation, departments will need to establish a culture of ongoing improvement, evaluation and assessment by using best practices and introduce this approach across the whole department.

It is against the background of transformation that the typical traditional and legislative accountability and responsibility of the head of the department are made more explicit prescribed in the *Public Finance Management Act, 1999*. The accounting officer as head of a department will increasingly need to examine ways and means to strengthen the structures within the department which support the leadership and decision-making to ensure the sound and effective governance of the department. It should be noted that heads of departments are responsible to the respective political heads for the administration of the department and for the advice heads of departments provide to the political head and the Executive Authority. Therefore a sound governance structure will provide a useful structure to assist the head of department and executive to make informed decisions with the assurance that effective control systems are in place and that the risks are well managed.

GOVERNANCE AND PUBLIC ADMINISTRATION: THE NEW ROLE OF GOVERNMENT IN THE GOVERNANCE PROCESS

The concept of governance underlines the need for a shift from traditional and rigid public administrative practices and procedures to alignment with possible *best practices* in the business environment. As a result of this situation, public servants are now exposed to a *new organisation* characterised by business ideas such as quality management, market research, human capital management and entrepreneurship in an environment characterised by political oversight (Thornhill, 2007:13).

According to Denhardt and Denhardt (2007: 1-8) government will continue to play a central role in establishing the overall legal and political rules through which various

Figure 1: Approaches to understanding the role of government and public administration.

The governance relation to government and public administration Approaches to understanding the role of government and public administration		
Legal and Political Standards Traditional PA Approach	Economic or Market Considerations New Public Management	Democratic or Social Criteria The New Public Service
Public officials are involved in designing and implementing policies focused on limited, politically defined objectives. They are bound by law and political realities. They are concerned with developing programmes and providing services through the traditional agencies of government	A view of political life which sees the role of government as continuing to steer, at least in the sense of acting as a catalyst to unleash the forces of the market in creating mechanisms and incentive structures to achieve policy objectives through private and non-profit agencies.	Public interest is paramount and that the public interest is the result of a dialogue about mutual or overlapping interests. It sees the role of government as brokering interests among citizens and other groups so as to create shared values. This might mean, for example, building coalitions of public, private, and non-profit agencies to meet mutually agreed upon needs.
Accountability. This is adhered to by limiting administrative discretion and relying on neutral expertise to implement the decisions and policies established by democratically elected political leaders.	Accountability. Government is responsible for offering choices to their customers and responds to their individual preferences in terms of the services and functions provided.	Accountability. Public servants must attend to law, community values, political norms, professional standards and citizen interests

Source: (Denhardt and Denhardt, 2007. 2)

networks will operate. This can be seen as government operations at the meta-level where government will play a role in ratifying, codifying and legitimising decisions that arise from within the various policy networks. Government needs to add value in terms of the significant role in establishing broad principles of governance that apply to all (setting the overarching rules of the game).

Government must ensure direction in resolving resource distribution and dependency issues within various networks, but especially between and amongst these networks. Government will aid in protecting economic interests that are played out in the relationships

between different sectors or policy networks; it will play a role of balancing, negotiating, and facilitating relationships across network boundaries (often through the use of incentives rather than directives), and assuring that one sector does not dominate others.

Government will be required to monitor the interplay amongst networks to assure that principles of democracy and social equity are maintained within specific networks and in the relationships between and among the different networks. Government must ensure that democratic processes are maintained and that ultimately the public interest is served. There are approaches to understand the role of government and public administration in terms of governance. They are the legal and political standards, economic or market considerations, and democratic or social criteria as depicted in figure 1 (Denhardt and Denhardt, 2007: 1-8):

Employing a governance perspective and a new focus on public services allows a researcher to explore the full range of policy choices, management strategies, ethical responsibilities, and civic commitments that are necessary to effective and responsible public administration.

KEY OPERATING GOVERNANCE PRINCIPLES

Effective governance, however, requires more than having committees, guidelines and reporting instruments. Effective governance requires the understanding and definite commitments of all employees are involved and vigorous control mechanisms that is designed to deliver on the approved departmental objectives. The following principles are essential in measuring the quality of governance:

- In terms of leadership the head of the department plays a key role in obtaining good governance. An indication of a department's effectiveness is the manner in which the department operates as a unified unit under the leadership of the head of the department. There should be a collective ability to provide leadership, to communicate the approved departmental plans and objectives, and to ensure the establishment and operation of checks and balances requires for effective governance (Saul, 1991:5).
- Management environment where the broad principles under which the department operates; the setting of clear objectives and workable ethical framework to ensure public interest, establishment of processes; clear understanding of the relevant clients; providing for transparency and lines of reporting, responsibility and accountability; implementation of operational plans; undertaking and managing risk management, employing competent workers with the appropriate skills to perform the work; sound communication on both the external and internal levels; and setting and evaluating performance.
- Risk management concerns identifying, analysing and mitigating risks, which could hamper the achievement of the set objectives. The purpose of risk management is to create control activities to manage risk throughout the department by developing and maintaining fraud and risk management plans which cover activities as diverse as reviews of operating performance, information technology and management information systems; contracting out and outsourcing; professional development;

- personnel appraisal which should include surveys, reconciliation of accounts, approvals and the segregation of duties (Pauw, 2002:150).
- Monitoring concerns the quality of the control systems. It has to be monitored over time and should identify corrective action to improve them. Systems operating in an ever changing environment need close monitoring to ensure that the resources are utilised effectively and efficiently. Therefore, techniques such as quality assurance, benchmarking and other ongoing management improvement techniques can be utilised effectively as a component of the monitoring process. It should be noted that monitoring is the most effective tool if it is applied during the course of normal activities, rather than focusing on the detections of problems after they have occurred (Bovaird and Loffler, 2003:5. *cf.* also Salamon and Elliot, 2002: 24).
 - Accountability. The lines of accountability in the public service occur through the head of the department to the responsible political head and ultimately to Parliament. A stringent governance system will rely on the existing accountability and reporting structures of the department. It will also identify any anomalies which could be: unclear lines of authority or too many layers of authority; complex or too cumbersome reporting mechanisms; too many objectives including the policy or legal requirements with no specific link to the departmental programme objectives (International Federation of Accountants, 2001:12).

CONSIDERATIONS FOR MEASURING GOOD GOVERNANCE

Good governance is an ideal that is difficult to achieve in its totality. However, to ensure sustainable human development, actions must be taken to work towards this ideal with the aim of making it a reality. In the Millennium Development Goals of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP: 2006), a strong emphasis is placed on considerations for measuring the quality of governance, including:

- Choice and maintenance of aim. All initiatives for service delivery need to be aligned with the organisational profile and ultimately the *new public service*. This consideration is supported by Denhardt and Denhardt (2007: 6) based on the premises that organisational alignment is a total commitment towards organisational performance and future development.
- Concentration of effort and a consensus orientation. Efficiency and effectiveness are the results of concentrated efforts and need to be aligned with the economical use of resources. Uhrig (2003: 5) argues that concentration is about the impact of service delivery and the obvious notion that a concentrated effort will expose the most vulnerable areas for service delivery. A consensus orientation will allow all role players the opportunity to add value in terms of key performance areas.
- Flexibility. A wide spectrum of opportunities will provide space for alternatives and well support flexibility. Flexibility will enhance the process of decision-making and the implementation thereof. Governance can be used in several contexts such as corporate governance, national governance and local governance. The need to

develop alternatives requires the need to ensure support structures and a proper system of planned alternatives.

- Pro-active actions and responsiveness. Based on the age-old principle of *prevention is better than cure* it is obvious that government organisations need to be pro-active and be sensitive and responsive to address the quality of service delivery at an early stage.
- Wide observation. Good information leads to good *intelligence* and this will secure a scenario where the right people will receive the right services in the most economical, efficient and effective way.
- Correct groupings and participation. Correct grouping refers to the capacity in terms of intergovernmental relations and intra organisational effectiveness. This consideration is about building coalitions of public, private, and non-profit agencies to meet mutually agreed upon needs and to secure full participation (Uhrig, 2003: 9).
- Maintaining momentum. This is the essential requirement of having the right people at the right time with the right resources ready and prepared for the required intervention.

CRITICAL ISSUES IN MEASURING GOOD GOVERNANCE

There are a number of issues that are critical in measuring good governance. Financial data are leading indicators of performance and measurements, but the accounting officer must also include non-financial indicators, which are produced quarterly. The non-financial indicators should be stipulated in the performance agreement between the accounting officer and the executive authority and endorsed by the portfolio committee in the legislature. The indicators and results will manifest in monthly reports, which is consolidated and published in the *Government Gazette*. Such reports will facilitate the compilation of the year-end financial statements and the annual report. The annual report must review the performance and achievements measured against the strategic plan and the approved budget by the legislature. The annual report includes the financial statements of the department as well as the achievements against the service delivery indicators agreed upon during the preparation and approval of the budget. The report must also quote the *Audit opinion* of the Auditor-General, based on the external audit. Once the Annual Report is tabled it is open for scrutiny by the Standing Committee on Public Accounts. The Committee analyse such reports to ensure that the accounting officers addresses any issues raised in the audit report or any recommendations raised (PFMA, Guide for Accounting Officers, 2000:11).

In terms of measuring good governance in public financial management there are a number of critical issues to take into consideration towards realising good governance:

- Strategic planning and operational plans. The planning process in the South African public service is centrally managed and every year departments have to compile and submit their strategic plans within which service delivery priorities are identified. In this case managers have to identify key performance areas (KPAs), determine the priorities, and the funding thereof. The strategic plan should contain measurable objectives with an indication of output-outcome, indicators and targets, which means that the

objectives of a budget must be clear. To ensure that governance is supported there should be a clear relationship between strategic planning and budgeting to deliver services effectively and efficiently. It should also be noted that the strategic plan forms the basis for the annual reports of an accounting officer (National Treasury, 2005:15).

- Budgeting. Governance in relation to budgeting is vital since it provides an understanding and course of action regarding public financial management, managing public finances and financial accountability. This means that departments should adhere to policies and procedures that relate to efficient and effective budgeting and financial management. If there is no clear link between the strategic plan and the budget it could result in poor expenditure management and overspending or under-spending with departments (National Treasury, 2005:15).
- Transversal systems. Good governance in the form of financial systems for government ensures accountability and transparency as well as the evaluation of the performance of departments. All the computerised systems are transversal and centralised and are overseen by national Treasury. This enables the national Treasury to oversee and interact when problems occur between the systems. Treasury has access to financial data when needed. The purpose of the transversal system is that the same yardstick is used to evaluate the different government department by Parliament. Currently there are four transversal systems to ensure good governance (www.nationaltreasury.gov.za):
 - Basic Accounting System (BAS) to ensure financial control over expenditure and revenue;
 - Personnel and Salary System (PERSAL) reflecting the personnel expenditure on the BAS reports and to keep record as well as updating all personnel detail online on PERSAL.
 - Logistical Management System (LOGIS) reflecting all expenditure regarding procuring goods and services on the BAS report and keep detail records of all suppliers from which goods and services are produced.
 - Supply Chain Management reflecting all expenditure regarding procuring goods and services on the BAS report as prescribed by the Supply Chain Management, while transactions are recorded on LOGIS.
- Early Warning System. National Treasury has developed a reporting mechanism referred to as the Early Warning System (EWS) whereby departments report on a monthly basis on their expenditure and collection of revenue. The EWS functions online from the Financial Management System (FMS) records spending on a continuous basis. It is through this system that the level of expenditure can immediately be established. The system provides a strong management tool to ensure good governance and can assist managers to take immediate decisions on the course of their spending.
- Internal and external reporting. To ensure accountability and good governance internal reporting is an indispensable component in ensuring organisational performance. Abedian *et al.*, (1998:7) comment that accounting is the component of financial management that is concerned with the recording and reporting of financial information. Responsibility managers, who are responsible for the day-to-day operations in line duty functioning, have a duty to ensure that performance activities and outputs are clearly

confirmed. In this process, effectiveness, efficiency and economical use of resources become fundamental in implementing internal programmes. External reporting ensures accountability and transparency. It is this form of reporting that mirrors evenness between strategic plans and the departmental budget and determines whether services have been delivered, not only in terms of policies, but also in an effective and efficient manner.

- Performance management is a set of techniques utilised by a manager to plan, direct and improve performance of subordinates in line with the achievement of the departmental goals and objectives (Spangenberg, 1994:14). It should be noted that performance management could only be used as a tool in the measuring of good governance when measurable objective have to be attained. Measurable objectives should be specific, quantifiable outcomes that can be achieved within a foreseeable time period and they serve as a roadmap. It is the responsibility of every manager to ensure that his/ her subordinates enter into performance contracts that will guide them in discharging the functions assigned to them.

Performance measurement fulfils a critical component in the measuring of good governance since it is an essential tool for effective management and without no proper evaluation and improvement will be possible. Performance measurement is undertaken to (Desatnick, 1979:45):

- assist in formulating and implementing policy;
- contribute to planning and budgeting for service provision;
- monitor the effects of change;
- improve standards of service;
- ensure fairness in terms of user access to particular services;
- measure the distribution and the economically and efficiently use of resources; and
- exercise managerial control and decision-making.

The success in the utilisation of the administrative and managerial tool in measuring governance will rely on the following:

- management of the information overload with the rapid development of the computer age;
- management of the personal factors such as the individuals knowledge and skills of the respective systems available;
- motivation and commitment on all levels to ensure success;
- leadership quality such as guidance and support provided by management and team leaders;
- creation of institutional memory since there is a tendency to do *job hopping* and thereby creating an ever growing vacuum of skills and knowledge;
- reliability of financial and non-financial data to be utilised as indicators to develop measurable indicators;
- elimination of data fragmentation and duplication; and
- conducting of a full inventory of management systems, sampling systems, case studies and surveys.

CONCLUSION

The measurement of governance cannot be conducted in the absence of the key issues such as strategic plan with well defined performance areas, internal and external reporting mechanisms, budgets and the various integrated transversal systems. Systems developed to support good governance also provide a rich source of system performance and financial data analysis for the measurement and evaluation of programme and budget development. Adequate measuring can only take place with generally available data supplemented by additional data from various resources.

Good governance assures that corruption is minimised, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard (voices of flying stones and arson) in decision-making. It is also responsive to the present and future needs of society. Good governance is an ideal, which is difficult to achieve in its totality. Few countries and societies have come close to achieving good governance in its totality. However to ensure sustainable human development and prosperous societies, actions must be taken to work towards this ideal of making it a reality.

Ultimately, the success of public administration in terms of good governance in the decade ahead will be determined by its capacity to provide services to a wider population effectively and efficiently. Public institutions, therefore, will need to move from traditional up-front service delivery to one where good governance is the result of effective coalitions between various role players in society.

Any approach to measure organisational performance for good governance need to focus on the improvement of resource input requirements, output requirements, outcome requirements, and most importantly the throughput requirements often viewed as process efficiency. This is measured in terms of time, waste, and resource utilisation.

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