

Financial Reporting and the Public Finance Management Act (PFMA) in the Western Cape

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DECLARATION

I declare that this mini thesis “*Financial Reporting and the Public Finance Management Act in the Western Cape*” is my own work and that it has not been submitted for any degree at any other University or Institution of Higher learning.

It is being submitted for the degree Masters in Administration at the University of the Western Cape.

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KEYWORDS

PFMA 1999

MTEF

Accountability

Transparency

Monitoring

Auditor – General

Effectiveness

Efficiency

Financial reporting

Budgeting



ACRONYMS

AFPRM – Africa Peer Review Mechanism
AG – Auditor-General
ANC – African National Congress
AO – Accounting Officer
AU – African Union
CAFS – Consolidated Annual Financial Statement
CBO – Community-Based Organisation
CFO – Chief Financial Officer
DORA – Division of Revenue Act
EEA – Employment Equity Act
FIFA – Federation Internationale de Football Association
FIU – Forensic Investigative Unit
FSB – Financial Services Board
GAAP – Generally Accepted Accounting Practices
GNU – Government of National Unity
GRAP – Generally Recognised Accounting Practices
HOD – Head of Department
LRA – Labour Relations Act
MEC – Member of Executive Committee
MFMA – Local Government: Municipal Finance Management Act
MTBPS – Medium-Term Budget Policy Statement
MTEC – Medium-Term Expenditure Committee
MTEF – Medium-Term Expenditure Framework
MTFPF – Medium-Term Fiscal Policy Framework
NA – National Assembly
NEPAD – New Partnership For Africa's Development
NGO – Non-Governmental Organisation
NMTEE – National Medium –Term Expenditure Estimates
PFMA – Public Finance Management Act
PMS – Performance Management System
PPP – Public-Private Partnership
RDP – Reconstruction and Development Programme
RSA – Republic of South Africa
SALGA – South African Local Government Association
SAPS – South African Police Services
SARS – South African Revenue Service
SCM – Supply Chain Management
SDA – Skills Development Act
SCOPA – Standing Committee on Public Accounts
SETA – Sector Education and Training Authority
SLA – Skills Development Levy Act
WCPG – Western Cape Provincial Government
WPTPS – White Paper Transforming the Public Sector

ABSTRACT

The study focused on financial reporting in the public sector with the view to understanding the impact of the present financial management system in South Africa is adding value to the measurable outcomes-based objective process as required by the Public Finance Management Act (PFMA). The study determines the role of the Medium-Term Expenditure Framework (MTEF) in financial reporting, in relation to the business plan (strategy) and measurable outcomes and results of the Department of Community Safety.

The primary objective of this study was to perform an assessment of financial reporting and its effectiveness in terms of the PFMA as the legislative framework and the MTEF as a financial management tool. The secondary objectives were to: (1) to provide a theoretical perspective of public financial management and reporting in government; (2) to provide an overview of policies, legislation and strategies; (3) to record and develop a case study of financial reporting in the Western Cape Provincial Government within the Department of Community Safety (WCPG); (4) to present the research findings on financial management, and (5), to apply the theoretical framework to the case study in order to develop findings.

A case study methodology was used to gather information. Interviews were conducted with strategic role-players in the Department of Community Safety. In addition, the Department's annual reports, along with the Auditor-General's reports, were used to inform the study.

The study concludes with a discussion on the findings and forms a practical set of recommendations for decision-makers and practitioners. It is anticipated that these recommendations will receive the necessary attention and consideration. Furthermore, this study could invigorate further studies in the field of finance and finance reporting in the public sector.

CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

The focus of the study was triggered by my interest in trying to understand why many provincial and national departments were not able to meet the basic reporting deadlines of the Public Finance Management Act (1999). This was also a problem at local government level, but I was more intrigued in understanding why Provincial and National departments were unable to comply with the legislation. This study has been further motivated by my interest in financial reporting requirements and how the PFMA, with the assistance of the Medium-Term Expenditure Framework (MTEF), has gone about changing the financial reporting landscape of public sector finance. The concept of having measurable outcomes and objectives, compared to value for money, has made many public sector accounting officers uncomfortable as it challenges certain stereotypes. As a result of South Africa's new democracy, there was a strong emphasis on transparency and accountability. Could our new political dispensation deliver on its mandate? The Department of Community Safety in the Western Cape provided me with an excellent opportunity to understand the challenges and rewards of a Department re-engineering itself and its operational processes to meet the challenges of becoming accountable and transparent.

The rationale for the study is to assess the progress, highlight the successes and shortcomings of the PFMA. All spheres of government are challenged to adhere and conform to the requirements as stated in the PFMA. It is within this context that the study has drawn conclusions and recommended a practical set of recommendations for decision-makers and practitioners. The PFMA attempts to ensure that there is accountability and transparency at all spheres of government.

1.2 A BRIEF OVERVIEW OF THE DEPARTMENT OF COMMUNITY SAFETY

The Department of Community Safety in the Western Cape resides under the overall leadership of the Premier of the Western Cape, Mr. Ebrahim Rasool. As the elected office-bearer, the Minister for Community Safety, Leonard Ramatlakane, is responsible for implementing the mandate of the Department and is accountable to the public for the performance of the Department. He provides guidance on the development of policies in accordance with the Department's mandate, and oversees the implementation of projects, while ensuring accountable and responsible expenditure of public revenue. The Department's main field of service delivery is to ensure that the SA Police Service render an effective and efficient service to the communities of the Western Cape.

The Department of Community Safety reports to the MEC for Community Safety, who accounts for their activities to the Portfolio Committee on Safety and Security. The MEC must monitor police conduct; oversee the effectiveness and efficiency of the police service; promote good relations between the police and community; and assess the effectiveness of visible policing. The MEC must report to the committee on these functions and, in doing so, must provide information on what action the department has taken in response to any problems that have been identified.

1.3 BACKGROUND OF THE STUDY

To have a better understanding of the study, it is important to contextualize the study. Before the implementation of the Public Finance Management Act (1999), the Westminster system was used. This stemmed from the British colonial rule system. The Exchequer Act of 1975 provided the framework within which financial reporting and budgeting occurred. The study briefly reflects on some of the shortcomings of the Exchequer Act to better understand the PFMA (1999). The Public Finance Management Act, 1999 (PFMA), replaced the Exchequer Act

1975 that gave overall guidance to the different spheres of government on financial reporting. The Excheque Act had many shortcomings such as that:

- It only required departments to budget for one financial year;
- The National, Provincial and Local governments' objectives were not required to be measurable and outcomes-based; and
- No meaningful punitive measures were put in place if departments failed to meet financial reporting requirements.

The PFMA was one of the last Acts to be enacted during the 1990's, which was a period characterised by significant legislative overhauling. The African National Congress (ANC)-led government took more than six years of consulting with the various stakeholders before it tabled the Bill before Parliament to be enacted. This highlighted the importance the ANC government attributed to the Act, as it was viewed as one of the important vehicles for service delivery at local government level. The recent Local Government: Municipal Finance Management Act (MFMA), 2004, adopts the same principles of accountability and transparency as the PFMA. However, the MFMA is relevant to the local municipalities while the PFMA is relevant to Provincial and National departments. They are, however, seen as sister pieces of legislation.

1.4 PROBLEM STATEMENT

1.4.1. Reasons for the Study

The study focused on financial reporting in the Department of Community Safety in the Western Cape. Furthermore, the study aimed to evaluate the present financial reporting requirements in the context of whether it added value to the measurable outcomes-based objectives process required by the Public Finance Management Act (PFMA). The study determined the role of the Medium-Term Expenditure Framework (MTEF) in financial reporting, also in relation to the

Department of Community Safety's business plan (strategy) and the measurable outcomes and results.

The White Paper on Transforming the Public Service (WTPPS) 1995 specifies, further,

...that in order to ensure that service delivery is constantly improved, national and provincial departments will be required to outline their specific short, medium and long-term goals for service provision. They will also be required to provide annual and five-yearly targets for the delivery of specific services, and will be required to report to their respective national and provincial legislatures on their achievements (Parliament of South Africa, 1995:12).

Over the last few years, there has been an improvement in the submission of annual audited reports to the national and provincial legislatures. There is however a concern that too many legislatures, particularly at provincial level, are not meeting the reporting deadlines.

1.4.2. Nature of the Problem

The Standing Committee on Public Accounts (SCOPA) raised its concerns in Parliament in 2005 that too many departments at provincial and national level were not meeting basic reporting deadlines prescribed by the Public Finance Management Act. Furthermore, the then Auditor-General (AG) ¹Mr. Shauket Fakie, was concerned that this failure to meet basic deadlines would have an impact on a department's ability to function optimally and to provide a service of quality to the public.

The Department of Community Safety, under the leadership of MEC Leonard Ramalatkane has been struggling for the past few years to submit acceptable financial reports to the AG's office. In fact, the Department's annual reports for 2004/2005, 2005/2006, and 2006/2007 reflect that the Department has, for three consecutive years, received qualified audit reports. In 2007, the SCOPA

¹ Speech during his tabling of the quarterly reports to Parliament on the 4th September 2006.

instructed the AG's office to conduct a forensic audit of the Department in an attempt to understand the problems besetting the Department.

1.4.3. Problem Statement

The problem being investigated in this study is;

1. Understanding the reasons for the Department not meeting its reporting deadlines;
2. Understanding the reasons for non-compliance with the PFMA with regard to standards of financial reports;
3. Investigate reasons for the misalignment between the decentralisation of budgets and financial reports and the Departments strategic objectives;
4. Evaluate the financial reporting on non-financial and financial performance indicators, and
5. Understand the extent to which the Department complies to the PFMA conditions of measurable outcomes based objectives budgeting and finance reporting.

1.5 RESEARCH OBJECTIVES

1.5.1 Research Aims

The aim of the study was to investigate the challenges the Department of Community Safety in the Western Cape was facing with regard to the financial reporting provisions that are explained in the Public Finance Management Act of 1999. In addition, the study sought to investigate decentralization of budgets and the alignment of budgets to the Department's strategic goals. The study has presented a set of recommendations that could be considered to improve reporting requirements and provide a better understanding of how to meet budgetary outcomes and objectives.

1.5.2 Research Questions

The research questions were designed with the intention of extracting information that would assist the study to better understand the PFMA. The research questions explored the challenges with regard to the impact of the PFMA on the Department. The research questions investigated the challenges that were presented to the Department and how the Department responded to these challenges. Furthermore, the research questions contextualised the history of the financial reporting requirements and the budgeting processes prescribed by the Exchequer Act.

The research questions took the form of an interview schedule to conduct the fieldwork for the study. The interview schedule comprised of four sections with 23 questions. The interview schedule focussed on:

- Historical context,
- Budgeting processes,
- Financial reporting, and
- Performance Management



1.5.3 Research Objectives

The primary objective of this study was to provide options for the improvement of effective and efficient financial management by improving financial reporting requirements and service delivery. The purpose of the study was to:

1. Provide a theoretical perspective of public financial management and financial reporting in government;
2. Provide an overview of policies and legislation in the South African Public sector with special emphasis on the Public Finance Management Act (PFMA);

3. Record and develop a case study of the financial reporting in the Western Cape Provincial Government's Department of Community Safety, and
4. Develop a set of research findings based on theory, application and practice.

1.6 LITERATURE REVIEW

Sufficient research and policy exists as evidence that the government has consulted broadly in an attempt to formulate the most appropriate and effective Act possible to regulate the three spheres of Government (Gildenhuys, 1997; Erasmus, 1997; Department of Housing annual reports 2001/2002; MTEF and PFMA to mention but a few). Extensive research and policy papers were also commissioned from Non-Government Organisations (NGO's), Community-Based Organisations (CBO's), business and tertiary institutions.

In the past, the Exchequer Act 1975 was the regulatory tool used by the previous government. The Act prescribed rules and systems of expenditures and approval that were centrally based. The budgets were further centralised within departments promulgating a view that Fourie (2002: 101) states as:

- “the view that finances were for financial people,
- the fact that line managers are performing their functional responsibilities, main objectives and activities, and
- the preoccupation of line managers with delivering services.”

A modernisation of the financial management processes of the public sector has since been introduced. The Constitution of South Africa, 1996 (Act 108 of 1996) introduced a radical change from the previous political dispensation. It expects departments to improve the quality of life of all citizens through their departmental policies. Furthermore, with reference to budgets, the Constitution states that all spheres of government must promote transparency, accountability

and effective financial management (RSA Constitution 1996, Section 215:1). The Constitution also prescribes the establishment of a national treasury to ensure transparency and control over expenditure. Legislation in the form of the PFMA (Act 1 of 1999) prescribes the generally recognised accounting practices, uniform classification, norms and standards.

The Public Finance Management Act 1999 (PFMA) was found to:

...regulate financial management in the national and provincial government. It ensures that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively to provide for the responsibilities of persons entrusted with financial management in those governments and to provide for matters connected therewith. The objective of this Act is to secure transparency, accountability and sound management of revenue, assets and liabilities of the institutions to which this act applies.
(PFMA of South Africa, 1999:2)

The PFMA promotes the objective of effective financial management in order to maximize delivery through efficient and effective use of resources. Therefore the objective of the PFMA is to modernize the financial management systems in the public sector. The PFMA adopts an approach to financial management that focuses on outputs and responsibilities as opposed to the rule-driven approach of the former Exchequer Acts.

The post-1994 era challenged the South African government at national, provincial and local level. It was faced with a huge budget deficit and an economy that had shown little to static growth. The study focuses on financial reporting in the public sector and whether the present system in South Africa (SA) is adding value to the measurable outcomes-based objectives process as required by the Public Finance Management Act (PFMA). The current study will determine the role of the Medium-Term Expenditure Framework (MTEF) in financial reporting, and in relation to the business plan (strategy) and measurable outcomes and results.

The MTEF was adopted in 1998 as part of a wide package of budget reforms. The MTEF is a tool to “encourage cooperation across Ministries and planning over a longer horizon than the upcoming fiscal year. This approach is preferable to reactive, short-term decisions that characterised the Exchequer? Act. It -

- Enhances stability by letting provinces and national Ministries know what resources will likely be available to them in future years.
- Enables more credible and accurate government planning.
- Encourages investment, by making taxation, interest rates, and government spending more predictable.
- Improves transparency, by making government’s long-term policy goals and overall strategy available to the public.
- Outlines future spending and provides a signal to civil society and the public at large of government’s priorities and how it intends to address them.
- Eases programme evaluation, by providing a baseline for assessing the effectiveness of the past year’s programmes.

One of the traditional cornerstones of democracy is the fact that each political representative, as well as each public official, is subject to accountability. This means that each of them should give account in public of his or her activities. It is generally accepted that political representatives and public officials should display a sense of responsibility when performing their official duties: in other words, their conduct should be beyond reproach so that they will be able to account for their acts in public (Cloete, 1986:17). Accountability can be viewed from different points of view: The Public Administration Dictionary (Fox & Meyer, 1995: 1) defines accountability as:

The responsibility of government and its agents towards the public to realize previously set objectives and to account for them in public. The commitment required from a public official to accept responsibility for his actions or inaction. The obligation that a subordinate has to keep his or her superior informed of the execution of responsibility.

Transparency and openness are principles of governance that require officials to act openly. They show that government officials have nothing to hide and that all decisions and transactions can stand up to public scrutiny. Sekoto and Van Straaten (1999:11) argue that openness and transparency promote a customer-focused approach. This would place citizens in a position where they can contribute to the improvement of service delivery by obtaining the correct information to enable them to assess the government's performance. For the purpose of this study, transparency and openness will be placed in the context of accountability and responsibility towards meeting objectives and outcomes as stated in the PFMA.

Monitoring and evaluation is an analytical policy method used to produce information about past causes and consequences of policies. Ismail, et al (1997:153) state that government must, during and after the policy implementation phase, monitor and evaluate the overall performance of its policies to get an idea of the effectiveness and efficiency aspects of policies and programmes. Monitoring and evaluation also serve as indicators as to what objectives and outcomes have been achieved and what the shortcomings are. Monitoring and evaluation are necessary corrective tools as they ensure accountability. If there are any shortcomings or deviations then they can be channeled into the policy process for corrective action.

The Public Administration Dictionary (Fox & Meyer, 1995: 41) defines efficiency as the "... primary objective of administrative science. The term conjures up images of clear-cut comparisons of costs with the value of outputs, profit (or

benefit) maximisation and cost minimisation (or recovery), lean and mean operations.” Efficiency is one of the components of a performance audit. A performance audit broadly assesses if value for money has been achieved in relation to the service delivered. Gildenhuys (1997:501) defines efficiency:

... as the relationship between goods and services rendered and the resources used for them. Efficiency shows the maximum results for any given combination of resources or uses the minimum resources for any given quantity and quality of goods and services rendered.

One of the key aspects of the Public Finance Management Act is to provide information on a regular basis to management, the appropriate Minister, the National Treasury, Cabinet and Parliament. Fourie (2002:120) argues that reporting can be considered according to two basic principles. Firstly, there is reporting with regard to strategic issues on a quarterly basis to the Minister; this reporting must evaluate the extent to which the objectives have been met against the performance indicators that were set in the budget documents to Parliament. This reporting also forms the basis of the annual report of the department to Parliament. Secondly, we have reporting to the Minister and Treasury on a monthly and quarterly basis on expenditure and revenue figures against the budgetary provisions.

A detailed literature review is undertaken in Chapter 2 and 3. Chapter 2 presents a theoretical overview of public finance management, sourcing international, regional and national literature. Chapter 3 addresses the policy and legislative requirements for financial reporting in the South African public sector.

1.7 RESEARCH METHODOLOGY

The research methodology had a qualitative approach. This study had a qualitative approach that was typically used to answer questions about the complex nature of phenomena (in real settings), often with the purpose of describing and understanding the phenomena from the participants' point of view as explained by Leedy (1985:101). The qualitative approach will help bring about

a better understanding of complex situations as to the value of the PFMA at both National and Provincial level. It is for this reason that a case study, interviews, questionnaires and focus groups were used for data collection.

The purpose for developing a case study was to "...encourage purposeful, critical, reasoned thinking to improve analytical skills and to focus on problem-solving" (Brynard, 1999: 7). The case study had a pedagogic approach but should not be viewed in isolation but as an integral part of problem-solving and analytical thinking. The case was open-ended so as to present choices to public sector officials and encourage greater engagement. The case study was one of preciseness and brevity. Although the case is specific to the Department of Community Safety in the Western Cape, it does not mean that findings and recommendations cannot be taken from the case study and applied elsewhere. Case studies can be complex because they generally involve multiple sources of data.

Yin (1983:23) best describes case study methodologies when he talks about case study research methods as an empirical inquiry that investigates contemporary phenomenon within its real-life context. This occurs when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used.

A frequent criticism of case study methodology is that its dependence on a single case renders it incapable of providing a generalizing conclusion. Yin (1993:40) presented Giddens' view that considered case methodology 'microscopic' because it 'lacked a sufficient number' of cases. Hamel et al (1993) and Yin (1994:41) forcefully argued that the relative size of the sample whether 2, 10, or 100 cases are used, does not transform a multiple case into a macroscopic study. The goal of the study should establish the parameters, which then should be applied to all research. In this way, even a single case could be considered acceptable, provided it met the established objective.

An interview schedule was used in personal interviews and had the advantage of being flexible and ensured that the respondent understood the questions and purpose of the study. The interviews were recorded and translated for analysis. Telephone interviews were conducted with some secondary participants for the study. The study partially dedicates Chapter 4 to methodology of the case study and contextualises the Department of Community Safety within the Province.

Although some problems were encountered during the research fieldwork, the methodology was adapted and research information was gathered through a target-intensive focussed desktop study.

1.8 LIMITATIONS OF THE STUDY

The study is limited to the Department of Community Safety within the Western Cape Provincial Government. Furthermore, this study was focused on certain key and senior management, and therefore the study did not include the views and opinions of all staff dealing with entry-level transactions. Due to its Provincial focus, general conclusions cannot necessarily be drawn for comparison against other national or provincial departments.

In the process of conducting the study, the department experienced a high turnover of staff. The department endured three different Heads of Departments and two Directors of Finance resigned within the space of a 12-month period. The Department's MEC was in the local and national media for all the wrong reasons, and the Department received its third consecutive qualified report. Staff were very reluctant to participate in the study. Consequently a limited number of interviews were conducted.

The limitations of the study are therefore:

- Confined to the assessment and findings applicable to the Department of Community Safety in the Western Cape,

- Confined to financial reporting in the Department of Community Safety and necessarily to national Departments,
- Limited because the study is only focused on financial reporting and did not cover other financial issues, such as financial systems.
- Limited to conforming to financial reporting criteria as stipulated in the PFMA,
- Limited to a specific South African focus on financial management and cannot be generalised to Africa or globally
- Confined to a specific approach on financial reporting for financial managers in the public sector, and is not applicable to other sectors such as the NGOs and CBOs.

1.9 SIGNIFICANCE of STUDY

The enactment of the Public Finance Management Act of 1999 brought with it many challenges. It did not change the manner in which people conducted the financial affairs of the government. The change in legislation did not necessarily bring about redress in the allocation and reporting of resources. The study shows that decentralisation of the budgets remains a challenge more than ten years into the new dispensation. In addition, many departments at national and provincial level have not yet conformed to the Public Finance Management Act.

The outcome of the study would be to evaluate the progress that the Department has made with regard to the research problem. Useful information may be provided for all those who are responsible for the financial reporting and budgeting of other provincial and national financial directorates.

From an academic point of view, the study provided guidelines for those considering ways of improving financial reporting methods in the public service. The study also provides guidelines for effective ways of decentralising budgets.

In addition, by focusing on the various academic literatures, policies and legislation, the study makes a contribution to academia and provides useful insight to practitioners.

The study presents a set of recommendations to public sector officials and decision-makers that should improve reporting requirements and provide a better understanding of how to meet budgetary outcomes and objectives. It is hoped that this study will make a positive contribution towards improving the effective and efficient use of scarce resources. This would include the measurement of value for money and meeting legislative requirements, for example, meeting reporting deadlines.

1.10 OUTLINE OF THE CHAPTERS

An outline of the remaining chapters of the present study is presented as follows:

Chapter 1: Introduction and Background

Chapter 1 gives a broad overview of the study and introduces the reader to the research statement, problem and objective. The Chapter gives a synopsis of the literature and theoretical framework, and introduces the research methodology. Lastly, the chapter concludes with the limitations of the study.

Chapter 2: Theoretical overview of public finance management:

This chapter provides a theoretical perspective of public sector financial management and reporting in government. The chapter focuses on academic literature, NGO and CBO reports and articles as well as annual reports from departments such as Treasury and the Auditor-General's comments.

Chapter 3: Overview of legislation and policies:

This chapter provides an overview of policies and legislation in the South African Public sector with special emphasis on the Public Finance Management Act

(PFMA). In addition, the PFMA and the white papers on public service transformation form part of the overview of policies and legislation.

Chapter 4: A case study of the Department of Community Safety.

The study recorded and developed a case study of the financial reporting in the Department of Community Safety in the Western Cape Provincial Government (WCPG). In this chapter, the data collected through the research methodologies will be recorded and presented as useful information.

Chapter 5: Discussion of Findings:

In this section the findings of the research are presented, linking primary and secondary research in an analytical approach. This included presenting research findings based on theory, application and practice.

Chapter 6: Conclusion and Recommendations:

In the final chapter, the findings of the study are summarized and linked to the aims and objectives of the study in Chapter 1. The study is concluded with a practical set of recommendations for decision-makers and practitioners.

1.11 CONCLUSION

It has been concluded that the research investigation has been on a sound problem statement and that the research objectives and research methodologies used have been adequate to ensure that the findings were valid and meaningful. The following Chapter focuses on the theoretical frameworks of public finance management.

CHAPTER 2

A THEORETICAL OVERVIEW OF PUBLIC FINANCE MANAGEMENT

2.1 INTRODUCTION

Chapter 2 provides a theoretical overview of public finance management in South Africa. This chapter provides an understanding of the principles and key concepts that are used in public finance management and public finance. Public sector managers play a critical role in public financial management. Their understanding of the regulatory frameworks, rules and regulations that guide public financial management is of critical importance. Furthermore, the Chapter discusses the options of how public managers can best utilise resources for innovation and bringing about positive change to the public sector.

Before focusing on the theoretical perspectives, it should be noted that, in South Africa, the Public Finance Management Act (1999)² sets the legislative framework for public sector managers and officials. Included in this framework are the key principles highlighting the importance of democratic processes, predictability (stability), transparency, accountability and value for money as well as monitoring and evaluation for government to attain value for money. The value-for-money concept is unpacked through the three E's, namely, Efficiency, Effectiveness and Economy. The government is committed to economic development and all the supporting legislation and policy are designed to improve government's fiscal position and encourage economic investment and development. Economic policy and the development of financial management shows that government's fiscal stance aims to place growth and development on firm foundations for the years ahead. The Budget Review (2003:53/54) explains that the revenue and expenditure of government affects the economy both

² Act No 1 of 1999 as signed by the President of South Africa on the 2nd March 1999

through the contribution of spending to meet social and economic objectives, and through the impact of key fiscal aggregates on economic development. An appropriate example would be the infrastructure development that is being undertaken for the Fédération Internationale de Football Association (FIFA) World Cup in 2010. One of the priorities on the provincial government's agenda are not only the social and economic spin-offs related to the 2010 World Cup, but the crucial task of sustaining and maintaining the stadiums in the provinces.

Internationally, the decade of the 1990s saw a series of financial crises on a scale and frequency unprecedented in the post-war period. The economic costs were high, spillover effects were widespread and the political and social consequences were severe (Crockett 2004:36). This resulted in calls for the reform of international financial architecture. All of this had major implications for the architecture of the international monetary system. It meant that the rules which govern international financial relations, and the institutions that monitor them, have to be directed towards improving the foundations of capital markets. It is in this regard that South Africa has excelled. Its financial institutions are widely regarded as one of the more sophisticated in the developing and developed world. The public financial management legislation has also enjoyed similar positive reviews from organisations such as the Bretton Woods Institution. The South African policy makers are fully aware that there is a lot of hard work ahead in improving and building on the solid foundation that has been laid for effective accountability and a strong ethos of sound governance.

2.2 FINANCIAL MANAGEMENT AND PUBLIC SECTOR FINANCE FOR PUBLIC SECTOR MANAGERS

Governments provide valuable goods and services on behalf of the public that businesses or individuals are unwilling or unable to independently provide. According to Musgrave (1959:5), government provides three economic values. Firstly, "stabilisation and growth, which involves the prevention of unemployment and inflation and provision for increases in the standard of living for citizenship."

Secondly, “distribution is the correction of perceived injustices in the distribution of wealth in society, presumably to improve the conditions faced by the well-to-do.” Thirdly, “the allocation represents the provision of public or collective goods. The challenge for government is therefore the creation of employment opportunities while stabilising factors such as inflation to ensure that there is consistent provision of basic goods and services. It is a challenge that the South African government has accepted and is working diligently to achieve through the adoption of macro-economic and micro-economic plans, for example, the inflation targeting strategy employed by the National Treasury and the Reserve Bank of keeping inflation at 3% to 6%.

Jones and Pendlebury (1996:31) noted that, for many parts of the public sector, systems of expense centres, profit centres and investment centres are being introduced. According to Jones and Pendlebury, public sector techniques in general may not necessarily be to utilize business sector techniques such as cost-volume profit analysis, standard costing, profit and loss, and return on capital employment. Public sector techniques should focus on efficiency, effectiveness and economy which should at least be taken into account. The objectives may vary between organisations, but all must cope with the problem of scarce human, capital and raw material resources. In order to remain competitive in acquiring and optimally utilising these resources towards reaching the objectives, managers must adhere to policies or decisions about strategies to be pursued or rejected. They must also plan what, how and when activities serving the strategies should be executed. Furthermore, managers should organise to determine who should do them, provide direction in the implementation of activities, and ensure that the activities are correctly executed and the objectives achieved through control and evaluation. But, in order to carry out these management functions, managers require information. According to Jones and Pendlebury (1996:17), it is with the provision of such information that management accounting techniques and skills are concerned. It is through the provision of information that public sector managers may be innovative in financial resource management.

In South Africa, and in particular the public sector, the skills associated with management of information and accounting techniques is in short supply. It is only recently that senior government vacancies or new employment positions have been competed for in an open market³; previously this was reserved for in-house promotion. This led to a stagnation of skills and a resistance^{???} to new ideas. This problem still plagues government as people generally instinctively resist change. South African financial legislation has been revamped and overhauled but our human resources and skills, the implementing agents, need to be upgraded. In an attempt to address the shortage of skills in the workplace, government introduced the Skills Development Act (SDA) which is supported by the Skills Levy Act (SLA) to support and finance this bold training and development initiative. This legislation requires each employee above a certain threshold and each employer to contribute to a national fund to improve the skills and knowledge base in the workplace. The Skills Development Act and the Skills Levy Act have been met with some resistance from employers, especially in the private sector. However, in the public sector, the various sector education and training authorities (SETAs) have been plagued with administrative challenges, and this has impacted negatively on the delivery of training programmes. Institutions such as Treasury and the South African Local Government Association (SALGA) have been proactive in developing and delivering, through outsourcing training programmes.

2.2.1 Public Finances

The term “*public finances*” is used to denote the specific interest of economics in the activities of government – not necessarily in terms of its political and social objectives, but particularly in terms of government spending on the economy. This part of economics is known as macro-economics. Visser and Erasmus (2002:4) state that the term “public”, however, is confusing and makes it difficult to establish what belongs in the realm of public financial management and what belongs in the realm of public finances. Reed and Swain (1997:4) argue that

³ In this context open market refers competing for the advertised post.

macro-economics and public finance are theoretical fields within economics. Public finance, as discussed by an economist, is concerned with economic principles as they relate to the public sector which impacts on the private economy, specifically the allocative, distributive, and regulatory impacts of public budgets. Public finances could also be termed as the finances of the public sector. However, this cannot exclude the principle that public finances should be managed according to economic principles. This does not mean that government officials, if they apply economic principles, deviate from public finance. They are functioning within a public sector environment, employing economic techniques in the execution of their duties and functions.

The definition and understanding of the concept “public finances” is probably best summarised by Trotman-Dickenson (1996:3) who states that economics of the public sector lies in the field of study of political economy and economics of the public sector which involves the study of public finance, government’s policies and its role in the industrial sector of the economy.

2.2.2 Innovative Financial Resource Utilization

Innovative financial resource utilization, that is, a value-for-money approach, assumes a certain body of knowledge. Such an approach should in the first place ensure the attainment of objectives in the short and medium term, and the realization of a vision/mission in the long term. The premise in demarcating public finance knowledge and skills is that a mono-sector approach will not fulfill the requirements. Globalization has played its part in the macro-economic performance by contributing to this body of knowledge. It does so, firstly, by determining what revenue can be generated in the short term by means of loans and taxes. Secondly, it provides indicators for medium-term economic development prospects, thereby enabling multi-year fiscal planning. Thirdly, it is necessary to understand why public management decisions, in relation to how services are to be rendered, can affect economic development (Manual,1999(a) and Todora,1994:611).

Innovative financial resource utilisation can also not be conceptualised in terms of the accountancy professions only. It is acknowledged that accounting practices should, firstly, provide the framework by which financial resources are managed. These should be reconcilable with Generally Accepted Accounting Practices (GAAP) in order to ensure public-private and local-international comparisons. Secondly, financial information systems must allow real-time availability of financial information to both financial specialists and line managers (Correia, et al., 1993:6). Thirdly, comprehensive auditing must monitor regularity in financial transactions and value-for-money spending of resources (Jones and Pendlebury, 1996:205,220). Fourthly, cash flow management and knowledgeable investment can make a significant contribution towards increasing available revenues (Gildenhuis, 1993:545).

However, the most critical component falls within the public policy and management field. Firstly, appropriate financial policies should be formulated and cast in legislation to create an enabling environment for high-performing public sector entities. Secondly, political policy makers must be efficient in terms of allocation, and in ensuring the right mix and appropriate sequencing of services in their endeavour to attain their vision, mission and objective. Political authorities must therefore formulate the right 'What's' and translate them into budgets, but in such a manner that the detailed 'How's' are left to high-performing public managers. Thirdly, these public managers must utilize the available resources legally and wisely (Popovich, 1982:23). It is important that public managers relate to the public context and relay that to interface with the financial specialists involved with fiscal planning, revenue and expenditure management, cash and debt management.

2.3 FINANCIAL PRINCIPLES AND KEY CONCEPTS IN THE PUBLIC SECTOR

Before discussing and explaining the relevant principles and key concepts with regard to public finance management in the public sector, it is important to

understand what public finance is all about. Is it a discipline of Economics, Management and Finance or are they intertwined in a complex and exciting field of study?

This theoretical section of the Chapter will pay particular attention to all relevant and fundamental principles of public finance management. To fully understand the environment of the public finance sector, it will briefly address the democratic processes that lay the foundation for the accountability of elected officials in a bureaucracy. The key principles of economics and contemporary finance are explored. This provides a clearer understanding of public sector finance and the efficiencies or lack thereof within the public sector. A large section of this chapter is dedicated to accountability which forms the backbone of the democratic and participative processes. Accountability cannot be discussed without monitoring and evaluation in assessing the value-for-money concept, that is effectiveness, efficiency and the economic use of resources.

2.3.1 Economics and contemporary public finance

Economics of the public sector are located within the field of study of the political economy and economics of the public sector, and involves the study of public finance, government's policies and its role in the industrial sector of the economy (Trotman-Dickenson 1996:3). Public finance relates to the finances of the state in a multidimensional way. Public finances is manifested in the budget, which is financed mainly through taxation. Taxation implies that certain moneys are collected from the total money available in a country. The problem with this theory is that it implies that public finance is in the field of economics. The study of economics does not cover government budgets and the management of its financial processes and procedures (Visser and Erasmus, 2002:7). Therefore the study of public finance is not a pure stream of economics, although the government is a major role-player in the economy. The traditional understanding of economics concerns the efficient and effective use of scarce resources to deliver a service and/or product. In the South African context, but not exclusively

so, another attribute is added through the PFMA, that is, the equitable use of resources. The equitable use of resources was particularly added as a result of the past inequalities with regard to the distribution of resources. Economics in the public sector is primarily about the efficient and effective use of resources to deliver economic and equitable services and/or products.

Contemporary public finance management developed from financial administration, which forms part of public management and administration, is the more acceptable approach to public finance management practitioners. When discussing contemporary public management, it is worthwhile to look at what McKinney (1995:1) says about public financial management. He noted that it is the process whereby a government unit or agency employs the means to obtain and allocate resources and/or money, based on articulated priorities, and then utilizes methods and controls to effectively achieve publicly determined needs. South Africans are considered to be wasteful in their use of resources, be it their overindulgences in material goods or unappreciativeness of the skills they have. The challenge for South Africans is to be less wasteful as they have a history and a culture that has evolved over the years of not managing their resources effectively or efficiently in delivering much-needed public services.

2.3.2 Democratic processes

Contemporary authors such as Fox and Meyer (1995:15) called representative democracy “incredulous” because it relies on a model whereby elected representatives act for and are accountable to the people, while unelected officials are controlled by means of a hierarchy and a chain of command. Naturally there are many weaknesses in such a model, for example, political candidates will compete in terms of images rather than on substance and on re-election often becomes automatic, though people are generally unhappy with the legislature’s performance.

Representative democracy fails if reliant on the so-called orthodox systems of management. Orthodoxy entails hierarchial and bureaucratic control and a proliferation of laws and rules. If, however, democracy implies more than just the ability of citizens to cast their votes once in a while, it is indeed the best form of government. Therefore, Hollis and Plokker (1995:49) argue that democracy and good government should be considered synonymous. Good government in turn is based on popular sovereignty (implying conditional authority only for government), the separation of powers, the rule of law and representation with active people's participation. Good government is about ensuring responsive delivery, social stability and promoting a set of values in the context of diverse interests and concerns (Mahlangu, 2000:29). South Africa's young democratic fundamentals are soon to be tested as they face their fourth general elections. Elections are to be held towards the end of 2008 and, for the first time in South Africa's short democracy, there is no clear front runner for a presidential candidate. Instead, the leading political party, the African National Congress, is being ravaged by internal politics as the fight for the presidency gathers momentum.



2.3.3 Predictability

Predictability refers to the legal framework that must ensure stability in order to allow for a rational assessment of risks and costs relating to behaviour and transactions (Fuhr, 2000:66). The constitution of a country ensures that the authority of government is not only controlled by the power of votes, but also by the supremacy of law. The constitution and legislation creates a framework that is both regulatory and enabling, but it also means that it provides a degree of reliability and predictability upon which systems supporting financial management can be based (Burger, et al 2006:22). Predictability has many economic spin-offs, especially from an investor's perspective. South Africa has for some time been trying to attract meaningful and significant foreign direct investment to its shores. With a predictable economic, political and social environment, it

enhances the investment climate as well as foreign and local confidence in the country.

2.3.4 Accountability and public finance management

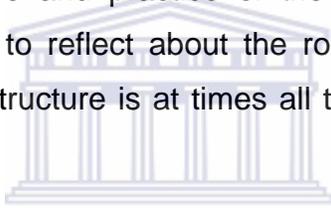
One of the traditional cornerstones of democracy is the fact that each political representative, as well as each public official, is subject to accountability. This means that each of them should give account in public of his or her activities. It is generally accepted that political representatives and public officials should display a sense of responsibility when performing their official duties. In other words, their conduct should be beyond reproach so that they will be able to account for their acts in public (Cloete, 1986:17). Democracy entails accountability for the exercise of power. Accountability also involves constructing appropriate systems that allow decisions to be taken in a context that promotes honesty and productivity (McGee 2002:9). South Africa's whole system of government – executive, legislative and judiciary – is part of the accountability mechanisms existing within a state. Accountability can be viewed from different points of view: The Public Administration Dictionary (Fox & Meyer, 1995:1) defines accountability as:

- “The responsibility of government and its agents towards the public to realize previously set objectives and to account for them in public.
- Commitment required from a public official to accept responsibility for his/her actions or inaction.
- The obligation that a subordinate has to keep his or her superior informed of the execution of responsibility”.

Accountability is therefore a personal obligation, not only of the appointed departmental accounting officer, but of all other officials as well. Each public office-bearer should therefore display a sense of responsibility in executing his/her official duties and even beyond that, namely to display absolutely

irreproachable ethical behaviour (Burger, 2002; Gildenhuis, 1993:56). Accountability is not primarily about control and catching people out in illegal practices of course, one must have control systems in place that are capable of doing this but about instilling or reinforcing an ethos of legal compliance and efficient practice (McGee 2002:10).

Accountability is the process of requiring people to account for their actions. Many public service organizations are required by law to provide information to service users, citizens and government. Systems must be in place which define aims and objectives and which monitor how resources have been used to achieve them. Doherty and Horne (2002:327) state that accountability is not simply about apportioning blame or praise. Accountability raises fundamental questions about the purpose and practice of the public service organization. Introspection and the need to reflect about the role accountability plays in an organization's governance structure is at times all too easily ignored by officials and politicians alike.



There are many forms of accountability in public services because there are many stakeholders to whom a public service might be accountable. It is useful to distinguish between upward accountability, sometimes through a political process, and downward accountability, usually to the users of public services.

2.3.4.1 Upward Accountability

Doherty and Horne (2002:328) see upward accountability as elected representatives, or representatives of different interest groups, participating in a committee that is responsible for the public service. In this instance, public service managers report directly to the committee. Members of public service committees raise their own personal concerns and also raise concerns on behalf of the people they represent. This committee provides a platform for public discourse about the performance and development of the public service.

2.3.4.2 Downward Accountability

Public services may be required to account downwards to local citizens or local people who are users of the service. Doherty and Horne (2002:330) point out that, in some public services, users are not just consulted, they are actively encouraged to participate in decision-making and the delivery of services. There are limitations to this model of downward accountability, as this model implies that private sector principles and models of private sector governance structures are not suited for the public sector. Ferlie, et al, (1997:222) concluded that such reforms have eroded traditional channels of public accountability. In South Africa, can the same be said about the Public-Private Partnership (PPP's) programme that government initiated a few years ago? Has the outsourcing of public service delivery been successful? It is not the purpose of this study to answer the above questions but it would be interesting to see, if through the PPP, downward accountability actually became upward accountability.

2.3.5 Transparency

Transparency and openness are principles of governance that require officials to act openly. It shows that government officials have nothing to hide and that all decisions and transactions can stand up to public scrutiny. Sekoto and Van Straaten (1999:11) argue that openness and transparency promote a customer-focused approach by placing citizens in a position where they can contribute to the improvement of service delivery by obtaining the correct information to enable them to assess the government's performance. For the purpose of this study, transparency and openness will be placed in the context of accountability and responsibility towards meeting objectives and outcomes as stated in the PFMA. Transparency refers to the availability of information to the general public and clarity about rules, regulations and decisions. It therefore complements and reinforces predictability (Asian Development Bank, 2004). Transparency is evident in the legislative structures that provide for a participative process in the compilation, for example, of the budget. The Local Government: MFMA and the

Local Government: Municipal Systems Act (2000) clearly defines the process of compiling a municipal budget. For a budget to be credible, stakeholder participation is of utmost importance. South Africa is challenged to this end as there are far too many instances where stakeholder participation is seen as an irritation rather than a necessity.

2.3.6 Monitoring and evaluation

Monitoring and evaluation is a policy analytic method used to produce information about past causes and consequences of policies. Ismail, Bayat and Meyer (1997:153) state that government must, during and after the policy implementation phase, monitor and evaluate the overall performance of its policies to get an idea of the effectiveness and efficiency aspects of policies and programmes. Monitoring and evaluation also serve as indicators of what objectives and outcomes have been achieved and what the shortcomings are. Monitoring and evaluation are necessary corrective tools as they ensure accountability. If there are any shortcomings or deviations, they can typically be channeled into the policy process for corrective action.

McGee (2002:36) argues that the public sector traditionally reported in its financial statements and the revenues collected under authority granted by Parliament and the expenditure of resources appropriated to it by Parliament. The Auditor-General's audit was to ensure, on a test basis, that these statements fairly represented the financial transactions of the government, that public money was properly accounted for, and that appropriated funds had been expended only for the purposes of the parliamentary appropriation. However, post-apartheid and 1994, there have been demands to know more about performance and results, rather than merely accounting for legality and propriety in public expenditure or for only reporting on output and activities. Consequently, and paralleling developments in the public sector financial management generally, the role of the public audit has expanded from a concentration on the inputs used by the public sector to a concern with what governments are actually producing –

their outputs. Thus a whole range of management tools for ensuring good public sector performance has come into existence, through the shift of emphasis from a focus on inputs and a process-based accountability, to a focus on outputs and a results-based accountability. McGee (2002:37) furthermore highlights the shift in the Auditor-General's role in stating that his role has expanded from being an auditor of the public accounts and financial transactions of the state to that of a promoter of organisational performance. The PFMA wants to establish if government is getting value for money as part of its legislative mandate. In South Africa, national, provincial and local government has struggled to conform to this shift of reporting strategy. Central to this study is the attempt to unravel the problems plaguing the government departments in their failure to report in line with the legislative requirements in this respect.

2.3.7 Corporate Governance

The introduction of the concept "governance" into development is generally attributed to the World Bank and its 1989 paper on *Long-Term Perspective Study on sub-Saharan Africa* (Crawford 2006:117). He continues to highlight that in the context of poor results from structural adjustment programmes in Africa, a new departure was evident with the assertion that underlying the litany of Africa's development problems is a crisis of governance and that Africa needs not just less government but better government. (World Bank, 1989: 60) Therefore, whereas implementation had previously been regarded as simply a matter of political will, the attention has now shifted to the nature of government and to the introduction of political and administrative reforms.

Monitoring and evaluation must be seen in the broader context of corporate governance. Establishing a code of conduct for managers and business/organisational leaders in South Africa was of paramount importance. The first King Report in 1994 was hailed as the 'bible' for corporate governance, also in South Africa. This report has since been updated in March 2002 and has replaced the 1994 report. Cadbury (1999) explains that "Corporate governance is

concerned with holding the balance between economic and social goals and between individual and communal goals ... the aim is to align as nearly as possible the interests of individuals, corporations and society.” To this end, the King Report (1994) went beyond the financial and regulatory aspects of corporate governance in advocating an integrated approach to good governance in the interests of a wide range of stakeholders having regard for the fundamental principles of good financial, social, ethical and environmental practice. Corporate governance principles were developed, *inter alia*, because investors, with the era of the professional manager, were worried about the excessive concentration of power in the hands of management (King, 2002). This protection against greed could encourage the sins of sloth and fear, with an erosion of enterprise and an encouragement of subservience. A balance is needed. ‘Tomorrow’s Company⁴ in the United Kingdom’ developed the concept of three corporate sins, namely *sloth*, being a loss of flair when enterprise gives way to administration; *greed*, when executives might make a short-term decision because it has greater impact on their share options and bonuses, than a decision that might create longer-term prosperity for the company; and *fear*, where executives become subservient to investors and ignore the drive for sustainability and enterprise.

The King Report (2002:14) concludes that the significance of corporate governance is now widely recognised, both for national development and as part of international financial architecture, as a lever to address the converging interests of competitiveness, corporate citizenship, and social and environmental responsibility. It is also an effective mechanism for encouraging efficiency and combating corruption. Companies are governed within the framework of the laws and regulations of the country in which they operate. Communities and countries differ in their culture, regulation, law and generally the way business is done. As a consequence, as the World Bank has pointed out, there can be no single generally applicable corporate governance model. The King Report is also relevant to the public sector as the same principles of good corporate

⁴ www.tomorrowcompany.com

governance have been adopted. In South Africa, the public sector has different monitoring and evaluation instruments such as the Standing Committee on Public Accounts (SCOPA) in relation to the private sector monitoring instrument, for example, the Financial Services Board (FSB). Both these bodies, however, are tasked with ensuring transparency, accountability, responsibility and conducting their organisations within the principles of good corporate governance. Since 2005, the Presidency has also introduced a government-wide monitoring and evaluation system, at national and provincial levels, aimed at measuring government's performance across sectors.

2.3.8 Efficiency

The Public Administration Dictionary (Fox and Meyer, 1995:41) defines efficiency as the "... primary objective of administrative science. The term conjures up images of clear-cut comparisons of costs with the value of outputs, profit (or benefit) maximisation and cost minimisation (or recovery), lean and mean operations." Efficiency is one of the components of a performance audit. A performance audit broadly assesses if value for money has been achieved in relation to the service delivered. Gildenhuys (1997:501) defines efficiency,

...as the relationship between goods and services rendered and the resources used for them. Efficiency shows the maximum results for any given combination of resources or uses the minimum resources for any given quantity and quality of goods and services rendered.

Sheldon (1996:5) describes efficiency as attaining the best possible use of scarce resources to complete a job. Efficiency can therefore be defined as doing things the right way. The South African Revenue Service (SARS) seem to personify efficiency in its daily operations and in particularly with the annual tax assessment period. Under the leadership of the National Treasury, SARS has annually outperformed its revenue-collecting targets. Furthermore, its response time to individual and company tax assessments has consistently improved to a point where it can be confidently proclaimed that SARS has become efficient.

However, efficiency will not have an impact on its own; it is closely linked to effectiveness, economy and the equitable share of resources.

2.3.9 Effectiveness

Effectiveness is about achieving outputs or objectives. If the Department of Housing set out to build 100 houses in a fiscal year, effectiveness is about achieving the goal. Effectiveness is rarely an absolute measure. The most important thing to note, however, is that the degree of effectiveness says nothing about how much was spent to achieve its goal. According to Sheldon (1996:6) effectiveness refers to the selection of the best alternative method of achieving management objectives. Furthermore, effectiveness can be measured as actual against planned performance, and therefore, can be defined as the measure of outputs (Venables & Impey 1991:427). For example, Mikesell (1995:186) states that public health agencies seek to vaccinate against childhood diseases not only to get high vaccination counts but also to reduce infant mortality and other consequences of those childhood diseases. The logic is therefore acceptable as it is the outcome that is important, not the output. Effectiveness is therefore about doing the right thing. If SARS is being efficient then the logical conclusion is that they must be effective. Doing things right does not necessarily mean doing the right thing. However, with the example of SARS, they are certainly efficient and effective in the delivery of their service to individuals and companies to which they deliver. With individuals and companies responding timeously with submission of tax assessments, the individual has the facility to monitor and query their tax assessment online and telephonically. However, SARS will be the first to admit that there are still many challenges awaiting them. To deliver a service efficiently and effectively is one challenge but to deliver it through the economic use of resources, that is, value for money, is yet another challenge.

2.3.10 Economic use of resources

Where effectiveness concerns only outputs, economy concerns only inputs. Economic use of resources by government cannot be discussed in a vacuum. It

is part of a sophisticated and intricate worldwide web of finance, financing and economics. Economic globalisation has affected governments and the private sector the world over. Abedian and Biggs (1998:10) argue that global economic integration has far-reaching consequences for fiscal policy formulation and evaluation. In general, integration into the world economy creates additional volatility, engenders extra uncertainty, and destabilizes the political environment. The challenge for governments, especially in developing countries, is to adequately manage limited resources in an economy that is volatile to external socio-economic and political influences. The economic use of resources would imply that there should not be an overindulgence of resources to acquire a certain goal. For example, would it be economical for a mayor to have his or her own aeroplane to fulfill his/her duties? Some may argue that this would be wasteful of economic resources and thus resources spent should be appropriate, or 'economic' to the goal / output to be attained.

2.4 FINANCIAL REPORTING

Against the above background, the issue of financial reporting is of particular importance to this study. In South Africa, uniform Treasury norms and standards, as implied by the Constitution, facilitate the deregulation of financial controls by providing a framework of principles and accountability requirements. The National Treasury Regulations establish fundamental best practice management principles (the norms and standards required by the Constitution), rather than specifying detailed procedures and processes.

The National Treasury assists national and provincial departments with the preparation of quarterly and annual reports by providing a reporting guide for ease of use for the accounting officers and/or authority. This guideline incorporates annual reporting requirements as set out in the various policy documents namely the Constitution, 1996; the Public Finance Management Act (PFMA); 1999, the Division of Revenue Act (DoRA), 2003; the Treasury Regulations, 2002; and the Public Service Regulations, 2001.

One of the key aspects of the Public Finance Management Act is to provide information on a regular basis to management, the appropriate Minister, the National Treasury, Cabinet and Parliament. Fourie (2002:120) argues that reporting can be considered according to two basic principles. Firstly, there is reporting on strategic issues on a quarterly basis to the Minister. This reporting must evaluate the extent to which the objectives have been met against the performance indicators that were set in the budget documents to Parliament. This reporting also forms the basis of the annual report of the department to Parliament. Secondly, reporting to the Minister and Treasury on a monthly and quarterly basis on expenditure and revenue figures against the budgetary provisions.

Management should use the reports to take corrective steps to prevent over-expenditure/underexpenditure and the undercollection of revenue. Furthermore, these reports will form the basis of the regular reporting by Treasury to Cabinet on expenditure and revenue figures against budgets by the national and the provincial departments. The reports also form the basis of the consolidated national and provincial expenditure and revenue figures against budgets that must be published quarterly by Treasury in the *Government Gazette*.

2.5 CONCLUSION

Understanding the world of public finance and economics is an integral part of the development of public sector management. What is of critical importance to understand is that the provisions of legislative frameworks are set by high-ranking government officials and politicians. However, the actual compliance and adherence to the rules and regulations are the responsibility of highly paid professional officials. The accountability remains with the political head of that department. Discussing the various resources available and its utilization should bring a clearer understanding of the political processes and key concepts and principles to the reader. The norms and standards of financial reporting in the

public sector are very prescriptive and have contributed largely to the standardization of financial reports.

The vast area of public finance covers budgeting as well as taxes and revenues. Whicker and Areson (1990:81) explain that public managers must also be concerned with financial management including activities ranging from cash management and the investment of idle funds to debt management. This will include the risk assessment along with the provision of insurance or some method to cover liabilities. Accompanying all these tasks are financial reporting and accounting. In his quarterly report on the submission of financial statements by municipalities and the status of audit reports for the financial year ended 30 June 2005, tabled in Parliament on 4 September 2006 to the outgoing Auditor-General (AG), Shauket Fakie said there had been little change from his previous report. He explained the the slow rate at which consolidated financial statements are submitted for auditing is a matter of serious concern. Furthermore, he stressed that for consolidation to be completed, all the information on municipalities and municipal entities is required to be complete.

It is within this framework, accompanied by the legislative framework provisions, that the study explored the challenges that accounting officers and senior management are faced with in meeting the Public Finance Management Act statutory requirements with regard to financial compliance. The following chapter has a more detailed perspective on South African policy, management and legislative requirements for financial management and reporting in the public sector. Chapter three (3) introduces the analytical framework and introduces the key issues to be investigated.

CHAPTER 3

POLICY AND LEGISLATIVE REQUIREMENTS FOR FINANCIAL REPORTING IN THE SOUTH AFRICAN PUBLIC SECTOR

3.1 INTRODUCTION

Along with the onset of the first democratic elections arose the opportunity for the Government of National Unity (GNU) to revisit all legislative policies, rules and procedures. This chapter focuses in particular on the changes to policy and legislative requirements that affected financial reporting in the public sector. The chapter contextualises the aims and objectives of the previous Exchequer Act and looks at pertinent changes that were effected with the enactment of the PFMA. The Constitution gives us guidance on how public finances are to be managed and the institutions that must be established to regulate the effective and efficient management of taxpayers' money. In this regard, the chapter looks at the roles and functions of the various parliamentary committees including SCOPA and that of Treasury and the Auditor-General's office. Furthermore, the chapter explores various policies and frameworks with regard to the planning and programming of the budget. The chapter concludes with insight into the practical experiences that are to be researched.

3.2 POLICY AND LEGISLATIVE CONTEXT

As a former colony of Britain, South Africa, like other Commonwealth countries such as Australia and New Zealand, adopted the Westminster Parliamentary system. However, South Africa post-1994 had the opportunity to overhaul and improve its system of governance and legislative policies and frameworks. The South African Constitution of 1996 is internationally acclaimed as one of the best Constitutions in the world. What is precisely meant by this, I am not so sure, as it presents a fledgling democracy with huge challenges, given our oppressive

history. The National Assembly⁵ and the provincial legislatures⁶ are required by the Constitution to provide for mechanisms to ensure that all executive organs of the state, within their respective spheres, are accountable to them, and that they maintain oversight of the executive and any organ of state.

Chapter 13 of the Constitution sets the framework of finance guidelines and all preceding legislation takes its policy directives from this chapter. The legislative framework for financial management and reporting in the public sector consists of the Constitution and other overarching guiding documents, *inter alia*, requiring further legislation to establish a treasury, to introduce generally recognized accounting practices, to introduce uniform treasury norms and standards, and to prescribe measures to ensure transparency and expenditure control in the various spheres of government (Burger and Durcharme 2006:17). This framework of legislation should not complicate or undermine financial accountability by the fact that different legislation applies to different entities. However, it is important to set the context for the need for transforming financial management in the public sector.

The foundation for the broader transformation of the public sector is outlined in The White Paper Transforming the Public Sector 1995(WPTPS). The White Paper contextualises the scene for transforming the public sector. The principle aim of this White Paper is to establish a policy framework to guide the introduction and implementation of new policies and legislation aimed at transforming the South African public service. All the new legislation post-1994 aimed at transforming the public sector has taken its lead from the White Paper Transforming the Public Sector. Some of these Acts would include the Labour Relations Act (LRA 1995), The Employment Equity Act (1996), and the Public Finance Management Act (1999) and many others. The scope of the White Paper is guided by the terms of the present Constitution of the Republic of South Africa (Act 200/93), as well as by the agreed policy statements of the

⁵ See section 42(3) and 55(2) of the SA Constitution

⁶ See section 114(2) of the SA Constitution

Reconstruction and Development Programme (RDP) as regards the transformation and developmental roles of the public sector. The White Paper has benefited from an extensive process of discussion and debate both within and outside the public service. This was seen as essential both to the development of a sound policy document and to the forging of a new and more inclusive identity for the public service. The White Paper further developed a vision and mission for the public service, as it aimed to set the policy framework for bringing about meaningful change. The White Paper is a statement of intent. It spells out a number of policy frameworks aimed at improving the lives of the people of South Africa. In meeting the vision, the mission statement gives further impetus to the meaning of improving the lives of all South Africans.

The mission statement depicts the value system that we all should strive for. To bring about equity and fairness is a massive challenge. However, if the government does not make an attempt to transform the public sector, it could face the wrath of its citizens. The White Paper on Transforming the Public Sector as a statement of intent is a fundamental document to the pillars of democracy in South Africa. One of the last acts, but definitely one of the most important, taking its cue from the WPTPS, was the enactment of the PFMA. Before discussing the PFMA, it is important to understand the preceding legislation to fully appreciate the transformation required and brought about by the PFMA. To understand the PFMA, it is important to have some insight into the preceding legislation. The following section discusses the Exchequer Act as a financial management regulatory tool.

3.3 HISTORICAL CONTEXT

The Exchequer Act⁷ was the financial management regulatory tool used by the previous government. The Act prescribed rules and systems of expenditures and approval that were centrally based. Through the Exchequer and Audit Act, financial processes were controlled by centrally prescribed bureaucratic rules

⁷ Act No. 66 of 1975: Exchequer and Audit Act, gazetted on the 23 July 1975.

that allowed little scope for managerial discretion. In fact, it was more financial administration, regulating how money was used to 'buy' inputs, and diverting attention from the delivery of the outputs that the inputs were intended to achieve. This approach did not clearly define responsibilities, and resulted in poor accountability and no value for money. The incremental⁸ (one year) budgetary system undermined planning and their budgets during the financial year, and did little to avoid overspending and under spending. This was compounded by delays in producing financial information, which was often only available well after the end of the financial year (National Treasury, Republic of South Africa, 2000:3).The budgets were further centralised within departments promulgating an opinion that Fourie (2002: 101) states as:

- that finances were for financial people;
- the fact that line managers were performing their functional responsibilities, main objectives and activities, and
- the preoccupation of line managers with delivering services.

This meant that finances were deliberately prepared with the intention of lay people not being able to understand the budget. It disassociates people from finances and the management thereof. This cultivated a culture wherein finances were disliked and to an extent feared as a phenomenon above the ordinary person. This culture created many problems, and still does, to the post-1994 administration as it strives to inform and educate that financial management is the responsibility of everyone.

The 1994 transition to a democratic state brought with it many challenges for managing public finances in South Africa. The new constitutional dispensation laid down a changed structure and distribution of power in the state. This had implications for the way in which public funds were allocated and used. The new

⁸ Incremental budgetary system was used by the previous government; it was designed as a one-year budget, contrary to the multi-year budgets the PFMA stipulates.

government had a critical political commitment to improving the coverage and quality of public service delivery to the majority of the population.

It was only post-1994 that the new government could assess the full extent of the task that lay ahead. The task of basic service delivery to the masses was immense, and the importance of redressing the inequalities of the past was highlighted. In order to redress the racially based distortions of the past, Fölscher and Cole (2004: 109) explain that the annual budgeting system the government inherited provided inadequate tools with which to stabilise fiscal balances and manage the required policy shifts. It was highly fragmented, not only in terms of a de-linking of policy, budgeting and implementation, but also institutionally, increasing budgeting uncertainty, lack of clarity and the scope for budget. The budget process planned and controlled for inputs and cash, with limited opportunity for systematic assessment of the effectiveness and efficiency of spending, or for relating allocations directly to policy. The fiscal policies were not transparent, with poor underlying information systems, hidden spending and inadequate mechanisms to extract good information for use in the budget process and for accountability purposes. The budget process itself was largely incremental, offering insufficient opportunity for the new government to identify ongoing non-priority activities and to create fiscal room for higher priorities. Accountability was procedural⁹, and the system was plagued by deeply entrenched inefficiencies that ultimately led to the misuse and/or abuse of state funds. The visible lack of accountability structures was problematic to the new government. These shortcomings resulted in the government, post-1994, reforming procedures focused on accountability and financial reporting. One of new government's first landmark achievements was the integration of the three spheres of government into the budgetary process.

The highlight of the reform programme has been the roll-out of a new intergovernmental system that requires all three levels of government to formulate and approve their own budgets. In addition to detailing the structure of

⁹ Procedural meaning that there no constant checks and balances in place to ensure sufficient control

the state, expenditure and revenue assignment and setting out key institutions, roles and responsibilities, it establishes the principle of co-operative governance, which set the tone for a consensus-seeking budget process. Chapter 13 s(215) 1 of the Constitution states that the three spheres of government must be involved in the budgetary processes.

3.4 THE CONSTITUTION AND PUBLIC FINANCE

A modernisation of the financial management processes of the public sector has since been introduced. The Constitution of South Africa, 1996 (Act 108 of 1996) introduced a radical change from the previous political dispensation. These changes are directed towards departments improving the quality of life of all citizens through their departmental policies. The Constitution states that all spheres of government must promote transparency, accountability and effective financial management (RSA Constitution 1996, Section 215:1). Chapter 13 stipulates that all money the national government receives must be paid into the National Revenue Fund. Furthermore, that money can be drawn from the National Revenue Fund only in terms of a law of Parliament. The budgets of income and expenditure of all governments in the national, provincial and local spheres must comply with specific requirements; national legislation will prescribe their form. Unlike in other federal and/or decentralised countries, neither the Constitution nor supporting legislation spells out quantitative parameters for revenue sharing, nor does it explore the details of co-operative governance. Fölscher and Cole (2004: 114) states that the Constitution sets out the principles and requires subsequent acts of Parliament to determine how these principles are to be applied and their requirements met. In keeping with this spirit, the supportive legislation enacted in the first years after the 1994 transition also does not primarily legislate specifics, but puts in place sets of institutional arrangements to facilitate the best possible substantive outcome to be found in any given year or circumstance.

South Africa, being a unitary state, is comprised of three interdependent but distinctive spheres of government - national, provincial¹⁰ and local government¹¹. The Constitution assigns to each of the three spheres of government certain functions, which may be concurrent (shared responsibility between spheres) or exclusive (sole responsibility of the unit of government). The national government's main role is policy-making, regulation and oversight. It also administers exclusive functions (e.g. justice, defence and foreign affairs). Provinces are mainly responsible for social delivery, either concurrently with national government (e.g. primary and secondary education, health, social services and housing) or exclusively (e.g. provincial cultural matters, provincial sport, recreation and amenities), while municipalities have localised functions (e.g. storm water management and fire-fighting) and deliver basic services (e.g. water, sanitation, electricity and refuse removal). These provisions of the Constitution regarding intergovernmental relations and the intergovernmental fiscal system are supported by various pieces of legislation enacted in the first years after transition, providing the legal framework for ongoing intergovernmental relations.

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The Constitution also prescribes the establishment of a national treasury to ensure transparency and control over expenditure. Legislation in the form of the PFMA (Act 1 of 1999) prescribes the generally recognised accounting practices, uniform classification, norms and standards. The PFMA was only enacted in 1999 largely as a result of the extensive consultative process that was required to ensure a comprehensive Act that included all stakeholders. Between 1996 and 1999, the Exchequer Act continued to be used as a reference document, but only highlighted the urgency of the need for transforming the public financial management regulatory tool.

¹⁰ nine (9) provinces, created in 1994 out of four provinces and ten so-called homelands and three ethnic administrations

¹¹ two hundred and eighty four (284) municipalities demarcated in 2000

3.5 PARLIAMENTARY OVERSIGHT

Parliament has the oversight responsibility, on behalf of the public, for the executive authority, and therefore needs appropriate mechanisms for reporting by the executive. Parliament as the legislative authority must evaluate and eventually approve all legislation falling in the sphere of government. Ideally, the oversight process should give a complete picture of an entity's performance, encompassing its financial affairs, its systems and its service delivery performance. However, due to the complexities of these different issues, it is unrealistic to expect a single committee to deal with them all. Therefore, In the process of evaluating financial issues, Parliament has established a number of committees. For the purpose of this study, the following committees are considered:

- 
- parliamentary portfolio committees for each department;
 - the parliamentary committee on finance; and
 - the Standing Committee on Public Accounts (SCOPA)

In addition to these oversight committees, opposition parties play a vital role in ensuring that the government of the day is kept in check by playing a watchdog and whistleblower role. Esau (2003:132) explains the important role that the opposition party plays in the oversight of the legislature. They are more of a watchdog than any other committee as they are quick to exploit and highlight in the media any perceived misappropriations by the government. The irregularities within the arms procurement process was raised in Parliament by the leader of the Independent Democrats (ID), Ms. P de Lille, which ultimately led to the conviction and imprisonment of the ANC's chief whip Mr. T Yengeni. The opposition, therefore, can play and should play a critical role in legislative oversight. In the event of an absence of an opposition or a very weak opposition, the fundamentals of South Africa's young democracy could be compromised.

3.5.1 Parliamentary portfolio committees

Parliamentary committees have come into being for more than conceptual reasons. Shaw (1997:505) notes, "... that a mass meeting of legislators is not an outstanding place to get things done", while Bagehot (1963:66) says "... a big meeting never does anything". Therefore a parliamentary portfolio committee is established for each department made up of the various political parties represented in Parliament. The National Assembly (NA) rules of 1999 assist this portfolio committee with guidelines to:

- evaluate the policies of the department through a process of public hearings;
- consider the budget allocations and the alignment of the policies with the budgets;
- visit the department to consult with officials on the functions and the execution process, and may make recommendations for adjustment of the processes, and
- evaluate the annual report and the performance of the department in relation to the objectives and outputs as determined at the beginning of the financial year.

Committees are seen not only as essential to the efficient dispatch of parliamentary matters, but as arenas of specialist expertise developed over a period of time. Portfolio committee members form an integral component of a wider institution, with connections beyond that of interest groups and expert knowledge (Calland 1997:3). The purpose of parliamentary committees is mainly to conduct inquiries into specified matters which include taking submissions, hearing witnesses, sifting evidence, discussing matters in detail and formulating reasoned conclusions.

3.5.2 The Parliamentary Committee on Finance

The Parliamentary Committee on Finance has been established to advise Parliament with regard to issues relating to financial management. National Treasury (2000:50) assists this portfolio committee with guidelines to ensure that the:

- the overall financial principles that are in policy documents are reflected in the budgets;
- budget structures are understood by the parliamentarians;
- macro-economic and fiscal policies are acceptable, and
- budgetary processes are practical.

An important function of committees is to scrutinise government activity including legislation, the conduct of public administration and policy issues. Finance committees may oversee the expenditure of public money and they may call the government or the department to account for their actions. The parliamentary committee on finance plays a vital role in ensuring that parliamentarians are familiar with the processes with regard to budgeting and reporting. Parliamentarians as a result of them not understanding the complexities of finance management and reporting often abandon this key responsibility.

3.5.3 The Standing Committee on Public Accounts (SCOPA)

SCOPA is one organisational form through which Parliament ensures the accountability of government. SCOPA oversees the effective, efficient, economical and transparent management of departments, based on the Auditor-General's report. It also makes recommendations on the improvement of financial management in the government and in departments. For SCOPA to function at all, it requires the information essential to a proper assessment of the governance and performance issues it wishes to address. McGee (2002:35)

states that this information must be provided by the Auditor-General's office. SCOPA may recommend sanctions against accounting officers. SCOPA may also recommend that charges of financial misconduct be brought against officials.

According to the rules of the National Assembly (NA) dated June 1999, SCOPA has the following powers and functions:

- to consider the financial statements of all government departments and constitutional institutions submitted to Parliament;
- to consider any audit report on financial statements;
- to examine any reports of the AG regarding government departments, constitutional institutions or any other public body;
- to examine any other financial statements or reports referred to it;
- to summon witnesses to appear before it; and
- to assess whether value for money has been received.

SCOPA is empowered to initiate any investigation in its area of expertise as well as to report on such investigations to Parliament (Rules of the NA 1999). It is also required to ensure that government departments conduct their business within the framework of the PFMA of 1999. Esau (2003:133) states that the primary mandate of SCOPA is to rigorously assess financial administration in the public sector. Furthermore, she reminds us that in addition to its reporting responsibility to the Cabinet, the National Treasury also reports to SCOPA on improvements in financial management and internal control measures. SCOPA is therefore provided with a wealth of information from a number of independent and reliable sources for it to perform its responsibilities effectively.

3.6 THE PUBLIC FINANCE MANAGEMENT ACT (PFMA)

The PFMA of 1999¹² represents a radical departure from the Exchequer Act 66 of 1975. The PFMA repealed the ten exchequer Acts that previously governed public financial management. It was developed to transform an environment where financial administration was rule-bound and management exclusively input focused, policy and financial responsibilities in departments were separated, where capital resources and liabilities were not properly managed and where there was a great lack of reliable and timely information. Treasuries' resources were devoted excessively to exercising micro-control, with even mundane matters referred to it for approval, and too little in the strategic management of public finances in line with policy and efficiency objectives. In short, there was insufficient practice of functional financial management of public resources in government as a whole.

The PFMA places greater emphasis on accountability for results (outputs and outcomes). The overarching aim of the PFMA is to improve the operational efficiency of government spending, referred to as the value-for-money concept. The pursuit of value for money is being driven by other external factors in the global economy. In a world where capital markets are becoming increasingly integrated, fiscal governance in a country is becoming a key indicator, which is scrutinised by foreign investors in assessing a country's risk (Abedian, 2004:18).

The PFMA put in place a legal framework for modern public financial management, shifting the onus of managing the use of resources from central control to the managers of spending departments and agencies. This mirrors the shift in budget preparation practices from central decision-making to discretion resting with spending departments for programme choices within spending ceilings.

The PFMA is one of the milestones of the government's budget and financial reform agenda. The first reform, such as Gear and the deregulation of many

¹² The Public Finance Management Act that came into effect in April 2000

areas of the economy, was aimed at attaining macroeconomic stability and aggregate fiscal discipline. Secondly, reforms such as the Medium-Term Expenditure Framework (MTEF), the emerging intergovernmental fiscal relations system and the realignment of sectoral policies placed greater emphasis on the allocative efficiency of public resource allocation. The third generation of reforms – of which the PFMA is a part – emphasises operational efficiency (Abedian, 2004). The PFMA essentially locates budgeting and financial management within a performance management framework. Abedian (2004) summarises the main aims of this legislative reform as follows:

- to establish an appropriate link between strategic objectives and expenditure plans;
- to ensure fiscal discipline within the constraints of what can be afforded;
- to promote the efficient use of resources, by decentralising and delegating decisions to where they are best made;
- to improve incentives and empower managers to make effective decisions while at the same time holding public sector executives accountable for their managerial decisions;
- to introduce transparency and promotion of accountability, and
- to introduce accessibility of information and budget estimates.

A budgetary system governed by the above principles is vastly different from what was in place when the Exchequer Act governed fiscal affairs. The extension of the PFMA framework to the local government arena, in the Local Government: Municipal Finance Management Act, is the final piece of the systemic and comprehensive overhaul of the country's fiscal affairs.

Before one can understand the public finance management of South Africa, it is important that one fully understand the budgeting programme and budgeting processes involved in public finance.

3.7 PLANNING AND PROGRAMMING THE BUDGET

It should be noted that all public sector budgets are prepared for a three-year period. It is commonly referred to as a rolling budget. For example, in 1999, budgets were drawn up for the fiscal years of 1999/2000 and 2001/2002. Each year, the process rolls on to include one more year. We should note that although Parliament is presented with three-year budget plans, it votes only for the ensuing year. Budget programming helps departments and provinces to plan with greater certainty because they have a better idea of what their allocations will be for the next three years. It encourages departments to set three-year priorities and to plan further ahead than they did in the past. It also encourages them to enter development contracts that may run over a number of years. It gives the public and other stakeholders a clearer picture of how government intends spending its money.

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The budget process allows government to involve various role-players that provide political and technical advice when faced with trade-offs between competing spending priorities. It starts with national Cabinet determining the policy priorities, and high-level consultation between the Minister of Finance and other members of Cabinet, including provincial finance ministers. In the months that follow, from April to September, the two parallel dimensions of budget preparation take place – the determination of available resources and the preparation of good information on the competing claims on those resources.

The consultation process includes spending departments at national and provincial level preparing their budget proposals; national and provincial Treasuries engaging some departments in discussions on pertinent policy issues, and joint research teams working on specific expenditure issues. In addition to determining national spending priorities, the macro-economic forecasts and fiscal

policy targets are updated to prepare the national budget framework, followed by the vertical and horizontal divisions of revenue. The division of revenue process interacts with both these dimensions, culminating in the MTBPS, tabled in Parliament in late October. National departments and provincial governments are subsequently informed of their allocations. At the national level, spending departments then prepare their budget documentation. At provincial level, clarity on final allocations allows the provincial budget process to enter its final rounds. The national and provincial budgets are tabled in February and March, respectively, for the year beginning 1 April.

It is important that all actors in the budget process grasp the framework approach behind the reforms. This is the only way in which they will be able to fulfil their adjusted responsibilities in such a manner that the reforms achieve their objectives. In the case of South Africa, reforms centred on putting in place credible 3-year plans, focusing in the budget process on changes to baselines and devolving accountability to spending departments. This was done through simple frameworks that were easy to communicate and easier to implement than systems with high levels of complexity. However, the complexity of the system has been growing as capacity and understanding develop, both in the centre and in service departments. At the same time, the budget process was changed from being a 'black box' to one with a high level of transparency, where the criteria for decisions are communicated early and policy objectives publicly articulated. The rules that governed this process were made explicit and enforced.

The South African budgetary reform process shows that, while it makes sense to approach budget reforms in terms of frameworks, it requires time for the reforms to take effect. Quality improvements in terms of expenditure estimates, actual spending information, performance information and service delivery materialise slowly. Reforming the budgeting system is never the complete answer to economic governance challenges. However, when backed by robust political support and decision systems and sound human resources management, it plays a significant part in improving public sector budget management.

3.7.1 The Medium-Term Budget Policy Statement (MTBPS)

The Minister of Finance announces the government's three-year Medium-Term Budget Policy Statement (MTBPS) every year, about six months before the start of the following financial year. The MTBPS contains information on the state of the economy, public finance, revenue performance, spending plans and intergovernmental fiscal developments. We should note that the MTBPS is the policy document showing the major government policies, as well as the intended shifting of resources and allocation of funds to the different functions for the next three years.

The MTBPS aims to enhance the budget process by releasing the policies to be provided for in the finance speech every year before the annual budget. It forms the basis on which the National Medium-Term Expenditure Estimates (NMTEE) will be tabled during March every year. The NMTEE normally contains performance data together with expenditure allocations to show the impact of the government programmes on the lives of ordinary people and for which Parliament will appropriate funds.

3.7.2 The Medium-Term Fiscal Policy Framework (MTFPF)

The budget of the government is influenced by the macro-economic as well as by the micro-economic objectives of the fiscal policy. In relation to macroeconomics, specific objectives are set out in the Medium-Term Fiscal Policy Framework (MTFPF). The MTFPF is intended to promote investment in the economy, domestically and from abroad, to create jobs and improve living standards; to improve domestic savings to reduce its dependence on foreign investments; to improve the country's competitiveness to support export trade; to keep consumption expenditure at an affordable level; to lower inflation, and to contribute to sound financial management, by keeping the public debt burden as low as possible.

3.7.3 The Medium-Term Expenditure Framework (MTEF)

The development of financial management and reporting has been revolutionised through the Medium-Term Expenditure Framework (MTEF). Unlike the previous financial system prescribed through the Exchequer Act (1975) financial system, the development of budgetary reforms allows government to switch to an accrual accounting system, a revised basis for reporting assets and liabilities, a restructuring of the accountability of the various departments and a transformation of the structure of inter-governmental financial relations.

Although South Africa is not the first country to adopt a multi-fiscal policy, it certainly has a more refined and detailed policy. The post-1994 political landscape challenged the South African government at national, provincial and local level. It was faced with a huge budget deficit and an economy that had shown little to static growth. The study focuses on financial reporting in the public sector and whether the present system in South Africa (SA) is adding value to the measurable outcomes-based objectives process as required by the Public Finance Management Act (PFMA). The current study will determine the role of the Medium-Term Expenditure Framework (MTEF) in financial reporting, also in relation to the business plan (strategy) and measurable outcomes and results.

The MTEF was adopted in 1998 as part of a wide package of budget reforms. The MTEF is a tool to encourage cooperation across Ministries and planning over a longer horizon than the upcoming fiscal year. This approach is preferable to reactive, short-term decisions that characterised the Exchequer Act. It:

- Enhances stability, by letting provinces and national Ministries know what resources will likely be available to them in future years. This allows government planning to be more credible and accurate.
- Encourages investment, by making taxation, interest rates, and government spending more predictable.

- Improves transparency, by making government's long-term policy goals and overall strategy available to the public. Outlining future spending provides a signal to civil society and the public at large of government's priorities and how it intends to address them.

One view of the MTEF is that it is the end-result of explicit and implicit policy decisions and policy trade-offs made by bureaucrats following the broad policy commitment of the executive, and finally decided on by the political principals. Fölscher and Cole (2004: 114) argue that while the MTEF is usually presented as a broad conceptual framework with certain desirable features, it is important to recognise that it is effectively the outcome of many layers of micro-decisions taken by programme and project managers in different spheres and at different levels of government. A significant achievement of the MTEF process in South Africa is the degree to which it has attained co-ordination of these decisions towards policy priorities. Furthermore, these policy processes and conceptual framework is given effect through monitoring and evaluation by the oversight committees.

3.8 THE ROLE OF THE AUDITOR-GENERAL

It is the role of the Auditor-General to help ensure that the use of public sector resources is adequately accounted for by the government, both by the extensive independent audit, and the report work carried out by the Auditor-General's office. McGee (2002:21) makes an important summation in stating that of fundamental importance for an Auditor-General is independence. Independence in this sense means being independent from the entity being audited which, in the Auditor-General's case, means the government. Independence, of course, has to be reconciled with accountability, because no entity or individual should be unaccountable. Also independence does not mean insulation from the suggestions or persuasions of others. The Auditor-General must be sensitive to political and public concerns, and it is perfectly legitimate, indeed essential, that

those concerns should be important influences on how Auditors-General distribute their audit resources.

McGee (2002:34) states that the increasing internationalisation of public sector accounting and audit leads inevitably to the question of defining acceptable standards across audit jurisdictions. This globalisation of public sector accounting and auditing presents its own set of challenges. For example, international bodies are attempting to promulgate international audit standards that may gain wide acceptance. However, the difficulty with such standards is that their application at the national level can differ significantly. However, it is important to note that the expertise in legislative audit lies with the Auditor-General, and it is the Auditor-General, with support from SCOPA, that set internationally recognised public audit standards and practices. Standards should be prescribed in detail and not just left to the skill and judgement of auditors to develop (McGee 2002:34/35).

The objective of an audit of financial statements is to enable the auditor to express an opinion as to whether or not the financial statements fairly represent, in all respects, the financial position of an entity at a specific date. The result of its operations and cash flow information for the period being audited will be in accordance with an identified financial reporting framework and/or statutory requirement. In addition, the Office of the Auditor-General provides extensive support to the public accounts committees in the form of briefings, report writing and training, as well as acting as an expert witness during hearings.

3.9 THE ROLE OF TREASURY

The National Treasury and the provincial treasuries are often expected to play a role in assisting all committees in Parliament and provincial legislatures to play their oversight roles. The National Treasury control function is set out in the Constitution, Chapter 13 s216, wherein it clearly states that treasury must ensure transparency and that there is control over expenditure. To exercise these controls, National Treasury has the following roles and functions:

- to provide guidance to departments on budget limitations;
- to evaluate and measure budget inputs received from departments against the guidelines as approved by Parliament and Cabinet, and
- to evaluate departmental budget submissions and negotiate with departments about funding requests, MTEF allocations, departmental priorities and possible savings and revenue collection.

In addition, the National Treasury makes recommendations to the medium-term expenditure committees (MTECs) about budget inputs of departments. Inputs are also made to the Minister's committees on budgets (MINCOMBUD) about budget inputs of national departments and provincial budget committees. Finally, National Treasury identify and determine the overall spending level of government and develop an MTEF for the public sector as a whole for the current and forthcoming financial years.

Another important role of treasury, but not relevant to this chapter, is the collection of all taxes, especially individual and corporate taxes. The South African Revenue Service (SARS) is the collecting arm of treasury. SARS has consistently exceeded its collection estimates, allowing national government to inject much-needed funds into sectors (such as public works) that were historically neglected.

Financial reporting and management in the South African public service is not only confined to annual reports, but monthly¹³, quarterly and ad hoc reports must also be submitted as required in terms of legislation or based on internal directives that are issued within a government department. The purpose of any financial report is to indicate the extent of compliance with the appropriations and contractual, legal and other requirements (Mckinney 1995:427). The frequencies of these reports are therefore very important. Internal control and public

¹³ Section 40 (4) of the PFMA 1999 requires the accounting officer to submit information to the executive authority within 15 days after the end of each month.

accountability requires timely reports to be issued throughout the financial year. From an operational perspective, the importance of regular financial reports cannot be overemphasised. It allows managers to identify early on the potential problem areas and then proactively put intervention plans in place. It allows managers to do proper forward planning to reach departments' goals and objectives. It allows managers to assess a department's performance against its strategic planning and outcomes-based objectives.

The financial management and reporting requirements as stipulated by policy and legislature was intended to contribute to the general overall improvement of the management of public resources. It is the understanding and interpretation of and compliance with the financial requirements that remain a challenge.

3.10 FINANCIAL REPORTING

The Public Finance Management Act of 1999 assisted in assuring that financial management and reporting in the public sector would be modernized. Each province is awarded an upfront allocation, which is guaranteed, and no ad hoc in-year allocations are made. This change in fiscal discipline challenges departments to develop their provincial fiscal framework. As stated earlier, in 1998, South Africa shifted from one-year incremental budgets to three-year rolling budgets. This meant that budgets were published for three years but only appropriated for one year. The subsequent two years are used as baseline budgets for next year. Any additional funds are awarded from contingency reserves or new revenue collected by the province. This lays the basis for better planning, more consultative budget processes and better intergovernmental fiscal relations.

Treasury sets the regulations that departments must follow. These regulations outline the following:

- Strong internal controls which include risk management and fraud management;

- Financial planning;
- In-year management and monitoring, and
- Reporting and accountability.

These regulations set out the various reports that are necessary so that departments can be accountable for the resources they receive. Every month, departments must report on financial performance and must include the following:

- Cash management performance;
- Expenditure against budget;
- Revenue against target;
- Projected expenditure and revenue;
- Variances between planned and real targets and actions, and
- Uncleared items, which include items that are not allocated to the correct cost centre.

Every quarter (three months), the department must report on all transfer payments done. Then, naturally, they report annually, and this includes the following reports:

- Annual financial statements of expenditure and revenue (within two months of the closing of the financial year). These must be audited by the Auditor-General's office;
- Information on efficiency, equity, effectiveness and economy;
- Transfer payments and compliance to transfer agreements;
- Report on write-offs and losses, and

- Report on expenditure that is unauthorized, irregular or fruitless and wasteful.

3.11 CONCLUSION

Understanding the legislative requirements in South Africa is of the utmost importance. This chapter has only briefly addressed some of the key legislative policies and bodies that influence the ways in which public finances are managed. It is hoped that the synopsis presented in this chapter has adequately explained the legislative landscape of public finance management and reporting. The PFMA has affected financial management in the public sector in such a way that more questions than answers remain at the end of each financial year. This does not imply that the PFMA is an ineffective act, not at all, rather it highlights that the spheres of government (national, provincial and local) has been slow to react to the obligations of the PFMA.

The following chapter on the empirical experiences focuses on five problem areas that plague Ministries, provincial departments and other legislated statutes. These key issues regarding financial reporting and management problem areas are mentioned below. These challenges that departments have to face are explored and discussed in the empirical experiences. Below is the presentation of the analytical framework. These key objectives are consistently used throughout the study. They are:

- The nature and effect of the changes to the financial reporting systems, including the promotion of accrual-based financial statements;
- The development of a performance measurement approach - techniques such as financial and non-financial performance indicators, output and outcome performance measures and benchmarking;
- Development in market-orientated management and reporting systems and structures to deal with the provision of public services, and

- Delegation of budgetary responsibility.



CHAPTER 4

RESEARCH METHODOLOGY AND CASE CONTEXT OF THE DEPARTMENT OF COMMUNITY SAFETY: FINANCIAL REPORTING AND COMPLIANCE CHALLENGES

4.1 INTRODUCTION

This chapter is divided into four themes. Firstly, the chapter expands on the case study methodology in Chapter 1. The following discussion takes an in-depth look at the literature of case studies and explores the advantages and disadvantages of case study methodology. Secondly, the chapter contextualises the department in the province and examines its objectives. It introduces the reader to the challenges the department faces and why the department was chosen as a research focus. This section also makes a brief mention of the department's legislative mandate. Thirdly, the chapter introduces the reader to the research techniques and instruments used to gather the necessary information relevant to the research objectives. Lastly, the Chapter will confirm analytical framework and how it will translate into the research investigation. This is contextualised in the context of the objectives of the study wherein The Public Finance Management Act requires the department to report on inputs versus outputs, which are closely aligned to and monitored by performance measurement systems. However, the concentration of this study is primarily focussed on financial management and financial reporting challenges.

4.2. METHODOLOGY

4.2.1 The Case Study

This chapter explores the methodology of case studies. A case study which may be similar in appearance to a case report refers to a type of research methodology and has procedures and standards of its own (McEwen, 1996:25). Case studies or case reports are descriptive and lack experimental control (Barr,

1995:18). Case studies should not be confused with the single case experimental design. A case study can be described as an empirical enquiry that "... investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin 1994:13). In other words, a case study deliberately considers the contextual conditions (in this case the Department of Community Safety and surrounding socio-political environment) because it believes they may be highly significant to the phenomenon under study (Challenges in compliance to the PFMA). Yin (1994:13) furthermore distinguishes three main types of case studies namely exploratory, descriptive and explanatory. This research is predominantly a descriptive and explanatory case study in that it aims to describe the context and then answer the research questions of 'why' the department has financial reporting challenges in line with the PFMA.

A case study is an ideal methodology when a holistic, in-depth investigation is needed (Feagin, et al, 1991:41). Case studies have been used in varied investigations, particularly in sociological studies, but increasingly, in instruction and research. Whether the study is experimental or quasi-experimental, the data collection and analysis methods are known to hide some details (Stake, 1995:15). Case studies, on the other hand, are designed to bring out the details from the viewpoint of the participants by using multiple sources of data.

A case study refers to the collection and presentation of detailed information about a particular participant or small group, frequently including the accounts of subjects themselves (Yin 1994:14). As a form of qualitative descriptive research, the case study looks intensely at the Department of Community Safety and draws conclusions only about the Department within the research context.

4.2.2 Perspectives of Case Studies

As in all research, consideration must be given to construct validity, internal validity, external validity, and reliability. Yin (1989:70) and Levy (1988:10) established construct validity using the single-case exploratory design, and

internal validity using the single-case explanatory design. Yin (1994:39) suggested using multiple sources of evidence as the way to ensure construct validity. The current study used multiple sources of evidence - through interviews, annual reports, documents (such as speeches and government documents) and the print media. The specification of the factor of analysis also provides the internal validity as the theories are developed and data collection and analysis test those theories. External validity is more difficult to attain in a single-case study. Yin (1994:24) provided the assertion that external validity could be achieved from theoretical relationships and, from these, generalizations could be made.

Case studies are multi-perspective analyses. This means that the researcher considers not just the voice and perspective of the actors, but also of the relevant groups of actors and the interaction between them. This one aspect is a salient point in the characteristic that case studies possess. They give a voice to the powerless and voiceless. Feagin, et al (1991:34) suggests that sociological studies present many studies of the homeless and powerless; they do so from the viewpoint of the "elite". In the Department of Community Safety, some interviews were conducted with the support staff that provides valuable information, and their views would normally not be considered.

The case study method to be used is known as a triangulated research strategy. Snow and Anderson (cited in Feagin, et al 1991:34) asserted that triangulation could occur with data, investigators, theories, and even methodologies. Stake (1995:101) stated that the protocols that are used to ensure accuracy and alternative explanations are called triangulation. The need for triangulation arises from the ethical need to confirm the validity of the processes. In case studies, Yin (1984:40) states that using multiple sources of data could do this. The problem in case studies is to establish meaning rather than location.

Case studies are complex because they generally involve multiple sources of data. Soy (1996:8) best explains case study methodology, arguing that it is used

to build a theory, to produce a theory, to dispute a theory or challenge a theory, to explain a situation, to provide a basis to apply solutions to explore, or to describe an object or phenomenon. The advantages of case study method are its applicability to real life, contemporary, human situations and its public accessibility through written reports. Furthermore, Soy (1986) explains that case study results relate directly to the common reader its everyday experience and facilitate an understanding of complex real-life situations. For the purposes of this study and given the lack of interviews conducted, annual reports and valid external sources of information such as Hansards and the Auditor-General's reports will be used to draw conclusions.

4.2.3 Why the Case Study Design?

The Department of Community Safety in the Western Cape was identified as a research study focus for a number of reasons. Firstly, consultations with academic and practising colleagues confirmed the department to be an appropriate case study. The Department would be a representative example of a typical provincial department that has experienced positive and negative experiences regarding financial reporting and management. Secondly the geographical location is one of convenience; the researcher and research subject is in close proximity. Thirdly, given the media coverage of the department, it captivated the researcher's interest. Fourthly, challenges identified coincided with the researcher's area of interest, and.

An important element of case studies is that they rely on multiple sources of evidence such as interviews, observations and physical artifacts (Blaxter, et al 1996:41). Case studies are most suitable when the researcher desires to understand complex social-political phenomena and is interested in answering 'how' and 'why' questions (Yin 1994). Also, one of the major advantages of the case study design with regard to this research, in particular, is that it not only allows for, but actually endorses, a focus on just one or two examples (Blaxter et al. 1996), thus allowing me to conduct a deeper and more substantial study of

the Department of Community Safety. The design of this research was a 'single-case study', as it considered only the Department of Community and Safety in the Western Cape.

The research design is based on the key issues in the analytical framework that is presented in Chapters Two (2) and Three (3).

4.2.4 Strengths and Limitations

The major limitation of interpretive qualitative research as a whole is its complexity and subjectivity (Miles and Huberman 1994:8). Due to the fact that qualitative data in linguistic studies is generally composed of words, one has to acknowledge that the "words we attach to fieldwork experiences are inevitably framed by our implicit concepts" (Miles and Huberman 1994:9). Qualitative data is very open to being influenced by the researcher's values and by the fact that actions always occur in specific situations within a social and historical context, which deeply influences how they are interpreted by both insiders and the researcher as outsider. However, qualitative data does have numerous strengths. Firstly, it gives one a "strong handle on what 'real-life' is like" because it focuses on naturally occurring events in natural settings (Miles and Huberman 1994:10). Secondly, since the influence of the local context is taken into account, there is a stronger possibility of understanding latent, underlying or non-obvious issues. Thirdly, the data is rich and holistic and flexible, giving a sense of confidence that one has really understood what is going on. In addition, the approach ensures comparison and contrast between what people say and what people do in a given context and across contexts, thus allowing a fuller representation of what is going on (Cumming 1994:10). The case study design also has certain weaknesses, which need to be taken into account. Yin (1994:11) mentions two major criticisms leveled against the case study method. Firstly, there can be a lack of rigour in case study research, as the researcher may allow equivocal evidence or biased views to influence the direction of the findings and the conclusions. Secondly, there is very little basis for generalizations due to the

limited examples. At best, case studies can be generalized to theoretical frameworks but not to all the departments within the province or the country. I am aware of these limitations and have endeavoured to take them into account.

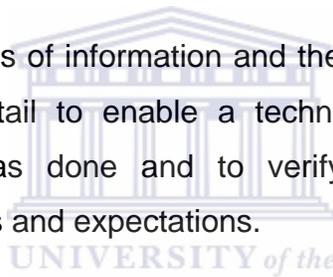
4.2.5 Ethical Considerations

Fetterman (1989:129) outlines some underlying ethical principles that need consideration in research: permission, honesty and trust, anonymity, reciprocity, and rigorous work. Firstly with regard to this research investigation, both the Head of Department and the necessary departmental committee granted me permission to conduct the research. The research approval letter included a copy of the research questions and a summary of the purpose and design of the study. Secondly, honesty and trust is communicated verbally and nonverbally, especially through the researcher's actions (Fetterman 1989:130), and I attempted as far as possible to communicate openness and trust in my personal?? presentation and general demeanour. Also, I aimed to achieve reciprocity through the research thesis itself, which will be given to the department upon completion. And finally, every effort has been made to ensure rigour and quality in my research. The primary means of achieving this involves the effective use of multiple sources of data (interviews, annual reports, Auditor-General reports and financial and reporting systems). The methods of analyses and writing-up process will also increase the quality of the research (Fetterman 1989:131). It is my hope that the department will become more aware of their financial reporting and management challenges and be able to implement some of the proposed solutions.

Given the above undertakings, the researcher is committed to the ethics code of conduct, as prescribed and agreed to by the University's research committees. The code of conduct is listed below:

- Obtain the consent of the participants before research is undertaken;

- Ensure that the well-being of the participants takes precedence over the expected benefits to knowledge;
- Inform participants of their right of refusal and of the degree of confidentiality with which the material that they provide will be handled;
- Ensure that participants have the right to remain anonymous and to have their rights to privacy and confidentiality respected, permitting no release of information about individual persons that has been guaranteed as confidential, to any person inside or outside the institution;
- Approach the project with an unbiased attitude and strive to gather evidence fairly and accurately, and
- Document the sources of information and the process of analysis in each task in sufficient detail to enable a technically qualified colleague to understand what was done and to verify that the work meets all appropriate standards and expectations.



4.3 RESEARCH TECHNIQUES: DATA COLLECTION

4.3.1 Interviews

The semi-structured interview was deemed most suitable for the purposes of this study as it produces "... a qualitative understanding of the topic under study" (Allison et al. 1996:117). It is also used to gain insight into the meanings, interpretations, values and experiences of the interviewee and their environment (Allison et al. 1996:118). It was thus well suited to explain the picture developed through the observations. Furthermore, the semi-structured interview was ideal because it addressed the need for comparable responses, as the same questions were asked to each participant, yet a conversation could also develop because the questions were open-ended and allowed space for some divergence (Wisker: 2001:87). A schedule of questions was used which were predominantly open-ended and encouraged conversation. Another necessary

element of this type of interview is that they are carried out in natural settings, familiar to the interviewee (Allison et al. 1996:119). My interviews were carried out at the offices of the participants. Seidman (1991:9) believes that it is necessary to tape-record interviews. Furthermore, he says that the most reliable way to work with the data is to have the words of the participants transformed into a written text: "The primary method of creating text from interviews is to tape-record the interviews and to transcribe them" (Seidman 1991:87). Seidman also mentions some other advantages to tape-recording interviews. Firstly, by preserving the actual words of the participant, the researcher has the original data. This is helpful if there is a lack of clarity in the transcript or if the researcher's handling of the data is questioned, giving the researcher accountability. Secondly, the participants can feel assured that there is a record of what they have said and that they can access it. Thus, it is a more ethical approach. Each interview conducted for this research was tape recorded and later transcribed.

4.3.2 Analyzing Interviews

Gillham (2000b:25) outlines the process of content analysis in great detail and this is the primary method that was used in analyzing the interview data. In this study the process involved in producing a category-based and thematic summary of the interview data. This was done by, firstly, highlighting all the substantive statements (statements that really made a point) and doing away with repetitions, digressions and other clearly irrelevant material. Substantive statements were identified in terms of whether they actually made a point, answered a question or in some way added to the conversation and information gathered. The primary aim of this first step in the process was to reduce the conversation of a descriptive nature to written text, and this involved the removal of the redundancy and repetition that is characteristic of spoken discourse. Secondly, a set of categories for the responses to each question was derived from the highlighted statements. Each statement was then placed in a category. This was simply a method of classifying and ordering the kinds of statements the interviewees

made, and was not conclusive in and of itself (Gillham 2000b:26) although patterns in the responses did begin to emerge. One must keep in mind that the research question was designed with four thematic categories. Once the interview transcripts had been classified and summarized, revealing the various patterns in the data, the research questions were then used to frame the discussion. The themes that emerged in my particular data are presented and discussed in chapter 5.

4.3.3 Data Collection

The data collection was primarily desk top research and collection of annual reports from the department. The annual reports included reports from 2004/5, 2005/6 and 2006/2007. The use of three years' annual reports was deliberate as the researcher tried to establish a broader understanding of the department and its strategic business plan. This was also used as a means to understand the effect and impact of the MTEF on the business processes of the department. Furthermore, it is envisaged that the MTEF adds value to the strategic planning and budgeting process of the department.

The appropriate annual reports also contain the Auditor-General's report and the accounting officer's reports. Article reports in reputable national newspapers were also sourced to create a holistic picture of the department. Policy papers and commissioned reports from NGOs and academic papers were also sourced during the data collection process.

4.3.4 Analysis of Data

According to Johnson (1992:90), "... the general approach to data analysis in a case study is to examine the data for meaningful themes, issues, or variables, to discover how these are patterned, and to attempt to explain the patterns." Thus, the primary aim of my data analysis was to reveal the underlying assumptions influencing the department's inability to conform and adhere to the financial and reporting challenges. This is of particular importance given that the department

received three consecutive audit qualifications. This aim played a major role in determining which methods of analysis were used. Miles and Huberman (1994: 10) define analysis as "... consisting of three concurrent flows of activity: data reduction, data display and conclusion drawing/verification". Data reduction is the process of selecting, focusing, simplifying, abstracting and transforming the data and is used to sharpen, sort and organize the data in such a way that final conclusions can be drawn and verified. Data display involves organizing and compressing the information into a form that permits conclusion drawing and action. Examples of displays include matrices, graphs, charts, extended texts and so on. Conclusion drawing and verification involve deciding what things mean by noting regularities, patterns, and explanations and so on and then testing their plausibility and validity (Miles and Huberman 1994:11). Within this broad framework of the three concurrent flows of activity lie different analytical techniques and considerations. This research on the whole tended towards the descriptive, and attempted to bring all the multiple data sources together in a condensed form. Furthermore, the primary data sources each lent themselves to a particular process of analysis, whilst the annual reports and Auditor-General reports supported and enriched the data. These processes also needed to be taken into account.

4.4 CASE OF THE DEPARTMENT OF COMMUNITY SAFETY IN THE WESTERN CAPE

4.4.1 Department of Community Safety

The research focussed on the Department of Community Safety in the Western Cape. The Department of Community Safety's vision is for the citizens of the Western Cape to be free of the fear of crime (Annual Report 2006/7) and this will be achieved through the mission and strategic goals of the department. Furthermore, it is hoped that this will be achieved through the promotion of safety and security, through a process of civilian oversight, crime prevention strategies and effective traffic law enforcement and traffic safety education. The

department's strategic goals are therefore provided in the Annual Report of 2006/2007. They are:

- To build active, crime resistant, responsible families, comprised of citizens that develop social cohesion, with the focus on youth, women and children;
- To strengthen effective and sustainable partnerships for improved service delivery;
- To co-ordinate, integrate and enhance safety and security agencies to achieve professional and effective policing;
- To build community networks and organisational capacity and readiness to participate in contributing to civic responsibilities;
- To enhance strategic and developmental communications to build better informed communities in a society that truly cares, and
- To improve service delivery and protect human rights by effective civilian oversight of law enforcement agencies.

In addition, the department has a stated value system wherein it believes in integrity, transparency and equity. It is committed to all the challenges of transformation so as to increase service delivery through capacity building. The department also believes that it contributes to creating a safer and secure environment in the Western Cape. It is important that the department be contextualised in the province so as to better understand the case study.

4.4.2 The Department in Provincial Context

As the elected office-bearer, the Minister for Community Safety is responsible for implementing the mandate of the department and is accountable to the public for the performance of the department. He provides guidance on the development of policies in accordance with the department's mandate, and oversees the

implementation of projects, while ensuring accountable and responsible expenditure of public revenue. The department's main field of service delivery is to ensure that the South African Police Service (SAPS) render an effective and efficient service to the communities of the Western Cape.

The department has four directorates, which are Corporate Services, Secretariat for Safety and Security, Traffic Safety Promotion and Security Risk Management. A chief director heads each directorate and each section within the directorate has a director. For the purpose of this study, the corporate services directorate will form the central part of the case study with special focus on the finance section and strategic services and communication. This does not preclude or exclude the other divisions from the study as they form an integral part of the department's overall functions.

The Public Finance Management Act, 1999 and the National Treasury Regulations dictate to the finance section financial reporting activities. More specifically, section 40(1)(d) of the PFMA demands the reporting of financial statements, performance indicators and the activities within the department. The finance section is divided into four (4) sections; namely, Supply Chain Management, Enterprise Risk Management, Account Management and Budget and Control. At the time of conducting the study, the Supply Chain Management section did not have a section head.

The challenges facing the department in an environment of service delivery include the effectiveness of the criminal justice system and the mobilisation of communities. Without effective investigation and prosecution, crime prevention strategies will have limited impact. Without the support of communities, the Department of Community Safety will be hard pressed to deliver an effective service. Therefore the challenges facing the department in this environment are to ensure that needs of communities are addressed by appointing skilled staff dedicated to making a difference and transforming communities. Without the

necessary skills, no real change would be effected to ensure that crime is eradicated.

4.4.3 Legislative Mandate

The Provincial Minister of Community Safety is responsible for implementing the constitutional and policy mandate of the Department and is accountable to the public for the performance of the Department. The legislative mandate of the department is guided by legislature and policy documents. However, for the purpose of this study, the focus was on the following legislative and policy documents:

The Constitution

- Chapter 13 of Constitution

National Acts of Parliament

- Intergovernmental Fiscal Relations Act (1997);
- Provincial Tax Regulation Process Act (2001);
- Borrowing Powers of Provincial Government Act 48 of 1996;
- Public Finance Management Act (PFMA 1999), and
- Local Government: Municipal Finance Management Act (MFMA 2002)

Annual Budget Acts of Parliament

- Annual Division of Revenue – explanatory memorandum & extensive tables;
- National and provincial appropriation Act (2004), and
- Tax legislation (Taxation and Revenue Laws Amendment Acts No 32 of 2005)

Policy Documents

- The Treasury Regulations, 2002 / 2004, and
- The Public Service Commission, 2001

The Department's 2006/2007 annual report (pg 13) states that the "Minister had to strategically balance the increase in service delivery expectations from communities with the Department's financial constraints." There will always be a natural tension between scarce resources and communities' needs. The challenge lies in the effective and efficient use of the available resources.

4.4.4 Strategic Business Plan

The Department has a five-year strategic plan from 2005 to 2010. The 2006/2007 annual report (pg 25) explains that the major policy development influencing the Department in the Medium-Term Expenditure Framework (MTEF) period has been the decision to expand the role of civilian oversight to include the monitoring of the metropolitan police services and the Provincial Traffic Service. The 2005/2006 annual report reflects on the Department's strategic review of the Annual Performance Plan and undertakes to develop a strategic plan to monitor activities. The report informs that the plan is in "embryonic stage" (Annual Report: 2005/2006:18). It would therefore have been useful to know how the development of the monitoring plan has progressed. This gave a broader overview of the department's achievement towards a previously identified strategic goal.

The Department is focussed on four programmes that are positioned in a directorate. These programmes are divided into sub-programmes with a management team consisting of senior management from each directorate. The strategic goals and objectives of the Department are illustrated in each programme. The programmes are:

- Programme 1: Administration;

- Programme 2: Provincial Secretariat for Safety and Security;
- Programme 3: Security Risk Management, and
- Programme 4: Traffic Safety Promotion

Each one of these programmes has its own mission, vision, strategic plan and strategic objective geared towards delivery of the department' s overall mission.

4.4.5 Planning and Budgeting

The Department's strategic plan informs the planning and budgeting process. Typically, a strategic plan will span three years that is reflected in the Medium-Term Expenditure Framework (MTEF). The strategic plan and the MTEF are adjusted annually and it includes revised or new budget information. The annual revision of the strategic plan must look at the past year in detail and include output and service delivery information.

The annual reviews of the strategic plan are reflected in the expenditure trends and inform the medium-term budget. The Medium-Term Expenditure Framework will inevitably reflect the strategic direction the Department wants to take and be inclusive of the decisions pertaining to resource allocation.

With the decentralisation or devolvement of the budget came new responsibilities and powers. In addition to this was an establishment of a results-oriented budgeting approach. The emphasis on results or performance in the budget process reflects a new belief that public sector accountability should focus on what government does with the money (Shah 2005:31). The logic for the change in budgeting is to establish how government can be truly accountable if it only tracks the Rand's moving through the system and barely mentions the services rendered through the utilisation of government resources.

Wang (2000:113) explains that the use of performance measurement in budgeting means changes in government's operations, personnel, structures and

even cultures. These changes are designed to alter how budgets are developed and how the budget influences those allocating or receiving money. In the department, the budgeting process remains a challenge. Since 2004, the department continues to receive qualified audit reports which, on closer inspection, can be attributed to, amongst other reasons, insufficient budget management and control.

The PFMA entrenches performance-based budgeting and creates a link between the political representative and the accounting officer in the budget allocation. The introduction of the results-orientated approach, performance-based budgeting links the money coming into the department (through vote 4) with the results of the department's activity through implicit and explicit performance-based agreements. Shah (2005:35) explains that performance-based budgeting gives managers significant flexibility in overseeing their resources while holding them accountable for programme results. The implementation of performance-based budgeting is a gradual process. National Treasury monitors the progress closely. The progress made in performance-based budgeting is being closely monitored by other developing countries, as it is seen as a best practice. National Treasury (2002:2) encourages government departments to embrace performance-based budgeting as it is a basis for assessing the value-for-money of spending and its alignment with government objectives.

Immense strides have been made with the alignment of the department's strategic plans to that of the budget. It is an ongoing process requiring the department's leadership to consistently implement the performance-based budgeting approach as it changes the culture of reporting and accountability.

4.4.6 Accounting and Reporting Systems

The National Treasury assists national and provincial departments with the preparation of quarterly and annual reports by providing a reporting guide for the ease of use for the accounting officers and/or authority. This guideline incorporates annual reporting requirements as set out in the various policy

documents, namely the Constitution, 1996; the Public Finance Management Act (PFMA), 1999; the Division of Revenue Act (DoRA), 2003; the Treasury Regulations, 2002 and the Public Service Regulations, 2001.

McGee (2002:36) argues that the public sector traditionally reported in its financial statements and the revenues collected under authority granted by Parliament and the expenditure of resources appropriated to it by Parliament. The Auditor-General's audit was to ensure, on a test basis, that these statements fairly represented the financial transactions of the government, that public money was properly accounted for, and that appropriated funds had been expended only for the purposes of the parliamentary appropriation or vote. However, post-apartheid 1994, there have been demands to know more about performance and results, rather than merely accounting for legality and propriety in public expenditure or for only reporting on output and activities. Consequently, and paralleling developments in public sector financial management generally, the role of the public audit has expanded from a concentration on the inputs used by the public sector to a concern with what governments are actually producing – their outputs. Thus a whole range of management tools for ensuring good public sector performance has come into existence, through the shift of emphasis from a focus on inputs and a process-based accountability, to a focus on outputs and a results-based accountability. It was at this juncture that national and provincial departments were challenged in reporting requirements. It demanded a change in not only reporting cultures but challenged the department's core business – service delivery.

These legislative guidelines and other policy directives serve as a means to support the department with its reporting requirements. The Department has an obligation to report to the provincial legislature on its financial performance and the legislature must approve these financial reports. In the event of the Auditor-General's office qualifying a department's report, the head of the department could be called by the Standing Committee on Public Accounts (SCOPA) to explain the reasons for qualification. The Department of Community Safety in the

Western Cape has since 2004/2005 until 2006/2007 received a qualified audit financial report. Recently the provincial legislature approved a recommendation from SCOPA that the department undergo a forensic audit. This was an attempt by the legislature to get a firmer understanding of the problems within the department and to put in place the necessary interventions to assist the department to improve its financial performance.

4.4.7 Intergovernmental Fiscal Relations

South Africa is a unitary state with three interdependent but distinctive spheres of government: national, provincial (nine provinces, created in 1994 out of four provinces and ten so-called homelands and three ethnic administrations) and local (284 municipalities, demarcated in 2000).

The Constitution (2006) assigns to each of the three spheres of government certain functions, which may be concurrent (shared responsibility between spheres) or exclusive (sole responsibility of the unit of government). The national government's main role is policy-making, regulation and oversight. It also administers exclusive functions (for example, justice, defence and foreign affairs). Provinces are mainly responsible for social delivery, either concurrently with national government (for example, primary and secondary education, health, social services and housing) or exclusively (for example, provincial cultural matters, provincial sport, recreation and amenities), while municipalities have localised functions (for example, storm water management and fire-fighting) and deliver basic services (for example water, sanitation, electricity and refuse removal).

Intergovernmental fiscal relations are concerned with the structure of public finances in a state with more than one level of government. It looks at how taxation, spending and regulatory functions are allocated to the different tiers of government, as well as the nature of transfers between the three levels of government. The primary economic rationalization for the role of levels of government within fiscally decentralised systems is the potential to improve

distribution efficiency. Ajam (2001:126) states that allocative efficiency in the public sector is concerned with whether, subject to budget constraints, the public sector produces the level and mix of public services which citizens demand and which correspond with their preferences. Ajam further explains that, instead of a single central government providing uniform goods and services to all its citizens in a “one-size-fits-all” approach, the different levels of government are more easily able to tailor local costs of inputs which may differ from location to location.

Fiscal decentralisation, however, does make provision for potential allocative efficiency gains. Whether these gains are realised in practice depends crucially on how the system of intergovernmental relations is implemented. Nonetheless, fiscal relations theory offers broad recommendations about which government functions are most appropriately assigned to each level of government. These guidelines indicate the macro-economic stabilisation functions, such as monetary and fiscal policy, and redistribution functions, that is, progressive taxation on income, and redistribution functions, for example, taxation on progressive taxation on goods and services should remain at national level. However, allocative functions, that is the delivery of goods and services, should be decentralised to the lowest level possible, which internalises both the costs and benefits of the service.

However, one should be mindful of the fact that in the design for intergovernmental fiscal relations as embodied in the Constitution is really an endpoint. An intergovernmental relation is a living process and is in a constant process of evolution towards the Constitutional goal. One should be mindful that the efficacy with which the intergovernmental fiscal relations system operates depends not only on its design but also on how the system itself is implemented.

4.5 FINANCIAL REPORTING CHALLENGES

4.5.1 The Nature and Effect of Changes to Financial Reporting Systems

In 1998/1999, South Africa adopted a three-year budgeting system. This impacted on the national, provincial and municipal budgets. This also meant a change in financial reporting systems and that budget and reporting processes were decentralized. This meant that each level of government was responsible for its own budgets and that grant certainty or revenue generation had to be assured by National Treasury. This was supported through the Division of Revenue Act, which scheduled all national allocations per province, per municipality for each of the three years.

The Public Finance Management Act of 1999 assisted in assuring that financial management and reporting in the public sector would be modernized. Each province is awarded an upfront allocation, which is guaranteed, and no ad hoc in-year allocations are made. This change in fiscal discipline challenges departments to develop their provincial fiscal framework. As stated earlier, in 1998, South Africa shifted from one-year incremental budgets to three-year rolling budgets. This meant that budgets were published for three years but only appropriated for one year. The outer two years are used as baseline budgets for the following year. Any additional funds are awarded from contingency reserves or new revenue collected by the province. This lays the basis for better planning, more consultative budget processes and better intergovernmental fiscal relations.

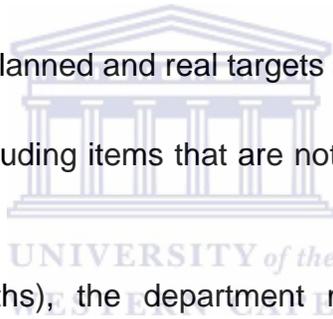
Treasury sets the regulations that departments must follow. These regulations outline the following:

- Strong internal control which includes risk management and fraud management;
- Financial planning;
- In-year management and monitoring, and

- Reporting and accountability.

These regulations set out the various reports that are necessary so that departments can be accountable for the resources they receive. Every month departments must report on financial performance and must include the following:

- Cash management performance;
- Expenditure against budget;
- Revenue against target;
- Projected expenditure and revenue;
- Variances between planned and real targets and actions, and
- Uncleared items, including items that are not allocated to the correct cost centre.



Every quarter (three months), the department must report on all transfer payments done. Then, naturally, it reports annually and this includes the following reports:

- Annual financial statements of expenditure and revenue (within two months of the closing of the financial year). These must be audited by the Auditor-General's office;
- Information on efficiency, equity, effectiveness and economy;
- Transfer payments and compliance to transfer agreements;
- Report on write-offs and losses;
- Report on expenditure that is unauthorized, irregular or fruitless and wasteful, and

- Report on disciplinary actions related to misconduct and fraud.

4.5.2 A Performance Measurement Approach through Budgeting

The past decade has seen many governments attempting to establish a performance-based budgeting and reporting approach. The emphasis on results or performance in the budget and reporting process reflects a new belief that public sector accountability should focus on what government does with the money it spends, rather than just how it controls such expenditure (Osborne and Gaebler 1992:45). In a manner of speaking, new institutionalism, results-oriented or performance-based budgeting and reporting reforms introduce rules and norms that make it culturally appropriate for or induce public representatives and managers to concentrate on outcomes and outputs rather than inputs and procedures (Andrews: 2005:31). Performance-based budgeting and reporting has been gradually adopted as a key public sector reform in developing and developed countries alike. The reform is adopted so as to transform public budgeting and reporting systems from input and output orientation, to an output-outcome orientation. Through this reform, it introduces a new results-orientated accountability into public organisations. The results-orientated accountability is achieved by changing the rules of budgeting and reporting, and is influenced by both the budgetary and reporting processes and budgetary and reporting roles. Wang (2000:113) explains that the use of performance measurement in budgeting means changes in governments' operations, personnel, structures and even cultures. These changes are designed to alter how budgets are developed, who does what in the budget process, and how the budget influences those allocating or receiving money through it. Andrews (2005:33) asserts that this accountability argument for performance measurement is powerful and persuasive. How can government be truly accountable if it only tracks the Rands moving through the system and barely mentions the services rendered through the use of these resources?

Performance-based budgeting and reporting is meant to influence how managers view their roles in the budget and reporting process. Performance-based budgeting offer managers significant flexibility in overseeing their resources, while holding them accountable for programme results and promising reward or redress on the strength of such results. The promise of reward or redress also extends to potential civil society responses to strong or weak managers whose performances are now open to public scrutiny. These reward and redress options are meant to provide an incentive for managers to promises of performance in the budget, and to provide an incentive for managers to change their approach to management. Andrews (2005:34) further explains that this kind of result-orientated managerial accountability demands that managers:

- Set targets (for outputs and efficiency);
- Understand that money is linked to targets, and
- Are called to account for both the amount of money they spend and their performance in terms of targets.

The Department of Community and Safety has been struggling to become accustomed to performance-based budgeting. This is reflected in the qualified annual reports of the Auditor-General's office. The department has been making great strides towards performance-based budgeting, as there appear to be improvements in the area of budgeting and managers taking some responsibility for the budgeting and reporting process.

South Africa's progress toward performance-based budgeting and reporting is representative of best practice in the developing world with its increased emphasis through legislation such as the PFMA on outputs alongside spending plans providing a basis for assessing the value-for-money of spending and its alignment with government objectives (National Treasury 2002:2). The progress is evident when examining changes to the structure of the budget and reporting documents, and the kind of accountability relationships developed through such

changes. This structure has progressed from reflecting traditional line items to showing programmes and sub-programmes and performance targets. This is evident in the annual reports of the Department of Community Safety, wherein they have four (4) programmes with a number of sub-programmes aligned to the department's overall strategic objectives.

4.5.3 Management Reporting Systems and Structures

The South African public expenditure management system has undergone substantial reform since the mid-1990s. While the early reforms shaped macro-economic stability and strengthened public spending, the more recent emphasis of the reform programme has been on efficient resource allocation and effective service delivery. The highlights of the reform programme have been: the roll-out of a new intergovernmental system that requires all three levels of government to formulate and approve their own budgets; the introduction of 3-year rolling spending plans for all national and provincial departments under the Medium-Term Expenditure Framework (MTEF); new formats for budget documentation that include a strong focus on service delivery information, and the enactment of new financial legislation.

4.5.4 Delegation of Budgetary Responsibility

Budgeting is a policy process. Therefore budgeting is at the heart of policy-making, and needs to be consultative. Budgets require prioritizing of policies, which makes it essentially a political process. Within each province there are budget councils and budget forums. These councils and forums have compulsory consultations for the Division of Revenue process and exercise of sub-national fiscal powers. No outside or independent agency can determine budget or allocations.

Budgeting is more difficult under a decentralized system. There is a need to coordinate policy, planning and budgeting processes. National departments are responsible for policy; the provinces and municipalities are responsible for the

implementation of these policies. It is therefore important in the setting up of sectoral Ministerial forums (MinMECs) between Ministers of national and provincial governments for education, health, welfare and housing. The challenge of co-ordinating sectoral and budget forums, as each sector wants to maximize its funds, remains a challenge. Reducing sectoral collusion and allegations of unfunded mandates exacerbates these challenges.

National Treasury has a dedicated unit for intergovernmental fiscal relations and to link budgets with performance. This unit is dedicated to working with the provinces and municipalities. They are responsible for assessing the credibility of the provincial budgets. These assessments will be either informal or could be published. This unit ensures that provincial as well as National Treasury departments prepare quarterly reports for it executive and Cabinet.

In addition, changes to the budget process have allowed role-players to deliberate on key policy choices and on the matching of available resources to plans, rather than item-by-item cost estimates. National Treasury (2002) prepared a set of principles reforming the budget process. Underlying the reforms were the following principles:

- *Comprehensiveness and integration.* The main national budget framework coordinates, integrates and disciplines policy and budget processes for the country at national, provincial and, increasingly, at local level.
- *Political oversight and a focus on policy priorities.* Choices between priorities are political in the final instance. The South African system recognises this and structures the integration of political and administrative practices to ensure that funding choices align with the priorities of government, and that political oversight is reinforced.
- *Using information strategically.* The reform process systematically sets out to improve the timeliness, quality and usefulness of information on the

allocation and use of funds, both internally and externally, to improve public policy and funding choices and to enable accountability.

- *Changing behaviour by changing incentives.* Responsibility was devolved to spending departments for spending choices and use of funds within approved ceilings and against policy commitments.
- *Ensuring budget stability and predictability while facilitating change at the margin.* The budget process includes various mechanisms to manage uncertainty and maximize funding and policy predictability over the medium-term, while promoting alignment with policies at the margin, through the use of rolling baselines, a contingency reserve and a disciplined budget process, amongst other measures.

These reforms for finance reporting and budgeting were all designed to improve the efficiency and effectiveness of service delivery. More importantly, it was designed to enhance transparency and accountability of the public sector to Cabinet. This required a complete review of the guidelines for the reporting of public sector audit reports. The Auditor-General and the accounting general had to reassess the reporting guidelines and policies to ensure that provincial and national departments received adequate training.

4.6 CONCLUSION

This chapter described the research design and methodology used in this research. The research was qualitative and had a single-case study design. Multiple methods of data collection were utilized, namely, annual reports, strategic plans, interviews and the analysis of financial and reporting systems. Each of these methods was described in detail. The process of analysis for each method used was then discussed. The strengths and weaknesses of qualitative research were considered and various ethical issues were mentioned. Having outlined the design and methodology, this chapter also presents the case context of the Department of Community Safety. The next chapter discusses the findings

of the actual data that was produced through these methods. This chapter documented the research results and findings, which are a combination of research material gathered from the interviews, annual reports and theoretical findings.



CHAPTER 5

FIELDWORK RESULTS AND RESEARCH FINDINGS

5.1 INTRODUCTION

Following the case context, this Chapter presents the fieldwork results in developing the case context of the Department of Community Safety by focussing on the particular themes that were prioritised (see section 2.8 and 3.7). Furthermore, to the fieldworks results this Chapter will present the specific findings of the research.

5.2 RESEARCH OBJECTIVES

The primary objective of this study was to provide options for the improvement of the effective and efficient financial management by improving financial reporting requirements and service delivery. The research findings are presented in line with the research objectives. The thrust of the study was to look at the challenges the Department of Community Safety faced with regard to financial reporting in line with the Public Finance Management Act. These findings have, however, uncovered other secondary challenges, which are discussed in the Auditor-General reports and in the audit steering committee's reports. The Auditor-General reports will be discussed under the section on financial reporting.

The research objectives remained constant throughout the research. The previous chapters have addressed the first three objectives, which are:

- To provide a theoretical perspective of public financial management and financial reporting in government;
- To provide an overview of policies and legislation in the South African public sector with special emphasis on the Public Finance Management Act (PFMA);

- To record and develop a case study of the financial reporting in the Western Cape Provincial Government's Department of Community Safety; and this chapter sets out
- To develop a set of research findings based on theory, application and practice.

The conclusions of the research objectives are discussed in this Chapter. This chapter only presents the research fieldwork and its findings.

The next section of the research develops a set of research findings based on first the case fieldwork results. The research findings are presented through presenting and discussing the literature reviewed and the presentation of the research analysis. These key themes are presented in the analytical framework and are consistently used throughout the study. They are:

- The nature and effect of the changes to the financial reporting systems, including the promotion of accrual-based financial statements;
- The development of a performance measurement approach - techniques such as financial and non-financial performance indicators, output and outcome performance measures and benchmarking;
- Development in market-orientated management and reporting systems and structures to deal with the provision of public services, and
- Delegation of budgetary responsibility.

5.3 RESEARCH FINDINGS

5.3.1 Contextualising the problem

In the context of the research problem, it is important to revisit the legislative provision on financial reporting requirements and stipulations of the PFMA. Section 8 of the PFMA requires National Treasury to prepare Consolidated

Annual Financial Statements (CAFS) in accordance with Generally Recognised Accounting Practices for each financial year in respect of:

- National departments;
- Public entities under the ownership control of the national executive;
- Constitutional institutions;
- The South African Reserve Bank;
- The Auditor-General, and
- Parliament.

The various departments must submit their annual financial statements for audit to the Auditor-General (AG) within three months after the end of that financial year. Section 8(2) of the PFMA stipulates “The AG must audit the CAFS and submit an audit report on the statements to the National Treasury within three months of receipt of the statements”. Section 40(1) (c) of the PFMA states that the accounting officer for a department, trading entity or constitutional institution must submit the financial statements within two months (*end of May*) after the end of the financial year to the AG for auditing and the relevant treasury to enable the treasury to prepare Consolidated Financial Statements in terms of section 8 and 19. The presentation of the theoretical findings has been limited to reports of the following important committees or person’s expression of opinion:

- Shared Audit Committee report;
- Accounting Officer’s Report;
- Auditor-General’s Report, and the
- Standing Committee on Public Accounts (SCOPA).

The department continues to struggle with the effective financial management and financial reporting that is an essential element in ensuring there is effective service delivery and economic benefits to the public.

5.3.1 Shared Audit Committee Report

The Department of Community Safety is served by a Shared Audit Committee appointed under Cabinet Resolution 75/2003 of 23 June 2003 for the 2-year period to 31 March 2005 extended by Resolution 95/2005 and 77/2007. The term of the shared audit committee expired on 31 December 2007.

The Audit Committee has complied with its responsibilities arising from section 38(1) (a) of the PFMA and Treasury Regulation 3.1.13 and 27(1) (10). The Audit Committee has also regulated its affairs and discharged its responsibilities in terms of the Audit Committee Charter. However, it did not address internal audit issues as envisaged in its Charter and the PFMA, due to the suspension of internal audit activity in 2003 (Provincial Treasury Circular No. 25/2003). In 2004, the Sihluma Sonke Consortium was appointed to develop and transfer internal audit skills to the provincial government over a three-year period. Due to budget and capacity constraints, there was a lack of adequate coverage of high-risk areas identified by the department. This increased the risk of a poor control environment with the associated losses the department suffered in 2005. The Sihluma Sonke Consortium contract was extended for a further two years to allow the development of the internal audit function to be completed.

The assessment of internal controls by internal audit committee was suspended in 2003, and the Operational Audit Plan was rescheduled to commence in 2005/6, following completion of the Risk Assessment and Process and Control Mapping exercises. Various weaknesses relating to the financial administration as well as noncompliance with laws and regulations were identified in the areas of travel and subsistence expenditure, asset management, transfer payments and capped leave. These shortcomings resulted from either a lack of adequately developed management policies and procedures or non-compliance therewith.

The Audit Committee resolved to meet with the Accounting Officer on a regular basis to agree on a course of action to address weaknesses and deficiencies that are identified above and concerns emphasized by the Auditor-General. One of the key functions of the audit committee is to assist the accounting officer with the planning and implementation of strategic internal controls. The uncertainty with regard to the audit committee in 2003 did not help matters. The term of the current audit committee expired in December 2007. It should serve as an opportunity to reflect on the role and impact the audit committee has made to the department's internal controls.

5.3.3 Accounting Officer's Report

The accounting officer reports to the executive authority and Parliament/provincial legislature of the Republic of South Africa.

The department has consistently received an upward budget adjustment since the 2004/2005 financial year. The increased budget allocation has largely been linked to inflation, except for 2004/2005 when the transfer of the Security Risk Management component from Vote 1 necessitated the increase from the Office of the Premier to the Department of Community Safety. The increased amount also included a transfer of R3.5million from the Department of Transport and Public Works for the Safer Trains Project. A summary of the past three financial years is presented below.

DEPARTMENT VOTE

TABLE 5.1 – VOTE EXTRACTED FROM ANNUAL REPORTS

Financial Year	Main Appropriation	Adjusted Appropriation	Actual Amount spent	Over / Under Expenditure
2004 / 2005	R151 436 000	R161 627 000	R157 979 000	R3 648 000
2005 / 2006	R173 724 000	R178 796 000	R178 768 000	R28 000
2006 / 2007	R181 257 000	R184 124 000	R182 205 000	R1 919 000

Table 1 further demonstrates that the Department of Community Safety has continually received an adjustment to its main appropriation, albeit it is on a sliding scale. This merely highlights that the accounting officer had an increased budget, which resulted in an increased and expanded area of responsibility. To respond to the department's needs, the department underwent a strategic workshop where all processes and policies were reviewed.

A three-year strategic evaluation and an Annual Operational Internal Audit plan have been implemented within the department since October 2004. The consortium Sihluma Sonke has been appointed to execute this function of corporate governance. In addition to outsourcing the corporate governance function, the department also outsourced the Risk and Compliance (internal control) functions, which perform evaluations to ensure compliance with prescripts and modalities of the PFMA. Outsourcing has its benefits especially in a department that has a serious lack of skills and knowledge. The success of outsourcing is largely dependent on the willingness of the staff member's wanting to acquire new skills. Outsourcing however presents other challenges. It raises the question of who is actually monitoring the transfer of skills. With who does the ultimate responsibility and accountability reside with? More importantly, who takes ownership of the responsibility of the internal controls with regard to risk and compliance?

The department has experienced a high turnover of staff and this impacted negatively on the staff morale. In an interview with the Director of Finance, he said that,

... the single most challenging and frustrating thing I must contend with is the loss of staff to other departments and the agencies.

Furthermore, the inadequate salary scales and benefits do not help with any retention strategy. He further intimates that,

...the bureaucracy stifles any form of initiative and acts as an impediment to securing the services of qualified staff.

This is probably true, but one would imagine that other departments' finance directorates would face similar challenges.

The AG's report (Department of Community Safety Annual Report 2007:85) mentions human resource management not fulfilling the minimum required regulations as stipulated in the Public Service Regulation Act of 2001. Furthermore the report highlights a 15 per cent vacancy rate, which exceeds the norm of 5 per cent. Other concerns are further discussed in the Auditor-General's report below.

5.3.4 Auditor-General Report

The Auditor-General's (AG) responsibilities are spelt out in the Constitution of the Republic of South Africa. The Constitution must be read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 40 (2) of the PFMA. The AG 's office conducts their audit in accordance with International Standards on Auditing and General Notice 647 of 2007, issued in the Government Gazette No. 29919 of 25th May 2007. The AG's offices are required to follow procedures that will disclose the financial status of the department and will include the assessment of the risks of material misstatement.

The audit report is the most important and only independent assessment of the quality of financial statements. It is therefore one of the most important reports to consider when reviewing a department's annual report. The role of the auditor is to comment to the legislature on the reasonableness and fairness of the annual financial statements submitted by the departments.

The department received a qualified audit report in the 2004/2005 and in 2006/2007. In 2005/2006, the Auditor-General issued an 'emphasis on matter'

report which highlights similar concerns as the qualified audit report in 2004/2005.

Table 2 outlines the range of the opinions used by external auditors in terms of international standards of auditing and gives an explanation of the different opinions:

TABLE 5.2: CLASSIFICATION OF AUDIT OPINIONS USED BY THE AUDITOR GENERAL

AUDIT OPINION	EXPLANATION
a) Unqualified audit opinion	Good opinion - the financial statements may be regarded as fairly reflecting the financial status of the department or entity
b) Unqualified audit opinion with emphasis of matter	Least severe opinion – the financial statements maybe regarded as fairly representing the financial status of the department or entity, but there are a number of issues that are cause for concern which are raised in the emphasis of matter
c) Qualified opinion (look for the words “except for”)	Severe opinion – when the auditor concludes that an unqualified opinion cannot be expressed, but that the effect of any disagreement with management, or limitation on the scope of the audit is not material or fundamental as to require an adverse opinion or a disclaimer.
d) Adverse opinion (look for the words “do not fairly represent”)	Most severe opinion – expressed when the effect of a disagreement is so material and fundamental to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.
e) Disclaimer (look for the words “I do not express an opinion”)	No opinion expressed – when the auditor concludes that the possible effect of a limitation on the scope of the audit is so material and fundamental that the auditor has not been able to obtain sufficient appropriate audit evidence.

The emphasis of matter expressed in 2006/2007 was as a result of a forensic audit performed by the forensic investigative unit. A summary of the auditor’s qualifications and emphasis of matter are summarized below.

TABLE 5.3 SUMMARY OF AUDIT QUALIFICATIONS

2004/2005	2005/2006	2006/2007
Asset Management	Asset Management	
Supply Chain Management	Supply Chain Management	Supply Chain Management
Payment on Photocopied log sheets		
Performance Information	Performance Information	Performance Information
		Non compliance with legislation
		Value for money matters
		Internal control

Table 3 demonstrates that the department has, since the 2004/2005 financial years, received qualified audit opinions. This led to the request by the management (Annual Report: 84) for a first investigative report by the forensic investigative unit (FIU) of the Department of the Premier. This investigation was initiated based on the allegation of irregularities pertaining to the payment of service providers whereby bank account details of service providers were irregularly changed on the Logis system. This investigative unit concluded that:

- Payments were diverted to the bank account/s of an employee of the department and an associate, and
- There was financial loss suffered by the department

The department received several warnings from the audit committee, accounting officer s report and, more importantly, from the Auditor-General's report. Of concern is that head of the supply chain management unit remain vacant and performance indicators remain a challenge for the department. The department has failed to address the concerns raised with regard to the improvement of these crucial sections. In fact, at the time of conducting the interviews, the Supply Chain Management Directorate did not have a head. To exacerbate the situation,

the Risk Management Director tendered his resignation a few days before the interview. The high vacancy rate in the department creates instability within the department. Furthermore, given the lack of skills and appropriate experience available in the department, staff acting, as HODs do not help matters either. This is exacerbated by the length of time it takes to fill a senior vacant post.

In 2006/2007, the AG's office, for the first time, conducted value-for-money audits and qualified the audit for non-compliance with legislation. The AG's office felt that National Treasury has sufficiently trained and provided adequate information to the department to enable it comply with legislation. Value-for-money audits raised concerns around the human resource management and supply chain management. In the 2006/2007 (pg.85) annual report, the AG's office raised concerns with regard to human resource management, that not all the minimum requirements of the amendments to the Public Service Regulation, 2001 were being addressed. The supply chain management did not include adequate matters pertaining to risk management as required by Treasury regulations 16A3.1 and 16A3.2 (d).

These findings are sent to SCOPA who will study the information provided by the AG's office and decide on a course of action if any. In the case of the department, SCOPA issued resolutions for the 2006/2007 financial year. The department is obliged to attend to the resolutions in and during the following financial year.

5.3.5 SCOPA Resolutions

Since the 2004/2005 financial year, the department has received a qualified audit report from the Auditor-General's (AG) office. For three consecutive years, a qualified report has been issued. This prompted SCOPA, through the AG's office, to request a forensic audit. Furthermore, the current incumbent of the finance directorate is only with the department for 19 months, and he was recruited from outside of the public sector. This was an interesting change as the department starts looking at addressing some of its distress through its leadership. During a

discussion with a high-ranking politician, his opinion was asked in terms of the challenges the department faces with regard to financial reporting. He was quite confident that, in his tenure, the biggest problem facing departments were that:

....everything boils down to leadership, I mean if you, the HOD, say look our problems are not accounting but operational issues. By operational issues I mean the human factor, your controlled environment. Do you have your internal auditors? Do you have your audit committee working? Do you have monitoring and supervision and all that kind of stuff? ... in my view the challenge is leadership. Leadership at all levels.

The senior manager within the department expressed similar views. He felt that recruiting and holding on to professional and skilled staff was a challenge.

... a major challenge was the lack of skilled labour and the immense challenge of maintaining skilled staff. The recruitment of appropriate skilled staff poses different challenges, as the salary scales are not appropriate with that of the skills needed. Poaching of skilled staff within the Provincial Departments was also a challenge, particularly as Departments could not compete with some salary scales. A high turnover of skilled and strategic staff disrupts the operation and functioning of the Department.

To further highlight the senior manager's point, at the time of conducting the study, the post of the Head of Supply Chain Management (SCM) was vacant and other senior staff appointments had been recently made. There is also the case of whether a staff member has adequate and appropriate skills and knowledge in the relevant sections. Managing people remains the biggest challenge for any organisation. To further exacerbate this problem, other than the National Treasury, most departments are not paying the market-related salaries for the skills they need. This leads to high mobility and staff turnover in the public sector where people with finance skills are highly sought after. The public sector, particular finance directorates in the public sector, is challenged to retain highly qualified and experience staff. Furthermore, even more problematic is the inability to attract highly qualified staff. Staff become highly mobile and creating instability in the public sector as departments struggle to meet the financial

legislative requirements. This is a challenge not only in the Department of Community and Safety, but it is a national problem.

It should be noted that it is the portfolio committees that interact with the departments throughout the year. The challenge that has arisen is whatever SCOPA has recommended to a department to improve their financial situation. It is the portfolio committees that must be made aware of the issues raised by SCOPA and incorporates them into the monitoring processes. This will create some synergy between the work of SCOPA and the portfolio committees. This will prevent the case in point where the Department of Community Safety has for three consecutive years received a qualified report. If the relevant portfolio committees had been monitoring and engaging with SCOPA's recommendations, then maybe this situation could have been avoided.

However, the department's problems are not only limited to leadership and skill shortages, or a lack of synergy between various committees. The department is plagued by historical political administrative policies, and the current political tensions aggravate the inefficiencies within the province. The Western Cape is the only province that is not controlled by the majority party, the African National Congress (ANC). This has created tensions in the province and the local government, and has affected the functioning and service delivery of departments. To this end, it was important to conduct some practical research interviews and discussions. These are discussed below.

5.4 RESULTS AND RESEARCH FINDINGS

5.4.1 Nature and Effect of the Changes to Financial Reports

There is a current trend led by the National Treasury towards fiscal discipline in government that has generated a demand for improved information on which to base decisions. Consequently, state, provincial and local governments must change their financial reporting from basic stewardship reports on the various government funds to a more corporate-style report that offers analysis of the

long-term impact of financial management decisions (Klasney and Williams, 2000). The concept of government-wide reporting is the most dramatic change in the new approach. This is a significant move because, until now, government followed only the modified-accrual basis of accounting. In South Africa, National Treasury has adopted a multi-year budgeting process, which is objective and plan-based. These budgets are informed by strategic plans and integrated budgeting plans. The PFMA has changed the nature and effect of financial reports in the public sector. It has incorporated some private sector principles but is public sector-specific and relevant.

During an interview with a senior manager, he responded to the question of the importance of the PFMA by saying that it

...requires departments to be more accountable and transparent...

In the case of the department, he felt that they were quite “up to scratch” (yet) but they have made great strides in improving their financial controls and reporting processes and structures. Table 4 represents the response of a senior manager to the question of the importance of the PFMA. The rating is from 5 for most important and 1 for less important. It is important to note that the interviewee felt that they are all important and he found it difficult to rate them. He rated the statement that

... the PFMA provided clear policy guidelines and procedures for Financial Management...

as the most important simply because the broader thrust of the PFMA

...was to change the manner in which one not only reported on finances but would impact how we managed resources...

Prior to the PFMA, the Exchequer Act of 1975 did not provide very clear and detailed reporting guidelines and procedures. Therefore the PFMA set out to change the financial landscape not only in terms of reporting guidelines but also

in how departments budgeted for and reported on the use of the resources allocated to them.

TABLE 5.4: IMPORANCE OF THE PFMA

Revenue, expenditure, assets and liabilities are effectively managed.	3
The efficiency and effectiveness of the financial management has improved	4
Accountability and transparency has improved in the department.	2
Financial management reporting has become more meaningful.	1
The PFMA provided clear policy guidelines and procedures for Financial Management.	5

The nature and effect of the PFMA on financial reporting is not only limited to the information presented in Table 4. The researcher felt that these were the most important effects of the PFMA to bring about and encourage change in the management and reporting of financial resources. Accountability and transparency is not the prerogative of the department. It is a legislative obligation. The various portfolio committees such as the audit committees are responsible for seeing that the legislative obligations are adhered or conformed to. The move from outcome-based reporting to results-based reporting has challenged the department in many ways. By his own admission, an interviewee felt

“...that we lack the necessary skills and knowledge across the directorates to fully comply...”

The findings show that there is a lack of skill and knowledge in the Department. This could be addressed if appropriate training is undertaken. Furthermore, the vacancies in key positions (such as head of SCM) have lead to inconsistencies in the Department’s performance in financial management and reporting.

One of the most important changes the PFMA brought about was the manner in which the national and provincial departments and local governments budgeted. The budgets required departments to be aligned to performance indicators, which had to be constantly monitored and evaluated. The next section discusses the performance measurement through budgeting.

5.4.2 Performance Measurement through Budgeting

The Medium-Term Expenditure Framework (MTEF) is the budgeting tool used to assess performance and to budget for strategic plans. The MTEF allows departments to draft expenditure frameworks as part of the budgeting process. This is allowed through the planning of departmental budgets, which are informed by the department's strategic plan. The MTEF creates this framework through multi-year (three-year) budgeting processes and systems. Furthermore, it creates a budgeting process that is more transparent and accountable.

The National Treasury and Public Service regulations of 2001 determine the framework for performance measurement. For the performance to be meaningful, every employee must have a job description, which informs the job's role and functions. It is important to note that the job is evaluated, and not the individual. The individual's performance in relation to the job is what is measured. This will determine whether the individual's performance is competent or not to what is expected from someone performing the job. It's a matter of matching skills to the requirements of the job.

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Departments should be able to report intelligently and systematically on performance instead of just on their activities, support monitoring and evaluation systems, and information systems are a prerequisite. The National Treasury (2004) guide to departments for annual reports offers the following guidelines:

- Clarification of goals in strategic and operational plans;
- Development of performance indicators and targets for all programmes;
- Adaptation or development of information systems to capture appropriate performance data;
- Introduction of a regular evaluation programme in respect of all major programmes,

- Integration of the various planning and evaluation processes of government so that the information flowing through the system is well-coordinated.

The information provided to the department by the various agencies needs to be credible. This is a huge challenge to the department. A senior manager cited the example of,

...how does one rate performance in relation to response times of police officers to car crashes.

He felt that the “*accuracy of the base data provided is critical...*” For performance of budgets to be properly monitored the base data must be accurate.

Currently the department is dependant on research reports from the different units and tries to make an assessment of the impact the department is having within the various communities it serves. This obviously provides a challenge in the how one links a key performance indicator with key performance activities.

Therefore budgets still do not provide a clear link between performance and allocation, limiting any results-oriented accountability connections in budgets. Performance measures are especially problematic and do not constitute an effective basis for results identification, measurement and management. The budgets still fail to identify who is responsible for performance and resource use, making it difficult to know who is accountable.

The Performance Management System (PMS) outcome-based reporting system aligned to the MTEF is implemented within the department. The results-based approach of the PMS has many positive outcomes. As one senior manager states,

...it is intended to improve service delivery... create a value-for-money concept...

This is probably at the heart of the PMS as it strives to improve service delivery to the citizens. It is important that department heads and unit heads drive this point through to its staff. Each head of department is responsible for the implementation of and the management of the PMS. It is required from each unit head to record the findings of the PMS to prepare a report. The unit head will assess the performance information, give feedback to the relevant staff and compile a report for the strategic services and communication unit head. The HOD must compile and consolidate the reports for the executive authority.

5.4.3 Management Reporting Structures and Systems

The National Treasury sets financial reporting structures for all national and provincial departments. Along with the set structures are reporting procedures and deadlines which must be conformed to. Furthermore, through the PFMA, it delegates responsibility to the various key officials. This delegation of authority is not something that can be absconded from. It is inherent in the job description and is a requirement by law to perform specific roles and functions

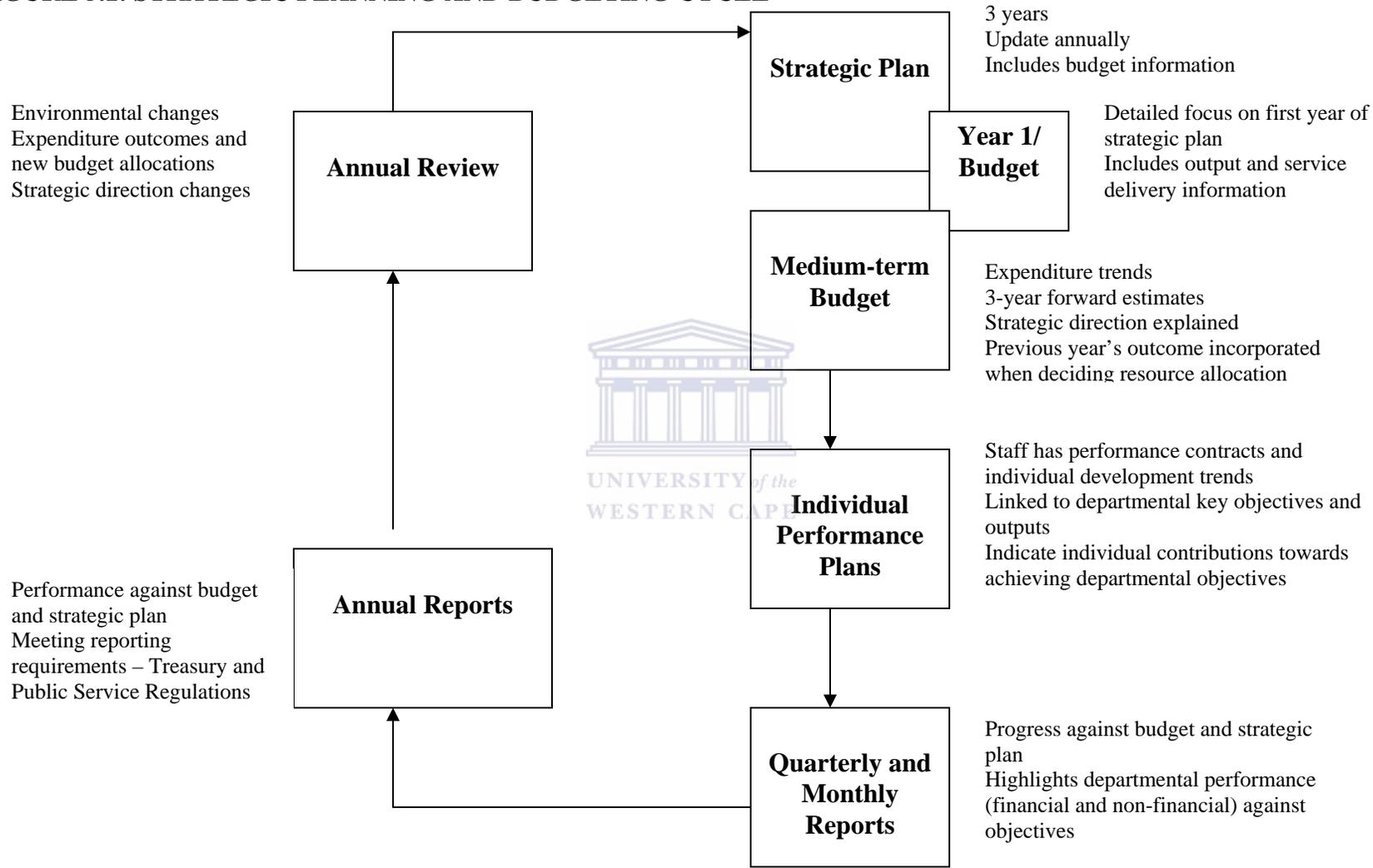
Figure 5.1 demonstrates a typical flow chart of activities a department must undergo when preparing for its annual planning and budgeting processes. It should be remembered that strategic planning and budgeting must happen simultaneously. During the strategic planning process, the budget is prepared for three years and updated annually. The MTEF serves as a financial and strategic framework model for the department.

This in turn informs the performance development system which monitors and evaluates individuals' and units' performances against that of the strategic plan. Ultimately, this is reported in the annual report, and the AG's office conducts its audits according to agreed international audit standards. Although our reporting systems are not yet mature enough to undergo performance audits, the AG is expressing opinions on value-for-money activities and human resource management.

It is during the annual review process that the strategic plans are reassessed and the environment within which it functioned. During the review process, the annual budget is revisited along with the department's strategic plan for the next financial year. This process would inform the strategic plans as it reviews and considers the prior year's achievements or lack thereof.



FIGURE 5.1: STRATEGIC PLANNING AND BUDGETING CYCLE



The accounting officers in departments, accounting authority in public entities and their respective audit committees wait four to five months before getting a picture of the department's or entity's performance and control issues. The OAG submits that the governance issues are not helped by the dispensation, as it exists.

5.4.4 Delegation of Budget Responsibility

Budget delegation or decentralisation of budgets was intended to empower departments. In hindsight, the departments were largely unprepared for the added responsibility. There were insufficient skills within a number of departments as they struggled to come to terms with the regulations of the PFMA. The Department of Community Safety remains challenged in this aspect. However, changes to the budget process have allowed departments to deliberate on key policy choices and on the matching of available resources to plans, rather than item-by-item cost estimates. National Treasury (2002) prepared a set of principles reforming the budget process. Underlying the reforms were the following principles:

- Comprehensiveness and integration;
- Political oversight and a focus on policy priorities;
- Using information strategically;
- Changing behaviour by changing incentives, and
- Ensuring budget stability and predictability while facilitating change.

The above principles set out by National Treasury are the ones used to assess the department's performance for its annual reporting. The principles are broad-based and this could lead to misinterpretation. One of the criticisms levelled against National Treasury by a senior manager was that,

...Treasury is very prescriptive...they do not engage the departments regularly and we receive little or no support from them during the financial year. We only interact with them at the end of the year or when there is a serious problem....

Treasury informs the public that quarterly reports are required from departments and feedback be given to improve performance. Furthermore, these quarterly reports are intended to be early warnings when and if the need arises. The interviewee's comment is contrary to what Treasury prescribes.

The devolvement of the budgets and the budgeting process required the Department of Community Safety to take responsibility for its spending. This spending was limited to its ceiling (vote) and had to be specific to policies adopted at national level. One of the main objectives of the decentralisation of the budget was to foster a culture of ownership and accountability. However, some of these traits are still elusive to the department as the province struggled to find the right mix between political party priorities and provincial government policies.

Through the constant standardization of reporting formats from National Treasury, the decentralisation of budgets is heading for a very mechanistic approach. A number of departments, such as the Department of Community Safety, are not able to meet legislative requirements, largely brought about the above developments.

5.5 CONCLUSION

The detailed research case results were presented in this chapter and a set of key findings emerged from this discussion. These included:

- It was found that although an introduction of new financial systems in 1998 improved the accountability and transparency of the Department, the respective units in the Department had great difficulty in establishing the new financial systems. The particular problems encountered with finance

reporting and management were addressed through the introduction of the new financial management systems. This resulted in an improved reporting system and clear areas of responsibility and accountability.

- The development of a performance measurement approach - techniques such as financial and non-financial performance indicators were still in an embryonic stage. Treasury has not fully rolled out its performance audits as it is of the opinion that most National and Provincial departments are not ready for value for money audits. They have however started the process of preparing Departments for the performance-based audits.
- Treasury has gone to great lengths in the development of market-orientated management and financial reporting systems and structures. Staff within the Department is undergoing constant training and receive regular circulars from treasury informing them of new developments in financial reporting and management. However, the Department has experienced a high staff turnover which subsequently disrupted its financial planning and performance.
- The decentralisation of budgetary responsibility is embedded in the Intergovernmental Fiscal Relations Act. The centralisation of the budget brought with a new range of responsibilities and duties. The Department was not prepared for this newfound responsibility and duty. There was also a reluctance to assume additional responsibility and duties from staff. The challenge for the Department remains to take full and proper ownership of the budget and the budgetary processes.

The research findings and discussion has highlighted the research problem and has addressed the research objectives within the analytical framework. This was supported through the presentation of the fieldwork and the theoretical framework, which is discussed in Chapter 2. Furthermore, a thorough understanding of the department and its challenges has been achieved for the researcher to make a considered conclusion and set of recommendations.

The Department of Community Safety is challenged in many ways. The request from SCOPA for a forensic audit must not be taken lightly as, for SCOPA and the legislature; it is a last resort for corrective action. The matters raised by SCOPA was carefully considered and deliberated by the researcher during the process of writing up the conclusion and recommendations in the next chapter.



CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

6.1 INTRODUCTION

The study aimed to understand why the Department of Community Safety in the Western Cape was struggling to meet the reporting requirements of the Public Finance Management Act of 1999. The main purpose of the study was:

- To provide a theoretical perspective of public financial management and financial reporting in government;
- To provide an overview of policies and legislation in the South African Public sector with special emphasis on the Public Finance Management Act (PFMA);
- To record and develop a case study of the financial reporting in the Western Cape Provincial Government's Department of Community Safety, and
- To develop a set of research findings based on theory, application and practice;

Through the use of case study methodology and with the sourcing of theoretical frameworks and perspectives of national and international literature, the study was able to present a set of findings and recommendations that is relevant to the Department of Community Safety. The study concludes with recommendations on the following:

- The nature and effect of the changes to the financial reporting systems;
- The development of a performance measurement approach - techniques such as financial and non-financial performance indicators;

- Developments in market-orientated management and reporting systems and structures to deal with the provision of public services, and
- Delegation of budgetary responsibility.

6.2 CONCLUSIONS

The inability of departments and local authorities to comply with the reporting requirements and obligations intrigued me. The curiosity to understand the challenges and problems the departments faced is what led to this study.

6.2.1 Finance Reporting Systems

At first I was unaware of the attention to detail and the prescriptive nature of the reporting requirements that were dictated by the National Treasury. The decision to conduct the study in a provincial department was not an easy one to make. After careful thought and through some interesting articles in national Sunday newspapers, I decided to focus on a provincial department in the Western Cape. After some discussions with the supervisor, it was agreed that the study would be based on the Department of Community Safety in the Western Cape Provincial Government.

To have a firm understanding of the problems and challenges the Department faced, a case study methodology was used to gather information. Interviews were conducted with strategic individuals to establish key information for the study. The methodology used was complex as it involved the triangulation methodology of gathering information. Furthermore, given the unusual circumstances unfolding within the department, it became increasingly difficult to conduct interviews. This was largely as a result of the high vacancy rate in senior positions and the ongoing forensic audit of the department. This forced the study to use extensive theoretical frameworks to deduce its findings and to inform the discussion and recommendations.

6.2.2 Performance Budgeting

There needs to be better co-ordination of policies, planning and budgeting processes between national departments who are responsible for policy development and provincial departments. Sectoral Ministerial forums (MinMECs) between Ministers of national and provincial governments for education, health, welfare, housing were implemented to address these challenges. The challenge, however, of co-ordinating sectoral and budget forums persists, as each sector wants to maximize its funds. Reducing sectoral collusion and allegations of unfunded mandates would greatly improve budget performance. The question still lingers - How do we link budgets to performance?

The Department of Community Safety is still striving to get more performance accountability. The recent budget reforms to facilitate greater performance in the public sector as a whole has improved budget performance. The 3-year (MTEF) budgeting process has not yet reached lower down to the level of a project, and this creates consistency challenges.

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6.2.3 Managing Reporting Structures and Systems

Departments and public entities rely on the Chief Financial Officers (CFO) for the implementation of improved controls that would ensure effective financial management of government resources. It should, however, be realised that the responsibility for these controls lies with the accounting officer (AO) and every manager in the department or entity within the manager's area of responsibility. The CFO drives their implementation.

Departments have defined the role of a CFO as that of strategic adviser to the department in relation to broader financial and management issues. The CFO's role in certain instances is so defined that it almost implies that somebody else needs to drive the implementation of sufficient controls and do the regular reporting. There can be no denying that CFOs are an integral part of the

department's strategic management team but the point being made is that the CFO's role extends to the "mundane" day-to-day running of the finances of the department. This perspective, therefore, suggests that all the weaknesses identified by the internal auditors, external auditors and risk assessment processes must be addressed, and the CFO is the champion in this regard.

6.2.4 Decentralising Budgets

The Public Finance Management Act in essence is a tool that is used to decentralise the budgeting and reporting process. This is supported through a range of other important legislation such as the Intergovernmental Fiscal Relations Act, the annual Division of Revenue Act and, of course, it is born out of the Constitution of South Africa. The decentralisation of the budget along with the need to report on inputs versus outputs was a huge challenge to all accounting officers across the three spheres of government. Through extensive readings of both national and international literature, I was able to understand the processes of financial management and reporting in other countries. These lessons learnt through literature reviews largely shaped my discussions and recommendations in the findings of the study.

The discussion brings together the research findings within the theoretical framework as mentioned above. It contextualises the research problem and shapes the objectives and aims. The discussion highlights the many problems that the department has but, more importantly, it can be directly linked to the shift from one reporting system (Exchequer Act 1975) to another (PFMA 1999). The challenges can therefore be attributed to the decentralisation of the budgeting, planning and reporting process.

6.3 RECOMMENDATIONS

Key recommendation is extracted from the discussion of recommendations and is presented below. It is presented as a findings for each research objective as stated in the analytical framework.

- Financial management will improve dramatically if the Department publishes month-to-year budget implementation reports. This will improve interdepartmental accountability, and better management of financial resources from directors of units. This will feed directly into the budget allocation process, which contributes to a more accountable finance management system.
- The Department needs to implement performance-based budgeting. It will legitimize their programmes with budgeting and expenditure linked to the programmes.
- The alignment of the audit reporting period to that of the planning and budgeting process of the Department is of critical importance. This will allow the auditor to work with relevant and updated information. The departmental managers must also be more vigilant around reporting dates and deadlines.
- With the decentralization of the budget, some of the benefits were the level of decision-making powers moved to the departments. This was intended to increase the level of efficiency by the department. It also allowed the departments to take ownership and responsibility for decisions taken that would reflect the department's needs. Department and Unit heads must embrace their decision making powers and take ownership of their decision and lack thereof.

6.3.1 Financial Reports

The fact that the department's CFO spends at least four months after year-end dealing with the previous year's issues - the first two months preparing the annual financial statements, and the next two months being audited - means that little time is available to focus on improving the control environment. The budget period starts at about the same time the audits are finished and the process to prepare for the tabling of the annual reports to Parliament and publishing. The budget process will mostly take another two to three months before it is largely finished.

The sequence of the dates in the PFMA also poses an additional challenge for the treasuries, in that the consolidation takes place in the third month and unaudited information is used.

It is recommended that the Department's directorate should report regularly (monthly) to the other directorates as well as to the Treasury. Their financial management will improve dramatically if they publish month-to-year budget implementation. This will improve interdepartmental accountability and better management of financial resources from directors of units. This will feed directly into the budget allocation process, which contributes to a more accountable finance management system.

6.3.2 Performance Budgeting

It is important to understand that performance-based budgeting is not simply the use of programme performance information in developing a budget. Performance-based budgeting does more than just inform the resource allocation decisions that go into the development of a traditional type of budget. In other words, it is not just 'budgeting based on performance.' Instead, it is the process by which a particular type of budget is developed - a Performance Budget (or 'programme performance budget'). To design an effective system of performance-based budgeting, it is therefore vital to understand first exactly

what the end product itself should be, what it should contain, and how it should look.

The Department is not performing true performance-based budgeting. This is acknowledged by the Chairman of SCOPA, who admits that the AG's office cannot utilise performance-based budgets as most departments in the country are not using performance-based budgeting.

A real performance budget gives a meaningful indication of how the Rands are expected to turn into results. This is not expected to be done with scientific precision, but at least in an approximate sense, by outlining a general chain of cause and effect. The most effective governmental performance budget does this by showing, for each programme area, how Rands fund day-to-day tasks and activities, how these activities are expected to generate certain outputs, and what outcomes should then be the result.

The Department needs to implement performance-based budgeting. It will legitimize their programme's budgeting and expenditure linked to the programmes. There are a number of software packages available on the market. The department needs to treat implementation of performance-based budgeting as a special project. It would also be prudent to employ a specialist in this position, as implementation will require a dedicated person.

6.3.3 Managing Reporting Structures and Systems

The AG's and internal auditors' findings on the controls of the department or public entity cannot be addressed timely and effectively in this environment. The department or public entity then remains with about five months in a year to catch up with the current year's financial matters and improve the controls that were identified as weak. This is the reason for the OAG suggesting that the provisions create an ineffective financial management environment.

Financial management will improve dramatically with the publishing of monthly in-year reports on budget implementation. The head of department requires

financial statements from all departments and entities timeously. This will enable the head to submit the department's financial statements for audit within 60 days after the end of the financial year, and audited and tabled in Parliament within 6 months. There are many benefits that stem from timeous submission of financial reports, including in-year accountability, better management and further feedback mechanisms to improve the budget allocation process.

6.3.4 Decentralisation Budgets

With the decentralisation of budgets come enormous costs and benefits. It is important to consider the pros and cons very carefully. With the decentralization of the budget, some of the benefits were that the level of decision-making powers was moved to the departments. This was intended to increase the level of efficiency of the department. It also allowed the departments to take ownership and responsibility for decisions taken that would reflect the department's needs.

However, the costs need to be considered very carefully. For example, opportunistic behaviour by officials is encouraged in the absence of a structured incentive framework. One of the main concerns of the AG's office was the lack of controls and the absence of performance development systems. This is reflected in fraudulent behaviour of the official and the lack of completeness of the asset register.

The SA Constitution Act No. 108 of 1996 dictates the fiscal decentralisation of budgets. This is highlighted by the Intergovernmental Fiscal Relations Act of 1997, amongst other legislation and policies. So, decentralisation of the budget is not negotiable.

With regard to the concerns raised by SCOPA through the AG's office, together with the forensic audit unit, the Department of Community Safety is compelled to improve its financial and administrative control systems. It is also a reflection of the instability around the leadership. To this end, the department has

seconded two different chief directors as acting heads of departments over the last three years. As a means to remedy the leadership, the Minister has employed an experienced and seasoned head of department, the former Director-General of the Province, Dr Gilbert Lawrence. It is only fair to allow the new head the opportunity to appropriately address the leadership concerns that plague the department.

In summary, the AG's staff and, in some instances, the staff of external auditors contracted by the AG, is also composed of persons who are still pursuing studies of one form or the other. The timing of audit in May/June coincides with their study leave and result in delays in finalising the audits. While this is the AG's problem, it cannot be ignored simply for that reason.

6.4 AREAS FOR FUTURE RESEARCH

The findings and recommendations of the research study are limited to the Department of Community Safety in the Western Cape. It is hoped that this research will assist other heads of departments to understand the problems and to improve the financial reporting processes. In addition, it is hoped that this research will further enhance interest in research in this particular discipline.

This study does not address the issue of good governance in relation to fiscal and reporting discipline. Furthermore, it did not address the relationship between the intergovernmental transfers and performance budgeting. These are all very exciting areas of research and will contribute to the overall improvement of financial reporting and management of government departments.

6.5 CONCLUSION

The study has far-reaching benefits. South Africa is the economic powerhouse in Africa. It is leading the African Renaissance and is exporting most of its skills and knowledge to Africa through the African Union (AU) and the New Partnership for Africa's Development (NEPAD). This process of transferring

skills is manifested in the African Peer Review Mechanism (APRM). This study makes a contribution in this regard as it makes recommendations for the improvement of financial reporting systems within a national department. This research could be used as lessons learnt and to avoid similar or the same challenges.

Governments do have a very important role to play in promoting well-functioning financial systems. Specifically, governments can help through providing a stable political and macro-economic environment, fiscal discipline and good governance. Governments can also improve the contestability and efficiency of financial systems by avoiding ownership of financial institutions, and liberalizing their systems, including by allowing foreign entry. Government policies can also help in efforts to facilitate broad access to financial services. The empirical literature on finance and development suggests that countries with better-developed financial systems experience faster economic growth and financial development. The onus is therefore on governments to play an important role in building effective financial systems and discuss diverse policy options to make finance work for development and service delivery.

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8. APPENDICES



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