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LIST OF ABBREVIATIONS

AG	Auditor-General
ANAO	National Audit Office
ANC	African National Congress
BBBEEA	Broad-Based Black Economic Empowerment Act
CAC Act	Commonwealth Authorities and Companies Act
DG	Director General
DoD	Department of Defence
DoRA	Division of Revenue Act
DPSA	Department of Public Service and Administration
DPSA	Department of Public Service and Administration
F&PA	Finance and Public Administration
FAA	Financial Administration Act
FFC	Financial and Fiscal Commission
GCIS	Government Communication Information System
GEAR	Growth, Employment and Redistribution
GWM&E	Government-wide Monitoring and Evaluation
HOD	Head of Department
JCPAA	Joint Committee of Public Accounts and Audit
MFMA	Municipal Finance Management Act
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium-Term Expenditure Framework
NCOP	National Council of Provinces
NPM	New Public Management
PAA	Public Audit Act
PAC	Public Accounts Committee

PCs   Parliamentary committees

PFMA   Public Finance Management Act

PMDS   This Performance Management and Development System

PPA   Public Protector Act

PPPFA   Preferential Procurement Policy Framework Act

PWGSC   Public Works and Government Services Canada

RSA   Republic of South Africa

SCM   Supply chain management

SCOPA   Standing Committee on Public Accounts

SOEs   State-owned enterprises

WPTPS   White Paper on the Transformation of the Public Service

SPSS   Statistical Package for the Social Sciences

CHAPTER 1   RESEARCH PROBLEM AND RESEARCH DESIGN

1.1   INTRODUCTION

The increasing size and complexity of public institutions and the scarcity of resources have emphasised the importance of efficient public financial management. The optimal use of financial resources is important in an environment characterised by constant change and the increasing needs and requirements of the community. Without finance it would be impossible for any government to successfully provide the services that the public requires. Available resources must therefore be managed in order to ensure that funds are used effectively and the objectives of every department are achieved.

The ability to deliver services is determined by the availability of money and the ability to use it effectively. Financial management could constrain the ability of government to reduce poverty and to contribute to economic development and sustainability. Financial management fulfils an important role in the public sector and without public funds to cover the operational and capital costs, no public institution can render an effective service.

Public finance in South Africa is regulated in terms of various principles which have been accepted as standard practice in a democratic system. Key documents which establish such principles, and have laid the foundation for the promulgation of the *Public Finance Management Act,* 1999 (Act 1 of 1999, as amended), hereafter the PFMA, include the King II report on corporate governance and the *Constitution* of the Republic of South Africa, 1996 hereafter referred to as the *Constitution.* The King II report states that public financial management compliance in government would contribute to effective corporate governance practices.

Section 195 (1) of the *Constitution* provides that public administration and management in all spheres of government must be efficient and effective in terms of the use of resources, as well as being economically viable and accountable. The *Constitution* fulfils a crucial role in setting principles of sound financial management in the public sector. Sections 213 and 215 to 219 of the *Constitution* regulate financial management in the public sector. It is through the *Constitution* that the PFMA was introduced to ensure effective public financial management. Moreover, the *Constitution* makes provision for the legislature to establish bodies that will fulfil an oversight role to ensure compliance to regulations and financial accountability and responsibility.

Oversight is an important legislative means of ensuring that the laws passed are implemented, the approved budgets are well spent and the executive is held accountable in accordance with democratic principles. Despite the legislation, organisational and institutional arrangements for legislative oversight have become increasingly challenged. This is particularly the case in countries with overwhelming majorities where standing orders uphold the principle of proportional representation. This raises questions about the effectiveness of practices of legislative oversight. The opposition, perceiving legislative oversight of the executive as not effective, has intensified questions regarding how effective legislative oversight is in South Africa. In turn, the ruling African National Congress (ANC) has raised concerns regarding the value of the opposition as a mechanism of oversight in the legislature. Given the fledging democratic culture in the country, the atmosphere in which legislative oversight takes place and the role played by interparty and intraparty loyalty and discipline in the legislature, there is a need to evaluate the effectiveness of these legislative oversight bodies in promoting public financial responsibility and accountability to ensure that value for money is achieved and public money is spent appropriately. Furthermore, what constrains the ability of the legislature to perform the function of oversight, as well

as sustain meaningful trust relationships in political institutions, needs to be explored and analysed.

1.2   PROBLEM STATEMENT

Democracy has created threats and opportunities in the South African public service. These threats create uncertainty in the public service and this affects the vision of the government. The South African media and the Auditor-General (AG) as some of the mechanisms to ensure public financial accountability and responsibility often report on arbitrary financial practices, corruption, fruitless expenditure, tender-rigging and the inability to spend allocated funds. These are some of the problems the Government experiences in its financial management. Consequently, there is a need to evaluate the effectiveness of the current mechanisms in order to ensure the effective management of public finance and to propose a solution. It may, therefore, be prudent to explore what is expected of a government department in terms of what could be referred to as the public financial accountability and responsibility of a public service department.

Although endowed with rich oversight bodies, policies and Acts, the state of financial management in South African government departments is illustrated in a number of clean qualified audits. This shows that the requirements of the PFMA, the legislative oversight bodies and the legal framework governing public finances have been flouted. Financial management in the public service, if not resolved holistically, may hamper, rather than assist, government departments with the speedy delivery of services.

Section 55 of the *Constitution* requires the legislatures to provide for effective mechanisms of oversight and to ensure that executive organs of state in government are accountable to the legislatures. The democratic system of government is critically dependent on transparency and accountability and the main responsibility for this lies

in the hands of the South African legislature and parliamentary oversight bodies. A true test of democracy is the extent to which legislatures can ensure that the government remains answerable to the people. This is done through constant oversight of government actions.

Parliamentary oversight bodies have a responsibility to uphold and strengthen the country's democracy by enabling oversight, accountability and governance in the public sector finance, thereby building public confidence. In a country where the majority of the population has participated in a democratic dispensation for more than a decade, it is important to engender public confidence in state organs. Executive government must be seen and perceived to be complying with applicable legislation, adhering to generally accepted governance practices and using public resources effectively and efficiently.

Parliamentary committees (PCs) produce report after report criticising accounting officers in a number of government departments, entities and agencies that fail the annual test set by the Auditor-General. The auditors audit books, point out where departments are in breach of the PFMA and decide whether the financial statements represent a fair assessment of departments' real financial situation. Despite all these reports and recommendations by committees, departments ignore the recommendations and the rate of corruption is increasing.

The scope and scale of corruption, theft and mismanagement and the almost total absence of disciplinary action leaves PCs with too little time to properly interrogate the many departments, boards and entities. Parliamentary committees also need powers to ensure that their recommendations are implemented. To the applicable departments and directors-general, PCs such as the Standing Committee on Public Accounts

(SCOPA) seem to be an irritation that they have to endure for approximately four hours, and then go home until the next year.

Current performance management practices may not effectively deal with aspects of financial performance in the public service. The South African public service is on a quest to achieve value-for-money service delivery and be accountable to the citizens for its stewardship. Legislation and guidelines have been established to achieve this goal, but there are still gaps in the system that need to be filled. Hence the need for this research to interrogate review and make recommendations for proper management of finance in government.

1.3   RESEARCH QUESTION

Inadequate measures to ensure public financial accountability and responsibility cost taxpayers billions of rand. The main challenge, then, is the role played by legislative oversight bodies. How South Africa, as a developmental state, should deal with these problems is, consequently, a question that should be answered. One of the characteristics of a developmental state is an interventionist approach by government and this should be evident in South Africa. In order to resolve these problems, a number of questions have to be answered. As most research projects start with a question, identifying the research problem or defining the study question is thus the first and most important step in the research process (McNabb, 2002:54). Similarly, Johnson (2002:27) believes that this step is so crucial to the success of a research project that the research cannot be conducted if mistakes are made at this stage.

1.3.1   Primary question

To achieve the objective of this research the following question will be asked: To what extent are the legislative oversight bodies successful in ensuring public financial accountability and responsibility?

1.3.2   Secondary questions

Through the application of primary and secondary sources and research methods, the following research questions, which could lead to the possible solution to the problem statement, will be pursued:

a. What is the role of the legislative oversight bodies in public financial management?
b. What powers do legislative oversight bodies have?
c. To what extent do political environmental factors stifle the ability of the legislature to perform its function of oversight properly?
d. To what extent are role players such as committees on public accounts effective in playing an oversight role?

1.4   RESEARCH OBJECTIVES

The objective of the research is to assess the current state of the public financial management system. This should serve to identify both areas of strength and weakness. It is also important to stress that the objective of this research is not to evaluate and score the performance of institutions or any public financial management offices or office-bearers, but rather to assess the capacity of the public financial management systems themselves to support sound fiscal policy and financial management. The objective is also to analyse the effectiveness of legislative oversight

bodies in ensuring public financial accountability and responsibility. It is also the objective of this study to contribute to general knowledge on the science of Public Administration and Public Finance.

1.5   RESEARCH SCOPE

The research focuses on the South African public service for the period 1994 to 2010, as South Africa became a democracy in 1994. This period was chosen to coincide with the 16 years of democratic rule in South Africa. It can also be assumed that 16 years is a reasonable enough time to give an indication of success or failure for a country the size of South Africa. There will be instances where statistics will be given beyond the indicated period and this will be done only to put an emphasis on a particular point as well as to show a link between the period before and after the 16-years period. A number of pieces of legislation have been passed since 1994 and a number of committees have been established, aiming to improve service delivery, good governance and the assurance of accountability in public finance.

1.6   RESEARCH METHODS

Research can be defined as the systematic process of enquiry to discover knowledge about a phenomenon. Research methodology refers to "the how of collecting data and the processing thereof with the framework of the research process" (Brynard and Hanekom, 1997:27). Thus, methodology refers to the tools, procedures and techniques used in the process of enquiry (Babbie and Mouton, 2001:47).

According to Babbie and Mouton (2005:104), research methodology refers to the methods, techniques and procedures that are employed in the process of implementing

a research design or research plan. Methods of data collection in research can be divided into qualitative and quantitative methods and are depicted as follows:

1.6.1 Quantitative research

The quantitative approach is closely associated with the natural sciences. A number of research designs within the quantitative paradigm are the social survey, experimental design, analysis of previously collected data and quantitative content analysis. In terms of the quantitative approach, research is underpinned by the natural sciences and terms such as variables, control, measurement and experiment are common. To develop a proper understanding of the methodological paradigm, a closer consideration of the notion of positivism is required. Positivism entails the belief that the methods and procedures of the natural sciences are appropriate to the social sciences.

Quantitative methods are used when the purpose of the research is to arrive at a universal statement and when the research seeks to assign figures to observation (Brynard and Hanekom, 1997:29). Techniques used here are surveys, questionnaires and opinion polls.

1.6.2 Qualitative research

Qualitative methods "produce descriptive data and no numbers are assigned" (Brynard and Hanekom, 1997:29). Techniques used here are, for example, interviews. Sources of data can also be divided into primary and secondary. Primary data are data collected with the primary purpose of answering the research question posed by the researcher and gathering first-hand data from respondents. Secondary data are data used in the study, although collected by a different researcher for the purpose of solving a different research problem.

Researchers applying the qualitative research approach believe that the object of study in the social sciences exhibits fundamental differences compared with the object of study in the natural sciences. In their view, the quantitative approach is inappropriate for use in the social sciences. The following research designs are typical of qualitative studies: case studies, ethnographic field studies, discourse and conversation analyses, and life history studies.

Contrary to the research approach of quantitative researchers, it is believed by qualitative researchers that data can only be interpreted effectively when he/she maintains an intimate relationship with the object of study and comes as close as possible to it (Mouton, 1983:130). Qualitative research refers to an approach to the study of the world which seeks to describe and analyse human behaviour from the point of view of those being studied. Rather than observe the behaviour of an object during experimental research, and thus attempt to control all nuisance factors and variables that might distort the validity of the research findings, the qualitative researcher seeks to become immersed in the object of study.

Qualitative research displays a number of characteristics. Firstly, qualitative research is committed to viewing events, norms and values from the perspective of the people who are being studied. Secondly, such researchers provide detailed descriptions of the social settings they investigate, which enables them to understand the subject's interpretation of what is going on. Thirdly, the scholar attempts to understand events and behaviour in the context in which they occur, following a holistic approach. This is a significantly different stance to that of the natural scientist who attempts to isolate the subject from undue interference. Fourthly, qualitative research views life as streams of interconnecting events, an interlocking series of events and as a process of constant change (Bryman, 1995:61–66).

Against the above background, this study will be conducted in terms of the qualitative paradigm. One of the major distinguishing characteristics of qualitative research is the fact that the researcher attempts to understand people in terms of their own definition of their world (Creswell, 1994:145). By using a qualitative approach, an attempt will be made to understand the current public financial management system and its challenges. A qualitative approach has the potential to supplement and reorient people's current understanding.

In this study, data was collected from the Government Communication and Information System (GCIS) department. This information was then fed into the Statistical Package for the Social Sciences (SPSS). Information was analysed and interpreted especially for chapter 5.

1.7   DATA AND INFORMATION COLLECTION AND ANALYSIS FOR THE STUDY

Bulmer (2000:205) identifies the collection of data as the critical phase in social research. Researchers become more confident in the process of conducting research when they analyse the relevant sources. Often there is a wealth of information and data on the research problem already collected by others, in which case it may not be cost-effective or necessary to conduct a whole new research project in order to answer the research question. In many cases, existing secondary data may be sufficiently relevant and comprehensive to answer at least a certain part of the overarching research question (Puth, 1996:86). The following sections analyse the data collection techniques that will be used in the study.

1.7.1 Observation

Observation entails the systematic noting and recording of events, behaviours and artefacts (objects) in the social setting chosen for study (Gabrielian, Yang and Spice, 2008:157). In this study, the researcher is a participant observer. The information obtained will be used to provide an in-depth analysis of the current state of public financial accountability and responsibility in South Africa.

1.7.2 Documentation

Exploring secondary data resources can as a point of departure start with a search of published data and the identification of unpublished data that are relevant to the topic and problem area (Naidoo, 2004:51). For the purpose of this study, the literature study will consists of relevant books, published articles, journals, relevant unpublished theses, government policy documents, Acts, published papers and relevant standing committee reports. Audits reports will also be consulted and analysed to identify a number of qualified and unqualified reports, frequency of wasteful expenditure and number of cases of corruption. The above literature provides a thorough basis for the arguments offered here.

1.8   SIGNIFICANCE OF THE STUDY

The study could assist in providing an analysis of public administration and public finance in general. The study could also assist in the financial management crisis by highlighting international best practices and coming up with recommendations. With the study, public administrators will understand the weaknesses and strengths of parliamentary committees and their challenges to live up to the expectations of the public. In this study, institutions of governance and their interrelationship will be

understood, as well as the importance of scanning the environment and the influence of the environment on public administration.

1.9   LIMITATIONS

Many issues affect public finance in South Africa in all spheres of government. This study will focus on one sphere which is the national government and this will give a perspective of one side of the sphere of government. Therefore, this will not give a complete picture of the state of public financial management in the country. Furthermore, the study analyses information from government reports and these reports could have been manipulated. The study will also be affected by the time constraints as there are many issues to be researched on the public finance management system and its evolution in the public service.

1.10   STRUCTURE OF THE RESEARCH PROJECT

To achieve the objective, this study is organised as follows:

The thesis is composed of seven chapters. Chapter 1 provides a general introduction to the entire study. It includes the research problem and aim, the scope of the research, assumptions and research methods. It also introduces the type of methodology to be used, significance of the study, limitations and the organisation of the study.

As a foundation, chapter 2 is important for the study as it explores the relevant theories of public administration in order to provide an in-depth analysis and conceptual understanding of Public Administration as a discipline. This chapter is devoted to public administration in general and the general theories of public administration in order to provide an in-depth analysis of the concept of P(p)ublic A(a)dministration as both a

discipline and a practice. The chapter explores the purpose and the historical perspectives on public administration. The role and purpose of the state in public administration and the environment of public administration are also analysed. Public administration functions are analysed and the chapter concludes with the development of public administration in South Africa. This chapter is significant for the study as it indicates where public finance fits into public administration.

Chapter 3 is devoted to the international perspective on public finance. The study intends to analyse the legislative oversight bodies that are responsible for ensuring public financial accountability and responsibility. Some of these legislative bodies are designed based on the models of other countries. Therefore, this chapter seeks to find what one can learn from the international world in terms of public financial accountability and responsibility. There is no democracy without international benchmarking. The South African public financial management system is based on the models of a number of countries. This chapter analyses the public financial management of Australia, New Zealand and Canada. These countries have a similar public management system to that of South Africa and implement similar systems of control. This chapter is important for the study as it provides recommendations for the improvement of public financial management in South Africa based on that of other countries. The chapter is also important as it analyses the financial accountability and responsibility of other countries.

Chapter 4 analyses the public finance management system in South Africa. As a point of departure in this chapter, the PFMA is analysed as it is the most important legislation in the management of public finance in South Africa. The different types of budgeting systems are analysed to illustrate the budgetary reforms, from traditional budgeting, which has been an input-process and rule bound to performance-based budgeting. The

role players in budgeting are also analysed. Budgeting is important in this study as it can be used as one of the financial control mechanisms by the legislature. The significance of the introduction of the *Medium-Term Expenditure Framework* (MTEF) is analysed and the Budget Review as well as the budget policy statement are included in the analysis. The chapter concludes by analysing procurement and its development as government services revolve around procurements and this is where most financial maladministration and corruption occur. This chapter is significant for the study as it highlights what can be used by the legislature to enforce financial accountability and responsibility.

Chapter 5 examines the theory of governance in terms of public administration, particularly elements of good governance. This chapter is important for the study as it deals with the key issue in the study, which is accountability. The chapter starts by defining governance from various angles. This chapter also touches on the King reports on corporate governance. Accountability and responsibility are analysed where types of accountabilities are provided. Central to this chapter is the comprehensive examination of the PFMA and its regulations in order to provide a comprehensive governance model for the South African public service. Among other topics, the PFMA and accountability, the PFMA and governance, and institutions of governance are analysed. The chapter concludes with bodies supporting governance whereby it is highlighted that the work of the bodies is interrelated and they cannot operate in isolation from each other. This chapter is important for the study as it provides institutions of governance and their role on accountability.

Chapter 6 focuses on the South African legislative bodies and their functions. In this chapter, selected legislative bodies that ensure public financial accountability and responsibility are analysed. The legislative, judicial and executive authorities are

analysed. Legislative oversight bodies responsible for supporting constitutional democracy as identified in chapter 9 of the *Constitution* are analysed, however, not all of them are analysed since some of them have no direct role in public finance. Other instruments utilised to ensure public financial accountability and responsibility are analysed. Parliamentary committees are analysed and their role in accountability and focus will also be analysed in terms of performance management. The chapter ends with an analysis of audit committees whereby their role and functions are analysed as well as the Government Wide-monitoring and evaluation system. The significance of this chapter is that it analyses available bodies and legal documents supporting public finance management in South Africa.

In chapter 7, the conclusion and recommendations are provided. The extent of the role of legislative oversight bodies in ensuring public financial accountability and responsibility is highlighted. Opportunities for further research are also highlighted.

1.11   CONCLUSION

Although South Africa has, since 1994, developed an impressive compendium of financial management policies and regulations, public expenditure management remains a challenge. At national level, the PFMA forms the basis of financial management supported by the *Municipal Finance Management Act,* 2003 (Act 56 of 2003) (MFMA) in the local sphere of government. Yet public financial management in government remains a challenge. Many government departments have, over a number of years, received qualified audit reports from the office of the AG with no significant improvement being noted up to now. This and a number of other issues gave the opportunity to evaluate the current mechanisms of ensuring accountability and

responsibility. This research provides the state with the current state of public financial accountability and responsibility.

The fundamental purpose of the state is the allocation of resources in delivering public goods and services. The redistribution of income, stabilisation of economic activity and promotion of economic growth and employment could also be seen as additional roles. The manner in which public resources are used can be considered as a critical determinant in the achievement of public policy objectives. It is, therefore, important for government institutions to implement effective and efficient financial control measures. Effective public administration and accountability depend on internal financial controls as set out in the PFMA.

The PFMA is based on the principles of the King report and, in particular, the "inclusive approach" as an element of sound management. It can, therefore, be concluded that PFMA compliance will contribute towards effective corporate governance practices, which will lead to improved service delivery.

The next chapter highlights the theory of public administration. The chapter points out that public administration does not take place in a vacuum. There are many factors affecting the practice of public administration.

CHAPTER 2   PUBLIC ADMINISTRATION: THEORY AND PRACTICE

2.1   INTRODUCTION

The focus of the study is on the legislative oversight bodies responsible for public financial accountability and responsibility. This chapter therefore analyses public administration in general and it will indicates where public finance fits into the public administration. The chapter is important as public finance does not take place in isolation but within and as one of the functions of public administration. Public administration has always been referred to as public service. The role of public service is to provide services to the society. Public servants are required to execute government policies. It is public administration that facilitates and supports the activities of public management. The functions of public management are related to public administration and this give direction to the administrative conduct of public servants to ensure that policies are implemented effectively.

A new direction emerged in the 1980s in response to the political changes, increasing needs and demands by society (Naidoo, 2004:64). Public administration is not static; it changes as the people and the environment change. Therefore, there is a need for effective and efficient public administration to meet the increasing needs and demands of society. South Africa has seen a number of pieces of legislation aimed at improving public service delivery. In search of excellence, the importance of new public management (NPM) emerged.

To contribute to the analysis of public finance, this chapter reviews public administration in general. Service delivery and government initiatives will not be successful without sound public administration and most importantly without effective financial accountability and responsibility. For public administration to be effective and

efficient, there must first be financial resources for the delivery of services to the community in accordance with their needs and expectations.

In an effort to answer the research question, this chapter commences with a synopsis of public administration as a phenomenon and the context within which it operates. It examines public administration in general, provides a brief history of public administration, analyse P(p)ublic A(a)dministration as an academic discipline and as an activity and the environment in which public administration operates. Before one can examine public administration, one need to know what public administration is. Scholars and writers have offered many definitions of public administration. Defining public administration has been a complex and elusive problem largely because the nature of public administration itself is complex.

2.2   DEFINING PUBLIC ADMINISTRATION

Public administration as defined by Schoeman and Fourie (2008:802) is an expression of governmental power that has profound implications for the effectiveness and efficiency of government as it defines the conduct of democracy and shapes the relationship between government and its citizens. One of the means to maintain this relationship mentioned in the above definition is the oversight role that the legislature fulfils in holding the executive accountable.

There is no general accord on the definition of public administration. It is common practice to define public administration by using examples. It is not always sufficient to give one definition of public administration. Public administration cannot just be defined as the management of public affairs or the implementation of policies. Such a simplistic definition is not sufficient for the tasks within public administration. The most important task in any subject is to give a comprehensive definition.

The field of public administration, since its origin, has been stressed by questions on its identity: what is it all about, is it a science or art, is it a discipline or not? It is not the intention of this study to enter into debate. Public administration is so immense that it cannot be covered in one definition. As a result, for the purpose of the study, the definitions are grouped into various categories.

2.2.1 Political definition

Politics cannot be separated from public administration. Therefore public administration cannot exist outside the political milieu; it operates and functions in a political environment. Totemeyer (1987:195) agrees that public administration is what government do, from policing, disaster relieve, preparing for a state visit or any other government activity. Cloete (1981:4) adds that public administration refers to particular functions of public institutions – otherwise known as governmental institutions.

Thornhill and Hanekom (1995:9) argue that the term administration is in one way or another related to both public and private sectors. Fox and Meyer (1995:105) define public administration as the executive branch of government; civil service, bureaucracy charged with the formulation (facilitation), implementation, evaluation and modification of government policy.

In one of his earlier works, Cloete (1980:3) states that public administration refers to the administration process that must be carried out together with other actions undertaken by government institutions and public officials. According to Cloete (1980:3) public administration only refers to those processes and actions executed by government executive institutions, excluding legislatives procedure and the procedures executed by courts of law.

2.2.2 Legal definition

In view of the fact that public administration is what the state does, it is created and bound by law. The foundation of public administration is legal. It is the execution of public law. Public administration cannot exist without the legal foundation. Nothing can be done by government administrators if it is not guided by law. It is government telling citizens and businesses what they may and may not do (Caiden, 2007:14). Coetzee (1988:16) states that public administration may be regarded as a particular type of administration concerned with the execution of the rules, laws and regulations of the government of the country, i.e. the execution of public affairs geared towards meeting the needs of the citizens. What Coetzee is advocating here is that what a government accomplishes for a society depends on the policies it formulates and adopts, as well as the effectiveness of putting them into practice.

In South Africa, public administration is governed by legislation namely, the *Constitution*, the *Promotion of Access to Information Act,* 2000 (Act 2 of 2000), the *Promotion of Administrative Justice Act,* 2000 *(Act 3 of 2000), Promotion of Equality and the Prevention of Unfair Discrimination Act*, *Basic Conditions of Employment Act,* 1997*, Labour Relations Act,* 1996*, Public Service Act,* 1994 and many other pieces of legislation and departmental policies. All these pieces of legislation could also assist the legislative bodies in ensuring public financial accountability and responsibility.

It is clear from the above that people's lives are governed, or interfered with, by pieces of legislation, e.g. one is not officially born until there is a birth certificate, one cannot drive without a licence, and finally one cannot be declared legally dead until there is a death certificate. One of the functions of the courts of law is to enforce the legislation.

2.2.3   Managerial definition

Public administration is a management speciality. It is the government that puts into practice legislative Acts that represent the will of the people. Management refers to the people running the organisation and the running process itself. Robbins and DeCenzo, (2005:5) define management as the process of getting things done, effectively and efficiently, through and with other people. Several components in this definition warrant discussion. The "process" referred to in this definition is planning, leading, organising and control. Efficiency means doing the thing correctly and the relationship between input and output, and effectiveness means doing the right thing. Public administrators perform management functions on a daily basis and they are expected to perform their duties effectively and efficiently. Section 195(b) of the *Constitution* states that efficient, economic and effective use of resources must be promoted.

Public administration can be both art and science. There is a very old debate on whether public administration is an art or science; a question that scholars and practitioners continue to ask even today. Some individuals in organisations are gifted in doing administration and they are not just organised but they have an ability for getting people to work together. According to Caiden (2007:19), the administrative art is judgement, panache and common sense. But the artist cannot excel without tools, without the technical skills (science). It will serve no purpose to enter into this debate because public administration is inherently both art and science and this debate does not form part of this study.

2.2.4   Occupational definition

Public administration in the United States of America specifically is defined by Simon, Smithburg and Thomson (1950:7) as the activities of the executive branches of

national, state, and local governments, independent boards and commissions set up by Congress and the state legislatures, government corporations, and certain other agencies of a specialised character. Specifically excluded by Simon *et al.* (1950:7) are judicial and legislative authorities within government and non-governmental organisations.

Public administration involves government or state institutions and the management of public affairs and their policies. However, one cannot rule out the fact that administration is the same irrespective of whether it is practised in a public or private sector. There are functions of public administration which are closely related to what private administrators do on a daily basis and these functions will be analysed later on in this chapter.

The above sections analysed public administration definitions and it is clear that public administration functions in the political environment and legal parameters. There are common factors in all definitions which are specifically related to the state and government and that public administration takes place within government institutions. For the purpose of this study, public administration as a practice is defined as public servants implementing a specified policy within the confines of a government executive framework. The following section analyses the development of public administration.

2.3   DEVELOPMENT OF PUBLIC ADMINISTRATION

With the various definitions in mind, this section provides an overview of P(p)ublic A(a)dministration as a discipline and practice. The intention is not to provide a detailed analysis of the history but to give a synopsis of the events. It is accepted that administration is to be found wherever two or more people take joint action to achieve a common goal, it means that administration is present in all spheres of human activity,

be it work or recreation (play) (Cloete, 1981:1). It could thus be argued that administration is probably as old as humankind itself. Public Administration as an academic discipline, however, is of fairly recent origin.

The discipline of Public Administration has evolved through a number of crucial stages. The six main stages are Wilson's politics-administration dichotomy; the principles approach; human relations rise; behavioural component; computer technology developments and public policy analysis (Basu, 1994:13-20). The 1970s public choice and public management schools are also prominent stages in the development of Public Administration.

(P)public (A)administration has two components: the first being an academic discipline and the second being an activity. As an academic discipline, Public Administration is of fairly recent origin when compared with the practice of public administration. Public Administration as an academic discipline originated in the United States of America with the publication of an article in 1887 by the then president Woodrow Wilson, entitled *The study of administration* (Woll, 1966). Wilson's article has been interpreted by many scholars. Some insisted that Wilson originated the "politics/administration dichotomy". This distinction between political activities in public organisations will continue to plaque the field for many years to come (Henry, 1999:26).

It is clear in the article that Wilson was well aware that public administration is inherently political in nature. In reality, Wilson could not come up with the meaning of public administration. Wilson failed to amplify what the study of administration actually entails, what the proper relationship should be between the administrative and political realms, and whether or not administrative study could ever become an abstract science akin to the natural science (Stillman, 1973:587). Nevertheless, Wilson unquestionably

posited one explicit debate in his article that has had a lasting impact on the field (Henry, 1999:26).

Wilson wanted the study of Public Administration to focus not only on the problems of personnel management, as many other former reformers of the time had advocated, but also on organisation and management in general. The reform movement of the time had an agenda that did not go beyond the abolition of the spoils system and the installation of a merit system. Wilson (1887:197) regarded civil service reform "as but a prelude to a fuller administrative reform", and sought to push the concerns of public administration into investigations of the "organisation and methods of our government office" with a view towards determining "first, what government can properly and successfully do, and secondly, how it can do these proper things with the outmost possible efficiency and at the least possible cost either of money or energy".

Public administration has its roots in Political Science. It is clear from literature that Public Administration gradually developed from Political Science into a discipline in its own right. As with all other disciplines, Public Administration needs a philosophical foundation and unique theories on which to base public administration practices (Cloete, 1988:46). It is, therefore, not surprising that the philosophical base of Public Administration is Political Philosophy, a subject which developed from Political Science.

Realising the contributions of political scientists, such as Woodrow Wilson, to Public Administration, the relationship between the two disciplines becomes very clear. Since there are close relations between these two fields of study, a knowledge of Political Science can only contribute positively towards a better understanding of Public Administration and the practice of public administration.

Therefore, the literature agrees that public administration operates and function in a political environment. Hanekom and Thornhill (1983:156) state that a clear distinction between "pure politics" and "pure administration" is nearly impossible. The interaction between political office bearers and appointed public officials has become intertwine.

Public administration as an activity has definite origins and has developed to what it is today. The question can be asked: why did public administration originate? Public administration is needed when people work together to perform and achieve something together. Whenever people formed communities, there were common needs.

According to Hatting (1986:1), communities were willing to conclude an agreement with government to ensure an orderly existence. In terms of this agreement, the government will govern on behalf of the community. This community meant that the freedom of individuals was limited to a certain extent, but the government had a duty towards the individuals and the community. This is still being practised today whereby people vote for a government which will govern on their behalf. In most cases, the terms Public Management and Public Administration are used synonymously, but they are different and the next section will deal with the difference between public administration and public management.

2.4   PUBLIC MANAGEMENT VERSUS PUBLIC ADMINISTRATION

The contrast between Public Management and Public Administration has long been the subject of academic debate. According to the concrete and operational approach of Fox, Schwella and Wissink (1991:3), public administration (the activity) consists of systems of structures and processes operating in a particular environment with the objective of facilitating the formulation and efficient execution of government policy.

Public management should not be limited to the generic administrative functions, namely organising, control, personnel provision, work methods and procedures, policy-making and financing. Fox e*t al.* (1991:2) state that if public administration were to be reduced to public management, this would disregard the dynamic context and political nature of public management.

Wissink (1992:18), in turn, states that public management as part of public administration, seen in general, is the skill of converting resources such as material, labour, capital and information into services and products to satisfy the needs and desires of society and also to achieve the aims and objectives of the public sector.

In contrast with the above definitions, Cloete (1993:61) holds the view that the activities performed to establish and operate public institutions should be known as public administration or public management. It appears that Cloete does not consider public management to be part of public administration but rather views them as being synonymous. Cloete (1994:220) states that the generic administrative functions have two dimensions, namely a conceptual and directive dimension and a management dimension. Cloete declares that the management dimension of the administrative functions is performed mainly by institutions and officials responsible for the implementation of directives such as Acts and regulations. When managers are done with the execution of directives, therefore, they move back to the administrative dimension (Van der Waldt and Du Toit, 2007:14).

Public management functions are considered by Hughes (1998:45) as merely a continuation of the practice of public administration. This statement is reiterated by Rhodes (2003:48) when he states that public management is a continuous activity, only made possible by public administration. It is clear that public management as a

component of public administration is very important. Public management is the ability to convert resources into services and products for use by society. Public management, however, does not contain the whole ambit of public administration but is used to denote part of the very broad subject of public administration (Du Toit, 2002:5).

Roux, Brynard, Botes and Fourie (1997:10) state that public management becomes a human capacity to perform public administration effectively. Public management is regarded as a social process involving aspects such as judgement, decision-making, guidance and motivation (Naidoo, 2004:7). Public management is the attainment of institutional goals such as service delivery objectives (Daft, 1988:8). These institutional goals have to be attained through the public management functions of planning, organising, leading and control.

From the above discussion, it appears that the two concepts public administration and public management are not synonymous. The results of public administration in the form of policy allow public management to take place. Public management incorporates public administration and also involves the inclusion of other functions such as leadership to achieve its objective with maximum efficiency, as well as accepting genuine responsibility for results (Naidoo, 2004:9). It is through public management that policies will be implemented to ensure that the principles of public finance are adhered to. This will ensure effective financial accountability and responsibility and will assist the legislative bodies. The legislature can therefore use these policies to hold the public administrator to account. Public administration has its generic functions and the next section will analyse these functions.

2.5   ADMINISTRATIVE FUNCTIONS OF PUBLIC ADMINISTRATION

In view of the above, to perform public administration, certain administrative functions must take place. These administrative functions are important as they assist in policy-making that will ensure clean administration and proper public finance. Before any service can take place, the institution responsible must be enabled to do so. The process of enabling government institutions to deliver services and products depends on the execution of a series of functions – the process of public administration, which is a comprehensive function (Knipe, Du Toit, Van Niekerk, Van der Waldt and Doyle, 2002:81). Effective public administration is performed through a number of functions, according to Cloete (1998:86; 1991:2) will be analysed:

2.5.1   Policy-making

The decisions that are normally taken in the public sector by politicians to guide a particular course of action usually result in government policy. Thornhill and Hanekom (1995:54) define policy as a desired course of action and interaction, which is to serve as a guideline in the allocation of resources necessary to realise societal goals and objectives decided upon by the legislature and made known either in writing or verbally.

In South Africa, for example, the Cabinet (also called *Lekgotla*) meets yearly in February and July. At these meetings, issues are discussed to guide the Government to meet its objectives. After these Cabinet meetings, every department is expected to identify what has been discussed and to work out strategies to deal with the issues, (http://www.info.gov.za/speeches/2005). In order to deal with these strategies, officials have to extensively plan and organise resources to achieve their objectives. Every government is responsible to make policies that meet the needs of the people.

The policy-making role of government officials, which is today accepted as common practice and knowledge, was not recognised until the late 1930s. It was mentioned earlier that Public Administration as a discipline is generally traced to the late president Woodrow Wilson of the United States of America and his famous article "The study of administration". Ironically, this article also gave birth to the rejection of policy-making as a vital role of government officials (Woll, 1966:28). Wilson (1887:199) states the following: "The field of administration is a field of business. It is removed from the hurry and strife of politics; it stands apart even from a debatable ground of constitutional study." Although it is disputed, some scholars insist that Wilson originated the very naive dichotomy between politics and administration, which was a precursor to the famous work of Frank Goodnow, "Politics and administration". Authors differ on the policy-making process, however, in the end, they all agree on one area which is "policy". Policy-making in itself is a process and this process will be analysed in the following sections.

2.5.1.1 Agenda setting in the policy-making process

Often the initiative for policy-making is taken by one of the following: a member of the legislative institution, public managers, or interest groups and this is where the need is identified (Chapman, 2000:273; Golembiewski, Gibson, and Miller, 1978:47; Hanekom, 1994:37-38). This is the stage where a policy problem is identified. A policy problem can be defined as a condition or situation that produces needs or dissatisfaction among people and for which redress through governmental action is sought (Anderson, 2000:88). The process of agenda-setting is a necessary and complex phase in the policy-making process. It is necessary in order to separate issues from non-issues. Once the policy problem has been identified and the decision has been made, the next step is to formulate a policy.

2.5.1.2   Policy formulation

After the government has acknowledged the existence of a public problem and the need to do something about it, policy-makers need to decide on some course of action. Formulating such a course of action is the second major stage in the policy cycle and this is called policy formulation. As Jones (1984:7) has observed, the distinguishing characteristic of policy formulation is simply that means are proposed to resolve somebody's perception of the need that exists in society. This stage involves assessing possible solutions to policy problems or to put it another way, exploring the various options available for solving a problem. On completion of policy formulation, the implementation process will begin.

2.5.1.3   Policy implementation

This is the crucial stage of policy-making. Many public policies are not made merely to keep policy-makers busy, or to create the impression that policy-makers are doing something to alleviate societal problems or demand. Scholars in public policy ignored or downplayed the problematic aspects of this stage of the policy cycle, assuming that once a policy decision was made, the administrative arm of government would simply carry it out (Jones, 1984: 25). All public sector policies are aimed at promoting some aspects of the quality of life of the citizens of a particular state, and are usually the result of the agreements, the ideals, and the intentions of the policy-makers.

It is, however, only when the policy are implemented that the ideals and the intentions of the policy-makers are put to the test (Hanekom, 1994:55). Public policy implementation usually takes place through the enforcement of laws to ensure compliance, through the provision of services and of money, and through taxing and tax incentives (Edwards and Sharkansky, 1978:295; Hanekom, 1984:65). Policy-

making does not end with implementation. There must be an assessment of how well or how poor the policy is achieving its intended purpose and this leads to policy evaluation.

2.5.1.4   Policy evaluation

Once the need to solve a public problem has been acknowledged, various possible solutions have been considered, and some among them have been selected and put into practice, a government often assesses how the policy is working. The concept of policy evaluation thus refers broadly to the stages of policy process at which it is determined how a public policy has actually fared in action. It involves the evaluation of the means being employed and the objectives being served. As Gerston (1997:120) defines it, "policy evaluation assesses the effectiveness of a public policy in terms of its perceived intentions and result".

Public policy can be used as a guideline by heads of departments when managing public finance. It can also be a tool that the legislative oversight uses to ensure public financial accountability and responsibility. There are also mechanisms to ensure compliance to public policy. Many policies deal with public finance in South Africa and if they are implemented correctly, they can alleviate problems experienced in public finance. In order for policy to be implemented, there must be a proper organisational structure indicating a clear line of authority.

2.5.2   Organising

Once the policy-making process is complete, a structure has to be put in place to implement and support the policy. To carry out a task involving human resources, there must be an indication of who has to do what and if something goes wrong, who has to

account for it. This is where accountability, responsibility, delegation, communication, span of control and clear line of authority are established. The organisational structure should give people a clear chain of command.

A person is responsible to his/her principal for the efficient, effective and responsive execution of an assignment, to the extent that such a person is, for the purpose of an assignment, under the control and command of another person or institution (Schwella, Burger, Fox and Muller, 1996:164). Therefore, one may conclude that those public institutions and persons responsible for the management and administration of public funds are accountable to the tax-payers and the public at large for the efficient, effective and responsive execution of their assigned task.

It will be inappropriate at this point not to mention that responsibility can be delegated but accountability cannot be delegated and this requires constant communication. Organisation, particularly in the public sector, involves organisational hierarchies and the division of labour. Some are superiors and others are subordinates. These roles will affect communication. Superiors are usually the information managers since they have decision-making and control functions allowing them to control information flow (Schwella *et al.* 1996:228). In order for communication to be effective, the span of control must be manageable and there must be a clear line of authority. It is through organising that a manager will be allocated a number of employees reporting to him/her and the reporting channels will be identified.

Cloete (1991:112) views organising as classifying and grouping functions and allocating groups of functions to institutions and workers in an orderly pattern so that workers aim at achieving the objective. According to Fox *et al.* (1991:70), public managers organise when they are in the process of establishing formalised, intentional

structures. This refers to the activities of government institutions and in setting up an infrastructure from which personnel can work to achieve the objectives they are appointed to achieve. Organising includes structuring of an organisation to implement the plans. It is at this stage where centralisation and decentralisation of decision-making will be finalised.

Centralisation and decentralisation in any country depend on the political culture and the political system of that country. Political culture has to do with the recognition of cultural diversity and societal pluralism and the possibilities to deal with such diversities through an exchange of ideas.

Centralisation means that power and authority is concentrated within one centralised unit, organisation or level of government (Fox and Meyer, 1995:19). Odendaal (2002:254) describes centralisation as a process through which power and authority is vested in a centralised unit, central organisation or even a single person. According to Fox and Meyer (in Odendaal, 2002:254), the need for centralisation is often triggered by conditions such as emergence or existence of complex problems, local disputes, the need for equality and uniformity and less duplication.

Decentralisation, on the other hand is defined by Fox and Meyer (1995:32) as the dissemination of functions and authority as well as management or administration from a national/central government to sub-national units and they regard it as a necessary component of democracy. Decentralisation, strictly speaking, is the transfer of authority and responsibility for public services from the central government to subordinate or other areas of government organisations or the private sector (Rondinelli, 1998:52). It is an ambiguous notion. Political economy of development, which contains probably the largest portion of decentralisation literature refers to various approaches, indicating

manifold dimensions of the decentralisation process (Manor, 1999:18). When the structure is in place, financing is needed to fund projects, salaries and operational costs, to mention but a few.

2.5.3   Financing

Just as a person cannot start a business without money, a public institution also cannot undertake any work without money. Financing is required to pay for the actions taken in order to provide basic services such as health and education. This could include money to build schools and paying staff salaries. Financing of government businesses falls under the ambit of the Minister of Finance. This entails, among others, raising funds through taxes, the raising of loans nationally or internationally, the selling of government stock and by attracting donor funds both nationally and internationally. Once funds have been received they will be used for various projects such as capital projects. According to Section 5 of the PFMA, the National Treasury under the leadership of the Minister of Finance is to ensure through its monitoring process that the funds provided are utilised effectively and are accounted for. The National Treasury has to ensure that departments spend funds effectively and efficiently.

In ensuring the effectiveness of public finance, the National Treasury has developed Treasury Regulations that are in line with the PFMA to guide government departments, public entities and constitutional institutions on the effective management of public resources. To achieve this, new financial management and reporting methods are being developed continuously to move away from systems that are based on the old *Exchequer and Audit Act,* 1975 (Act 66 of 1975. This section will be dealt with extensively in Chapter four.

Despite all that has been mentioned above, financial management in the public sector continues to take most people by surprise. The mechanisms put in place by the National Treasury need to be evaluated for their effectiveness, and appropriateness and where needed, be further developed to meet new reporting requirements. When money is available, work can commence. Financing will be analysed in detail in Chapter 4.

2.5.4 Determining work procedures and methods

Work procedures and methods are essential to serve as guidelines in terms of which officials can carry out their respective functions. These specify what needs to be done by whom and how it has to be done.

Government and public administration comprise regular activities that are characteristic of a civilised country. Therefore, it is understandable that people should strive to develop appropriate work procedures to carry out the legislative, governmental and administrative functions, for example, parliamentary procedures and budgetary procedures (Cloete, 2008:248). For this reason, it has been necessary to put in writing specific procedures concerning wrongful actions taken by public officials, e.g. the rules of procedure for dealing with cases of misconduct, as laid down in the *Public Service Act.*

2.5.5 Provision and utilisation of personnel

Once legislation is in place to give effect to a specific policy, the organisation arrangements have been completed and money has been made available, personnel can be appointed to put the institution into operation. Personnel are essential to carry out the functions that will eventually lead to the achievement of the objective of the

government policies. As Huddlestone (1992:41) states, "the heart of any government agency, or any organisation for that matter, is its personnel. How effectively an organisation accomplishes its mission is heavily determined by the skill, determination, and morale of its employees". This fundamental principle is reflected in the Government of National Unity's vision of service-oriented public service, as articulated in the *White Paper on the Transformation of the Public Service* (1995:14-15), and the *White Paper on Reconstruction and Development*, 1994.

2.5.6   Control

Control ensures that everyone works towards achieving the prescribed objectives, policies are implemented accordingly, finances are spent accordingly and work procedures are being followed as stipulated. This involves the use of mechanisms to ensure that the behaviour and performance of departments and individuals or groups conform to government rules and procedures.

In 2004, the Cabinet initiated plans for a monitoring and evaluation system for the Government. The Presidency subsequently developed the Government-wide Monitoring and Evaluation system. Although there are various existing systems gathering valuable information within government, there are also a number of gaps in the information needed for planning the delivery of services and for reviewing and analysing the success of policies. The Government-wide monitoring and evaluation system seeks to enhance the functioning of these systems by describing them and explaining how they relate to each other. Subsequent to this, a new ministry was introduced in the Presidency dealing with monitoring and evaluation. The public administration department is thus governed by both functions and principles.

To make sure that accountability prevails and that bureaucratic tendencies are discouraged, more emphasis will have to be placed on the fundamental requirements applicable to public administration (Cloete, 2008:281). These requirements will only be met if the formal internal control measures are applied diligently, especially if attention is paid to strengthening the internal aspects of control.

There are two types of control in the public sector. Firstly, internal control is performed by the executive functionaries. Internal control is exercised to some extent by the institutional situation created by policy-making, organisational arrangement, work procedure, financing arrangement and prescribed conduct rules (Cloete, 2008:266). Examples of internal control are inspections and standard working procedures.

Secondly, examples of external control in South Africa are Parliament through parliamentary committees, the Auditor-General, the National Treasury, the Department of Public Service and Administration, inspections and auditing. The legislature fulfils a very important role here and this is where the legislature must exercise its powers to enforce public financial accountability and responsibility.

It is through these administrative functions that public administrators are empowered to ensure that mechanisms are in place to ensure the effectiveness of public finance. All the above functions have to be managed properly. Once all administrative functions are in place and administrators know what is expected of them, management can then take place. Management therefore plays an important role in public administration functions.

2.5.7 Management

With the administration functions in mind, it becomes important to focus on the managerial part of public administration. Once policies, structures, resources and work

procedures are in place, management takes place. Management is there to ensure the effective utilisation of resources to achieve the organisational goal. It is at this stage where policies will be tested for their applicability. Managers are therefore given responsibility and have a duty to account. Bringing it closer to the topic of this research, managers are responsible to ensure that regulations and processes are adhered to in ensuring public financial accountability and responsibility.

Organisations enable people to reach goals that would be impossible or very difficult for an individual to achieve alone. This necessitates management and managers therefore have to combine, allocate, co-ordinate and deploy resources or inputs in such a way that the organisation's goals are achieved as productively as possible. In doing so, management needs to follow a specific process. For the purpose of this study, this process entails the fundamental management functions of planning, organising, leading and control.

2.5.7.1 Planning

Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. Planning bridges the gap from one is to where one wants to go (Kroontz, O'Donnel and Werich, 1980:156). It is the basic process involving everyone in the organisation. The purpose of a plan is to facilitate the achievement of an institution's purpose, mission and objective. Smith, Cronje, Brevis and Verba, (2007:91) state that planning forms the basis of all other management functions, since it directs the activities of an institution.

Planning is of primary importance in any organisation and has a substantial effect on the efficiency of public institutions (Schwella *et al*. 1996:46). Cloete (1981:27) describes planning as a set of processes which must be carried out to find the best

course of action to achieve a policy objective. Cloete further argues that in the public sector context, planning has to follow after policy-making where policy constitutes a statement of an intention to satisfy a societal need. Therefore, planning is essential in order for an institution to achieve its purpose, mission and objectives. Once planning is complete, organising can take place.

2.5.7.2   Organising

Organising is the second step in the management process. Organising is defined by Lussier (2006:198) as the process of delegating and co-ordinating tasks and resources to achieve objectives. It creates structures and organises people to co-operate towards reaching a common objective. Organising is meant to create relations concerning operational instructions, duties and responsibilities. Organisations develop strategic plans that must be implemented and organising aims to implement strategies as structure follows strategy. Once organising is complete, then leadership can take place.

2.5.7.3   Leadership

Leadership is defined by Smith *et al.* (2007:271) as the process of directing the behaviour of others towards the accomplishment of formulating plans and reaching goals, in other words, translating plans into reality. Whenever an organisation experiences difficulties, it can relate to leadership as a possible cause of the problem. If employees are asked about their jobs, the chances are that they will complain about leadership. Whenever managers underperform, the chances are that leadership is weak.

Leadership plays an important role in any organisation being a private or government institution. In a number of Auditor-General reports (2009/2010), a reference has been

made to poor leadership in government. The 2010/2011 Auditor-General report stated that political office-bearers failed to provide good leadership in ensuring financial accountability and responsibility. Leadership involves influencing people, giving orders, managing conflict, communicating with subordinates and motivating people. Leadership plays an important role in every step of the management process and public administration functions. It is through effective leadership that effective public financial accountability and responsibility will be ensured and realised.

2.5.7.4 Motivation

Motivation has never been observed. It is a formulation used by those who study human behaviour to explain why people act as they do, and is, therefore, a meaningful and useful way in which to talk about behaviour (Fox, *et al.* 1991:107). Three basic elements, namely needs, drives and objectives, interact in motivation. Organisations can have the best resources but if people are not motivated and there is no drive, nothing will be achieved.

2.5.7.5 Control

Once the planning has been done, resources allocated and employees know what to do and how to do it and they have the necessary support and motivation, a system is needed to enable the management to determine whether the work is progressing as planned. Control is an essential function, managers have to undertake to determine whether what is taking place corresponds with what has been planned. It requires specific steps to be taken to ensure goal attainment. These steps are to set performance standards, measure actual performance, compare actual performance with standards and take corrective action where necessary (Van der Waldt and Du Toit, 2007:136).

With administrative functions in mind, it is important that the role of government in public administration be understood since the government performs its duties through administrative functions. All the activities of the state are to be funded and administrative functions will ensure efficient and effective management of public funds.

Section 55(2) of the *Constitution* outlines the oversight powers of the National Assembly, by requiring that it "must provide for mechanisms to ensure that all executive organs of state in the national sphere of government are accountable to it; and to maintain oversight of the exercise by the national executive authority, including the implementation of legislation; and any organ of state". Therefore, this is a form of control mechanism to ensure public financial accountability and responsibility. The legislature can hold officials responsible to execute the administrative functions accountable should there be poor management of state resources such as poor financial management. The following section analyses the role and purpose of the state.

2.6 ROLE AND PURPOSE OF THE STATE

The state relies on government for administration and if administration is not taking place accordingly, the state will ultimately be seen as a failure. Therefore, it is the work of parliamentary bodies to ensure that government departments use public funds in a responsible manner. If public financial management is poor, no services will be rendered and this may result in a failed state. Before any analysis of the role and purpose of the state, a distinction between state and government needs to be made. Most people use the terms state and government synonymously even though they are different. Though the state speaks through the government, it is proper to differentiate between the two. Politicians and public administrators receive their mandate from the

voters, acting on their behalf to achieve the purpose of the state. The state consists of people in a defined geographical area and the state exercises autonomous and sovereign political power (Heywood, 2009:90). It does not only exist to make life possible but to make life good. Accordingly, the state creates departments to satisfy the various needs, ensuring survival and "goodness", such as health, housing, education and defence departments (Buzan,1991:58). The question can therefore be asked: does the state continue to play this role even today? It is clear that the role of the state is changing with the times.

The state has four elements, namely population, territory, government and sovereignty (Heywood, 2009:90). Government, therefore, is one element of the state. It is the agency through which laws are made and enforced and through which those who violate laws are punished. It is the visible manifestation of state authority. It consists of all the persons, institutions and agencies through which the will of the state is expressed and carried out (Buzan, 1991:58). The state has authority inherent in itself whereas the government has no inherent powers. The government gets its structure, authority and power from the *Constitution* of the state.

The meaning of the role of the state in the new political and economic conditions has not attracted enough attention. This is connected with the overall ambiguity of the role of public and private sectors and of the responsibility of the state for creating conditions for their development. So far, reform documents only point out these problems at a general level. There is little understanding of the fact that this should be a principal conceptual change with practical consequences for the definition of functions and concrete tasks of government, the shape of its institutions, the means for its activities and its relations to citizens and to the public (Heywood, 2009:95). The issue has its

political, economic and other dimensions, and it is naturally determined by the *Constitution* and the legal order.

The understanding of the basic role of government is the basis from which its principles (such as transparency, publicity, accountability and public control of administration), forms and methods of activities, requirements for professional and impartial performance are derived (Buzan, 1991:60). The focus of the state lies in providing public services. In addition to traditional services such as (municipal, health care, school and transport services. Public services include classic administration activities such as issuing licences, permits, documents, certificates and providing information (Gildenhuys, 1993:25). A number of these activities are no longer viewed as an exclusive domain of the state.

The principal changes result from the changing internal and external conditions of the development and functioning of economy, primarily from the needs to complete the market transformation of economy and from the international process of globalisation of economic relations (Buzan, 1991:62).

There are many questions on the activities that government has to undertake and the comprehensiveness of these activities. According to Gildenhuys (1993:4), the original approach to the obligation and related activities of the state apparatus emanated from the *laissez-faire* idea. Governments were only expected to maintain law and order and to protect the life and private property of the individual.

Apart from maintaining law and order, states play a major role and the question of what they should do has to be investigated further. For the purpose of this study, the four ideologies are discussed as highlighted by Gildenhuys (1993:4).

2.6.1 Original role

Gildenhuys (1993:4) states that the original approach to the obligation and related activities of the state apparatus emanates from the *laissez-fair* idea under which governments were expected not to intervene in the private, economic and social activities of the individual citizens. A *laissez-fair* state required that the government does nothing more than maintain law and order and protect its citizens' lives and properties. The citizens' social and economic activities were left to a system of free association and free economic market. Differences and disputes between them were settled by independent courts under common law principles.

Since ancient times, governments have been associated with and expected to protect the lives and property of their citizens as well as the natural environment from wasteful and hazardous exploitation. In terms of Section 7(2) of the *Constitution*, the state must respect, protect, promote and fulfil the rights as stated in the Bill of Rights. The *Constitution* states further in Section 11 that everyone has the right to life. It is the responsibility of the state to ensure that these rights are protected.

The state is no longer only the protector of its subordinates against aggression from outside, but has a social purpose and should engage in activities aimed at the promotion of the general welfare. It is evident that the role of the state can never be static. Apart from the original role, the state has a role to play in the welfare of the citizens.

2.6.2 Social welfare role

According to Buchholz, Evans and Wagley (1989:25), government and thus public managers may be expected to meet certain requirements in terms of social

responsibility. In carrying out these responsibilities, public managers face enormous challenges such as population growth, urbanisation and housing, HIV and Aids, and other health challenges.

The rapid development of capitalism through modernisation and industrialisation during the nineteenth century led to the recognition of less privileged workers' needs and their unequal position in relation to more effluent capitalists. This awareness obliged many governments to create circumstances through which citizens could promote their social welfare and physical well-being (Schwella *et al.* 1996:106). This implies establishing governmental systems of social welfare and security.

The economic condition of any country is important for the well-being of the society in general. The social welfare state is based on the notion of the so-called mixed economy that implies the market must be protected but regulated while the public sector's share is developed and enlarged. Gildenhuys (1993:12) holds that, as an ideology, social welfare is neither *laissez-fair* capitalism nor communism. The individualism of the *laissez-fair* idea emphasises free socio-economic activity, while the social welfare approach places strong emphasis on the communal state. The basic point here is that the state action intervention is not necessarily evil but a responsibility and duty arising from society's perception of prevailing social ill (Schwella *et al.* 1996:107).

The state has a responsibility towards its citizens to ensure that their welfare is promoted. This is done by supporting social responsibilities and effective financial governance within the state and by so doing, the citizens are able to care for themselves. According to Johnson (2004:6), the purpose of the state is to support those who cannot care for themselves and do not have others to help them: neglected

children, people with severe mental or physical disabilities, the elderly and unemployed, and others who become dependent. In South Africa, this is seen through the social grants, housing for the poor and pension funds to mention but the few.

However, the state has to move away from social grants since these grants create a culture of dependency and people are not taught to create opportunities for themselves. Almost 14 million South Africans are now receiving social grants, and this number is set to increase as a result of an extension of the child support grant to the eighteenth birthday (National Treasury, 2010:16). There is, however, considerable room for improvement in the social security system. The Government is examining ways to bring down the cost of administering the grants system and countering fraudulent claims.

There are a number of difficulties that are a direct consequence of the way the economy of a country performs. The effects of unemployment are not felt only by the unemployed themselves, but the entire population is also affected. Poverty could lead to unrest, infighting, theft, sickness and other ills which could be associated with an unstable environment. A recent case is that of countries in African such as Egypt, Tunisia and Libya.

The South African Department of Social Development fulfils a major role in ensuring that the old and the sick, as well as children without stable families are cared for through social development programmes. Through the distribution function, government is able to redirect the resources from those people that have plenty of resources to those who do not have enough of them.

2.6.3   Economic welfare role

Governments at all levels have long undertaken to promote, among others, steady and

balanced economic growth, quality of life and personal opportunity to succeed, as well as scientific and technological advancement. The promotion of the quality of life and personal opportunity to succeed by government, according to Johnson (2004:6), normally takes the form of providing educational opportunities from early childhood to senior citizenhood, including physical education.

Because the fully free market economy does not exist, the state has found itself having to develop intervention policies to promote issues such as employment, domestic and international trade, as well as supply and credit policies. Johnson (2004:6) states that stimulating private economic investment has emerged as the central goal of states and cities and a political measurement of performance.

All over the world governments have come to realise that instead of greater economic prosperity and social welfare for the masses, unequal wealth, unemployment and poverty prevail. This has slowly forced governments to abandon the social welfare ideology. Abandoned, most of these economies have faced collapse that, in turn, has seen the return of a revised form of socialism.

The tendency towards a return to socialism may be explained by those in control of the previous, now defunct, systems having lost their positions of power and security (Schwella *et al.* 1996:107). Socialisation led to strict centralisation, a continuous increase in the number of public servants, and public officials and political office-bearers inclined towards bureaucratic insensitivity and indifference in the individual's plight, the so called mandarin class (Gildenhuys, 1993:12). This gave birth to statism and autocratic, political and bureaucratic decision-making.

Table 2.1 National budget spending: 1994/1995 to 2010/2011

Financial Year	94/95	95/96	96/97	97/98	98/99	99/00
Spending (R 000 000)	138 765	151 831	175 490	189 947	201 534	216 040
Financial Year	**00/01**	**01/02**	**02/03**	**03/04**	**04/05**	**05/06**
Spending (R 000 000)	233 453	251 479	266 671	297 524	334 561	416 684
Financial Year	**06/07**	**07/08**	**08/09**	**09/10**	**10/11**	
Spending (R 000 000)	470 192	541 498	633 906	738 562	792 354	

Source: South Africa (Republic). 2010. National Treasury. *National Expenditure survey*. Pretoria: Government Printer.

It is the view of many authors that the role of governments in the economy has changed in the past number of years. Although the increase is not equal in many countries, the growth in public spending has been a general phenomenon despite the considerable institutional differences and geographic and language barriers that have existed among industrialised economies. The increase in public spending has continued up until 1980 when it started to grow at a slower rate (Tazi and Schucknecht, 2000:6). Spending has followed the same pattern in South Africa since the democratically elected government took over in 1994. An analysis of government spending during the financial year 1994/1995 to 2010/2011 shows that there has been a substantial increase in government spending.

The government is responsible to provide goods and services to the citizens. In order for the government to fulfil this obligation, financial resources are required. Financial and budgetary reforms were started in South Africa to change the out dated and fragmented public sector practices of the previous administration. The success in implementing a range of reforms has contributed to greater transparency in public

finances.

In keeping with the on-going improvements to the way that public finances are managed and reported, changes have been made in the 2009 Estimates of National Expenditure to both the presentation and quality of information, specifically in relation to performance (National Treasury, 2010:14).

The Estimates of National Expenditure Survey accompanies the Appropriation Bill, tabled in Parliament by the Minister of Finance when the budget is presented. Through the Appropriation Bill, the executive seeks Parliament's approval and adoption of its spending plans for the forthcoming year. The Estimates of National Expenditure Survey focuses on these plans, the objectives of national departments, three-year spending estimates, programme developments, outputs and service delivery indicators. The Minister of Finance's budget speech and the Budget review put these plans in context by providing an overview of the economic outlook, fiscal policy, tax proposals, expenditure plans and developments in inter governmental financial relations.

The state not only has to ensure that policies are being developed but also that policies are implemented and adhered to. Since 1994, the South African Government has adopted fundamentally contradictory developmental strategies. A number of government interventions have been conducted in many areas such as housing, water and sanitation and infrastructure development. However, constructive intervention is required in the area of public finance and this will enhance public financial accountability and responsibility. Public administration operates in an environment of challenges. The following section analyses the environment in which public administration operates.

2.7   ENVIRONMENT OF PUBLIC ADMINISTRATION

Public administration does not take place in a vacuum. It is important to understand the environment in which public administration takes place. To define environment in the context of this research, there should be a clear meaning of an environment. Synonyms for the word environment include surrounding, neighbourhood, vicinity and grounds.

In the context of public administration, Cloete (1991:85-89) refers to a number of factors which could influence policy-making. Cloete does not make a definite classification of these factors. However, it is clear from his discussion that factors from the whole spectrum of the environment can emerge at a particular time and place and influence policy. Fox *et al.* (1991:12-13, 18-23) also focus on the issue of the environment in the context of public administration.

The environment is divided into internal and external environment. For the purpose of this study, only the external environment will be analysed as it is the most influential part in public administration. The environment of public administration, according to Thornhill and Hanekom (1995:16), is shaped by the contemporary role of the state, in that the nature and extent of government action goes hand in hand with the level of development of the state. Therefore, public administration will apply to the area in which the state operates. The legislature and government officials have to understand this environment since failure to understand could lead to poor policy design and implementation and this will affect the delivery of service.

2.7.1 Political environment

The political environment affects almost every facet of public administration, since these are influenced, directly or indirectly, by factors such as the system of government, a constitution, a bill of rights, the nature, promulgation and implementation of the law (Van der Waldt and Du Toit, 2007:104). Even the legislature operates a political environment and will be affected by the political environment of the country.

Public administration functions in a political milieu, which means that all actions of public managers are directed by the requirements of political authority (Bayat and Meyer, 1985:58). Some requirements come from the legislature and the legislature is there to ensure accountability and responsibility. According to Van der Waldt and Du Toit (2007:104), the political environment is probably the most unpredictable environment and, therefore, the most difficult to scan. The responsibility of public managers lies in determining what the views of the political authority are and respecting these views, as well as in anticipating the regulating influence of the political environment. The legislature therefore fulfils an important role here, which is a political oversight role to enforce policies in an effort to ensure public financial accountability and responsibility.

2.7.2 Social environment

The social environment involves the nature, quantity and distribution of human resources. It relates to the class structure and mobility, social roles and nature of social organisation and the development of social institutions. The social environment fulfils an important role in government actions and administrative processes, because any government activities have a direct impact on people (Fox *et al.* 1991:20). Therefore, it is important for any government to manage its resources effectively in order to deal

with any social challenges. Without resources such as finance, government will not meet its social challenges. Effective and efficient public finance is necessary to ensure public financial accountability and responsibility and as a result social challenges will be resolved.

Many countries face social issues such as, population growth, urbanisation and housing, HIV and Aids and health services to mention but a few. These social issues have a direct influence on the economy. Government and thus public managers may be expected to meet certain requirements in terms of social responsibility.

2.7.3 Economic environment

The concept of economics refers to the study of how people earn their daily bread (Heilbroner, 1970:2). It is also referred to as the science dealing with the production and distribution of material wealth (Oxford English Dictionary, 1969:34). Hodge and Anthony (1984:205) state that the economic system of a society is the way in which the society creates and distributes wealth. It is also the system which allocates scarce resources to competing individuals and groups.

The issue of how to create and distribute material wealth led to the development of different economic systems. Economic idea, philosophy and ideology provide a basis for international and national economic structures and processes. Economic variables such as the business cycle, inflation and the recession influence the demand for goods and services, as consumers are repeatedly forced to reconsider their priorities. There is a government reaction to every significant economic change. In view of the above, it is necessary to note that the economy, like any other environmental component, will have an impact on the activities of government. International economic bodies such as the International Monetary Fund and the World Bank also have wide ranging influence on

national economies. The legislature must also take note of these international bodies and understand their impact on government. Therefore, the legislature is responsible to improve economic development since a country is as strong as its economy.

2.7.4   Technological environment

The technological environment refers to the state of science and technology within a certain environment. Hodge and Anthony (1984:66) view technology as the use of machinery and processes to produce and distribute goods and services. The interaction between the technological environment and public organisations should encourage public managers to do the following: (Fox *et al.* 1997:20)

   a. to cope with the changing technological environment by understanding the nature of these changes and by broadening their skills to handle these changes;
   b. to learn to monitor technological change and discern patterns as well as the impact of these changes and patterns on other policy areas; and
   c. to actively explore the link between technology and public policy as one of the dominant issues of the future which will require unique skills and understanding.

2.7.5   International environment

Governments interact with their international counterparts and institutions such as the International Labour Organisation and the World Bank and this interaction takes place through, among others, technological, political and economic means. It is through these interactions that bilateral and multilateral trade and political agreements take place.

The agreements in most cases are concluded at a political level and they need to be implemented within government departments through the administrative process of the

state (Mabala, 2006:46). In case the above agreements have financial implications, e.g. when loans have been granted or received, financial reporting and management systems should be put in place in line with the requirements of the PFMA to ensure financial reporting and accountability.

As mentioned earlier in this section, that public administration does not operate in a vacuum. The environment in which it operates has a significant impact on its successes or failures and its environment is not static but changing with time. It is, therefore, imperative for public administrators and the legislature to understand this environment. Failure to understand this environment will result in a poor state of public administration since some of the role players in this environment are stake-holders. The next section analyses the new approach to public administration.

2.8   NEW APPROACH TO PUBLIC ADMINISTRATION

There have been a number of developments in public administration and these developments have brought new forms of accountability and as a result new policies were introduced. Given the environment of public administration, this section analyses the new approach to public administration. Since the mid-1980s there has been a transformation in the management of the public service of advanced countries (Hughes, 1998:3). This is when the traditional bureaucratic public administration model of Max Weber and Woodrow Wilson was challenged in anglophone countries such as England, Australia and New Zealand (Cameron, 2009:912). A new model of public sector management, which was called new public management merged in these countries (Cameron, 2009:912). Cameron further states that the new public management is not a coherent theory but rather a discrete set of ideas that can be broadly divided into two categories. First, there is the use of private management ideas

such as the provision of more receptive and professional services; performance agreements including service standards; greater autonomy and flexibility for managers; and new financial techniques. Second, there is greater use of market mechanisms, such as privatisation and public-private partnerships in service provision. New public management is generally inspired by the values and concepts of the private sector. It was seen as a way of cutting through the red tape and rigidity associated with old-style public administration and as a way of improving efficiency and service delivery (Cameron, 2009:912).

It was pointed out by Hood (1991:90) that the new public management is a marriage of two different streams of ideas. The one stream was business-type managerialism borrowed from the private sector. The other partner was new institutional economics, which draws on the public choice theory, the transaction cost theory and the principal-agent theory.

The new public management theory takes its intellectual foundations from the public choice theory, which looks at government from the standpoint of markets and productivity, and from managerialism, which focuses on management approaches to achieve productivity gains. At its central part, new public management signifies a set of ideas, values and practices aimed at emulating private sector practices in the public sector (Bourgon, 2007:13). New public management has both protagonist (Osborne and Gaebler, 1992:102; Osborne and Plastrik, 1997:36) and vehement opponents. It has been criticised for the values it promotes, the disaggregation of the concept of a unified public service and the effects of managerialism on democratic values (Terry, 1993:394).

This suggests that the new paradigm was impacting on the classic public administration model. At the risk of being unjust, while the classic public administration theory gave a sound foundation, the new public management theory starts from wrong values. However, the fundamental issues new public management attempts to resolve - some of which had previously been neglected – deserve attention. The three most important issues for the purpose of this study according to Bourgon (2007:13-15), will be analysed in the following section.

2.8.1 Citizen-centred services

The most basic characteristic of the public service should be its obligation to provide and improve public goods to society. A public service should be identified for on going development of services and for its admiration for the community it serves. It should be at the leading edge in exploring best practices, and should provide co-ordinated and integrated services among departments and agencies.

A citizen-centred approach to service delivery does not reduce the role of the citizen to that of a customer or a mere user of government services (Bourgon, 2007:14). Rather, it embraces a fuller recognition and affirmation of citizens' rights and of the breadth of their interests. A new public administration theory should help to reconcile the need for stability with the need to be responsive to citizens' needs and expectations.

2.8.2 Value for taxpayers' money

Achieving value for money in serving the public does not contradict public service's values. On the contrary, the focus of new public management is on results and on assessing performance. All public sector organisations should have a commitment to improve productivity. This is not a minimalist concept of the role of the state. It is a

commitment to organise the available public resources to effectively and efficiently advance the public interest (Bourgon, 2007:14).

It is difficult for individual citizens to measure the quantity and quality of services that they should expect to receive in return for a given level of taxation (Bourgon, 2007:15). Government is responsible to provide society with complete information. This is where a transparent government comes into being.

South Africa has taken steps in this direction, one of the most common being the adoption of legislation that provides access to information. However, access to disaggregated information does not, in itself, lead to better understanding; nor is it a useful base for government public accountability for results. As a more promising thread, a new public administration theory could explore the right of citizens to know, and to understand, the consequences of government decisions (Gow and Dufour, 2000:576).

2.8.3   A flexible public service workforce

In order to improve the public interest, government must be able to adjust its role and to respond to the changing needs of the people. This is particularly true in a new global economy and society. Governments must be able to create new services. According to Cooper (1998:28), public servants are responsible citizens who are fiduciaries for the citizenry as a whole.

Public administrations are a vehicle for articulating the values and preferences of citizens, communities and society as a whole. Some of these values and preferences are stable; others change as societies advance (Bourgon, 2007:7). Recent decades have been marked by tremendous change, both nationally and internationally. Public

administrations are in a period of change. According to Denhardt (2003:15), the current practice of public administration draws key strengths from past models: the Classic model, with its emphasis on control and organisational design; the neo-bureaucratic model, built upon rational decision-making processes; the institutional model of the 1950s and 1960s, which was deeply rooted in behavioural sciences; and the public choice model, with its reliance on political economy.

According to Bourgon (2007:9), the classic model of public administration theory was first described in the early twentieth century. It mainly focused on control and organisational design. Bourgon further states that public administrations shaped around this model have proved remarkably stable, even in the face of change and in highly variable circumstances.

The classic model was established upon a number of conventions, including a strict separation of political and professional activities, public service anonymity and political neutrality (Bourgon, 2007:9). The public service was governed by precisely prescribed rules and was accountable to elected officials: thus, it was expected to exercise minimal discretion in executing its tasks. The power structure was vertical and hierarchical. It valued and encouraged impartiality, compliance and predictability (Kernaghan, 2002:14). According to Bourgon (2007:9), the public service owes much to the public administration theory that succeeded at the beginning of the twentieth century including: respect for the rule of law, commitment to serving the public good and expectation that public servants will exhibit integrity, probity and impartiality in serving the public trust. According to authors such as Ruscio (1996:44) and Bourgon (2007:9), the classic model falls short of being able to coherently deal with an increasing number of issues that reflect today's reality. The three significant issues identified by Bourgon (2007:10-12) reflecting today's reality are the following:

a.   The need for flexibility. As the society and the environment change, the need for flexibility continues to grow. The classic model does not accommodate a high level of decision-making.

b.   Politics and policies. One of the basic principles of classic public administration theory holds that politicians make policy decisions, which public servants implement. There is a need for separation of politics and policy to prevent political interference in the implementation of public policy as a means of avoiding corruption. The reality is that separation of policy and politics is very difficult.

c.   New forms of accountability. There has been a tremendous pressure for change in the area of accountability and responsibility in public administration. Classic public administration theory was primarily interested in accountability of office-holders as a means of controlling the exercise of power. Elected officials are sorely responsible and accountable for translating public wills into policy. In countries such as South Africa, ministers are accountable to the Parliament for everything and everyone under their watch and citizens can now hold political office-bearers to account.

The nature of accountability has changed since the emergence of new public management in the 1980s. As indicated in table 2.2, one track is that public employees are engaged in meeting public needs until the public is satisfied with the services (Type II), whereas in the other track, the public employees are accountable for performance in government by adopting results-oriented budgeting and management approaches (Type III). A connection between Type II and the study by Barzelay (2001:45) on new

public management was identified. Barzelay envisaged public management as a kind of governance that requires dialogue and deliberations between citizens and government employees to achieve a consensus about the results that citizens want and will value. Type III is closely connected to a set of waves of business-type managerialism in the public sector in the same tradition as scientific management. Hood (1991:12) states that managerialism originates in new public management with both organisational economics and public theory. Finally, the changing nature of accountability is oriented towards meeting both citizen satisfaction and performance criteria (Type IV). Type IV is a mode that combines Types II and III and has a close connection to the "neo-managerialism that underpins liberation and market-driven management approaches" (Terry, 1998:194).

Table 2.2: Dimensions of accountability

Dimensions of accountability		← Supply-side vs. Demand-side →	
		Accountability for regulation	Accountability for citizen satisfaction
↑ Control- orientation vs. Support orientation ↓	Accountability for compliance	Type I traditional	Type II citizen satisfaction
	Accountability for performance	Type III performance	Type IV Citizen satisfaction/ performance

Source: Hur, H.H. 2011. The influence of new public management practices on the attitudinal change of government employees toward accountability. *International Journal of Business and Social Science,* (23):102-113.

These forms of accountabilities if applied correctly will assist in the management of public finance. The legislative bodies will be able to measure accountability and ensure sound public finance. The following section analyses the development of public administration in South Africa.

2.9 DEVELOPMENT OF PUBLIC ADMINISTRATION IN SOUTH AFRICA

In order to have a clear understanding of the legislative bodies responsible for public finance an analysis of the development of public administration in South Africa should be conducted. Nelson Mandela (1994:617) concludes the epic drama of his pre-1994 life, "Long Walk to Freedom", with the now famous words:

"I have walked that long road to freedom. I have tried not to falter; I have made missteps along the way. But I have discovered the secret that after climbing a great hill, one only finds that there are many more hills to climb. I have taken a moment here to rest, to steal a view of the glorious vista that surrounds me, to look back on the distance I have come. But I can rest only for a moment, for with freedom come responsibilities, and I dare not linger, for my long walk is not yet ended".

These words capture a profound dynamic in the process of social change. Firstly, the past lives on in ubiquitous ways in the present, struggling to pull the present back but also producing forces that push it forward. Secondly, the present marches to the future not in linear fashion, but it has to zigzag around many obstacles. Thirdly, for South Africa it is a long walk precisely because in 1994, South Africans arrived only at the end of the beginning. That is why even today there are still strikes, people fighting for better salaries, poor service delivery and there are talks on improving the public service.

Public service in South Africa was constructed according to the classic model of public administration. As indicated that the focus was on the design of the structure, authority and work methods (Service Delivery Review, 2002:7). It was a typical centralised control of management where decisions were made at national government level

(Naidoo, 2004:40). The South African Public Service was based more on rules and procedures, than results (Naidoo, 2004:17).

During the apartheid era, the South African Public Service was isolated and out of touch with international developments (Thornhill, 2008:1). Subsequently, during the transition in the early 1990s, very little was done by the ANC on the nature of post-apartheid administrative change (Cameron, 2009:914).

What needed to be done was quite clear after 1994. There had to be a fundamental change from the apartheid-driven bureaucracy towards a more democratic public service which puts citizens first (Fraser-Moleketi, 2006:60). This was clearly a new model of public administration in the South African public service. In an effort to improve service delivery, a number of pieces of legislation were passed through a democratic system.

2.9.1   The *Constitution* of the Republic of South Africa, 1996

The *Constitution* protects public administration concept. Section 195 of the *Constitution* requires that government activities should be transparent, responsible and accountable and performed by honest officials. This incorporates the promotion of a high standard of professional ethics. However, what one sees in South Africa is corruption, lack of service delivery, energy crises and crumbling roads to mention but a few which is the total opposite of what the *Constitution* requires. The *Constitution* states that people's needs should be met or responded to and that the public should be encouraged to participate in policy-making. To demonstrate that South Africa values public administration, Chapter 10 of the *Constitution* reflects a set of basic values and principles governing public administration. This chapter is of particular relevance to the South African public service. Besides "transparency' (Section 195(1)(g)), there are a

number of other basic values and principles governing public administration in South Africa. These are, inter alia the following (Section 195(1):

2.9.1.1   High standards of professional ethics

A code of conduct for South African public servants was approved in 1997. This code of conduct aims to ensure a corruption-free public service. The misconduct of public servants is always a controversial matter and, if exposed, usually receives prominent mass media coverage. The reason for this is that public servants who do not stick to the rules are not only an encumbrance to their employer, but are also burdensome to taxpayers at whose behest every public functionary holds office.

The public relies on, and indeed expects, public servants to perform their duties honestly, openly and transparently. However, when public servants start to regard a public office as being an opportunity to work for personal gain, then the public has every right to be aggrieved (Hilliard, 1997:40). Public servants should be perceived as being professionals at their jobs. Undoubtedly, universally accepted codes of conduct could help reduce the stigma attached to the public service as well as its public servants (Hilliard, 1997:26). A high standard of professional ethics will contribute towards the efficiency, effectiveness and productivity of the public service.

2.9.1.2   Efficiency, economy and effectiveness

Efficiency, effectiveness and economy have to be maintained in South Africa's central government departments, the nine provincial administrations and the local authorities. Through citizen participation this can easily be achieved. This can occur at all three spheres of government, but the largest inputs from citizens ought to be required at the central level of government. Vil-Nkomo (1997:125) sees the role of the citizen in terms

of a system of interlocking co-operative governance among the three spheres of government.

According to Vil-Nkomo (1997:126), the way to efficient and effective service delivery is to put into full effect the system of co-operative governance which will reduce fragmentation in service delivery and iron out inequalities. Efficiency, economy and effectiveness will be analysed in Chapter 4.

2.9.1.3 A development-oriented public administration

One of the most important roles of the South African local authority structures is to be focused on the developmental structures in meeting the social, economic and material needs of the citizens and improving the quality of their lives. This is related to the South African *Bill of Rights* (Chapter 2 of the *Constitution*). The deduction could be made that the South African Government is committed to take reasonable measures, within the available resources, to ensure that all South Africans have access to basic services such as adequate housing, health care, education, food, water and social security.

Furthermore, an important function of the South African public service is that it should concentrate on developing the diverse pool of human resources in the country. A major emphasis in South Africa today is, therefore, to develop the capacity or potential of its human resources. These and other objectives are specifically highlighted in the 1997 *White Paper on Human Resource Management in the Public Service* which stresses the importance of managing human resources instead of administering them. This means that people should be managed professionally and not become a mere clerical or administrative function.

The *White Paper on Human Resource Management in the Public Service* emphasises the need for the public service to become a model of excellence and the main aim as in Section 6 is that the management of people should be regarded as a significant task of those who have been charged with it. Section 1.1 stresses an impartial and representative public service, Section 1.3 emphasises the need for change, Section 3.3 underlines the value of diversity and Section 3.4 deal with the management of diversity. The white paper underlines the need for assessing existing human resource capacity and for doing proper human resource planning and then spells out the necessity of putting into action the mission. Thus the development of people should also become a focal point in public administration in South Africa.

2.9.1.4   Services that are supplied impartially and equitably

Sections 1(a) and (b) of the *Constitution* are committed to equality, non-racialism and non-sexism. Under the apartheid regime, the four South African racial groups were served separately by racially demarcated (segregated) institutions. Since 1994, the different racially based administrations have been merged to form a public service which has to serve all the inhabitants of the country regardless of race, ethnicity, gender or other irrelevant criteria. In terms of the *Constitution* (Section 9(5)), "discrimination" may be applied against minorities if it can be established that people were unfairly discriminated against in the past. However, this could result in the citizens of South Africa once again becoming racially divided.

The *Constitution* states that "all citizens are equally entitled to the rights, privileges and benefits of citizenship". A key mechanism through which such commitment is conveyed is through the provision of services impartially, fairly, equitably and without bias. In a developmental state such as South Africa where the public service is central to the

achievement of transformation and development, the machinery of the state can be rendered ineffective if it is perceived to be partisan. The immediate outcome of such a situation could be a lack of willingness by potential development stakeholders to engage with government.

The public service must adhere to this principle by ensuring equitable access to services and benefits. Such adherence must particularly happen at the coal face of the citizen-government interface, in terms of how people are treated and experience service delivery, and whether they are taken seriously when they complain.

A legal framework has been laid to entrench fairness, impartiality, equity and lack of bias in the public service. Some of the pieces of legislation in this regard include the *Promotion of Administrative Justice Act,* 2000 the *Promotion of Access to Information Act,* 2000 (Act 2 of 2000) the Promotion of Equity and the Prevention of Unjust Discrimination Act, 2000 and the *Employment Equity Act,* 1998 (Act 55 of 1998)*.* Each of these acts deals with key elements of the country's fairness and equity. These have the potential of resolving the residual discrimination that is present in South African society and which manifests itself adversely in the quality of life of citizens.

2.9.1.5   A public service responsive to the needs of the people

Effective growth and development requires a responsive government that is willing and able to promote citizen participation. Through such participation citizens can infuse their experiences and contextual realities and inform government policies and programmes, thus making these more relevant and responsive to their needs.

In Section 1(d) of the *Constitution*, a specific provision is made for a responsive, democratic form of government. Therefore, it is essential that the public service is not

administered on the basis of surmise. According to Hilliard (1997:8), every essential public service provided or rendered must be based on the actual needs of the inhabitants for responsiveness and accessibility enhancing as a function of local government. Such responsiveness is also applicable to the other two spheres of government. Continuous consultation with the public is essential to demonstrate goodwill and responsiveness. In fact, Section 195(1)(e) of the *Constitution* encourages citizen participation in policy-making so that there is constant liaison or interaction between the public and the policy-makers.

Nothing will harm the credibility of a government quicker than a lack of consultation with the public and unresponsiveness or insensitivity to their needs. Apathy is image-damaging. However, consultation with the citizens is essential not only to ascertain their real needs and justified expectations, but also to ensure that the inhabitants can afford the services (Cloete, 1994:99). One of the principles of the *Batho Pele* approach, which will be analysed later, alludes to the fact that citizens should be consulted about the level and quality of the public services they need and receive and, wherever possible, they should be given a choice about the services that are offered.

2.9.1.6   Accountable public administration

The public service has enormous responsibilities and is entrusted with vast resources and levels of authority to enable it to deliver on the priorities of government. Accompanying these delegations is an imperative for the public service to be accountable for the effective use of the public resources at its disposal. Public service should also be accountable for its performance to ensure that it delivers on the mandates it has been given. South Africa is generally recognised for having in place

credible accountability mechanisms, which are supported by legislative and regulatory provisions.

There are statutory institutions such as the Auditor-General and the Public Service Commission with an oversight mandate over state institutions. The role of these institutions is to strengthen constitutional democracy in the country. Given the importance of their role, a crucial step is to conduct a review to establish, among others, whether the institutions have played their role effectively.

Accountable government is one of the "Founding Provisions" of the *Constitution,* 1996 (Section 1(d)). Therefore citizens should demand accountability from public functionaries at all spheres of government (Cloete, 1996:23). Every member of the public has a role to play in exacting accountability. But accountability is not merely a matter of exercising control; it is also a matter of rendering account and internal and external surveillance by various stakeholders who act as watchdogs over the affairs of state (Cloete, 1996:24).

The citizen plays an invaluable role in ensuring that public functionaries do not act beyond their brief and that such functionaries always keep the public interest in mind. One of the areas where accountability could be tested is a general election. In April 2009, South Africans determined, through the polls, which candidates have lived up to the expectations of the electorate and which political office-bearers have fallen into disfavour and have therefore been ousted.

2.9.1.7   Transparency

Section 195(g) of the *Constitution* stipulates that the public administration of South has to be transparent. Openness and transparency usually go hand in hand. Even though,

constitutionally, openness and transparency apply to every citizen as time goes on, the South African society seems to be clamming up; in the sense that it appears that may, in the not too distant future, only be shared by the chosen few.

Any taxpayer has the right to know how and where his/her taxes have been spent, or for that matter misspent. Whenever the public senses that the government wants to hide something from public purview, the alarm bells should be sounded by the whistle-blowers. To achieve this degree of vigilance, one needs a wide-awake public who is not easily intimidated and who is prepared to speak out where any wrongdoing is noted or when a public functionary steps out of line.

These values, if adhered to will help in ensuring financial accountability and responsibility. These values can help in building a professional and ethical public service. Every public servant can be given these values as a code of conduct and it will be binding.

The above principles, if lived up to, will be a constant reminder to the public servants of their role. They will also ensure that there is transparency and through transparency accountability can be realised. These values can also be a measuring tool for the legislature for the successful service delivery as service delivery involves utilisation of state resources. The following section analyses the principles of *Batho Pele*.

2.9.2   *White Paper on Transforming Public Service (1997)*

This section will analyse *Batho Pele* (people first) as a service delivery policy. The objectives *White Paper on the Transformation of the Public Service* (WPTPS) are a vivid indication and acknowledgement of the fact that service delivery improvement can only effectively take place in a broader context, which provides a stable institutional

and environmental basis. That is, service delivery improvement (*Batho Pele*) is a function of many and varied but related institutional factors such as integration, institution and management development, improvement of human resources, processes and systems, improvement of condition of service and labour relations. The *Batho Pele* is aimed at ensuring effective service delivery and also ensuring that public officials are responsible towards the citizens. The legislature is responsible to oversee service delivery by appointing bodies such as portfolio committees. Officials would be summoned to appear before these committees should there be any service delivery problems.

The *White Paper on Human Resource Management in the Public Service*, published on 18 September 1997, sets out eight transformation priorities, amongst which transforming service delivery is the key. This is because a transformed South African public service will be judged by one criterion above all: its effective service delivery which meets the basic needs of all South African citizens. Improving service delivery is therefore the ultimate goal of the public service transformation programme (WPTPS, 1997).

The WPTPS outlines a framework for the transformation of the public service in South Africa and it lays down a national policy framework for the transformation of the public service. Many of its recommendations were in line with international best practice although the white paper warned against the uncritical adoption of a new public management framework (Ncholo, 2000:88). Principles and constitutional values for public administration, along with the Bill of Rights, clearly committed the government to a broad developmental, redistributive and participative role.

The South African Government is conscious of the fact that in order to better the delivery of public services, the inequality of the past needs to be tackled (Kroukamp, 1999:329). The Government also calls for a shift away from inward-looking, bureaucratic systems, processes and attitudes and a search for new ways of working, which put the needs of the public first; and are also better, faster and more responsive to the needs of the citizens. This also means a total change in the way services are delivered. The purpose of service delivery, therefore, is welfare, equity and efficiency. A practical way to achieve this is provided by the *Batho Pele* principles. These principles are analysed in the following section, (Department of Public Administration, 1997: 16–22):

2.9.2.1   Service standards

Citizens should be told what level and quality of public services they will receive so that they are aware of what to expect. Standard can be about outcome or length of service.

2.9.2.2   Access

While some South Africans enjoy public services of first-world quality, many others live in third-world conditions. All citizens should have equal access to the services to which they are entitled, for example, increasing access of public services for those who have not previously received them. People in remote areas can be reached through mobile units and redeploying facilities and resources closer to those who need them.

2.9.2.3   Ensuring courtesy

The Code of Conduct for Public Servants issued by the Public Service Commission, makes it clear that courtesy and regard for the public is one of the fundamental duties of public servants, by specifying that public servants treat members of the public as

customers who are entitled to receive the highest standards of service (Department of Public Administration, 1997).

2.9.2.4   Providing more and better information

Citizens must be given full and accurate information about the public services they are entitled to receive, especially those citizens who have previously been excluded from the provision of public services. It is quite evident in service delivery protests today that there is a communication vacuum between public officials and the community.

2.9.2.5   Increasing openness and transparency

Openness and transparency are the hallmarks of a democratic government and are fundamental to the public service transformation process. In terms of public service delivery, their importance lies in the need to build confidence and trust between the public sector and the public they serve. A key aspect of this is that the public should know more about the way national and provincial departments are run, how well they perform, the resources they consume, and who is in charge.

2.9.2.6   Remedying mistakes and failures (redress)

If the promised standard of service is not delivered, citizens must be offered an apology, a full explanation and a speedy and effective remedy; and when complaints are made, citizens must receive a sympathetic, positive response.

2.9.2.7   Getting the best possible value for money

Public services must be provided economically and efficiently in order to give citizens the best possible value for money.

2.9.2.8   Consultation

Citizens must be consulted about the level and quality of the public services they receive and, wherever possible, must be given a choice about the services that are offered. It is important that consultations not only cover aspects of services currently provided, but also of the provision of new basic services to those who lack them. In this way consultation can help to foster a more participative and co-operative relationship between the providers and users of public services. It is clear from many of the service delivery protests in South Africa that citizens are not consulted and informed of what is happening in government.

The introduction of *Batho Pele* is a clear indication of the importance of the public service as a key machinery of government in the process of making the vision of a better life for all a reality, furthermore, it is important to understand the successful implementation of *Batho Pele,* not just as an end in itself or just a process of delivering services to the public – but it should rather be seen in the broader context of effecting the principles of the *Constitution*s such as human dignity. Without access to basic public service, the public is denied one of the fundamental and inalienable rights, namely dignity and this can only be achieved through the availability of finance, hence financial accountability and responsibility are important.

The legislature can use *Batho Pele* principles as a yard-stick to enforce responsibility and accountability, for example, in the management of public finance. When public finance is misused, services will not be rendered accordingly because the effective delivery of services depends on the availability of funds.

2.10 CONCLUSION

Public administration can be defined from a political, legal, managerial and occupational viewpoint. It appears that public administration cannot survive outside the political context and this context makes it public and different from private administration. Public administration is what states do. It is created and bound by the law and is an instrument of the law. It is inherently the execution of public laws. The application of a general law is necessarily an act of administration.

Public Administration as an academic discipline is the study of the art and science of management applied to the public sector. Public Administration traces its origin to an 1887 *Political Science Quarterly* article by Woodrow Wilson. Public Administration goes far beyond the concerns of management and incorporates as its subject matter the entire political, social, cultural and legal environment that affects the running of a public institution. It is in inherently cross-disciplinary, encompassing so much of other fields.

The effectiveness of any government will be judged by its citizens. When citizens are not satisfied, they will engage in protests. This is the case in South Africa today and in other countries such as Egypt, Tunisia and Libya. A number of service delivery protests make one doubt the effectiveness of the South African public service. Government plays a role by establishing departments, public entities and other institution assigned to meet the needs of the people. For these institutions to effectively carry on their mandate, resources have to be made available. One of the fundamental resources needed is finance. Finance also has to be managed effectively to ensure effective services in government. Finance has to be managed in accordance with government legislation such as the *Constitution* and the PFMA. The management of finance in South Africa is modelled on that of a number of other countries. The following chapter

analyses the international perspective of public finance. The chapter is important as it provides an overview of international best practices in public finance. South Africa has built its public service model based on that of many countries. Therefore, analysing the international best practices will assist in the management of public finance in order to ensure public financial accountability and responsibility.

CHAPTER 3   INTERNATIONAL PERSPECTIVE ON PUBLIC FINANCE

3.1   INTRODUCTION

Given the literature on the South African public sector in the last chapter, this chapter focuses on the international perspective. International benchmarking is imperative for democracy, hence the need for this chapter. South Africa has gone through financial reform processes since the 1994 political dispensation. These reforms did not take place in isolation, they were influenced by reforms in a number of countries such as New Zealand, Australia and Canada. This chapter analyses the public financial accountability and responsibility of New Zealand, Australia and Canada. The purpose of this chapter is to analyse the international best practices and offer recommendations for improvement in South Africa. The intention is not to go into details of the countries' profiles but to look at the synopsis of their public financial accountability and responsibility. Selection of these countries is based on their public financial management systems which are similar to the South African system. The aim is to identify key determinants to support the contextualisation of the legislative oversight bodies with reference to responsibility and accountability.

3.2   NEW ZEALAND PUBLIC FINANCE

The public sector financial management of New Zealand functions within constitutional and administrative structures (Boston, Martin, Pallot and Walsh, 1991:14). New Zealand is a monarchy and it is a parliamentary democracy. The *Constitution* Act, 1986 recognises that the Queen is the head of state of New Zealand and that the Governor-General is appointed as her representative in New Zealand.

The parliament (the legislature) of New Zealand is the supreme law-making authority and it consists of the elected house of representatives and the Governor-General as representative of the head of state. A bill passed by the house of representatives becomes law only when the sovereign or the Governor-General consents to it. The parliament controls the public finances. New Zealand like many other countries went through reforms.

Originally, the proposals for public sector reform were two concerning fold: the appropriate role of government and the appropriate fiscal and financial management of the public sector. The intention was to make "fundamental changes to the strategic direction of New Zealand's economic policy and to profoundly change the role of the state" (Scott, Ball and Dale, 1997: 359).

3.2.1   The role of government

The New Zealand Treasury (1984:34) proposed a reduced role for the government and by 1987 suggested that the government was no more than a "monopolist enforcer of rights or relationships". Many services, such as social welfare services, were withdrawn by government. The proposal was that either these services should stop completely, or they should be replaced with financial support to targeted individuals, leaving them to buy for themselves whatever services they desired (New Zealand Treasury, 1984:259). Later proposals changed from the idea of individuals buying services to representing the state as a buyer of outputs on behalf of those individuals (New Zealand Treasury, 1987:159).

There was no public support for this reform and public debate changed to avoid comment on the role of government. Instead the focus was on affordability, and implying that "the welfare state is a good thing, and that the only discussion one can

have is over how much of a good thing one can afford" (Richardson, 1995:208). Public financial management in New Zealand is also legislated.

3.2.2 Legislation

The pieces of legislation provide the conceptual instrument layer of the financial management system (Newberry, 2002:50). There are three central departments in the government of New Zealand, the treasury, the state services commission and the department of the prime minister and cabinet. To some extent, but not always, these departments work together. The treasury as in many countries is the key central department in relation to the financial management system. The Public Finance Act, 1989 gives to the treasury the power to issue instructions to departments, and departmental chief executives are required to comply with those instructions. According to Section 80 of the New Zealand Public Finance Act, these instructions may regulate the management of public money, or regulate accounting and financial management and control procedures.

In 1984, when New Zealand economic reforms commenced, the government played a major role in the economy, with extensive involvement in such services as electricity generation and supply, air and rail transport, and banking, as well as the provision of social welfare services and benefits (New Zealand Treasury, 1987:10). The government was advised by the treasury (1987:10) that its market activities would perform better in a more competitive environment. This would require treating those activities as profit centres and removing all commercial advantages and disadvantages affecting performance, including inappropriate management incentives (Newberry, 2002:41). The use of corporate plans, measurable performance targets and appropriate management incentives would motivate managers to meet specified

targets while improved information systems would allow performance assessments (New Zealand Treasury, 1984:283-286). The State-Owned Enterprises Act, 1986 provided the means to corporatise these activities, and eventually, to privatise them.

3.2.2.1   The State-Owned Enterprises Act 1986

The Act provides for state-owned enterprises (SOEs) to be corporatised as limited liability companies. The responsibility for non-commercial functions was removed from SOEs. The SOEs were required to function as successful businesses with managers responsible to a board of directors for achieving agreed performance objectives. Most importantly, SOEs would operate without any political interference in decisions about the use of inputs, pricing or marketing (Mascarenhas, 1991:45).

The Act requires SOEs to table their annual financial reports and their statements of corporate intent to parliament. It is expected that the annual financial reports comply with generally accepted accounting practices, while the statements of corporate intent identify an SOE's objectives and the scope of its activities, its accounting policies, the ratio of shareholders' funds to total assets, performance targets and the amount of profits expected to be distributed to the Crown, the value of the Crown's investment in the SOE, any non-commercial activities for which agreed compensation would be sought, and the type of information to be provided to ministers (Mascarenhas, 1991:47).

With the passage of this Act, many of the government's activities were corporatised into SOEs and the New Zealand Treasury (1987:74) identified significant efficiency improvements. In 1990, it was discovered, however, that their public ownership and lack of tradable equity apparently impeded further efficiency improvements. Some

SOEs had already been privatised and the treasury questioned the need for continued government ownership of the remainder (New Zealand Treasury, 1990:80).

3.2.2.2 The State Sector Act 1988

The State Sector Act, 1988 defines the public service as consisting of all government departments. It requires the state services commissioner (Newberry, 2002:48):

a.   to review the machinery of government such as:

(i)   the allocation of functions to and between departments;

(ii)   the desirability of or need for the creation of new departments and the amalgamation or abolition of existing departments; and

(iii)   the co-ordination of the activities of departments.

b.   to review the efficiency, effectiveness and economy of each department, including the discharge by the chief executive of his/her functions (State Sector Act, 1988:6).

This Act was passed and was the subject of considerable controversy, largely because it removed permanent tenure from public service staff and removed from the state services commission the function of employing all departmental staff (Mascarenhas, 1991:81). That controversy should not allow the importance of the state services commission's review function to be overlooked. The New Zealand Treasury (1984:290-291) argues the importance of a centralised review function, both review of departmental management and review of the functions and operations of departments, in particular, for establishment of a review process that would allow the "functions and objectives of each department" to be aligned with government policy.

3.2.2.3   The Public Finance Act 1989

The Public Finance Act, 1989 builds on the principles of public finance contained in the New Zealand *Constitution* Act 1986, Section 22, which states that it is illegal for the Crown, except by or under an Act of Parliament: (a) to levy a tax; or (b) to raise a loan or to receive any money as a loan from any person; or (c) to spend any public money.

According to Newberry (2002:54), the Pubic Finance Act was designed around three conceptual ideas, namely accountability and controls, distinction between outputs and outcomes, and the distinction between the government's purchaser and owner interests. These ideas emerged from the finance literature in conjunction with consideration of appropriate governance arrangements for the state's commercial activities (Scott *et al.* 1997:363). The third idea created a limitation of government structure (Savas, 1982:22), applied to the core functions of government (Scott *et al.* 1997:366). It drew an artificial distinction between the Crown and its departments, and this makes it controversial.

Although the limitation of government structure is crucial to understanding the Public Finance Act, the Act's stated objectives suggest that its focus is more conventional. According to the long title of the Act, it was enacted:

a.   to provide a framework for parliamentary scrutiny of the government's management of the Crown's assets and liabilities, including expenditure proposals;

b.   to establish lines of responsibility for the use of public financial resources;

c.   to establish financial management incentives to encourage effective and efficient use of financial resources in departments and Crown entities;

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d.   to specify the minimum financial reporting obligations of the Crown, departments and Crown entities; and

e.   to safeguard public assets by providing statutory authority and control for the raising of loans, issuing of securities, giving of guarantees, operation of bank accounts and investment of funds.

3.2.2.4   Fiscal policy

Financial management reforms were proposed in 1984 at both macro level fiscal policy reform and micro level but the legislation for the macro level fiscal policy developed only after implementation of the Public Finance Act, 1989 (Scott *et al.* 1997:8). The Fiscal Responsibility Act, 1994 establishes a framework within which a government must define and report on its overall fiscal strategy.

The Fiscal Responsibility Act, 1994 was regarded as a logical addition to New Zealand's financial management reforms because it would increase the credibility of fiscal policy, integrate macro approaches and micro approaches, and link the information systems for budgeting with those of reporting the government's finances (Scott, 1995:10-12). Surprisingly, when the Fiscal Responsibility Bill was tabled in parliament shortly before the 1993 general election, it omitted any proposal for fiscal targets.

3.2.3   New Zealand finance and expenditure committee

The finance and expenditure committee is responsible for holding public officials and their departments accountable for their performance and the effectiveness of the way they discharged their functions. However, according to the standing orders committee the report (2008:42) focused only on annual budget setting, functions relating to the

appointment of auditors (of each office of parliament), the creation of officers of parliament, and the development of codes of practice.

This office has no powers to enforce the findings and, therefore, the committee relies on the house to bring about the improvements or remedies sought in their reports and this reduces their effectiveness. There are no mechanisms for following up reports. Once reports are submitted, the committee can only hope that recommendations will be implemented.

3.3   AUSTRALIAN PUBLIC FINANCE

According to Hume (1999:425), Australian budgeting and reporting have undergone significant changes. Prior to the 1980s, funds were appropriated primarily through annual Appropriation Acts with detailed specification of individual items of expenditure. In 1983, a government white paper, titled Reforming the Australian Public Service, noted the need for a complete overhaul of public sector practice a shift in management emphasis from 'compliance' to a greater degree of performance control (Hume, 1999:426).

Many reforms were implemented by the Australian government in the field of financial, public service and workplace relations with the aim of achieving a performance culture in the public sector and of improving the responsiveness of the public sector to the needs of government and the community.

These reforms provide a framework for public sector operations and management. Effective financial management is closely connected to the ability of the public sector to meet the expectations of governments regarding the delivery of their objectives. The

Australian public financial management like many countries is regulated through various pieces of legislation.

As a member of the Commonwealth, the Australian public financial management is modernised through four pieces of legislation designed to improve the quality and clarity of understanding of the Commonwealth's financial management framework (Aulich, Halligan and Nutley, 2001:98). These are, *inter alia,* the Financial Management and Accountability Act, 1997, the Commonwealth Authorities and Companies Act, 1997 and the Auditor-General Act, 1997. These pieces of legislation aim to improve accountability and enforce performance.

3.3.1 Charter of Budget Honesty Act 1998

The government's disclosure requirements and principles of sound fiscal management are enshrined in the Charter of Budget Honesty Act, 1998 (Wanna, Ryana and Ng 2001:150). The Charter of Budget Honesty Act, 1998 provides a framework for the conduct of government fiscal policy, requiring fiscal policy to be based on principles of sound fiscal management. By facilitating public scrutiny of fiscal policy and performance, it requires government to adhere to principles of sound fiscal management (Wanna *et al.* 2001:150).

3.3.2 Financial Management and Accountability Act 1997

The purpose of the Australian Financial Management Act (FMA) as is the case in many countries is to provide the basis for the appropriate use and management of public money. The Act deals with departments of state, parliamentary departments and prescribed agencies that deliver a government programme under the financial umbrella of the Commonwealth (Butlin, 2000:780).

According to Butlin (2000:780), the FMA sets out the rules for how public money is spent and the accountability mechanisms. Under the Act, the agency head (referred to in the legislation as the chief executive) is responsible for the use and management of public money. The Act requires efficient, effective and ethical utilisation of public money. The FMA enforces several accountability requirements on agency heads. It is clear that accountability in Australian public finance is of paramount importance.

3.3.3 Commonwealth Authorities and Companies Act 1997

The Commonwealth Authorities and Companies Act, 1997 substitutes the previous disparate accountability, financial and auditing requirements relating to various Commonwealth authorities and companies with a clearer set of core reporting and auditing requirements for their directors (Caiden, 2003:38). The Act is loosely moulded on the governance framework incorporated in the corporations' law that applies to private sector bodies in Australia, although there are specific clauses supporting ministerial accountability and reporting in the general government sector and whole-of-government sector reporting contexts. Directors of a Commonwealth authority are obliged to prepare an annual report audited by the Auditor-General, and provide it to the responsible minister (Caiden, 2003:37).

3.3.4 Auditor-General Act 1997

The Auditor-General Act, 1997 sets out the main responsibilities and information-gathering powers of the Auditor-General, as well as establishing the Australian National Audit Office (ANAO) (Caiden, 2003:39). The Act replaced the Audit Act, 1901. In contrast with the Audit Act, 1901, the Act focuses on audit goals rather than processes and better defines the status of the Auditor-General and the role of the ANAO, which were not defined in the previous Act (Butlin, 2000:380). It establishes the Auditor-

General as an independent officer of Parliament, with an auditing mandate extending to all Commonwealth departments, agencies, authorities, companies and subsidiaries. The Auditor-General provides an independent review of the performance and accountability of the Commonwealth public sector in its use of public resources.

It is important to note that the Auditor-General does not have powers for ensuring that Australian state government agencies carry out recommendations and change their practice based on recommendations contained in reports tabled in parliament.

3.3.5 Budgetary reforms

Australia established a forward estimates system, which projects ministerially agreed estimates of expenditure patterns for three years ahead of the present budget year, based on existing policy. This helps the government to consider incremental changes to the extent of funding appropriated to agencies in each budget.

Each agency is expected to estimate the funding it requires to carry out its assigned role by government and these estimates are drawn together on a portfolio basis. Portfolio ministers then put forward new proposals and estimates of funding required, provide information on how the proposals will contribute to a planned outcome, and identify any offsets in terms of savings that might be required to make funding available for such initiatives (a common budgetary requirement) (Butlin, 2000:384).

These portfolio budget submissions go to an expenditure review committee, the medium through which the government considers budgetary changes. The committee, consisting of the prime minister and senior cabinet ministers, also takes into account advice from the department of finance and administration, which consults with the departments of the prime minister and cabinet, and the treasury (Butlin, 2000:384).

This advice draws on central agency perceptions of value for money and relative priorities.

3.3.6 Accrual accounting

Accruals-based budgeting was introduced in the 1999–2000 Commonwealth budget (Power, 2008:19). Before this, accrual annual financial reporting had been introduced from 1994–95 onwards with audited statements based on Australian accounting standards.

Power (2008:19) further mentions that in accrual accounting, items are brought to account and included in the financial statements as they are earned or incurred, rather than as they are received or paid. Accrual management includes a fundamental change in the way the public service measures business performance financially.

3.3.7 Financial estimates and reporting systems

The introduction of accrual budgeting from 1999 to 2000 required Australian agencies to redevelop what had formerly been cash-based financial management and reporting systems (Power, 2008:20). This also applied to the central budget system.

For internal management purposes, agencies maintain their own systems. For internal use, no particular system was mandated, agencies developed their own financial management information systems for their individual needs. Whereas budget estimates were previously input by the department of finance and administration, this function was decentralised in 1999 to line agencies that entered the data in the central accrual information management system, with the central agency responsible for quality assurance, monitoring and consolidation of this data (Power, 2008:20).

3.3.8   Tendering and procurement procedures

Procurement policy is articulated through the Commonwealth procurement guidelines and best practice guidance, which set the framework within which agencies undertake procurement and the agenda for the government's approach to procurement.

According to Power (2008:19), the guidelines were revised in 2002 to support a continuing commitment to reducing bureaucracy for industry, cut the cost of doing business with government agencies, streamline and simplify practices and increase flexibility in the process. They also provide greater opportunities for business to participate in government markets. Most researchers highlight that value for money is the core principle governing Australian procurement.

3.3.9   Financial statement auditing

The preparation of financial statements by Australian public sector organisations to report on their financial position and financial performance has become a universally established part of normal financial management in the last decade (Spann, 2001:41). These annual financial statements are subject to external audit by the Auditor-General. The auditor's report provides an independent examination of the financial statement in order to express an opinion as to whether the statement is prepared in accordance with auditing standards, and other mandatory professional reporting requirements.

3.3.10   Performance auditing

Performance audits involve assessing the management and operational performance of the Australian government and consider questions of economy, efficiency and administrative effectiveness of the operations for which management is responsible (Spann, 2001:42). Performance audits are wider in scope than the well-defined

boundaries of financial statement audits and provide parliament and the public with critical evaluations of a wide range of public sectors.

Spann (2001:40) further states that performance audits are designed not only to report on performance, but also to add value to public sector administration with constructive criticism and recommendations for improvement. These audits are also tabled in parliament, are subject to scrutiny by its joint committee on public accounts and audit, and become public documents. Performance audits do not comment on government policy.

3.3.11 Parliamentary scrutiny

The Australian public service values require the service to be accountable, in terms of the framework of ministerial responsibility, to the government, parliament and the Australian public. For its part, the parliament has established a committee structure, consisting of members of one or both houses of parliament, for purposes of scrutinising the activities of ministers, their departments and other agencies coming within the particular portfolio responsibilities of individual ministers (Spann, 2001:46).

Parliamentary committees are empowered to conduct inquiries into matters related to their specific charters, or as otherwise assigned to them by parliament. According to Spann (2001:46), committee processes include taking written submissions on the subject matter, hearing witnesses and reporting to parliament their conclusions with any related recommendations.

Committees may direct their attention to policy issues, scrutiny of legislation and the conduct of public administration by government agencies. Their inquiries may involve overseeing the expenditure of public money, and may be directed to calling on the

government or the public service to account for their actions and to explain or justify administrative decisions (Spann, 2001:46). In the general accountability context, a number of committees have particular significance for APS agencies. The work of these committees is as follows:

a. Joint committee of public accounts and audit. The joint committee of public accounts and audit (JCPAA) has a statutory base in the Public Accounts and Audit Committee Act, 1951. This committee has the power to initiate independent or supplementary inquiries, and regularly carries out two or more major enquiries a year, which appear to occupy at least half of the committee's total time. In broad terms, the committee's charter is to scrutinise, usually by means of public inquiry, the performance of all departments in spending the funds and helping to ensure that government departments are held to account for their use of public money. The committee is constituted largely by members from the governing party and the chair is also a member of the governing party whereas the vice is from the main opposition. The Australian federal government's joint committee on public accounts and audit has the power to initiate independent or supplementary inquiries, and regularly carries out two or more major enquiries a year, which appear to occupy at least half of the committee's total time. The JCPAA casts a very wide net in order to gather information. Before it can begin with the enquiry, the committee sets up a subcommittee of members from its own full-time secretariat, and if necessary with observers from the department of finance and with observers and secondees from the audit office. It then advertises the enquiry in the national press and on the Internet. It calls for written submissions from interested individuals and organisations, and

encourages key stakeholders to attend public hearings. On occasion, evidence is gathered directly from field inspections, or by questionnaire.

b.   Senate committees. In 1970, a comprehensive system of legislative and general purpose standing committees, which would stand ready to inquire into any matters referred by the senate, was introduced (Spann, 2001:48). Estimates committees were also established at this time to scrutinise the particulars of proposed government expenditure and provide a further avenue for achieving greater accountability to parliament.

c.   Legislation committees. The legislation committees provide an opportunity for parliament to examine 'line by line' the government's expenditure proposals. These estimates are contained in the main appropriation bills introduced into parliament as part of the budget, usually in May, and in the additional appropriation bills, usually introduced from November to January (Spann, 2001:47).

d.   Senate finance and public administration committee. The finance and public administration (F&PA) committee, one of the eight standing committees, has a particular responsibility for public administration issues. While the House of Representatives has a similar titled committee, the standing committee on economics, finance and public administration, this has tended to focus more on economic and financial issues than issues of public administration.

The finance and public administration committee legislation committee has particular responsibility for overseeing the parliamentary departments and those agencies in the

prime minister's portfolio and the finance and administration minister's portfolio (Spann, 2001:47).

The public accounts committee enquires into and reports to the legislative assembly on any proposal, matter or thing it considers necessary, connected with the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation Bills and Loan Fund. This committee tables a report annually which reviews the reports of the Auditor-General, to ensure agencies are carrying out recommendations.

It is the norm in Australia at federal and state levels for the public account committees to be responsible for commissioning an independent review of the work of the Auditor-General on a regular basis. The committee frequently holds public hearings on the resulting report, the same way it would with an audit office report on a department of government. Recently, some of these reviews have been acrimonious and have led to disagreements, which apparently have not been resolved (English and Guthrie, 2000:99).

3.4   CANADIAN PUBLIC FINANCE

Before analysing the various role players in Canadian public finance, it is important to know who is involved in the budget process to have a better understanding of how the income and expense budget is developed. The public finance management cycle in Canada, beginning with the role of Parliament and ending with that of the public accounts committee, will be analysed.

3.4.1   The budget process

In the spring, the cabinet assesses the results of the previous budget and major priorities are set. New positions are taken and earlier initiatives are taken into consideration. A multi-year activity plan is drawn up by departments on the basis of the availability of resources. Plans are reviewed by the treasury board to ensure consistency with the budget objectives and evaluate the impact of plans on policies (Domingue and Salvail, 1998:2). Strategies are developed by the government. During the summer, the government develops strategies and options to be examined by the department of finance, and which prepares a financial and economic outlook update (Domingue and Salvail, 1998:2)

The department of finance circulates documents for the budget consultation process, which involves experts, provincial ministers and the general public. During consultation, reduction and reassignment options are developed. The department of finance weighs different positions and provides a broad budget outline.

The government makes the final decisions in winter. The finance minister delivers the budget speech and the president of the treasury board tables the estimates. The budget process is then complete and this marks the beginning of the financial management of the budget decisions.

3.4.2   Role players in managing and controlling the public finances

Canada like any other country has role players in the management of public finance. These role players have different roles to fulfil and they have to work together for the effectiveness of public finance.

3.4.2.1   Parliament

Parliament in Canada like many other countries plays a significant role in financial management by approving the expenditures of every department and government agency for each fiscal year. The fiscal year in Canada is similar to the one in South Africa; it is from 1 April to 31 March.

Figure 3.1: Role players in Canadian public finance

```
                                Parliament

Recommend changes              Prepares              Appropriates
to parliament                  annual budget         funds

                        Treasury board
        Public accounts                              Operating
        committee                                    departments
                        Office of the
                        comptroller                  Establishes
                        general                       administrative
Review                                                control
Auditor-General's
report
                    Auditor-General            Department of
                                               supply and services

                                                 Central accounting
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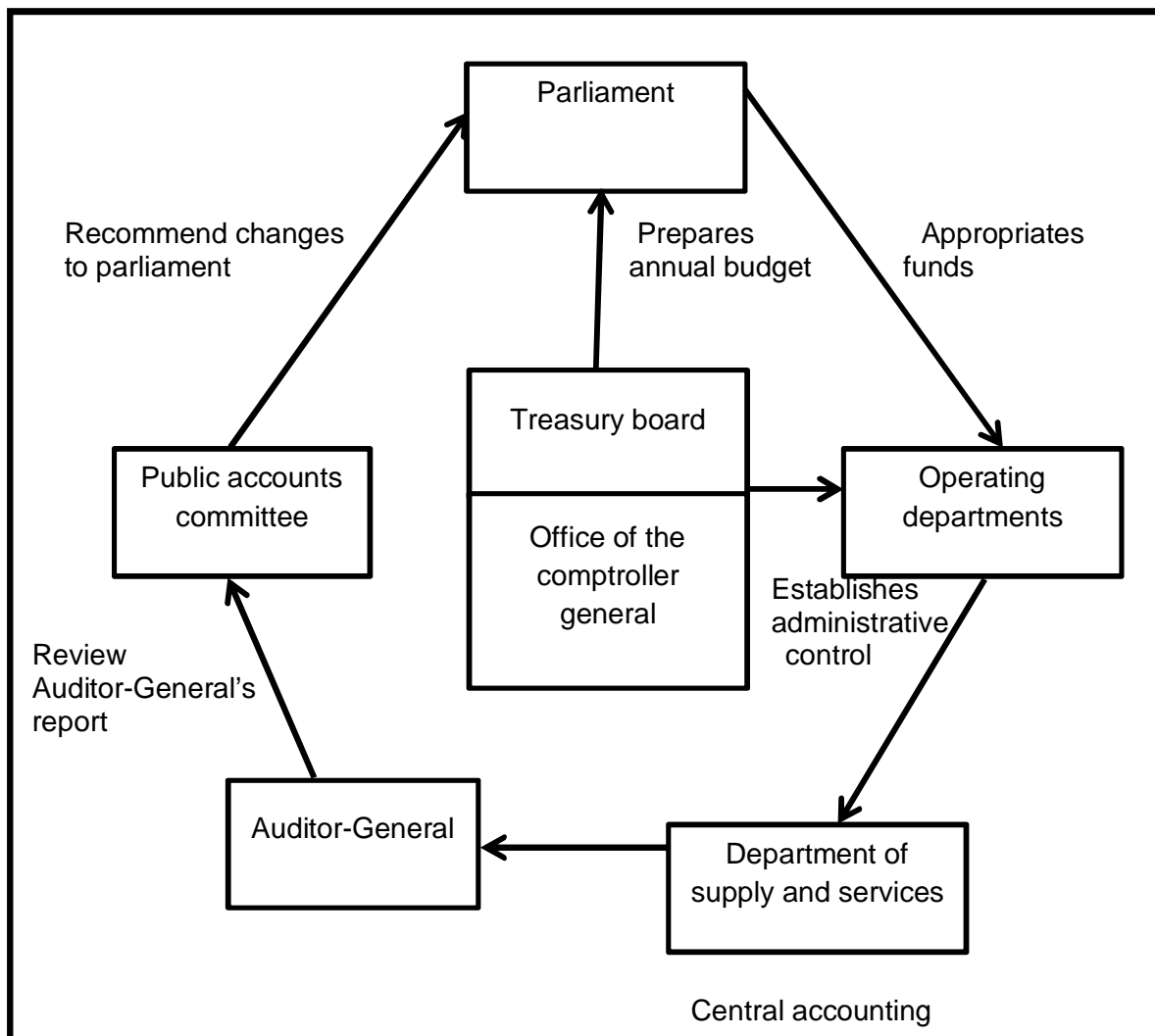
Source: Kernagham, K. & Siegel, D. 2006. Public administration in Canada. *Journal of Public Administration,* 3(4):568.

The public finance management process begins a few days after the budget has been read, when the treasury board's president tables the estimates in the House of Commons (D'Aquino and Doern, 2004:12). The estimates are divided into three parts, which set forth the government's financial requirements. Part I contains the main points of the estimates. Part II gives the detailed financial requirements of each department and agency. The third parts (one for each department and agency) essentially repeat the information contained in Part II, but go into more detail.

Dobell (2000:9) highlights that there were complaint that the information covered in the Part III documents was difficult to understand and there was too much emphasis on receipts rather than on results. As a result, the Part III documents were replaced with two new publications. The publications increased the government's accountability to parliament and the Canadian public.

Various standing committees of the House of Commons examine the Part III documents (and the new reports on plans and priorities). According to Dobell (2000:11) committees have until 31 May to adopt the budgets and report back to the house. Ministers and their senior officials appear before the committees to present and justify the expenses for the various programmes. The house then takes a vote on the overall Estimates.

3.4.2.2   Treasury board

The treasury board was established in 1867 and it is the oldest cabinet committee. It consists of six cabinet ministers and this includes the president of the treasury board and the minister of finance (Dobell, 2000:9). Dobell further mentions that the treasury board is the only committee subject to the Financial Administration Act (the other committees can be established or abolished by the prime minister). The treasury board

is established by the Act as a central control agency. This implies that the board has powers to control the different facets of financial management.

The treasury board has many tasks, which are *inter alia*, preparation of the main estimates, establishment of rules for government disbursements and receipts and establishment of accounting policies (Finer, 2001:25). In short, treasury board exercises control over public funds so that they are spent responsibly and honestly.

With the treasury board, it is easier to avoid abuses and errors of judgement; however, there is little flexibility within departments. If officials want to avoid certain rules, they must go through the treasury board and convince it that their actions are justified (Finer, 2001:26). This can create tension between the board and departments.

The treasury board is also responsible for evaluating programmes in government. While departments have the responsibility for evaluating their own programmes, according to Finer (2001:28), the treasury board, through the secretariat, can carry out certain examinations affecting more than one department.

3.4.2.3   Government departments

The role of departments in financial management is limited to complying with the rules. Departments have to ensure that parliament has approved their expenditures and funds are still available. Departments must also ensure that the goods and services procured were received and met the contract requirements.

It is the responsibility of the department to conduct internal audit and programme evaluations. Even though departments are given a budget to work with, they cannot spend more than $5 000. In the event the cost exceeds this ceiling, an arrangement

must be made for the acquisition with Public Works and Government Services Canada (Domingue and Salvail, 1998).

3.4.2.4   Public Works and Government Services Canada

Public Works and Government Services Canada (PWGSC) acts as a central accounting agency for the receipt and disbursement of public funds. When a department approves the purchase of a particular good or service, PWGSC ensures that the department has the required funds in its budget, and only then issues a cheque for the acquisition (Domingue and Salvail, 1998).

Both the treasury board and PWGSC are responsible for the accounting system of government. These two agencies must ensure that established accounting policies and conventions are followed. According to Domingue and Salvail (1998), under the authority of the receiver general for Canada, PWGSC prepares and publishes the annual financial statements contained in the public accounts. The public accounts are issued each year in December; nine months after the end of the fiscal year and they present the financial operations of the government.

3.4.2.5   Office of the Auditor-General

The Auditor-General is the key player in the management of public finance. This office is responsible for transmitting the appropriate audit data to the House of Commons (Domingue and Salvail, 1998). The Auditor-General is appointed for a non-renewable term of 10 years. The Auditor-General Act grants the office independence and autonomy. Unlike most of the public service departments, the office of the Auditor-General does not report to a minister of the Crown. The Auditor-General is independent and can choose what to scrutinise and report on.

The Auditor-General promotes better financial management and control in the Canadian government. Through this office, the government is made more accountable to parliamentarians and the public. The Auditor-General and the public accounts committees work together by protecting public funds.

3.4.2.6   House of Commons standing committee on public accounts

This committee is chaired by members of the opposition. It ensures that all departments using public money are accountable to parliament and optimum use of resources is achieved (Domingue and Salvail, 1998). It must ensure that government policy and the observed results fulfil the previously set objectives.

This committee can summon individuals and demand that documents and records be submitted as well as study and investigate all questions referred to it by the house. The public accounts and the annual report and periodic reports of the Auditor-General are automatically referred to the public accounts committee as soon as they are available. The committee can therefore investigate the issues raised in these documents and report these issues if necessary. Should there be any uncertainty; the committee invites the responsible officials to answer questions from members of the public accounts committee. This committee is not without challenges.

The conclusions and recommendations do not have the full support of the committee, and are weakened by partisan issues (Parliamentary oversight report, 2006:24). The committee does not have the mandate, powers and resources to do a thorough investigation (Dobell and Ulrich, 2007:26). The committee relies heavily on the office of the Auditor-General for its agenda and the investigative resources, to the extent that it has little or no capacity and perhaps little desire to conduct its own independent investigations (Malloy, 2010:94). Malloy (2004:168), describes the public accounts

committees as "an auditor's best friend". Malloy suggests that the "key strength of PACs is their high visibility as a public forum": public accounts committees are an important adjunct to the work of auditors-general. While the relationship is generally close, public accounts committees are their own institutions. Committees provide a valuable and unique public forum for further discussion and investigation of the work of auditors-general (Malloy, 2004:169).

According to Malloy (2010:94), the structure, human resources and procedural constraints and the parliamentary and political systems in which the committee operates restrict the committee's effectiveness. One of the committee's major weaknesses is rapid membership turnover, leading to a lack of continuity, experience and expertise.

Table 3.1: INTERNATIONAL PERSPECTIVE ON PUBLIC FINANCE: TRI-NATION SYNOPSIS

Attribute	New Zealand	Australia	Canada
Controlling authority	Parliament	Parliament	Parliament
The FMA purpose	a. to provide a framework for Parliamentary scrutiny of the Government's management and liabilities, including expenditure proposals; b. to establish lines of responsibility for the use of public financial resources; c. to establish financial management incentives to encourage effective and efficient use of financial resources in departments; d. to specify the minimum financial reporting obligations of the department.	to sets out the rules for how public money is spent and the accountability mechanisms.	to set the direction of financial management that the government departments and agencies must follow and the Act specifies various key players in managing the government finances.
Legislative documents for	a. State Sector Act 1988. Defines the role of chief executives of	a. Charter of Budget Honesty Act 1998. Provides a framework for the	a. Financial Administration Act. Sets the structure for the

financial management	government departments, and give them the authority to manage their departments; b.　Public Finance Act 1989. governs the use of public money; c.　State-Owned Enterprises Act 1986. Allows government to conduct some of its commercial activities like private sector businesses; d.　Fiscal Responsibility Act 1994. Charges government with declaring its short- and long-term financial intentions.	conduct of government fiscal policy; b.　Financial Management and Accountability Act 1997. Provides the basis for the appropriate use and management of public money; c.　Commonwealth Authorities and Companies Act 1997. Moulded on the governance framework incorporated in the corporations' law; d.　Auditor-General Act 1997. Establishes the Auditor-General as an independent officer of the parliament,	whole public financial management cycle.
The Legislative bodies	a.　The finance and expenditure committee, (FEC). The FEC analyses the estimates and year-end financial statements of the government as a whole, fulfils a monitoring performance role on behalf of the house. b.　The Auditor-General. The Auditor-General provides independent	a.　Joint committee of public accounts and audit. Scrutinises the performance of all departments in spending the funds and helping to ensure that government departments are held to account. b.　Senate committees. Scrutinise the particulars of proposed	a.　Treasury board. Prepares the main estimates, establishes rules for government disbursements and receipts and establishes of accounting policies. b.　Office of the Auditor-General. Transmits the appropriate audit data to the

	assurance to parliament and the public that public sector organisations are operating and accounting for their performance in accordance with parliament's intentions.	government expenditure and provides further avenue for achieving greater accountability to parliament. C. <u>Legislation committees.</u> Provide an opportunity for Parliament to examine government's expenditure proposals. d. <u>Senate finance and public administration committee.</u> Oversee the parliamentary departments and those agencies in the prime minister's portfolio and the finance and administration minister's portfolio.	House of Commons. c. <u>House of Commons standing committee on public accounts.</u> Ensures that departments using public money are accountable to parliament and optimum use of resources is achieved. It must ensure that government policy and the observed results fulfil the previously set objectives.
Powers of the Auditor-General	Audits all entities in the public sector.	Audits financial statements of departments in accordance with the Financial Management and Accountability Act 1997.	Examines and reports on the financial activities of government departments and stations his/her staff in any public service office whenever it is deemed necessary.

Powers of Parliamentary Committees	This committee can summon individuals and demand that documents and records be submitted as well as study and investigate all questions referred to it.	This committee can summon individuals and demand that documents and records be submitted as well as study and investigate all questions referred to it. The committee can also go on a fact-finding mission by getting more information than that which AG has submitted.	Summon individuals and demand that documents and records be submitted as well as study and investigate all questions referred to them by the house.
Chairs of Parliamentary Committees	From the opposition.	From the governing party.	From the governing party.

Source: Own adaption of information.

3.5   CONCLUSION

This chapter analysed Canadian, New Zealand and Australian public finance. The analysis was based on the legislative oversight. The financial systems used by these countries are similar to the South African system. Despite the financial systems in place in these countries, public financial management is faced with numerous challenges. The poor quality of non-financial performance reporting by public entities is disappointing and it needs to improve significantly to allow parliaments and the public to hold public entities accountable for their use of taxes and rates and for the effectiveness of their service delivery. Political interference, lack of powers by parliamentary committees, high turnover rate of parliamentary committee members and reluctance to implement committees' recommendations are among the challenges faced by the three countries.

The three countries analysed have similar structures of public financial management. It appears that the structures in these countries are heavily influenced by politics such as in the case of South Africa. Parliamentary committees have relatively little time to scrutinise each department report. In Canada, a problem of rotating membership was identified and, therefore, continuity is lacking in parliamentary committees. Table 3.1 summarise the chapter by providing information on the highest controlling authority, Financial Management Act, legislative documents, legislative bodies, powers of the Auditor-General and powers of the parliamentary committees. The literature seems to suggest that the legislative oversight bodies of Australia, New Zealand and Canada experience the same challenges as of South Africa such as political interference, lack of powers to act and high turnover rate of membership. Parliamentary committees can only summon departments for questioning and write the report. The chairs of

committees in Australia are from the ruling party, unlike those in New Zealand and Canada.

Despite the challenges faced by these countries, there are lessons to be learnt from them. Some of the public accounts committees conduct their own investigation and do not rely on reports produced by the Auditor-General or anybody in parliament. This chapter identified some examples of practices in Canadian, Australian and New Zealand public accounts committees, such as setting objectives and preparing an annual report that discusses the performance of the committee. Although there are few independent or academic assessments of public accounts committees performance, there is much interest in Australia in improving the effectiveness of the public accounts committees and of parliament itself. Some experiments in evaluation are under way and are worth watching. But as yet there has not been much progress in that few if any committees seem to be dealing with the issue of their own performance in a rigorous and systematic manner. Each committee has different objectives, and thus different factors will affect their success.

The powers and practices of these committees differ dramatically, for example, the chairs of committees in Australia are from the governing party, unlike those in New Zealand and Canada. What is considered an essential requirement in one jurisdiction may not be as important in another. And, as previously noted, there is a shortage of information on the actual performance of public accounts committees. Without evidence linking powers and practices with results, it is difficult to identify the most important success factors –the dealbreakers without which a committee could not be effective. Some attempts have been made to prioritise the Canadian Council of Public Accounts Committee (CCPAC) guidelines and other guidelines, separating absolute requirements that committees need to have from those that are just nice to have.

Although there are challenges in these countries, South Africa can learn a few lessons on the accountability and responsibility of public accounts committees. The next chapter focuses on public financial management in South Africa.

CHAPTER 4   PUBLIC FINANCIAL MANAGEMENT IN SOUTH AFRICA

4.1   INTRODUCTION

Given the international perspective on public finance, this chapter analyses the public finance in South Africa. South African public financial management has gone through a transformational process, particularly after the democratic elections in 1994. The focus of the world is on South Africa as one of the most advanced and stable economic countries in Africa to serve as a role model in the successful transformation and development of its people. This can only be seen if the legislature fulfils its oversight role efficiently and effectively to ensure financial accountability and responsibility as effective service delivery relies on a successful financial management.

South Africa is at a dynamic phase in its history and development, and it is imperative for the Government to apply sound financial management principles and ensure proper public administration in order to render the best practices in the public service. Accountability in service delivery in general and in financial management in particular is a foundation of democracy. The manner in which a country manages its finances is a concern for the entire world more especially from a developing country perspective.

As depicted in Chapter 2, effective and efficient public financial management is essential to improve service delivery, reduce poverty and to achieve the millennium development goals. Effective public financial management maximises financial efficiency, improves transparency and accountability and, in turn, contributes to long-term economic success.

This chapter focuses on the theory of public finance and provides an overview of the history of public finance in South Africa. This chapter is important for the study as it

analyses the financial management system in South Africa, the budgeting process and role players in budgeting. The chapter also provides an overview of public financial management and financial systems that are in place for financial management. It provides an understanding of the available tools for the legislature for measuring and ensuring financial accountability and responsibility.

4.2   SOUTH AFRICAN PUBLIC FINANCIAL MANAGEMENT

Sound public financial management as analysed in Chapter 2 supports an effective system of public administration. No policy, however visionary, no system of administrative performance, however well crafted, can function unless it is associated with the flow of funds that will make it possible (Shafrit, Russel and Borick, 2009:492).

As depicted in Chapter 2, financing is one of the functions of public administration. Public financial management is analysed in terms of the financing functions of public administration and with the understanding that public administration is responsible for an effective service delivery. Without proper finance, service delivery will not be successful in terms of accountability and responsibility. A number of control measures were introduced and accepted through a democratic system in South Africa to manage public finance. These measures are analysed in detail in Chapter 5. It will be inappropriate not to mention that politics and ideology play a significant role in the financial policies of any government. As mentioned in Chapter 2, public administration functions in a political environment and influences the work of parliamentary committees, namely that ensues public financial accountability and responsibility, since legislative oversight is a political function.

The prevailing political idea and thoughts of a community, as articulated by its elected representatives, should be an indication of the financial philosophy of the government

concerned and should be reflected in its financial policies (Gildenhuys, 1993:3). Hence the logical point of departure for studying the theories of public financial management and administration is a study of the philosophical premise of public finance in terms of the framework for different political ideologies, which may form part of the fundamental principles of public financial management and administration (Mabala, 2006:66).

As a former British colony, South African governance and public financial administration were influenced by those Great Britain. The British system of public financial management is based on the assumption that the executive should be held accountable by the legislature for all financial activities (Thornhill and Hanekom, 1995:114). The authors further mention that accountability is one of the corner-stones upon which the British system of public financial administration is founded.

With the unification in 1910, the Union of South Africa primarily adopted the Cape system of government as a model (Thornhill and Hanekom, 1995:114). The Union of South Africa used a system developed during a period of six centuries in Britain. With the establishment of the Republic of South Africa in 1961, the Republic of South Africa adopted the structure of financial administration without significant change (Mabala, 2006:52). This was continued in its basic form after the adoption of the *Constitution* of the Republic of South Africa Act, 1983 (Act 110 of 1983), which created a new full democratic state and entrenched financial issues such as the establishment of the National Revenue Fund (Section 185), the introduction of an annual budget (section 186) and the establishment and appointment of an Auditor-General (AG) (Section 191) (Thornhill and Hanekom, 1995:114).

The existing system of financial administration is based on the British system of accountability of the executive to the legislature. Although public financial management

went through various reforms, the British system remained a force for a long time. In 1994, South Africa became a democratic country after decades of apartheid. The apartheid system was such that government spending was directed towards the development of certain groups while others were being overlooked. The black people in particular were neglected with little or no spending on basic services such as health, housing, education, roads and infrastructure, water and electricity (Jonker, Van Niekerk and Van der Waldt, 2002:34). In 1994, when the ANC was voted into government, one of its goals was to redress the past imbalances by ensuring that basic services are accessible and enjoyed by all.

The democratic government also recognised that South Africa's prospects for economic growth, essential to achieve the government's objectives of redistribution and poverty elimination, were inevitably linked to the country's ability to position itself in the global economy (Abedian and Biggs, 1998:25). When the ANC-led government first came to power the party's manifesto and the government's key policy document was the reconstruction and development programme (RDP) (African National Congress, 1994). The RDP aimed to redress the disparities of apartheid and accelerate economic growth through government intervention in the economy. Rapid delivery of social goods, education, health care and housing was to be used as the basis to stimulate economic activity and job creation (Munslow and FitzGerald, 1997:13). By 1996, the RDP, while not abandoned as official government policy, was superceded by the Growth, Employment and Redistribution (GEAR) strategy as the government's macroeconomic framework. All these aims referred to in the policy documents cannot be achieved without proper finance since most if not all government projects depend on the availability of finance. The South African sovereign therefore, realise that in order for the Government to fulfil its constitutional obligation towards its people, public

finance must be managed efficiently and effectively. This led to the development of various principles governing public finance.

Government finances in South Africa, as mentioned earlier, are controlled in terms of diverse principles that have been passed as standard practice in the democratic system. The King I report on cooperative governance and the *Constitution* are important documents which established such principles and laid the foundation for the promulgation of the PFMA. Section 195(1) of the *Constitution* provides that public administration and management in all government spheres must be efficient and effective in terms of the use of resources, as well as being economically viable and accountable. The *Constitution* fulfils a crucial part in putting principles of sound financial management in the public sector. Financial management in the public sector is regulated by Sections 213 and 219 of the *Constitution*.

Financial management focuses on the employment of scarce government resources to ensure effective, efficient and transparent use of public funds and assets and in order to achieve value for money in meeting the objectives of the government in the delivery of services to the public. As highlighted by Gildenhuys (1997b:121), public finance and financial administration are crucial for efficient and effective public administration. South Africa adopted the concept of financial management over financial administration. Financial management in South Africa is governed by the provisions of the PFMA. Section 38(1) (b) stresses that, with the introduction of the new financial management dispensation in South Africa, effectiveness was made obligatory by law (Madue, 2007:306). The key objectives of the PFMA are the following:

    a. to modernise the system of financial management;

b. to enable public sector managers to manage government funds and report on their accountability;

c. to ensure timely provision of quality information; and

d. to eliminate waste and corruption in the use of public funds.

The above objectives show that the PFMA gives effect to the South African fiscal policy framework. Moreover, Lubbe and Rossouw (2005:783) state that the management of an institution often wants the annual financial statements to create as good an impression as possible, while the auditors, particularly in view of the risks involved in expressing an incorrect auditing opinion, want to follow a more conservative (realistic) approach.

Most government policies heavily rely on the ruling party. South Africa, like the democracies of many Western governments, uses the Westminster system of government where Parliament is the highest law-making body; the cabinet ministers are accountable to Parliament and the President is a member of the ruling party.

Parliamentarians are accountable to the voters through a system of representative democracy. The key principle of representative democracy is the idea of political responsibility and accountability of the elected political representatives, instead of direct participation by the individual taxpayer (Gildenhuys, 1980:17). It is the political responsibility and accountability of the elected political representatives which guarantee that they will govern in the interest of the individual citizens and not in the exclusive interest of some defined groups or in the personal interests of the political representatives themselves (Kaul, 1997:17). The following section analyses the National Treasury as the custodian of public finance.

4.3   The National Treasury

The legislature created the office of the National Treasury (hereafter, the Treasury) by way of legislation to control the financial administration of state departments on behalf of the legislature and the executive authority. Therefore, the management of South African national government finances rest with the National Treasury. The National Treasury has gradually developed into a public institution making the long and comprehensive parliamentary procedures more flexible and also ensuring supervision of all public financial activities on a continuous basis. The National Treasury has gradually become the undisputed institution in the hierarchy of administrative institutions responsible for control over financial administration and may be regarded as *primus inter pares* (Gildenhuys, 1993:125). This status of the National Treasury enables it to demand a say in all facets of public finance of the country (Thornhill, 1995:56). The control functions of the National Treasury are *ex anti* in the sense that control is executed continuously and before any financial transaction takes place to ensure effectiveness and efficiency. Efficient and sustainable public financial management is fundamental to the promotion of economic development, good governance, social progress and a rising standard of living for all South Africans. Chapter 13 of the *Constitution* mandates the National Treasury to ensure transparency, accountability and sound financial controls in the management of public finances.

Chapter 2 of the PFMA also describes the National Treasury's legislative mandate and the Treasury is mandate to promote the government's fiscal policy framework; co-ordinate macroeconomic policy and intergovernmental financial relations; manage the budget preparation process; facilitate the Division of Revenue Act, which provides for an equitable distribution of nationally raised revenue between national, provincial and local government; and monitor the implementation of provincial budgets.

Prior to the budget year 2000/2001, the National Treasury functions were divided between the departments of Finance and of State Expenditure (Visser and Erasmus, 2002:37). The division was based broadly on the planning and budgeting function (Department of Finance) and expenditure management (State Expenditure). The National Treasury is headed by the Minister of Finance who can also be regarded as the custodian of public finance and who fulfils the important role of ensuring sound financial management.

The Minister of Finance is responsible for the National Treasury, which now performs the functions of the former departments of Finance and of State Expenditure as indicated above. Gildenhuys (1993:118-19) divides the functions of the Minister of Finance into four categories. These categories can be used by the legislative bodies to measure the success of the Ministry of Finance in pursuit of financial accountability and responsibility. The more specific functions of these categories are analysed below.

4.3.1 Economic regulation

The government's fiscal function in maintaining economic stability is important to economic growth and development, and, in exercising this function, the government is able, within the constraints of the requirements of stability, to stimulate economic growth. The Minister of Finance, therefore, exercises the following responsibilities (Gildenhuys, 1993:119-120):

a. to manipulate the money supply;

b. to control the interest rates and determine the bank rates;

c. to exercise exchange control;

d. to control the international balance of payment; and

e. to control credit and determine the liquidity requirements of commercial banks and other financial institutions.

4.3.2 Presenting the annual budget

It is a tradition in South Africa that the Minister of Finance tables the Budget in Parliament and this is referred to as the Budget speech. Even though this function may appear symbolic, the tabling of the Budget goes with the Budget speech where the Minister provides an overview of the state's finances, including particular matters pertaining to the economy. In his Budget speech, the Minister of Finance announces government budget proposals, from which tax-payers and political representatives in Parliament can determine what the government has in mind for the coming fiscal year and what sacrifices and advantages this will entail (Gildenhuys, 1993:120). Generally, the Budget speech offers a general account of the economic, social, political and physical environment within which government activities are to be undertaken in the coming fiscal year and the Minister of Finance also announces the most important and newsworthy income and expenditure proposals.

4.3.3 Public debt

According to Gildenhuys (1993:121), the Minister of Finance is responsible for public debt in that he/she has the authority to borrow on behalf of the government:

a. to finance budget deficits;

b. to obtain foreign currency; and

c. to attempt to manipulate the domestic monetary situation to create economic stability.

4.3.4 Control of public funds

The Minister of Finance is authorised by Parliament to exercise certain extraordinary responsibilities such as:

a. to approve saving on one budget vote to be transferred to defray a deficit on another budget vote and

b. to approve overspending when circumstances warrant such approval (Gildenhuys, 1993:121).

The office of the Minister of Finance is crucial for efficient and effective public administration. The Minister is responsible for policies governing public finance. It is, therefore, important for the minister to work hand in hand with the legislative bodies for the purpose of ensuring financial accountability and responsibility.

From the above, it is clear that the minister is authorised to make decisions on extraordinary matters in the interest of the country. This is to ensure that the minister is able to respond immediately when necessity arises. In all these matters, the minister is guided by the PFMA like any other government official. Public finance and financial administration are crucial for efficient and effective public administration. The Minister of Finance, therefore, has an extremely difficult and formidable task. The following section analyses the PFMA as the primary legislation in the management of public finance. All public accounts committees are guided by the PFMA in their pursuit of public financial accountability and responsibility. Therefore, the PFMA is the most important Act in the management of public finance and serves as a point of departure for legislative bodies when ensuring public financial accountability and responsibility.

4.4   PUBLIC FINANCIAL MANAGEMENT ACT

As an approach to improve financial management and accountability, the PFMA was introduced in South Africa. The Act implied the accountability approach to financial management, which led to the adoption of a result-orientated or performance-based budgeting process, with more emphasis being placed on service delivery outputs.

Many countries have legislation governing management and the use of public money to ensure accountability and responsibility. Internationally, several countries such as Australia, New Zealand and the United Kingdom have passed similar legislation. In South Africa, the PFMA is one of the key milestones of the government's budget and financial management reform agenda. It represents a radical departure from the old *Exchequer and Audit Act, 1975,* (Act 66 of 1975) of the past. The *Exchequer Act, 1975* was mainly concerned with procedural accountability for finances. The PFMA places more emphasis on accountability for results and thus essentially locates budgeting and financial management in a performance management framework.

The PFMA creates a culture of accountability, openness and transparency in public administration, and advocates value for money in the procurement of goods and services in the public service (Madue, 2007:306). The best way to judge public institutions is on their ability to deliver goods and services and their accountability.

The PFMA is concerned with the efficient and effective management of state resources with an emphasis on the need for accountability for results. Budgeting and financial management not only entail compliance with the relevant appropriation Act, but also with value for money for every rand spent within government. The PFMA promotes the efficient and effective management of government.

Furthermore, the PFMA aims to improve accountability by requiring that managers take responsibility for their actions and achievements in exchange for greater managerial discretion over their inputs (Momoniat in Erasmus, 2008:57). This means that managers have to take responsibility for their performance.

Madue and Mahwai (2008:360) believe that, since its introduction, the PFMA has improved the management of financial resources in the public sector and enforced the involvement of non-financial managers in the management of finances, thereby proving that financial management is not a secret art to be practised between financial officers and the National Treasury. But this is not the case, the number of cases of officials deliberately ignoring the PFMA on a daily basis is on the rise in South Africa. The PFMA as a policy document is well written, but the implementation and enforcement thereof are not satisfactory.

The aim of the PFMA is to ensure control in the management of public funds and Section 213(2) of the *Constitution* states that government departments may only spend funds approved by an Act of Parliament. Consequently, a department's expenditure may never be more than its approved income as this constitutes unauthorised expenditure. Moreover, this is a contravention of the *Constitution* and the PFMA. Public spending, therefore, needs to be controlled. Expenditure control, however, does not ensure quality or value received by the citizens of the country (Erasmus, 2008:60). To enforce the PFMA, a number of procurement policies were developed. In ensuring value for money for service delivery, the principles of economy, efficiency and effectiveness (the 3 Es) are important. Parliamentary oversight committees can use these principles as a measuring tool for financial accountability and responsibility and whether value for money is achieved through procurement processes.

4.4.1   Economy

Economy is concerned with the correct quantity and quality of inputs at the best price (Royal Audit Authority in Erasmus, 2008:61). In the South African context, this needs to be quantified more. Some of the South African policies concerning the acquisition of resources may contradict this definition. The political history of South Africa has led to economic imbalances between the race groups. The Government therefore aims to rectify these imbalances through policies and directives. Two examples of such pieces of legislation are the *Preferential Procurement Policy Framework Act,* 2000 (PPPFA), (Act 5 of 2000), and *the Broad Based Black Economic Empowerment Act 2003*, (BBBEEA), (Act 53 of 2003). The PPPFA provides a framework according to which departments have to apply a formula in the adjudication of a tender for a government supplier. This formula includes the financial objective (cheapest price) and social objective (to correct the past imbalance). The BBBEEA promotes black ownership in the South African economy.

4.4.2   Efficiency

Schick (1998:11) defines efficiency as the ratio of the resources expended to the output produced or purchased. This is summarised by Van der Waldt (2004:70) as the capability of producing desired results with a minimum of energy, time, money or other costly input. Spending efficiently as a criterion of financial performance can be measured against whether the same service may be rendered at a cheaper price (Erasmus, 2008:610). If this concept is applied, fruitless expenditure can be prevented. Efficiency becomes important if a consideration can be made on the resources available which are less than what the public demands in terms of service delivery.

Figure 4.1: Relationship between the 3 Es
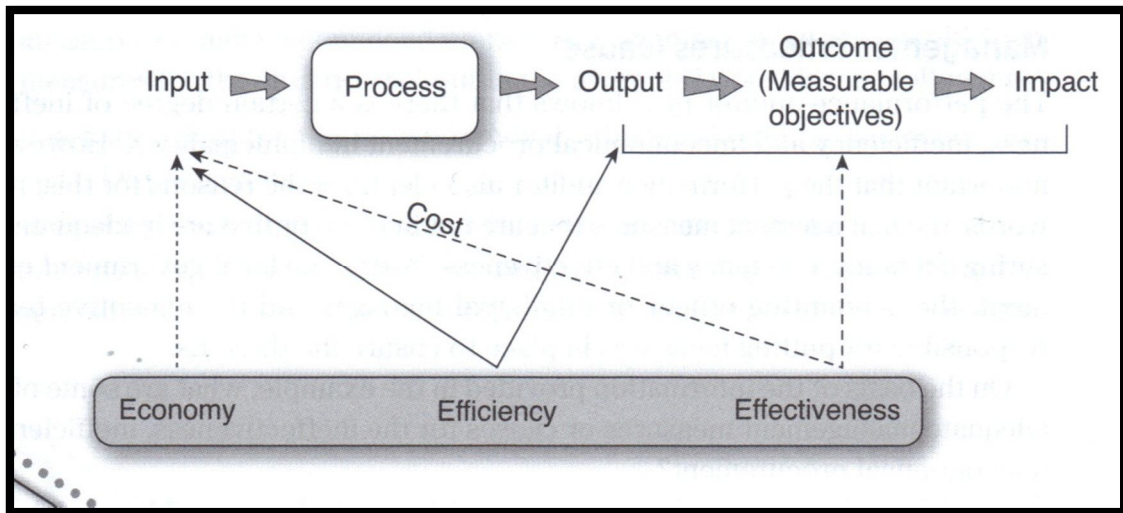
Source: Prinsloo, J. & Roos, M. 2011. *Performance auditing: A step by step approach.*

Pretoria: Van Schaik.

4.4.3   Effectiveness

Figure 4.1 makes it clear that effectiveness is in the first place the relationship between inputs and outcomes. The first level of achievement is the output to be achieved, the second level the outcome to be achieved and the third level of achievement the impact. Effectiveness is the provision of a service that properly provides for a real need (Jones and Botes, 1990:223). Jones and Pendlebury (2000:10) are of the opinion that effectiveness is the success in achieving the objective. Effective service does not necessary mean the same service is economical or efficient (Abedian, Strachan and Ajam, 1998:84). Effectiveness, therefore, refers to the extent to which an institution achieves its policy outcomes, operational gaols and other intended effects. It should be noted that effectiveness is the most crucial of the three Es. There is absolutely no point in an institution doing the wrong thing well. For example, it is fruitless for an institution to provide vocational training for its employees that is both economical and efficient,

but that is not relevant to the institution's mandate. It is, therefore, important to note that none of these measures should be used in isolation.

The above principles are important for every accounting officer and must be observed at all times when managing public finance. These principles are user friendly and easy to measure, therefore, the legislature will, firstly, be able to, see whether objectives have been fully achieved, secondly, whether the relationship between inputs and outputs (efficiency) is optimal, and thirdly, whether any procurement is not economical.

4.5   FISCAL POLICY FRAMEWORK

Public financial management has traditionally been developed around a framework for control and is reflected in checking, testing, verifying and regulating through control accounts, centres, procedures (instructions) and departments (treasuries) (Madue, 2007:308). Fiscal policy is concerned with the raising of revenue, the levels of taxation, the approach to borrowing by the government, how the government debt will be handled and the government's spending plans.

Fiscal policy means determining financial policy aimed at influencing national income through the manipulation of the level of the demand for goods and services (Gildenhuys, 1997a:120). It also sets out fundamental policy issues, including the role of the state, and imposes limits on borrowing in order to restrict the burden on future generations to pay back loans. Moeti (2007:15) states that, although the primary basis of fiscal policy is the provision of public goods and services, fiscal policy also refers to government's taxing and spending to influence economic conditions such as unemployment and inflation. The reason is that government taxation will determine the amount of disposable income available to private individuals and businesses. Schwella

et al. (1996:111) defines fiscal policy as the means of determining financial policy aimed at deriving income through manipulating the demand for goods and services.

Fiscal policy plays a role in supporting an orderly correction of economic and financial imbalances, and smoothing volatility in expenditure over the cycle (Visser and Erasmus, 2002:2002). The authors further state that using fiscal policy, the government aims to steer the economy in a direction that will benefit society, the economy, and its own functions. Fiscal policy has an objective. Lynch (1999:50) summarises the principal fiscal policy goals as follows:

    a.   Full employment. In practice this means a maximum unemployment rate with as many persons looking for jobs as there are jobs available.

    b.   Maintenance of price stability. Inflation increases prices. This shifts the distribution of real income from those whose incomes are inflexible to those whose incomes are flexible. Therefore, inflation affects those on fixed incomes, such as salary earners and the elderly.

    c.   Adequate supply of collectively consumed goods. Some activities are public in nature and involve serving society's good, such as police, protection, national defence, national highways and schools.

Gildenhuys (1993:120) states that there are two approaches to fiscal policy, namely:

    a.   the classic approach, which accepts that government expenditure should not be more that its income; and

    b.   the Keynesian approach of surplus or deficit budgeting, where the aim is either to stimulate retard or economic activity.

In South Africa, the fiscal policy is informed by the recommendations of the Financial and Fiscal Commission, which are submitted yearly.

4.6   FINANCIAL AND FISCAL COMMISSION

Fiscal policies are globally determined by the treasury and/or Parliament. In South Africa, there is no exception in this regard. In compliance to the financial management principles as set out in the *Constitution*, the Financial and Fiscal Commission (FFC) must make recommendations to Parliament on the equitable shares of the spheres of government in terms of Section 220 of the *Constitution*. The Financial and Fiscal Commission was established in 1977 as an independent and impartial institution operating subject to the *Constitution* and other laws of the country. Khalo (2007:194) emphasises that recommendations of the commission are submitted to the Minister of Finance at least 10 months before the start of the financial year. The *Financial and Fiscal Commission Act,* 1997 (Act 99 of 1997) was promulgated to give effect to constitutional requirements with regard to the establishment of the FFC and related matters.

The FFC's functions are among others: acting as a consultative body; making recommendations and giving advice to organs of state (e.g. government departments, universities and other public institutions created by the state) in the three spheres of government (Moeti, 2007:72). With regard to provincial taxes, Section 228(2) of the *Constitution* determines that the power of the provincial legislature to impose taxes must be regulated in terms of an Act of Parliament. This may be enacted only after FFC recommendations have been considered. The FFC fulfils a vital role in critically analysing the financial impact that the global monetary policies might have on the country's financial management, as well as recommending mechanisms to buffer the

effects thereof. The recommendations made by the FFC impact the total composition of the national budget.

4.7   BUDGET: THEORETICAL AND ANALYTICAL OUTLINE

A budget provides a point of departure for accountability and responsibility. A budget is important for this study since it is an excellent control instrument for the legislative authority to use over the executive authority and the executive authority over the administrative authority and even for internal control within a single component of the administrative authority. Because of the many areas in which governments have to function, considering all the factors that can affect the decisions made by public managers in financial matters is difficult. Not only are issues becoming more complex, but the public demands that governments make future-oriented decisions, e.g. the development resources (Thornhill, 1973:8).

To execute policies and other decisions by government more effectively, efficiently and responsibly, public managers must handle political, economic, social and technological issues. Usually, funds are made available to the executive only in a cycle of 12 months. This leads to the public budget through which such funds are made available. Lynch (1999:4) states the following,

> *"From a public manager's perspective, the budget is often the principle vehicle for developing government plans and policies. There can be a separate planning process, but often such a process develops vague statements without stating relative priorities. The budget states specific dollar amounts relative to government activities and these decisions reflect the government's plans and policies much more accurately than most planning documents."*

There are many definitions of a budget in literature. For the purpose of this study, consideration is given to definitions borrowed from different South African Public Administration scholars. Khalo (2007:187) defines a budget as a financial plan for a specific period in which specific amounts are allocated for specific purposes. This means that it is a financial plan setting out how objectives enclosed in a plan will be achieved. In the same breath, Moeti (2007:83) defines a budget as a documented source of information on anticipated income and expenditure over a specified period. A budget consists of two parts, which are a revenue budget and an expenditure budget. Revenue budgets indicate the source of funds for planned activities, whereas expenditure budgets convey information about carefully considered estimated costs of future activities. According to Visser and Erasmus (2002:80), a budget is simply a document identifying and stating particular objectives with associated expenditure linked to each objective.

From the above definitions, it can be deduced that budgets are not always expressed in financial terms. A budget states in detail how the available public funds are going to be spent. There is, therefore, a relationship between long-term plans and budgets. Long-term plans identify how the objectives are to be pursued, while budgets identify how to financially fulfil the long-term plans. Government budgeting is characterised by the following five fundamental functions that support public administration (Marshall, 2006: 15-16):

a. Planning: Planning has two-fold view, as strategic and as operational planning. According to the Guide for Accounting Officers (2000:8), accounting officers must ensure that the strategic plans developed in accordance with the 1999 Public Service Regulations are sufficiently quantified to shape the budget and that appropriate service delivery

indicators are included. The purpose of strategic planning is to ensure commonality of purpose between the accounting officer and the executive authority in the pursuit of government objectives and outcomes. The first year of the strategic plan is known as the operational plan. It must provide an adequately detailed quantification of outputs and resources, together with service delivery indicators, for the legislature to understand exactly what it is spent on for the community when it approves the budget. The operational plan must be flexible and adjustable while remaining within the MTEF allocation.

b. Co-ordination: The budget is viewed and used as an instrument that brings together the components or units of the organisation to foster harmonious relations of various units in realising common organisational objectives. Planning and budgeting must be co-ordinated accordingly.

c. Communication: The budget communicates in monetary terms (through the projected income and expenditure) how the organisational objectives are to be achieved.

d. Control: The budget is used as a mechanism that helps the employees to use the funds for that which they were budgeted for.

e. Motivation: In steering the organisation towards its intended objectives, the budget is used to motivate the employees to remain focused, since funds are available to ensure that the objectives are achieved.

4.7.1   Role players in budgeting

There are various role players in the budgeting process. For an effective budget system, a more inclusive and participative process is required. This can be done by identifying role players early in the process in and outside the organisation to ensure

transparency. For the budget system to be strengthened, role players must ensure that the process complies with the legal framework.

From a legal perspective, there are different pieces of legislation that need to be taken into consideration. Section 215 (1) of the *Constitution* states that national, provincial and municipal budgets and processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector. The *Constitution* promotes transparency in the budget process in ensuring effective financial management.

The *Constitution* further states in Section 215 that the budget in each sphere of government must show the resources of revenue and the way in which expenditure will comply with national legislation. The basis of a legal framework is important for role players to operate within the parameters to ensure compliance with fiscal norms and standards. Central to the above legal requirements is the ethos of governance, fiscal accountability and revenue and expenditure management (Siswana, 2007:104). The legal framework can be used to enforce a culture of accountability and responsibility. To ensure this, good leadership is required to ensure that a culture of compliance with fiscal norms is institutionalised. However, this is not the case in South Africa, which can be seen in the number of reports published about the financial mismanagement in all spheres of government.

There are many role players in the budgeting process and they can be divided into internal and external role players. The role players in South Africa are the national Parliament, provincial legislatures, parliamentary committees, the Cabinet, the National Treasury, the Financial Fiscal Commission and intergovernmental forums to mention but a few. The external players will be analysed in detail in Chapter 4. This section

briefly analyses the internal role players. These role players are important to the legislature as they provide answers to any matters that require clarity. Therefore, the legislative oversight bodies rely on them to provide answers. The role players are the following:

a. Accounting officers. The accounting officer implements the policy and achieves the outcomes by taking responsibility for delivering the outputs defined in the departmental budget and prepares the departmental budget (specified in terms of measurable objectives). Heads of departments are accounting officers responsible for all financial transactions and activities of their department (Gildenhuys, 1993:157). It means that they are responsible for all financial transactions and activities of their departments. Gildenhuys (1993:157-158) divides the functions of financial officers into two main groups: firstly, the preparation and submission of his/her department's draft budget to the National Treasury, and, secondly, the execution of the approved budget of his/her department. The accounting officer, therefore, can be called to appear before the legislature and explain any financial maladministration.

b. Programme managers. A departmental budget vote outlines the basic objective of a department and its allocated funds approved by parliament (Visser and Erasmus, 2002:36). A single programme at national government level is divided in logical units in order for it to be able to function. A main programme is divided into four levels and into specific administrative units and each of these units is linked directly to its own unique account number for accounting purposes. Programmes are divided into sub-programmes, sub-programmes into elements and

elements into activities. There will be programme managers responsible for specific functions involving utilisation of personnel, application of control measures and financial management of programmes (sub-programmes, elements or activities) (Visser and Erasmus, 2002:37). This makes the programme managers the direct line of service delivery to the public.

4.7.2   Budget Types

While the magnitudes of budgetary problems differ from country to country, there has been a general acceptance by governments that the structure of the budget process and institutions influences the results and impact of public expenditure (Brumb, 1999:12). Several budget reform attempts have resulted in a number of proposed new budgetary systems. Some of these systems have been tried. Some of them have survived the test while others have not lived up to expectations. According to Gildenhuys (1997b:505), France and the United States are the leaders in budgetary reforms. Henry (1980:208-225) provides the following opinions on budgeting systems:

4.7.2.1   Line item budgeting

Government budgeting originated as the so-called line-item budgeting system, with a format aimed mainly at cash control (Gildenhuys, 1993:509). It consisted of a list of resource items, with a breakdown of which and in what quantities these items were needed and what their monetary value was. The item budget may also appear in another format, with all items categorised as part of standardised expenditure items.

In the traditional budgeting system where all expenditure was listed by line item, budgets showed how much was spent on each type of expenditure and this made it

easy for one to measure the use of funds. The main aim was to keep control of all funds spent by government, hence the attainment of a balanced budget (Mkhize and Ajam, 2006:773). Line-item budgeting received its appeal from its simplicity and clarity.

The line-item approach provides effective control, but it has its limitations, which may be summarised as follows (Gildenhuys, 1993:510):

a. Public decisions-making demands measuring the total direct and indirect monetary and social costs for achieving predetermined objectives. The line item budgeting system does not provide for this because resources are allocated on a departmental basis.

b. The line-item budget is compiled annually with a short-term approach lacking long-term projections and the development of long-term cost profiles.

c. Decision-making on the allocation of resources requires the comparison of the alternative ways in which the objectives can be achieved by cost-benefit analysis. The traditional approach is to compile the budget through existing input combinations.

d. Responsible and rational budget decisions require considering the costs of budget programmes in relation to the worth of their possible results. The costs of the resource items in the traditional line-item budget reflect only the direct monetary costs.

South Africa previously used the line item budgeting system. However, there was criticism on its focus on inputs or an internal process rather than results or outcomes and it presents little information to decision-makers on the functions and activities of organisational units. In addition to this, it may invite micromanagement by

administrators as they attempt to manage operations with little or no performance information. Because of the limitations of line-item budgets, other budgetary systems were adopted as they make it easy for one to measure accountability and responsibility for use of public money.

4.7.2.2 Performance budgeting

Performance budgeting can be defined as a management tool that permits transparency and accountability within government. Its main focus is on the objectives of government, the costs incurred in order to achieve these objectives, and the measurement of the degree to which objectives are fulfilled (Mkhize and Ajam, 2006:773). Hence performance budgeting represents figures of performance in relation to cost. By relating performance to cost, it deals with issues of efficiency and effectiveness. Performance budgeting's main purpose is to allocate resources in terms of objectives to be achieved and relates resources to results. It is a management tool that can be used by parliamentary committees to measure transparency and accountability in the public service.

A key reform in budgeting is the move from an emphasis on inputs, to a focus on performance, outcomes or results. Holmes and Evans (2003:33) define performance budgeting as budgeting that links the funds allocated to measurable results. There are three broad types, namely presentational, performance-informed and direct performance budgeting. The concept of performance budgeting has a long history. During the fifties and sixties, the terms performance budgeting, programme budgeting and planning, programming, and budgeting systems were first used, and to a certain degree practised, in the United States (Holmes and Evans 2003: 5).

Performance budgeting had already been propagated in 1914 by the New York Bureau of Municipal Research and was strongly recommended by the Hoover Commission of the United States of America in 1949 (Gildenhuys, 1997b:516). Performance budgeting strives for the most economical, efficient and effective utilisation of personnel and other public resources for rendering public service. Performance budgeting has a results oriented approach as opposed to the line item budgeting system, which is only input oriented, or about inflow and the outflow of public money (Siswana, 2007:119). The three outstanding characteristics of performance budgeting can be summarised as follows (Gildenhuys, 1993:516-519):

a. Activity classification. Budget choice and budget information are structured into activities rather than into individual standard expenditure items.

b. Establishing performance measurements. Performance measurements are established for each activity, the associated cost per activity unit is measured, and the efficiency in the use of input resources is evaluated.

c. Feedback. Performance reports comparing deviations of actual costs and accomplishment from planned levels are monitored to focus the attention of accounting officers on problems arising so that corrective action can be taken.

The structure of performance budgeting has certain implications (Schwella *et al.* 1996:130). First, its performance structure transforms the budget into a medium for analysis to ensure efficiency and effectiveness in public management. Secondly, the legislature has to concentrate on the departmental functions and activities for which specific performance standards have been established. Thirdly, this type of budget can satisfy the successful application of management by objectives.

A criticism levelled against performance budgeting by many researchers and public managers is that it concentrates mainly on government activities, regardless of whether there is still a public demand or policy requirement for such activities, and not on the changing needs of the society. Even though there is criticism levelled against performance budgeting, it can be a useful tool for the legislative authority in ensuring financial accountability and responsibility as it can follow the established performance measurements for each activity and measure the associated costs per activity. With performance budgeting the legislative bodies can measure performance in relation to cost.

4.7.2.3 Programme budgeting

These budgets are compiled to obtain results aimed at achieving predetermined objectives. Programmes are constructed in terms of their contribution to those objectives. The focus is neither on what a government buys nor on the activities it is engaged in, but on its outputs – as clearly as they can be defined. The budget brings together programmes contributing to similar objectives so that competition for resources takes place among real alternatives (Gildenhuys, 1993:519-525).

Programme budgeting demands a careful and correct definition of programmes. A thorough knowledge and sound understanding of government operations are vital for programme classification. The most critical goal of the multiyear programme budget is the analysis and evaluation of alternative ways of achieving government objectives to find the most effective and efficient way. Cost-benefit analysis is used for the systematic preparation and review of the budget. The main problems experienced in programme budgets are that many public activities contribute to more than one public objective, and the best programmatic classification for them is not apparent (Schwella

et al. 1996:131). Cost estimates for programmes may be less meaningful for public decision-making than assumed, and they may have little impact on public decisions (Mikesell, 1986:151-152).

The programme budgeting system alleviates the deficiencies of line-item budgeting. A government department states its objectives and describes programmes (hence activities) designed to achieve these objectives. The effectiveness of programmes is gauged by measuring the extent to which they achieve these objectives. Programme budgeting allows governments to commit to long-term planning since it permits the analytical framework needed to carry out trade-off analysis for fiscal policy formulation. That is, it permits for alternative programmes or alternative ways of implementing the same programme and giving priority to various programmes to determine their overall effectiveness.

4.7.2.4 Zero-based budgets

A zero-based budget system annually challenges and requires defence of the programmes of all institutions. Zero-based budgeting has two steps. First, it designs and ranks packages of decisions that reflect several possible levels of activity by the institution concerned, the financial requirements needed to support each possible level of activity, and other relevant management data. Secondly, it establishes priorities for these decision packages (Mikesell, 1986:152).

Zero-based budgeting is an approach allowing each public institution to develop its own budget system, complying with its specific circumstances. The process usually entails the following four stages (Gildenhuys, 1993:527-528):

a. The identification of decision units which are the core activities of an institution's functions.

b. The evaluation of each decision unit in terms of the framework of decision packages. A decision package is a document identifying each decision unit. It defines it in a way allowing budget decision-makers to decide which to choose by evaluating it against other decision units in the same decision package competing for the same resources.

c. The ranking of all decision units in each decision package, and the decision packages themselves, in order of importance to the institution. Scarce resources are allocated by determining how much money can be spent, and what should be spent to accomplish policy objectives as effectively and efficiently as possible by ranking all decision units in a specific order according to the decrease in their expected benefits. The ranking process identifies the benefits in relation to the costs and disadvantages of each alternative decision unit and each decision package, and evaluates the possible consequences if the lower-order alternative is not chosen.

d. The preparation of the operational budget containing the data of the approved decision packages and budget demands. When the budget is reviewed, the priority ranking of decision units makes possible a reduction of the original budget request without reviewing everything.

In reality, a budget reflects the performance of those responsible for specific departments and/or units of the organisation. Visser and Erasmus (2002:50) are of the opinion that regarding public sector financial management, the budget serves as the mechanism through which government's fiscal policies are put to effect. The budget reflects expenditure and related revenue; both taxation and loans are integrated with the fiscal policy instruments. Prescribed processes need to be adhered to in

government budgeting. From the South African perspective, budgeting is compiled in terms of the Medium-Term Expenditure Framework (MTEF), which helps the legislators to assess whether the funds requested are consistent with the broad objectives of the government.

4.8   MEDIUM-TERM EXPENDITURE FRAMEWORK

A medium-term perspective is crucial for improving links between policy, planning and budgeting (Holmes and Evans 2003:4; World Bank, 1998:18). According to Holmes and Evans (2003:5), the appeal of MTEF lies in their potential to link the often competing short-term imperatives of macroeconomic stabilisation with the medium and longer-term demands on the budget to contribute to improved policy-making and planning, and to the efficiency and effectiveness of service delivery. The World Bank (1998:48) describes MTEF as consisting of "a top down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs with available resources".

In South Africa, the MTEF was introduced in 1997 to follow a strategic approach towards public expenditure planning and management (Fourie, 2005:680). The Budget presented to Parliament in February 2000 was the first to be prepared through a three-year MTEF cycle. The MTEF is the set of three-year rolling spending plans for national and provincial governments, which is published as part of the budget every year, with the main budget prescribed by the Minister of Finance's part of the budget every year (Pauw, Woods, Van der Linde, Fourie, and Visser, 2009:73).

The MTEF enhances the capacity of government to allocate resources within a firm expenditure constraint. The MTEF recognises that the one-year time horizon of the annual budget process is too short to enable the government to assess current

spending decisions in the light of future claims on resources. Budgeting's short-term perspective encourages incremental decisions, where the next budget is built on the previous one, with only marginal adjustments. The MTEF is determined from fiscal policy for each financial year and is published in February each year to provide information on:

a. projections on economic growth;

b. projections of revenue;

c. indicators of government borrowing;

d. levels of spending;

e. commitments on the borrowing side, i.e. state debt;

f. divisions of funds among spheres of government;

g. spending plans for each department; and

h. provision of contingency reserves for the year.

According to Pauw *et al.* (2009:73), the MTEF is the outcome of the spending plans after a process of technical work, consultation and dialogue. This occurs within each national and provincial government, between the governments and the legislatures, and between the government and civil society in various forums. The advantage of the MTEF is that spending agencies (departments, constitutional institutions and trading entities) are able to consider how best to deliver public services and transformation within realistic projections of their budgets, also implying that departmental strategic and operational plans, of necessity, need to be complementary in order to achieve the stated objectives of government (Visser and Erasmus, 2002:70). All proposed services to be rendered to the public, together with their related expenditure must conform to the prescribed norms and government's fiscal policy. The statement implies that the budget

proposals have to be reviewed in line with the Budget Review and the Medium-Term Budget Policy Statement.

The Medium Term Expenditure Framework approach has a number of advantages (Fourie, 2005:681). Firstly, the legislators are allowed to discuss the development in spending and the policy direction. Secondly, the legislators can assess whether the funds requested are consistent with the broad objectives of the government and thirdly, the fulfilment of the transformation process is another advantage and the legislators are presented with agreed outputs, time frames and reports on actual expenditure and outputs of the previous year to determine how well specific departments performed in the previous cycle. The MTEF is not without problems. The MTEF allocations are made in advance and this is similar to incremental budgeting.

Schiavo-Campo and Tommasi (2008:7) are less convinced of the success of MTEF implementations, and state that "the lesson from the discouraging MTEF experience so far is certainly not to forget the need for a medium-term perspective for the annual budget, but to redefine and reformulate the MTEF approach in a manner suitable to the possibilities and constraints of the different countries". Six years earlier, Le Houerou and Taliercio (2002:23) came to a similar conclusion. They noted that the introduction of an MTEF is a complex, political and institutional task, not just a technical one. As a 'bundle of items', there is no single method of implementation, reforms need to be tailored to the country context and sequenced as part of the overall public finance management reform programme. It would appear that few lessons were learnt from the earlier evaluations.

4.9   BUDGET REVIEW AND MEDIUM-TERM BUDGET POLICY STATEMENT

The Minister of Finance announces the Government's three-year Medium-Term Budget Policy Statement (MTBPS) every year, approximately six months before the start of the following fiscal year. According to Pauw *et al. (*2009:72), the MTBPS contains information on the state of the economy, the state's financial position, revenue performance, spending plans, adjustment estimates and intergovernmental fiscal developments.

The MTBPS sets out policy proposals and also provides a platform from which to make inputs into the following year's budget. It is a statutory obligation of the Minister of Finance to have the annual budget prepared by the Department of Finance and present it to Parliament for approval. In his Budget speech, the Minister of Finance announces the Government's budgetary proposals, from which the taxpayer and political representatives in Parliament can determine what the Government proposes for the forthcoming financial year and what sacrifices and advantages this will entail. The budget speech offers a general account of the economic, social, political and physical environment within which government activities are to be undertaken in the coming financial year and the Minister of Finance also announces the most important and newsworthy income and expenditure proposals (Gildenhuys, 1997b:120). Since the Budget speech only provides for the proposals of the Ministry of Finance, there is a need for a budget review.

The Budget review provides an updated and more detailed account of macroeconomic developments than the budget itself and an overview of trends in the public finance (The National Treasury, 1999). The Budget review is published annually by the National Treasury to coincide with the annual budget speech of the Minister of Finance

(Mohr, 2005:7). Public spending priorities include education, health, employment creation, public transport, investments in infrastructure and improving service delivery. According to the Budget review (2007:46), spending priorities are informed by the Government's programme of action, which, in turn, reflects the annually updated Medium-Term Strategic Framework overseen by the Policy Co-ordination and Advisory Service in the Presidency. In reviewing plans for the next three years, the key fiscal aims reflected in the Budget review (National Treasury, 2007:46) are:

a.   investing in both economic and social infrastructure so that the economy can grow faster, and access to basic social and household services can be assured;

b.   improving the quality of education, health and other social services, and improving targeted anti-poverty initiatives;

c.   enhancing job creation associated with growth by supporting labour-absorbing industries and active labour market initiatives, and expanding employment-intensive government programmes;

d.   improving the efficacy of police services and the justice system to make further progress in reducing crime;

e.   and enhancing the effectiveness of economic and sectoral interventions through appropriate regulation of and support for business to expand the productive side of the economy, and through regional and international partnerships.

The Budget review is informed by the MTBPS which elaborates on the fiscal framework of the government. The MTBPS, issued by the National Treasury in October of each year, outlines the government's fiscal framework, as well as its expenditure plans and policies, by including the proposed division of revenue among national, provincial and

local governments over a three-year period. Simultaneously, the statement sets out the equitable division of nationally raised revenue among the three spheres of government and explains the rationale behind the division of revenue (Khalo, 2007:201). In echoing Khalo's statement, the National Treasury (2007:5) states that it is not intended to be a mini-budget; rather, it provides a perspective on the government's view of the economy in the period ahead and sets out the proposed budget framework.

4.10   PROCUREMENT AND ITS DEVELOPMENT

Procurement is the most important function in any organisation. In 2012, the South African Government spent R134 billion on the procurement of goods and services (Budget Review, 2012:160-161; South Africa Survey, 2012:192). These figures make the government the largest procurer of goods and services, therefore, parliamentary committees should scrutinise procurement processes and ensure that value for money is achieved.

4.10.1   Supply chain management as part of financial management

This section is significant for the research since the Government relies heavily on procurement for the delivery of services. The Government spent billions of rand on the procurement of goods and services and this is where most corrupt activities take place, and as echoed by Levin (2012).

The acquisition of goods and services has broader social, economic and political implications. As a result, procurement in South Africa is regulated through a legislative framework that aims to ensure that value for money is achieved. The legislative oversight bodies can therefore use this legislative framework to ensure that procurement processes take place accordingly and value for money is achieved. This

legislative framework will assist the legislative bodies in ensuring public financial accountability and responsibility.

In September 2003, the Cabinet adopted a supply chain management (SCM) policy to replace the outdated procurement and provisioning practices across government with an SCM function that will be an integral part of financial management and will conform to international best practices. The new arrangements here aimed to promote uniformity in SCM processes and also in the understanding of government's preferential procurement legislation and policies, which should themselves be seen in the context of other related legislative and policy requirements. Above all, these arrangements will mean that responsibility and accountability for SCM-related functions will be devolved to accounting officers/authorities. Before 1994, the government procurement system was geared towards large and established contractors. Therefore, new contractors found it very difficult to participate in government procurement procedures. Procurement is used as a policy tool in South Africa.

Section 217(2) of the *Constitution* affords that organs of state are not "prevented" from using procurement as a policy tool. The aim, in South Africa, is (simply) to use procurement as a means to redress past discriminatory policies and practices. After the amendment of Section 217(3), organs of state which implement a preferential procurement policy are obliged to do so in accordance with the national legislation referred to in Section 217(3), i.e. the *Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000)*.

4.10.2 The five pillars of procurement

Proper and successful government procurement relies on certain core principles of behaviour, namely the five pillars of procurement. These pillars are best described as pillars as they must all be present for the procurement process to be effective and they are described in the general procurement guidelines (National Treasury, not dated:4-8). They are important as they can be used to ensure an effective procurement process and officials can be held accountable if they do not adhere to these pillars. The pillars are the following:

4.10.2.1 Value for money

It is important that departments are able to justify a procurement outcome. Price is not a reliable indicator and departments will not necessarily obtain the best value for money by accepting the lowest price offer that meets mandatory requirements. Every procurement function must provide value for money and must be cost-effective.

4.10.2.2 Open and effective competition

All frameworks for procurement laws, policies, practices and procedures must be transparent and they must be accessible by all parties. There must be an open and effective competition and the *Preferential Procurement Policy Framework Act,* 2000 *(*Act 1 of 1999) must be observed.

4.10.2.3 Ethics and fair dealing

In procurement, all parties must comply with ethical standards and deal with each other on the basis of mutual trust and respect and conduct their business in a fair and

reasonable manner and with integrity. Officials are expected to recognise and deal with conflict of interests and to apply policy correctly without bias.

4.10.2.4   Accountability and reporting

This involves ensuring that individuals and organisations are answerable for their plans, actions and outcomes. Openness and transparency in administration, by external scrutiny through public reporting, is an essential element of accountability.

4.10.2.5   Equity

The word equity in the context of these guidelines means the application and observance of government policies which are designed to advance persons or categories of persons disadvantaged by unfair discrimination. This fifth pillar is vital to public sector procurement in South Africa. It ensures that the Government is committed to economic growth by implementing measures to support industry generally, and especially to advance the development of small, medium and microenterprises and historically disadvantaged individuals. In accordance with the reconstruction and development programme, small, medium and microenterprises and historically disadvantage individuals need to play a bigger role in the economy. Greater participation in the economy and more diversified representation of blacks and gender in ownership are essential.

Accountability constitutes a central pillar of any public procurement system. Without transparent and accountable systems enabling governments and citizens to engage in a mutually responsive way, the vast resources channelled through public procurement systems run the danger of increased fraud, corruption and misuse of funds. Even in a system with low levels of corruption, legislative oversight can help identify

inefficiencies, thereby increasing procurement efficiency and effectiveness for the benefit of improved service delivery and ultimately citizens.

The acquisition of goods and services on the best possible terms has broader social, economic and political implications. These pillars, if adhered to correctly, will eradicate the abuse of procurement systems as seen in the media and government reports. Media reports, Auditor-General reports and Public Protector reports are full of allegations of fraud and corruption against government officials. Therefore, these pillars of procurement can be used as a yardstick by the legislative bodies to enforce responsibility and accountability of public finance. Given the number of fraud and corruption cases in procurement activities, one can conclude that those charged with the management of public finance fail to apply procurement policy correctly.

4.11   CONCLUSION

One of the foundations of democracy is accountability in service delivery in general and in public financial management in particular. The manner in which South Africa manages its financial management is not only a concern for the South African society, but for the entire world, more especially from a developing country context.

Public financial management in South African has gone through a number of transformational stages. It is regulated by a number of pieces of legislation that went through a democratic process. Despite these pieces of legislation, there are many challenges in South African public finance. A major challenge found in financial management in the South African public sector is the procurement processes. There are countless cases of fraud and corruption in the procurement processes and the legislative oversight bodies will have to enforce procurement policies to eradicate this

problem. If this is not dealt with aggressively, it will have a serious impact on the delivery of services.

Service delivery relies heavily on the availability of funds. Robust public financial management is important to better service delivery, lessen poverty and accomplish the millennium development goals. When public financial management is effective, financial efficiency will be maximised, transparency improved as well as accountability. This can be achieved through a political will where the legislature takes a leading role to enforce good governance in public finance. Given all the analyses in this chapter, it is evident that there are tools available for the legislature to fulfil its oversight role, but it is questionable whether the legislature knows how to utilise these tools effectively. It is questionable because if the legislature utilised these tools, one would not have seen such a number of financial maladministration cases. The next chapter analyses the South African legislative bodies in terms of the framework for public finance.

CHAPTER 5   PUBLIC FINANCE AND GOVERNANCE

5.1   INTRODUCTION

Given the South African public financial management system analysed in Chapter 4, this chapter aims to analyse governance and public finance. Legislative bodies are also analysed briefly in the context of governance. In recent years, attention has been directed to the role of government. In general, governance has been analysed at length in the way has affected the role of government. Good governance is an important part of a framework for economic and financial management. Poor governance may result from factors such as incompetence, ignorance and lack of efficient institutions and poor governance will make the work of legislative bodies difficult.

Governance is essential for both public and private sectors. Effective legislatures contribute to effective governance by performing important functions necessary to sustain democracy. The systems' theory argues that interconnectedness among components or systems should be encouraged in order to improve governance and administration in an organisation, namely public service on the one hand and service delivery on the other hand. These systems must be effective in ensuring that money spent on the delivery of service is used effectively and accounted for and resources for government are used economically. Effective and capable government institutions are essential to ensure fiscal accountability and responsibility.

This chapter analyses governance and public finance. An analysis of accountability and its development and responsibility is provided. Even though the legislative bodies were analysed in Chapter 6, they will also be analysed briefly in this chapter in terms of governance. Before concepts can be analysed, they must first be defined and the following section analyses various definitions of governance since governance and

accountability go hand in hand, and for the purpose of this study, the role of legislative bodies in ensuring financial accountability and responsibility in the South African public sector will be analysed.

5.2 GOVERNANCE DEFINED

Despite its recent prominence, governance is a rather old term. It was known in French (*gouvernance*) in the fourteen century although it quickly came to refer to royal officers rather than to the process of governing or 'steering' (Pierre and Peters, 2000:1-2). The new way of thinking about government is characterised by three general ideas or concepts (Leftwitch, 1994:85). First, there has been a gradual shift in focus among the political and administrative elites as well as among social scientists from input control towards outcomes and output control (Kooiman, 2000:25; Pierre and Peters, 2000:4). Secondly, there has been a shift in perspective with regard to state-society relationships and dependencies (Payne, 2000:13). Finally, throughout the western world there has been growing criticism of the role which governments have acquired during the post-war period (Pierre and Peters, 2000:5). Pierre and Peters further state that public sectors are increasingly seen as rigid bureaucratic, expensive and inefficient. Therefore, the public sector needs to give the state a new and more contemporary image and at the same time provide some degree of support and legitimacy.

Governance sometimes is a confusing term. It has become an umbrella concept for a wide variety of phenomena such as policy networks (Rhodes, 1997:44), public management (Hood, 1991:14) co-ordination of sectors of the economy (Campbell, 1991:52; Hollingsworth, 1994:12), public-private partnership (Pierre, 1998:110), corporate governance (Williamson, 1996:18) and good governance as a reform

objective promoted by the World Bank and the International Monetary Fund (Leftwich, 1994:372). Furthermore, there is a tendency to confuse governance as an empirical phenomenon with theories about how this phenomenon operates and can be understood. Given this confusion about governance, the following sub-sections analyse the different definitions of governance.

5.2.1   Governance as hierarchies

Governance conducted by and through vertically integrated state structures is an idealised model of democratic government and the public bureaucracy in the bureaucratic sphere; the Weberian model of the public service characterised most of the advanced western democracies for more than a century if not longer. The hierarchical state is believed to be too big to solve the small problems in life and too small to solve the big problems (Bell, 1987:20). Also mentioned by Bell is that the state is too weak to maintain the same control it exercised a couple of decades ago. Governance through hierarchies is the benchmark against which one should assess emerging forms of governance and therefore one needs to examine the nature of hierarchical governance in some detail.

5.2.2   Governance as networks

Public policy becomes shaped more by the interests of self-referential actors in the network than by the larger collective interest. Furthermore, policy change initiated by the state will be obstructed by the networks which try to insulate the policy sector from cutbacks, (Pierre and Peters, 2000:20). In addition, while networks effectively control the policy sector, citizens hold the state accountable for what happens in the sector.

5.2.3   Governance as communities

The general idea here is that communities can and should resolve their common problems with a minimum of state involvement. Care of children and the elderly, the argument goes, is better and more efficiently organised more or less spontaneously at community level. The state is believed to be too big and too bureaucratic to deal with these problems.

5.2.4   Governance as steering and co-ordinating

The concept governance as 'steering' is at the heart of much of the current research in governance in different subfields of political science (Payne, 2000:14). As mentioned earlier, 'governance' derives from the Latin *cybern* which means 'steering', the same root as in 'cybernetics', the science of control (Pierre and Peters, 2000:23). The notion of the state as 'steering' society is still central to theories of governance. Much of governance literature has been fairly quiet on who defines the objectives of governance; its main concern has been with the relationship between the actors involved in governance. Governance sometimes refers to co-ordination of a sector of the economy or of industry (Hollingsworth, 1994:86), and sometimes to the process through which a government seeks to proactively 'steer' the economy (Gamble, 2000:11).

Given the above definition of governance, for the purpose of this study, governance will be defined as the traditions, institutions and processes that determine the exercise of power in society, including how decisions are made on issues of public concerns and how citizens are given a voice in public decision-making. The following section analyses the elements of good governance.

5.3 ACCOUNTABILITY AND RESPONSIBILITY AS GOVERNANCE PRINCIPLES

The Public Finance Management Act, 1999 aims to improve accountability by requiring that managers take responsibility for their actions and achievements in exchange for greater managerial discretion over their inputs (Erasmus, 2008:57). Mkhize and Ajam (2006:765), in discussing these two concepts, add that the management of government resources does not only entail accountability by treasury or finance officials alone, but also by the line managers in their areas of responsibility. Moreover, accountability has two elements according to Allen, Schiavo-Campo and Garrity (2004:12), which are *answerability* and *consequences*. A number of elements of good governance are analyse din the following section.

5.3.1 Elements of good governance

Elements of governance are very important in the public sector. It is imperative to note that no investors want to invest in a country that is not committed to good governance. Elements of good governance and adherence to governance principles must be understood in the public service. The absence of these principles, therefore, can destroy the country's economy and administrative system.

Good and bad governance do not happen simultaneously. Siswana (2007:181-182) states that poor governance manifests itself when systems and structures do not function or do not exist. Conversely, good governance manifests itself when those systems and structures do function as intended. Madjid (1997:3) provides the following elements of good governance.

5.3.1.1 Participation

In South Africa, the voice of the public is important in decision-making. The need for public participation is stated in Section 195(e) of the *Constitution*. The public should participate constructively on matters of governance or in policy formulation and making.

5.3.1.2 Rule of law

The *Constitution* and the law ensure that government officials are controlled by law. The law must be fair and enforced fairly. The rule of law strengthens and provides assistance in improving and reinforcing the legal, judicial and law enforcement systems, and ensuring their effective application in all parts of the country and at all levels of society.

5.3.1.3 Transparency

Transparency is a key feature of the quality of governance in general and particularly in finance. Transparency can be related to the availability of information to the general public and clarity about government rules, regulations and decisions. Transparency denotes provision for access to information and also strengthening the right to information through the development of means to gain access to information and even with provision of a degree of legal enforceability on the provision of information. Broadly restrictive laws that deny information must provide for an independent review of claims that such denial is justified in the greater public interest (Asian Development Bank, 2004). In South Africa, this is supported by the *Promotion of Access to Information Act,* 2000 (Act 2 of 2000).

5.3.1.4 Equity

Equity is very much in the forefront in thinking about society in South Africa. One often hears of correcting the imbalances in society or the imbalance of the past and this is equity.

5.3.1.5 Effectiveness and efficiency

In this context, structures and processes should produce results that meet needs while making the best use of resources. Effectiveness means the extent to which structures and policies meet their intended objectives while efficiency means minimising resources used without compromising on quality (Lussier, 2006:10).

5.3.1.6 Strategic vision

Strategic vision spells out the long-term organisational purpose and moulds organisational identity. A strategic vision points an organisation in a particular direction and charts a strategic path for it to follow (Thomson and Strickland, 2011:6). Strategic vision provides direction for organisations and legislative bodies, who will be able to see whether actions of government departments are in line with the strategic vision.

5.3.2 Accountability

Accountability in the public sector is the mechanism whereby the public exercises the right to be given an account of the effective, efficient, economic and transparent utilisation of state funds in the process of achieving the mandate given to their public representatives (the legislature). As the legislature delegates the execution of that mandate to the executive, consisting of the political executive (Cabinet) and operational

executive (government departments), these entities are, in turn, held accountable by the relevant legislature. Accountability will be analysed extensively in the next section.

In order for the South African legislature to ensure accountability and responsibility, the above principles must be adhered to. The legislature must ensure that there is maximum citizen participation and the rule of law is used to enforce compliance and those found to neglect government policies at the expense of the public are prosecuted. A strategic vision is important as it points the organisation in a particular direction and it is evident in the South African legislature and the public service that visionary leadership is required.

The proper management of public finances is crucial in public institutions. With this in mind, the South African Government has implemented many changes with the aim of improving the quality of service delivery in public institutions and raising accountability within the system.

Accountability is a concept in ethics with several meanings (Day and Rudolf, 1987:33) as it is often used synonymously with concepts such as responsibility, answerability, enforcement, blameworthiness, liability and other terms related to the expectation of account-giving (Huddlestone, 1992:32).

Accountability is an important element of good governance and a key characteristic of a modern democratic government (Cameron, 2004:59). Accountability as a system of government requires political office-bearers to act in the public interest. Gildenhuys (1999:35) points out that one of the traditional cornerstones of democracy is the fact that each political representative, as well as each public official, is subject to accountability.

In the relevant literature, very little has been written about the components of accountability or the means through which it may be achieved, although routine incantation of the need for accountability has become a notable feature of the national and international debate. In some quarters it is being offered as an instant panacea to minimise fiscal problems. There is, however, a need to go beyond slogans and the discussion of general propositions into details and define the contents and potential fault lines of accountability in general and, more particularly, financial accountability.

Section 92(2) of the *Constitution* stipulates that cabinet members are accountable collectively and individually to Parliament for the exercise of their powers and the performance of their functions, and that they must provide Parliament with full and regular reports concerning matters under their control. The *Constitution* also requires a similar level of accountability from Members of the Executive Council (MECs) to provincial legislatures. The *Municipal Structures Act,* 1998 (Act 117 of 1998), stipulates that mayors are accountable to municipal councils. These pieces of legislation show that accountability rests on an individual or organisation and that it cannot be delegated. This also shows the government's seriousness in holding political office-bearers accountable. Despite all these, financial misconduct is on the rise in the public sector and this is indicated in the Department of Public Service and Administration (2011\2012:18), which states that financial misconduct costs the state R3.4 million. The costs of financial misconduct will be analysed in Chapter 6.

Accountability, as defined by Pauw, *et al.* (2009:119), is the key concept in modern management theory and practice. In the same context, Klein (in Borman and Kroukamp 2008:31) defines accountability as an obligation to account or to answer for the responsibility that has been conferred upon an electorate.

Accountability is an important method for performance budgeting and budget transparency in the budget execution process (Caiden, 2007:405). In the absence of better performance measures for better performance or results-based accountability, the introduction of performance budgeting may lead to improved performance (Borman and Kroukamp, 2008:31). The PFMA stresses that accountability is the most critical drive for improving financial management in the public sector. The literature refers to different forms of accountability; however, for the purpose of this study, political accountability and administrative accountability will be analysed.

5.3.2.1 Political accountability

Political accountability in South Africa is described in the phrase: "a government for the people by the people". Another description is those who possess and exercise political power must submit their actions to public scrutiny and approval. This is the meaning of public accountability (Sallis, 2008:18). Political accountability is the obligation that rests on each functionary to act in the public interest and according to his/her conscience, with solutions for every matter based on professionalism and participation, with divulgement as a safety measure (Schwella *et al.* 1996:165). Hanekom and Thornhill (1983:184) identify political accountability as one of the prominent characteristics of the twentieth century.

After World War II, the question of accountability became pronounced as governments became engaged in many activities (Vonico and Rabin, 1981:398). Cloete (1981:21–2) lists measures that can be applied to uphold public accountability. These measures are legislature, judiciary, organisational arrangements and work procedure.

Gildenhuys (1997b:57) holds that the concept of accountability does not necessarily only imply political accountability and it should be noted that political accountability

goes hand in hand with representative democracy and its associated rights of citizens and the obligation for political representatives and public office-bearers.

Elected public office-bearers are theoretically accountable to the political sovereignty of voters (Caiden, 2007:204). Romzek (2000:27) adds that political accountability relationships afford managers the discretion (or choice) of being responsive to the concerns of key stakeholders, such as elected office-bearers, clientele groups and the general public. Political accountability is therefore the accountability of government, public servants and politicians to the public. It should be noted that, voters have a limited way of holding elected representatives to account during the term for which they have been elected (Negash, 2005:11). Political accountability is regulated through policy, convention and tradition (Kuye, Thornhill and Fourie, 2002:122). Thornhill and Hanekom (1995:151) state that elected office-bearers and the public need the assurance that public services are under control and carried out in terms of the framework of the law.

Political accountability is associated with the political head of a department, be it the minister or Member of the Executive Council. This type of accountability has the following characteristics as mentioned by Du Preez (2000:25):

a. it is not regulated by statute but by convention and tradition;

b. the sanction for failing in the duties and responsibilities of the office is not contained in legislation but is rather based on convention and moral sanctions; and

c. the political head is responsible for the political policy that dictates the outcomes that he/she sets for the department.

5.3.2.2   Administrative accountability

Administrative accountability "… refers to devising control mechanisms to keep the bureaucracy under surveillance and in check" (Cloete, 1996:58). Caiden (2007:204) states that administrative accountability is that aspect of administrative responsibility by which office-bearers are held answerable for the general notion of democracy and morality.

In the private sector, control is an internal matter whereas, in the public sector, it is an external matter (Cloete, 1977:308). Internal rules and norms, as well as some independent commissions, are mechanisms to hold public servants in the administration of government accountable. In a government department or ministry, firstly, behaviour is bounded by rules and regulations; secondly, public servants are subordinates in a hierarchy and are accountable to superiors (Negash, 2005:11). Nonetheless, there are independent 'watchdog' units to scrutinise and hold departments accountable; the legitimacy of such units depends on their independence, as it avoids any conflict of interest. Apart from internal checks, some 'watchdog' units accept complaints from citizens, bridging government and society to hold public servants accountable to citizens, not merely to government departments.

This accountability relates to the responsibility that any administrator has to his/her immediate superior, to account for the duties and powers assigned to him/her by that superior, by prescript or legislation. In this way the accounting officer will have an administrative accountability relationship with the political head of the department for achieving the agreed output.

In the same way, the line managers will have an accountability relationship with the accounting officer for outputs assigned to them. This type of accountability relationship is normally embodied in performance contracts.

Over and above that which has been mentioned, the following characteristics can be ascribed to this type of accountability:

a. it is regulated by legislation (Section 44 of the PFMA provides for the accounting officer to assign his/her responsibilities to other officials);

b. statutory sanctions are provided for in case of unlawful and negligent dereliction of duty; and

c. the manager is responsible for operational policy pertaining to the responsibilities assigned to him/her.

5.3.3   Responsibility

Responsibility is defined as an obligation that arises from tasks one assumes. When individuals are in positions, they are responsible to observe and apply policies, and procedure to achieve organisational objectives. Responsibility further implies that one accepts the consequences arising from the results of one's decisions, actions or inactions. Being responsible involves the capacity to distinguish between right and wrong and to act accordingly (Cloete, 1996:55). In the public service, for instance, the elected political representatives are, individually and collectively, directly accountable to the public, and can indeed be held responsible for the collection, safeguarding and effective and efficient spending of all public money. Chapter 5, Section 45 of the PFMA outlines the responsibilities of public office-bearers and how they should be held accountable. Responsibility is analysed in Section 5.4.

Banki (1981:502) couples responsibility to a personal obligation for the task assigned or delegated to an official. Mitchell (1982:383), on the other hand, links responsibility to the individual: "If ministers cannot, in fact, exercise control of decision-making then they cannot realistically be held responsible to their electoral constituencies for the decisions which are made." Fox and Meyer (1995:113) define responsibility as an obligation that members of an organisation assume in order to carry out their duties to the best of their ability and in accordance with direction.

In the PFMA and the accompanying Treasury Regulations as they appear in the government gazette, individuals are made responsible for ensuring the flow of funds and for establishing systems. In tandem, checks and balances have been instituted to ensure that individuals undertake their responsibilities. The PFMA designates heads of departments, heads of constitutional institutions and boards of public entities as accounting officers or accounting authorities and gives them the responsibility for the effective, efficient, economical and transparent use of resources in accordance with the appropriation act (the annual Act of Parliament that authorises the executive to spend against its allocations).

The PFMA, *the Public Service Act,* 1994 *(Act 103 of 1994),* the *Treasury Regulations* and the *Medium-Term Expenditure Framework* (MTEF) impose a responsibility on all public managers to improve the quality of service delivery by contributing to efforts to promote effective, efficient, economical and transparent financial management practices.

Accountability and responsibility are important in governance. Government departments are responsible for the policy implementation process and the legislature must hold them to account. Reports and investigations on matters of governance are

submitted yearly but if everything is then just left until the next year, it threatens good governance.

5.4 EVOLUTION AND PRACTICE OF ACCOUNTABILITY

The concept of accountability has always been regarded as a channel for determining how power was used by individuals or organisations that have been entrusted to perform certain tasks. The means of achieving accountability have differed over the years. The concerns of financial accountability whether in a kingdom, which was the more common form of government, or that of a democracy, in the pre-Christian era, were the same, that is, the preservation of the wealth of the king or the society (Premchand, 1999:45). Kautilya (1992:281) observes that human nature has a disposition towards acquiring public money for private gain. This is evident in many countries around the world today. It is also evident in a number of media reports about the financial maladministration in the South African Government. Kautilya (1992:281) adds that "just as it is impossible to know when a fish moving in the water is drinking it, it is impossible to find out when government servants in charge of undertaking misappropriate money".

In the Athenian state, the hallmark was a concern for the accountability of its officials. For them, accountability was the key to responsible government; unaccountability meant lawlessness (Day and Rudolf, 1987:6). To this end, officials were required to report on their conduct 10 times a year to the assembly of the citizens. Should the explanations fail to meet with the assembly's approval, officials would be subjected to a trial, and where necessary, to impeachment. Historians stated that the prospect of being sentenced to death by the judicial system was often greater than the risk of dying in battle.

The growing Public Administration and Management sciences have explored in some detail the functions of a modern executive. Barnard (1968) devoted a significant part of his attention to these aspects. According to Barnard (1968:267), an individual's actions are guided by an informal code of ethics (drawn from his/her moral environment) and more explicit and formal codes of organisations. Barnard (1968:261) noted that "morals are personal forces or propensities of a general and stable character in individuals which tend to inhibit, control or modify inconsistent immediate specific decisions, impulses or interests and to intensify those which are consistent with such propensities". The author added, while noting that the responsibility was that of the individual, "the point is that responsibility is the property of an individual by which whatever morality exists in him becomes effective in conduct" (Barnard, 1968:267). This concept of individual responsibility is partly included in Simon's system of values that have a prominent part in decision-making (Simon, 1997:18). These points of view indicate the distinctive beginning of the managerialism as a school of thought, with its own impact on the concept of accountability.

History shows that the concept of accountability, which was always inherent in the tasks, responsibilities and broad administrative behaviour, has moved in terms of the clientele group to which it was addressed. From a personal accountability to the king (for the king and the country, a civil servant was expected to give his life when necessary), it moved to a responsibility to the elected representatives of the people, and now in addition, to the people themselves. There are various stages in the evolution. The net result is that accountability is now a multifaceted phenomenon that involves three distinct segments relating to general accountability, fiscal accountability and managerial accountability. Financial management systems during most of these stages remained rooted in the principle that no individual official was to be trusted. For

this reason, a greater part of financial management devoted its time and process to the verification of payment claims and arrangements for the custody of money.

The managerial approach, in contrast to the traditional belief, is based on the idea that an individual official, in order to be a creative and innovative manager, should be trusted and endowed with commensurate autonomy. But autonomy is not equivalent to independence. Rather, the official should be subject to accountability in terms of results. It is in this context that the specific aspects of financial accountability need to be considered.

5.5   ACCOUNTABILITY IN THE SOUTH AFRICAN PUBLIC SECTOR

In promoting accountability in the public sector, accountability in South Africa is stipulated in the *Constitution,* whether it is practised as such remains a question. South Africa was accepted as a democratic state, particularly with the introduction of the *Constitution* (Cloete, 1996:23). This means that the universal suffrage has been put in place (Van der Nest, Thornhill and De Jager, 2008:547). By implication, all the activities of the legislative, governmental, administrative and judicial systems and functionaries in all spheres of government are subject to scrutiny by the citizens. Cloete (1996:23) states that in the South African public sector, accountability is not merely a matter of control, which is a function performed to obtain accountability. All public institutions and functionaries are responsible for implementing accountability measures.

Financial accountability is not the only form of accountability; however, it plays a significant role in public accountability (Van der Nest *et al.* 2008:547). As stated above, accountability in South Africa is stipulated in the *Constitution.* Individual accountability is a requirement for collective accountability. Individuals are held accountable for carrying out their assigned duties, which may assist in the collective accountability

procedures (Kearns, 1996:15). As highlighted by Schedler (1999:10), big organisations such as government departments, are organisationally structured as a hierarchical pyramid. Those placed in charge have a responsibility to ensure the accountability function. The division of accountability in the South African public sector is evident from the PFMA.

It is clear from the provisions for accountability in the PFMA that the writers of the document and Parliament were of the opinion that the provisions of *the Exchequer Act,* 1975 fell considerably short of adequately dealing with the duties, responsibilities and sanctions required to enforce statutory and managerial accountability. It can further be presumed that this view was based on a number of reports of the Auditor-General over the years, revealing deficiencies in the effective, efficient, economic and transparent utilisation of taxpayers' money.

It is appropriate mention that, in South Africa, accountability is not taken seriously. There is a high degree of financial maladministration and individuals concerned manage to get away with it. Recent cases in question are the alleged financial misconduct of the Minister of Cooperative Governance and Traditional Affairs and a police lease contract involving the Minister of Police and the Minister of Public Works. It is the author's view that, political office-bearers do not understand the importance of accountability. On a positive note, it was encouraging to see President Zuma acting on the recommendations of the Public Protector by relieving the ministers of Public Works and Co-operative Governance and Traditional Affairs of their duties. However, that alone is not enough; there must be ways to recover the money from those individuals.

5.6   ACCOUNTABILITY REFORM IN SOUTH AFRICAN PUBLIC FINANCE

Although accountability was defined in the then *Exchequer Act,* 1975 the PFMA amplifies the duties and responsibilities to such an extent that it eliminates any lack of clarity regarding the obligations of an accounting officer. Over and above the reasons, this amplification is a necessary requirement for successful application of the newly defined sanctions contained in the PFMA. Section 81 of the PFMA makes it quite clear that wilful and negligent dereliction of the responsibilities of the accounting officer and other officials must result in misconduct proceedings. However, this is not the case in most government departments as officials get away with financial misconduct as indicated in a number of Auditor-General reports.

Strategic planning and its linkage to the budget was not dealt with specifically by the *Exchequer Act,* 1975 and the then *Treasury Instructions.* The PFMA and the *Treasury Regulations* regulate this comprehensively. The definition of outputs is part of planning and this reflects a further change in accountability. The accounting officer was held accountable only for the correct utilisation of funds in the past. Now, he/she is also accountable for delivery of the outputs used to motivate the budget of his/her department. Value for money has now become a performance measure.

The PFMA acknowledges that the accounting officer needs support to comply with the new accountability provisions. It, therefore, specifically provides for the delegation of powers and duties of the accounting officer to other officials in the department. The *Exchequer Act,* 1975 never provided for this. Not only does the PFMA provide for assignment of the accounting officer's responsibilities; it also assigns responsibilities regarding financial management to all other officials.

The current *Treasury Regulations* (Section 27.3.2) furthermore acknowledge that the accounting officer requires a senior manager who will assist with the implementation of the PFMA. For this purpose, provision is made for the appointment of a chief financial officer (CFO) who will clearly be required to have a greater spectrum of skills than the financial manager and departmental accountant provided for in the previous *Financial Regulations.*

Time frames for various actions such as the tabling of annual reports and financial statements are entrenched in the PFMA. Failure to comply with these time frames can be construed as an act of financial misconduct and, consequently, the late submission of reports and financial statements can lead to disciplinary action.

The *Treasury Regulations* moved away from the detailed regulatory approach of the *Treasury Instructions*, to the approach of setting a framework in which the accounting officer can exercise his/her discretion. This, however, places the onus of compiling a set of prescripts, procedures and delegations reflecting the uniqueness of the department squarely on the shoulders of the accounting officer. Although accounting officers are accountable for departmental finances, the turnover rate of Directors-General as accounting officers is disturbing. The following section analyse the turnover of directors-general in government departments and entities.

5.6.1 Turnover rate of directors-general

This section analyses the turnover rate of directors-general in government departments as this is important for the study since directors-general are accounting officers and are accountable for every cent spent in their respective departments. Directors-general are often called to appear before parliamentary committees to clarify any uncertainty pertaining to public finance or any administrative matter. A high turnover rate could

jeopardise accountability and good governance and it will be a challenge for the legislative bodies.

In this analysis, a total number of 39 government departments and entities were analysed. The term department is used widely in this section; this includes departments with two directors-general such as the Department of Public Service and Administration (DPSA) and directors-general in other government entities. Some departments were excluded from the analysis as they were new and had appointed only one DG at the time of the analysis.

The period analysed is 1996 to 2011 and this period was determined by the availability of information. The Statistical Package for the Social Sciences (SPSS) was used to analyse the data. The data was received from the DPSA and the Government Communication and Information System (GCIS) Department, which was sourced from the Personnel and Salary Administration (PERSAL) system. The system provided the basic data on the level and frequency of turnover for the assessment period. While the data in these systems does not provide a full account of the reasons for departure or movement, it provides a near accurate picture of turnover among director-general. This information builds a global picture of the scale of turnover experienced for the period of the assessment. The PERSAL records provide information on each instance where there is a change of the legally designated individuals as the director-general of a department. The terms director-general and head of department (HoD) are used interchangeably in this section. All figures and tables in this chapter are the researcher's own adaptation of information from the sources described above.

Table 5.1: Percentage of permanent and acting Directors General: 1996 - 2011

				Valid	Cumulative
		Frequency	Percentage	Percentage	Percentage
Valid	Permanent	96	54.2	54.2	54.2
	Acting	81	45.8	45.8	100.0
	Total	177	100.0	100.0	

Source: Author's own adaptation of information from government systems

The challenge for the South African public service is to recruit, develop and retain competent leaders and managers. According to Public Service Commission (2008:vi), with each new director-general coming into a department, new strategies and plans may be introduced, thus subjecting a department to a process of frequent change. This makes it more difficult, as the Public Service Commission reports, there is no proper handing over and taking over from the Directors-General. When the new director-general takes over the office, the predecessor is already out of office. Whenever there is a change in public service leadership, there must be a proper handing over and taking over especially when there is a transition from one electoral term of government to another. The *Public Service Act,* 1994, Section (b) (1), stipulates that the President or the Premier appoints the heads of department or may delegate those powers if they so choose. Currently, heads of department are appointed for a period of three to five years. Different countries experience different turnover rates. However, international trends seem to indicate higher turnover rates when compared with South Africa (DPSA, 2008:vii).

Figure 5.1: Number of permanent and acting Directors General: 1996 - 2011
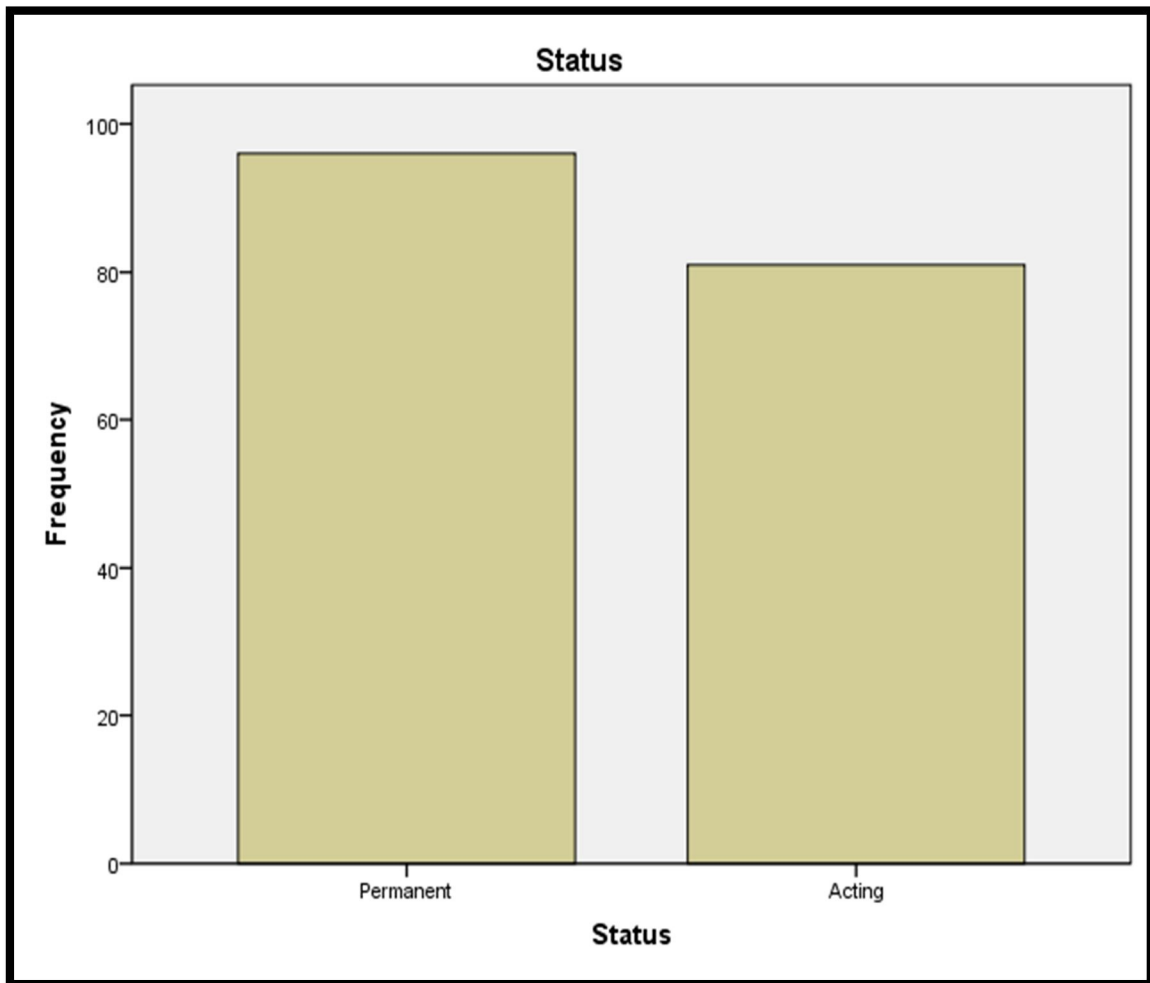
Source: Author's own adaptation of information from government systems

Figure 5.1 and table 5.1 give an indication of a number of acting and permanent Directors-General in 39 government departments where 177 Directors-General were analysed. Out of 177 Directors-General analysed, 96 were permanent and 81 were acting. Although it is not possible to have all Directors-General in a permanent capacity the number of 81, which is 45.8% as indicated in Table 5.1, is unacceptably high.

Figure 5.2: Rate of Directors General turnover per department: 1996 - 2011
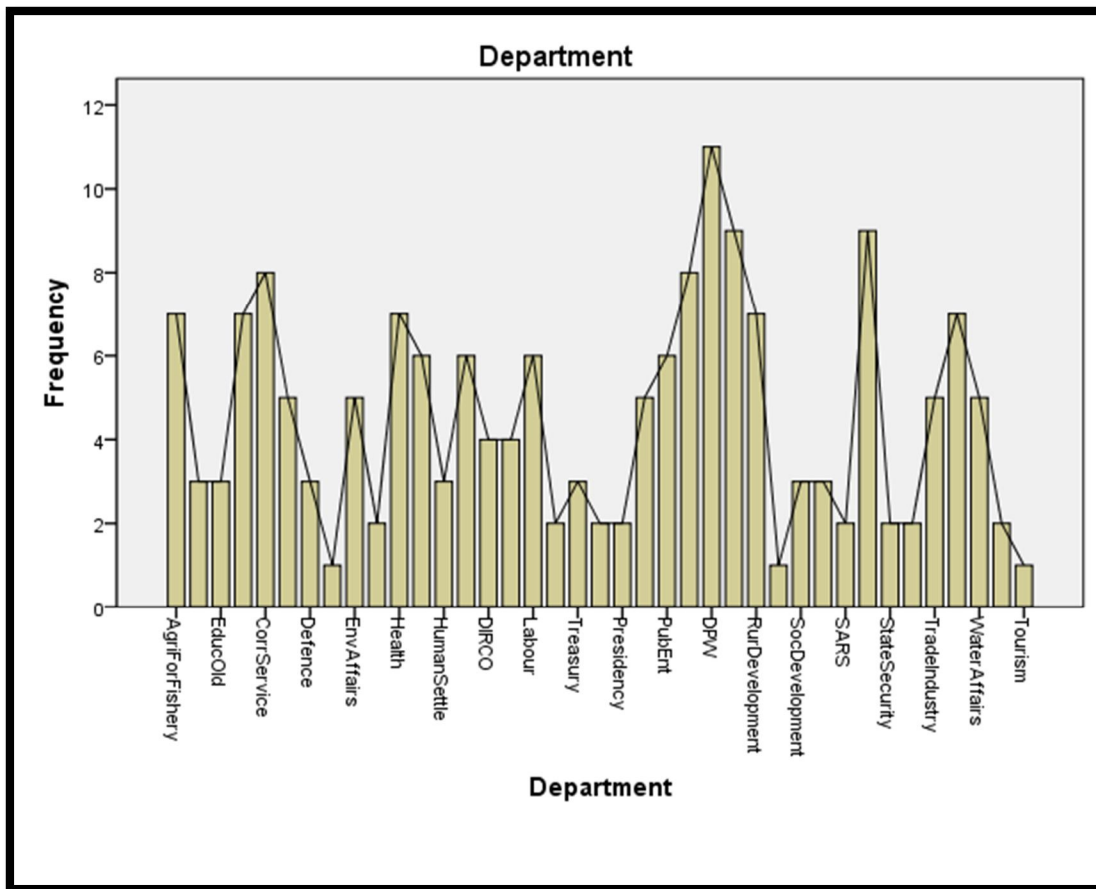
Source: Author's own adaptation of information from government systems

The high turnover rate will most probably impact on service delivery and management of public finance and will ultimately affect accountability as new directors-general will not be able to account properly when appearing before the legislature. The implications of the director-general turnover on service delivery are mainly focused on issues pertaining to the actual management operations of departments. The relationship between turnover incidents and their service delivery impact is complex and it requires a detailed analysis of a specific department. It is clear that changes instituted are less likely to be sustained when there is a change in leadership. High turnover also tends to impact on accountability as the new head of department will be unable to account for what took place in the previous period. This seems to be an easy answer when

directors-general appear before Parliament, because most DGs, when asked questions
by parliamentary committees, simply use their time in office as an excuse.

Table 5.2: Rate of directors general turnover per department: 1996 - 2011

Department	Frequency	Percentage	Valid Percentage	Cumulative Percentage
AgriForFishery	7	4.0	4.0	4.0
Arts and Culture	3	1.7	1.7	5.6
Education (Old)	3	1.7	1.7	7.3
Communications	7	4.0	4.0	11.3
Correctional Services	8	4.5	4.5	15.8
Co-operative Governance	5	2.8	2.8	18.6
Defence	3	1.7	1.7	20.3
Economic Development	1	0.6	0.6	20.9
Environmental Affairs	5	2.8	2.8	23.7
GCIS	2	1.1	1.1	24.9
Health	7	4.0	4.0	28.8
Home Affairs	6	3.4	3.4	32.2
Human Settlement	3	1.7	1.7	33.9
Independent Police Div	6	3.4	3.4	37.3
DIRCO	4	2.3	2.3	39.5
Justice and Const Div	4	2.3	2.3	41.8
Labour	6	3.4	3.4	45.2
Mineral Resources	2	1.1	1.1	46.3
Treasury	3	1.7	1.7	48.0
NPA	2	1.1	1.1	49.2
Presidency	2	1.1	1.1	50.3
PALAMA	5	2.8	2.8	53.1
Public Enterprise	6	3.4	3.4	56.5
PSC	8	4.5	4.5	61.0
DPW	11	6.2	6.2	67.2
DPSA	9	5.1	5.1	72.3
Rural Development	7	4.0	4.0	76.3
Science and Technology	1	0.6	.6	76.8
Social Development	3	1.7	1.7	78.5
SAPS	3	1.7	1.7	80.2
SARS	2	1.1	1.1	81.4
Sports	9	5.1	5.1	86.4
State Security	2	1.1	1.1	87.6
Statistics	2	1.1	1.1	88.7
Trade and Industry	5	2.8	2.8	91.5
Transport	7	4.0	4.0	95.5
Water Affairs	5	2.8	2.8	98.3
WomenChildPeoplDisabl	2	1.1	1.1	99.4
Tourism	1	0.6	0.6	100.0

Source: Author's own adaptation of information from government systems

Figure 5.2 and Table 5.2 give the frequency of directors-general per department. The information seems to suggest that the Department of Public Works (DPW) has the highest turnover rate of 11 directors-general within 15 years. The DPW is always at the centre of controversy on issues of maladministration and tender fraud. Given the financial maladministration reported in this department, the turnover rate is unacceptably high and serious attention is needed to ensure sustainability of directors-general in this department. The departments of Sports and Recreation, Public Service Commission and Correctional Services also experience a high turnover rate of directors-general with nine, eight and eight director-general respectively. For the Public Service Commission, it is a disturbing piece of information as Section 196(4)(b) of the *Constitution*, read in conjunction with Sections 9 and 10 of the *Public Service Commission Act,* 1997 (Act 46 of 1997), mandates the commission to investigate, monitor and evaluate the organisation of administration and personnel practices in the public service.

Moreover, in terms of Section (196)(f)(iv) of the *Constitution*, the commission may of its own accord or receipt of a complaint, advise national and provincial organs of state regarding personnel practices in the public service including those relating to the recruitment, appointment, transfer, discharge and other aspects of the careers of employees in the public service. For the commission to achieve this, stability and continuous leadership are required, which are problematic at this stage. Other departments reflect a good picture in terms of turnover rate. The Department of Women, Children and People with Disabilities has had two directors-general since its inception in 2009 and when looking at the average time a director-general spent in office, this department is not unique.

Figure 5.3 and Table 5.3 indicate the frequency rate of directors-general. It is worrying to see that 42% of analysed directors-general spent less than one year in office and this information includes both acting and permanent appointments. As mentioned earlier in this section, that directors-general are appointed for a period of three to five years and only 7.3% of directors-general spend three to four years in office and 2.6% five to six years.

Table 5.3: Average of turnover rate of directors-general: 1996 - 2011

Period	Frequency	Percentage	Valid Percentage	Cumulative Percentage
below 1 year	76	42.9	42.9	42.9
+1 to 2 years	24	13.6	13.6	56.5
+2 to 3 years	26	14.7	14.7	71.2
+3 to 4 years	13	7.3	7.3	78.5
+4 to 5 years	17	9.6	9.6	88.1
+5 to 6 years	5	2.8	2.8	91.0
+6 to 7 years	1	0.6	0.6	91.5
+7 to 8 years	7	4.0	4.0	95.5
+8 to 9 years	1	0.6	0.6	96.0
+9 to 10 years	3	1.7	1.7	97.7
+10 to 11 years	1	0.6	0.6	98.3
+11 to 12 years	1	0.6	0.6	98.9
+13 to 14 years	1	0.6	0.6	99.4
+14 to 15 years	1	0.6	0.6	100.0
Total	**177**	**100.0**	**100.0**	

Source: Author's own adaptation of information from government systems

According to the Department of Public Service and Administration (2008:33) the turnover rate of heads of departments across national public services, depends on a variety of contextual factors, key among which tend to be the legislation and regulations that govern appointments and terminations, which are shaped by the national history of the public service in question. In countries such as Canada, the trend is towards higher turnover levels, however, experiences vary across different countries and different public service systems. Some systems tend to promote stability

among the heads of public institutions, while others view turnover as necessary for innovation and performance purposes.

Figure 5.3: Average of turnover rate of directors-general: 1996 - 2011
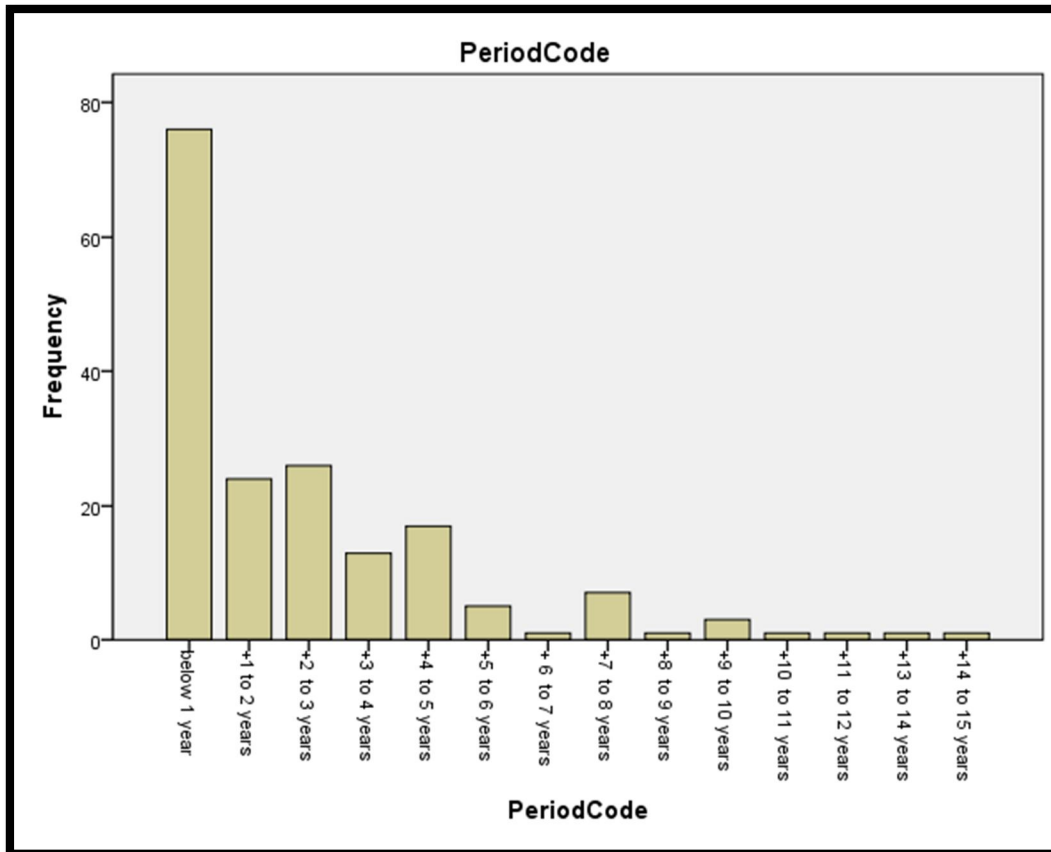
Source: Author's own adaptation of information from government systems

Available literature on the public sector focuses on the causes of turnover and is often premised on the perspective that turnover is costly and should be prevented. However, an in-depth analysis of the literature discloses that while turnover can be detrimental to the organisational performance of the public service, too little leadership turnover can also be problematic. To a certain extent, level of turnover in the administrative leadership of organisations can have positive consequences for organisations. The possibility of turnover can reduce complacency, lead to change and innovation and facilitate the displacement of poor performers. Conversely, a high rate of turnover might

affect productivity, service delivery and the spread and retention of important organisational knowledge (institutional memory). Turnover rate is not only experienced in the public sector, private organisations experience a similar challenge.

The turnover of leadership in the private sector is increasing and studies in the international sphere reveal that higher turnover levels of chief executive officers (CEOs) in large publicly traded corporations are a growing phenomenon. Lucier, Spiegel and Schuyt (2007:58) reveal that the phenomenon of high turnover among CEOs is global and that even regions not burdened by governance scandals experience high turnover levels. The situation is not very different in public services across the world and South Africa is, therefore, not unique in terms of the turnover rate of directors-general.

Study of political appointments in governments across the world, undertaken by the Japanese government, suggests that heads of department of the public sector rarely stay in office in a particular position for over four years (Busieka, 2012:4). In the United States, the employment mobility is very high, as many politically appointed heads of department hardly stay for the complete term of office of the president. In the French government, although many HoDs are appointed from within the career civil service, they seldom remain in the same position for more than four years and often move to comparable positions in the public service (Busieka, 2012:4). Germany is no exception in this regard as a similar pattern exists.

Cote and Holland (2007:58) reveal that in Canada, the length of assignment of officials fell to 2.7 years between 1997 and 2007 from an average tenure of four years in the decade from 1987 to 1997. The Canadian study reveals that, although a number of factors such as transferable management skills, the reorganisation of government,

political change and instability and political leadership changes seem to have an impact on turnover, the implementation of New Public Management in the public service increased the likelihood of turnover of their administrative leaders. Collectively, the literature reviewed indicates that administrative leadership turnover is a growing phenomenon, there are no set benchmarks for the period someone should hold office and there are no easy explanations for the phenomenon.

The system for appointing and dismissing heads of departments in South Africa is the result of dealing with past experiences and the post-apartheid transformation. In South Africa, the British system of the professional career head of department has largely been substituted by a mixture of politically and contractually founded appointments. In changing the system in the direction of a contract approach, the Government's intention was to ensure that new innovations would be brought into the public service, and that head of department could be held accountable for delivery on results through time-based performance contracts.

An important question is whether this approach is still effective and appropriate for South Africa today. It is vital to look at how other systems have been made and reshaped as a result of learning from the initial experiences, as well as to review the South African experiences and challenges. In looking at these systems and their relevance, a more careful consideration is needed. A key challenge and consideration in shaping the system would thus be the extent to which it would assist in ensuring long-term delivery in the context of poverty and long-term developmental challenges.

The above analysis aimed to give an overview the turnover rate of directors-general in government departments as it could have an impact on accountability and responsibility, and ultimately, affect the work of the legislature in ensuring

accountability and responsibility. It was not the intention of this study to go into the detail of every department but rather to provide a synopsis. It is evident that the turnover rate may vary from one department to other and may be unacceptably high in other departments. High turnover rate is a challenge for the legislature as proper accountability will not be given by departments, particularly financial accountability. Even though global trends seem to suggest that South Africa is not unique in turnover rate, more rigorous intervention is required to reduce the turnover rate. This will ensure continuity of office and the accountability of public finance will be improved, thus resulting in good governance. Once there is continuity of office by directors-general, more and appropriate answers will be provided to the legislative bodies when required. Moreover, institutional knowledge will be retained and it is likely that service delivery will improve. It is worth mentioning that the low turnover rate of directors general will not be a panacea for financial accountability and responsibility but it will assist in improving it.

5.7   PUBLIC FINANCIAL MANAGEMENT AND ACCOUNTABILITY

Financial accountability has grown over the years and it has developed its own chain of operations and institutions. The main instruments of financial accountability are government budgets. Accountability and financial management are used synonymously even though financial accounting is just one dimension of the accountability configuration (Kakumba, 2008:45). There are many ways to hold public officials accountable in South Africa, for example, sound financial management system is a prerequisite for enhancing accountability and governance.

Fourie (2006:437) states that public financial management is not confined to the finances appropriated to render a particular public service or goods, but to all

transactions where a financial value is prevalent. Fourie (2006:437) also highlights practices that correspond to a lack of good governance in public financial management. These practices are, for example, nepotism, favouritism, abuse of power and insider trading. The practices are not foreign to South Africa, especially the abuse of power. For example, the two controversial lease agreement reports released by the Public Protector where the Public Works Minister and the Police Chief were implicated are classic examples of abuse of power. Subsequent to the release of the report, the office of the Public Protector was raided by the police (Public Protector Report, 2011).

It should be noted that financial management is the responsibility of every manager in terms of the PFMA. Although traditionally, public organisations have accounting officers, every official, be it a trained doctor, engineer, lawyer or teacher is responsible for proper financial management (Pauw, Woods, Van der Linde, Fourie, and Visser, 2002:133). In South Africa, all directors-general are the accounting officers of their departments. As mentioned in Section 39(b) of the PFMA, they are accountable for all the financial activities of their respective departments.

It is important for government to ensure proper financial management since people expect proper utilisation of public money and they should demand accountability. Government have limited resources, and therefore public financial management becomes necessary to redirect the prudent use or resources (Kakumba, 2008:46). Even though resources are limited, ethical conduct of public servants in their dealing with public resources will enhance service delivery. It is evident that the success of the PFMA lies in the extent to which officials are held accountable. The rule of law must be applied strictly in this matter to protect the public money.

5.8   ETHICS AND GOVERNANCE IN THE PUBLIC SECTOR

In terms of public financial management and accountability, ethics have become important in public sector governance. It is evident that ethical conduct deteriorated in the public sector and this has led to a corrupt and weak administrative system, which is a threat to good governance (Mafunisa, 2003:8). There is a need to restore accountability and ethics in the public sector. Hanekom (1994:58) states that it should be kept in mind that public servants are probably no better or worse, ethically, than individuals who work in the private sector as they are all human beings and are most likely to behave the same.

Ethics are linked with the history of mankind as many people perceive ethics differently according to their cultural background. Ethics are about conduct, character and morals of human beings. Ethics are about good or bad, right or wrong behaviour, evaluate conduct against some absolute criteria and put negative or positive values on it (Hanekom, 1994:58).

The sentiments of Hanekom are shared by Guy (1990:06), who views ethics as the study of moral judgements and right and wrong conduct. "Ethics is different from law because it involves no formal endorsements. It goes beyond mere social convention and this makes it different from etiquette. Ethics also differs from religion because it makes no theological assumptions. Ethics is both a process of inquiry and code of conduct. As a code of conduct, it is like an inner eye that enables people to see the rightness or wrongness of their actions" (Guy, 1990:06).

Heyns (1986:1) states that ethics have to do with the actions of man and therefore, it requires adjustments in the actions and attitudes of the public manager in relation to his/her colleagues and the public as well as in relation to himself/herself. According to

Chapman (2000:162), the basis of the evaluation of human behaviour is to be found in a value system. The key elements of every democratic society are ethical values and integrity as well as the rule of law. Public officials dispose discretionary competencies in their daily execution of their functions and management of public funding. These values must not only protect the citizens against arbitrary use of this public power, but also the public authority itself against any improper use of this power by its public officials. The public officials themselves must be protected against any abuse or diversion of law or authority on behalf of the public authority or its official bodies (Hondeghem, 1998:173).

Esterhuyse (1989), states that to make these evaluations possible, specific criteria are required. These evaluation criteria can be used as yardsticks and have a regulatory and evaluatory function. Aspects such as quality of life, legitimacy of public institutions and the management style of the public sector may be derived from the moral-ethical culture. The moral-ethical culture which prevails in the public sector depends on the values of society. A society which does not or is not allowed to express moral protest in public can cause political office-bearers to have a low sense of responsibility and integrity. Consequently, the possibility of corruption and maladministration is increased as seen in many Auditor-General reports and Public Service Commission reports.

Furthermore, Hondeghem (1998:29) writes that ethical behaviour is important for an effective and stable political administrative authority as well as social and economic structures. Corruption can disturb economic competition, endanger free trade and stability on which the free market economy is based and it can also affect foreign investment. Ethics must be seen as an ongoing activity and not as a status to be attained. Ethics are not just about establishing a set of rules or code of conduct but are an ongoing management process that underpins the work of government (Hondeghem,

1998:29). To have a clear understanding of the concept of ethics, the concepts norms and values need to be explained. Norms are standards of behaviour within the organisation, which serve as a guide to all its members (Barton and Chappel, 1985:333).

For example, one of the earliest norms in public administration was that of neutrality, meaning that public officials should be apolitical policy implementation functionaries rather than policy-makers. Within the context of public administration, the emphasis on norms is associated with the recommendation of certain values that are viewed as desirable by their promoters (Ferreira, 1995:143).

Van Dyke (1956:8) is of the view that normative statements express conceptions of the desirable and thus indicate value preferences. These value preferences concern not *what* is, but *what* ought to be, endorsing ends, purposes or norms. There are concerns that with the recruitment of personnel from the private sector, public sector norms and values need to be reinforced. Thompson (in Hondeghem, 1998:27) notes that since those who serve government come from more diverse backgrounds and begin with fewer values in common, the rules of government ethics are likely to become more important and more explicit.

Heyns (1986:02) states that values are basic perceptions of the relative importance of our elements of existence and these perceptions always have to do with priorities, whereas norms are the functions which direct and evaluate human attitudes and actions. The common denominator of nearly all people problems is to be found in the area of values. It is widely recognised that values often differ widely from person to person and from culture to culture. The influence of values on people's thinking, acting and behaviour is underestimated.

It is accepted that individuals may temporarily or permanently discard their value systems in favour of a specific goal attainment. The importance of articulating ethics and the values that define and underpin the public service cannot be underscored. This is seen as critical to providing both public officials and the public with a common frame of reference regarding the principles and standards to be applied and in assisting public officials to develop an appreciation of the ethical issues involved in effective and efficient public service delivery (Hondeghem, 1998:30).

Ethical behaviour is important in any organisation. Codes of conduct must be promoted in the public service. In the South African National Defence Force, for example, there is a code of conduct for uniform members and for Public Service Act personnel. An individual may be prosecuted for contravening these codes. For uniform members, this code is enforced in the military court. The code of conduct will assist the legislature in enforcing compliance and promoting accountability and responsibility.

5.9   CONCLUSION

Analysing governance in the context of public finance is essential to reach good governance such as accountability, responsibility and transparency. What is important is structures supporting governance and what is even more important is the functioning of those structures of governance. These institutions must support governance in the context of the PFMA. If these structures and institutions are not managed accordingly, they could lead to poor accountability and responsibility for public finance. The most important thing about these structures and institutions is that they do not operate in isolation but they need each other in the interest of good governance.

Effective accountability is a cornerstone of good governance. The chapter analysed accountability, its development, responsibility and ethics. Ethics pose a serious

challenge to accountability and good governance. It is important that the framework for accountability is expressed with care to inspire confidence in the public and restore the credibility of governments. Accountability narrowly defined and aimed only at financial process controls is no longer adequate. The scope of accountability has been expanded to include overall economic management as well as delivery of services both by governmental and nongovernmental agencies. The dimensions of accountability have grown, over the years. Access to information on government operations, while facilitating public understanding, does not by itself complete the process of public scrutiny. Having analysed the theoretical virtues of accountability, the following chapter analyses the South African legislative bodies responsible for financial accountability and responsibility.

CHAPTER 6   CONCEPTUAL ANALYSIS OF THE SOUTH AFRICAN LEGISLATIVE BODIES THAT ENSURE PUBLIC FINANCIAL ACCOUNTABILITY AND RESPONSIBILITY

6.1   INTRODUCTION

In the previous chapter, public finance and governance in the South African context were analysed as well as the challenges thereof. Given the challenges of governance is South Africa, the Government has a number of instruments available in regulating public finance, which have been accepted through a democratic system. The aim of these instruments is to ensure financial responsibility and accountability and promote sound public financial management. The country enjoys benefits from these instruments, however, the negative overshadows the positive. Even though these instruments are available, there are various incidences of financial maladministration in the country. This chapter analyses the legislative institutions responsible for ensuring public financial accountability and responsibility and their successes and failures will be highlighted. The legal framework for public sector finance in South Africa encompasses a range of laws and regulations that emanate from the *Constitution*.

This chapter also analyses the mechanisms used to promote public financial accountability and responsibility in South Africa. These mechanisms are *inter alia* parliamentary legislation and committees and institutions strengthening constitutional democracy in South Africa. Questioning and criticism of the integrity of these mechanisms will be provided in this chapter. The effectiveness of these mechanisms is a key to good governance. The work of these institutions must be complementary and with a common objective, namely to promote good governance, and by so doing, to

improve the quality of policy-making. This improvement will reduce the frequency and severity of financial crises and will promote economic growth.

6.2   LEGISLATIVE INSTITUTIONS AND FUNCTIONS

In South Africa, the apartheid legacy continues to influence the current democratic system of government. After 1994, the democratic government inherited the majority of its systems and functionaries from the previous apartheid and 'Bantustan' government administration and these administrations were characterised by poor financial transparency, a culture of entitlement and the sense of contempt for public accountability (Busieka, 2012:8).

In conducting their legislative oversight role, the legislatures are expected to identify any abuse of public funds or constitutional behaviour of the executive and other state entities and to ensure that the rights of the citizens are protected (Madue, 2011:434-435). Furthermore, through their oversight mandate, legislatures have to ensure that public policies and programmes are well implemented in the quest for attaining the quality of life for all.

One of the most important tasks of the legislature is to exercise stringent control over the financial activities of the executive authority, an obligation derived from the personal responsibility and accountability of each elected political representative towards the voters of his/her constituency (Cloete, 1993:81). According to Kotzé and Van Wyk (1986:209), a legislature is a legal political institution which makes, amends and repeal laws for the community and this includes laws on public financial matters. The guiding document for the legislature is the *Constitution,* which will be analysed in the following section. It is not the intention of this study to rewrite the theory of the

legislative system in South Africa but to analyse the legislative system in terms of public financial management.

6.2.1 *Constitution of the Republic of South Africa,* 1996

The *Constitution* provides the foundation for public financial management. It assigns clear roles and responsibilities to the different levels of government. These roles and responsibilities are supported by the provisions of the PFMA. Sections 100 and 216 of the *Constitution* give effect to performance assurance. These two sections allow for intervention by the national government when an entity of government fails to perform an executive function related to financial management, and prescribe circumstances under which the National Treasury may withhold funds. A common characteristic of the constitutional system is division of the state's authority between the legislative, executive and judicial. Most previous South African Constitutions distinguished between the three divisions of authority and make provision for institutions in each regard (Van Heerden, 2009:48). The three divisions are the legislative authority, the judicial authority and the executive authority which will be analysed in the next section. Such a division of authority is provided in Sections 43, 85, and 165 of the *Constitution*. The 1993 *Constitution* had the same division of authority which were provided in Sections 37, 75 and 96.

6.2.1.1   Legislative authority

This authority is vested in Parliament which is responsible for making and passing laws. Parliament is also responsible for ensuring that those laws that it passes are adhered to and it is expected to fulfil an oversight role. Parliament is, however precluded from passing legislation that neglects the basic fundamental rights. The legislative authority is responsible for ensuring the smooth running of public

administration by establishing committees to oversee this task. This includes the management of public finance. Legislative authority is defined by Gildenhuys (1999:40) as a legal political institution which makes, amends and repeals laws for the community, including laws on public finance matters. In democracies, the arrangement has developed over centuries to place the legislature, instead of the executive, in charge of public money (Pauw *et al.* 2009:36). The legislature exercises control over financial transactions by making provision for the appointment of accounting officers and auditors (Cloete, 2008:192). Since the legislature consists of numerous elected or nominated members, they cannot themselves undertake an in-depth analysis of the accounts and/or reports on financial matters which are submitted to them. Therefore, it is customary for the legislature to appoint some of their members to committees to study the accounts and financial reports and this has led to the establishment of committees and advisory institutions for Parliament. These committees and advisory institutions are analysed in Section 6.3 of this study.

6.2.1.2   Judicial authority

This authority is vested in the courts and the South African judiciary is an independent branch of government; its independence being guaranteed by the *Constitution* (Cloete, 2008:71). The South African court structure consists of the Constitutional Court, the magistrates, Supreme Court of Appeal, high courts, courts and other courts established by an Act of Parliament. The Bill of Rights (Chapter 2 of the *Constitution*) provides for the access to courts and the right to a fair trial. In terms of public finance, the judiciary fulfils a role in enforcing rules passed by Parliament. For example, after the Public Protector report on acts of corruption, individuals responsible can be charged and tried in a court of law and this can lead to a jail sentence.

6.2.1.3 Executive authority

This authority is vested in the President and the President exercises this authority with cabinet ministers. The executive authority is subordinate to the legislature and has no original authority. It is the part of government system which is entrusted with the execution of the legislature's policies and decisions as contained in laws, ordinances, by-laws, proclamations, regulations, white papers and minutes of meetings at all levels of government (Kotzé and Van Wyk, 1986:190). These three divisions fulfil a pivotal role in oversight as they perform functions and duties to ensure accountability and responsibility.

6.3 Parliament

The *Constitution* provides for Parliament to be the supreme legislature. Parliament consists of the National Assembly and the National Council of Provinces. For the purpose of this study, only the National Assembly is analysed as the study focuses mainly on the national government. The National Assembly consists of no fewer than 350 and no more than 400 men and women elected on the basis of a national common voters' role with a system of proportional representation (Section 46 of the *Constitution*). Parliament is charged to fulfil the oversight role of ensuring financial accountability and responsibility.

Having mechanisms to ensure accountability and responsibility is not sufficient. Rules are meaningless if they cannot be enforced; hence, the establishment of institutions supporting constitutional democracy. Chapter 9 of the *Constitution* identifies six institutions responsible for supporting constitutional democracy. For the purpose of this research, only the Auditor-General and the Public Protector are analysed since they

are applicable to this research and they have a direct influence on the management of public finance. These institutions are sometimes referred to as Chapter 9 institutions.

According to Section 181 of the *Constitution*, these institutions are independent and subject only to the *Constitution* and the law, and must be impartial and exercise their powers and perform their functions without fear, favour or prejudice. The *Constitution* further states that other organs of state, through legislative and other measures, must assist and protect these institutions to ensure the independence, impartiality, dignity and effectiveness of these institutions. These institutions are accountable to the National Assembly, and must report on their activities and the performance of their functions to the National Assembly at least once a year. They can, therefore, be used to support the available instruments used to ensure public financial accountability and responsibility. The following section analyses the Public Protector (PP) and the Auditor-General as institutions supporting constitutional democracy.

6.3.1 The Auditor-General

In stressing the provisions of accountability, the *Auditor-General Act,* 1995 (Act 12 of 1995) establishes the requirement to appoint an auditor-general. The office of the Auditor-General is the supreme audit institution in South Africa and an independent constitutional body, accountable to the National Assembly.

The Auditor-General acts as the 'watchdog' for Parliament and derives its independence, powers and mandate from the *Constitution* (Section 188) and the *Public Audit Act,* 2004 (PAA) (Act 25 of 2004). Section 5(1)(d) of the PAA specifically gives the Auditor-General the authority to carry out an appropriate investigation if the Auditor-General considers it to be in the public interest or upon the receipt of a complaint or request. In this context, the Auditor-General investigates allegations to facilitate public

financial accountability. The findings emanated from the investigation will be reported to management and those charged with governance.

The Auditor-General is empowered to audit any and all government entities, including security agencies. It must report on its activities and the performance of its functions to the National Assembly at least once a year. According to Pauw *et al.* (2009:47), the office of the Auditor-General is empowered to audit and report any irregularities regarding the use of state money and property.

Even though the country has an Auditor-General, its contribution to ensuring public financial accountability and responsibility deserves attention. In most cases, an audit is not empowered to review policy matters. Accordingly, the audit conducted by the Auditor-General is limited to a financial compliance audit (regularity and compliance of laws), and an efficiency audit remains to be fully developed.

Year after year the office of the Auditor-General expressed concern regarding the management of public finance Table 6.1 illustrates the comparison of the audit conclusions for Parliament, constitutional institutions, national departments and national entities for the financial years 2005/2006 to 2010/2011 financial years.

Table 6.1 provides an overview of audit outcomes of Parliament, national departments, constitutional institutions and national entities. The period 2005/2006 to 2010/2011 was chosen due to availability of information and this provides an overview of public finance management. The information as provided in Table 6.1 indicates that there has been a modest improvement in all categories of audit opinions. The adverse opinion decreases from five in the 2005/2006 financial year to two in the 2010/2011 financial year while disclaimer increased from one in the 2005/2006 financial year to 11 in the 2007/2008 financial year and in 2010/2011, it decreased to five. Although it is encouraging to see

a decrease in the number of adverse and disclaimer audit opinions, the number of both adverse and disclaimer opinions remains relatively high, considering the importance and potential impact (including on service delivery) of having sound financial management systems in place. Fluctuation in the number of qualified audit opinions is a challenge and it requires urgent attention. Although a qualified audit opinion is an indication of the poor financial management in an institution, it is a matter of even greater concern when an institution is presented with an adverse or disclaimer audit opinion.

Table 6.1: Summary of audit outcomes for the period 2005/2006 to 2010/2011

Audit Opinion	05/06	06/07	07/08	08/09	09/10	10/11
	No.	No.	No.	No.	No.	
Disclaimer	1	2	11	4	3	5
Adverse	5	1	4	2	3	2
Qualified	33	8	71	32	17	9
Financially unqualified (With other matters)	83	40	38	114	89	116
Financially unqualified (With no other matters)	43	109	106	90	110	91
TOTAL ANALYSED	165	160	244	242	222	217

Source: South Africa (Republic). Auditor-General Report (2005/2006-2010/2011). Pretoria: Government Printer.

According to the International Standards on Auditing (ISA 700 and ISA 705), the objective of the audit of financial statements is to enable the auditor to express an opinion on whether the financial statements are presented fairly in all material respects. If the auditor concludes that the financial statements as a whole are not free from material misstatements or is the auditor is unable to obtain sufficient appropriate evidence to conclude that the financial statements as a whole are free from material

misstatements, the auditor must modify his/her opinion. The auditor will modify his/her opinion if it is not possible to gather sufficient appropriate evidence to support an unmodified opinion or because there are uncorrected misstatements that are material. The auditor can qualify his/her audit opinion or can give a disclaimer of opinion depending on the materiality or significance (Jackson and Stent, 2012:5).

An audit disclaimer is issued when so many transactions are excluded from the department's financial statements and so little supporting documentation can be produced to justify the department's expenditure that no effective audit can be conducted in the first place and the auditor is unable to express an audit opinion (Jackson and Stent, 2012:6). Jackson and Stent (20012:6) further state that audit disclaimers could indicate a serious lack of financial control measures and a lack of effective financial management in the entity being audited. In monetary terms, these audit opinions translate into the failure of the government institution to properly account for the use of money. While this does not mean that money has been misappropriated or stolen, because no documents have been produced to verify how these funds were used it is not possible to demonstrate that significant amounts of these funds have not been misappropriated or stolen. In addition, the Auditor-General has pointed to numerous acts of financial misconduct by departments in South Africa which constitute criminal offences in terms of the PFMA.

6.3.2   The Public Protector

The Public Protector (PP) is an independent institution, established in terms of Chapter 9 of the *Constitution*. According to Section 182(1) of the *Constitution*, the Public Protector has the power:

a. to investigate any conduct in state affairs or in the public administration in any sphere of government that is alleged or suspected to be improper or to result in any impropriety or prejudice;

b. to report on that conduct; and

c. To take appropriate remedial action.

The *Constitution,* however, does not give details of what remedial action the Public Protector can take in the event of misconduct. In terms of Section 182(2) of the *Constitution*, the Public Protector has the additional powers and functions prescribed by national legislation. Section 6(4) of the *Public Protector Act (PPA),* 1994 (Act 23 of 1994) provides that the Public Protector shall be competent to investigate, on his/her own initiative or on receipt of a complaint, *inter alia,* any alleged maladministration in connection with the affairs of government at any level and any alleged receipt of an improper advantage by a person as a result of an act or omission in the public administration or in connection with the affairs of government at any level.

In terms of Section 6(4), the Public Protector can also investigate any alleged improper conduct by a person performing a public function. The Public Protector may, in terms of Section 8(1) of the PPA, make known to any person any finding, point of view or recommendation in respect of a matter investigated by him/her. In terms of the mandate given to the Public Protector, it is, therefore, expected of him/her to conduct an enquiry that transcends lawfulness and focuses on good administration. The Public Protector may also investigate cases of corruption and mismanagement, for example, the investigation into complaints and allegations of maladministration, improper and unlawful conduct by the Department of Public Works and the South African Police Service relating to the leasing of office accommodation in Pretoria and Durban.

Although the office of the Public Protector is an independent office established in terms of the *Constitution*, the Public Protector can also be removed from office. Section 194 (1) of the *Constitution* states that the PP may be removed from office only on:

a. the grounds of misconduct, incapacity or incompetence;

b. a finding to that effect by a committee of the National Assembly; and

c. the adoption by the National Assembly of a resolution calling for that person's removal from office.

Section 194 (2) further states that a resolution of the National Assembly concerning the removal from office of the Public Protector must be adopted with a supporting vote of at least two thirds of the members of the National Assembly. The President may suspend a person from office at any time after the start of the proceedings of a committee of the National Assembly for the removal of that person; and must remove a person from office upon adoption by the National Assembly of the resolution calling for that person's removal (Section, 194(3)).

This section analyses the legislative authority, executive authority and the judiciary. These bodies are important and they must work together to enhance accountability in public finance. The section further analysed the Public Protector and the Auditor-General as institutions supporting constitutional democracy. Both the Public Protector and the Auditor-General have a role to fulfil in assisting the legislative bodies in their pursuit to ensure public financial accountability and responsibility. With reference to recent cases, it appears that the Public Protector is more involved in financial misconduct cases than any other case. It is important for the Public Protector to limit its involvement in financially related cases as the other areas might be neglected and there might be duplication between the offices of the Public Protector and the Auditor-

General. Once the Public Protector and the Auditor-General compile their reports they are sent to Parliament, however, Parliament is limited in its capacity and capability to deal with these reports and this resulted in the establishment of parliamentary committees. For the purpose of this study, only those committees with direct influence on the management of public finance will be analysed.

6.4   PUBLIC ACCOUNTS COMMITTEE

Given reports by Chapter 9 institutions, action must be taken to ensure that their recommendations are implemented. Public accounts committees (PAC) work hand in hand with Chapter 9 institutions. These committees are very important for this study as they fulfil a pivotal role in ensuring financial accountability and responsibility by calling heads of departments as accounting officers to explain themselves before Parliament.

The mandate of the public account committees in South Africa is drawn from Section 55 and 114 of the *Constitution*. Section 55(2) outlines the oversight powers of the National Assembly by requiring that it "must provide for mechanisms to ensure that all executive organs of state in the national sphere of government are accountable to it; and to maintain oversight of the exercise by the national executive authority, including the implementation of legislation; and any organ of state". This means that the work of a public accounts committee is not limited to institutions audited by the Auditor-General, but also to entities that receive public money, or that are authorised to receive money for public purposes.

In order to facilitate Parliament's oversight of the national executive organs of state, Section 92(3)(b) of the *Constitution* requires that "Members of Cabinet must provide Parliament with full and regular reports concerning matters under their control. In terms of the PFMA, the executive must submit its annual report to Parliament by 30

September annually. The reports are submitted to Parliament through the office of the Speaker, which refers it to the Committee on Public Accounts. The committee is guided by Rule 206 of the National Assembly, which states that the Committee on Public Accounts must consider:

a. the financial statements of all executive organs of state and constitutional institutions when those statements are submitted to Parliament;

b. any audit reports issued on those statements;

c. any reports issued by the Auditor-General on the affairs of any executive organ of state, constitutional institution or other public body; and

d. any other financial statements or reports referred to the committee in terms of these rules.

6.4.1   The Standing Committee on Public Accounts

The Standing Committee on Public Accounts (SCOPA) is considered the most influential committee of Parliament. This committee also examines the Auditor-General reports, and other financial statements or reports referred to it. The Standing Committee on Public Accounts is the mechanism through which the National Assembly exercises control over the expenditure of public money, which it allocates annually to executive organs of state in the national sphere of government. This committee examines the financial statements, as well as audit reports, on the statements of all government departments and constitutional institutions (Siswana, 2007:107). When SCOPA receives a report from the Auditor-General indicating any fiscal irregularity, the committee must investigate. In the course of its investigation, SCOPA has the power to call the parties involved before the committee to account for and explain their actions. The chairperson of this committee is a member of the opposition to ensure a

heightened level of accountability. However, this committee has been accused of party political bias and members of the ruling party who constitutes the majority refuse to express an opinion that could harm their party (Cloete, 2012:46).

According to the Rules of Parliament, dated June 1999, SCOPA is empowered, among others:

a.   to consider the financial statements of all government departments and constitutional institutions submitted to Parliament;

b.   to examine the reports of the Auditor-General with regard to the expenditure of public monies;

c.   to summon witnesses to appear before it; and

d.   to assess whether value for money has been received.

The Standing Committee on Public Accounts is the mechanism through which Parliament exercises control over the expenditure of public money, which it annually appropriates to executive organs of state in the national sphere of government.

Parliament has to be able to provide assurance to the public that those public monies and assets are being managed in the proper way and that value for money is being received by public sector institutions in their spending of public funds according to Section 41(1)(c) of the *Constitution*. If Parliament through SCOPA can provide this assurance, the confidence of the general public in the political institutions will be strengthened.

For SCOPA to fulfil its functions properly, it needs appropriate information. The *Constitution* recognises this need by providing for the establishment of an Auditor-General with the powers and functions to audit and report to Parliament on, *inter alia*,

the accounts, financial statements and financial management of national departments and other public sector institutions required by Section 188 of the *Constitution* to be audited. The ultimate aim of SCOPA should be to ensure that government departments are accountable and responsible to Parliament, who represents the citizens.

Figure 6.1: Turnover rate for SCOPA: 2001 - 2010
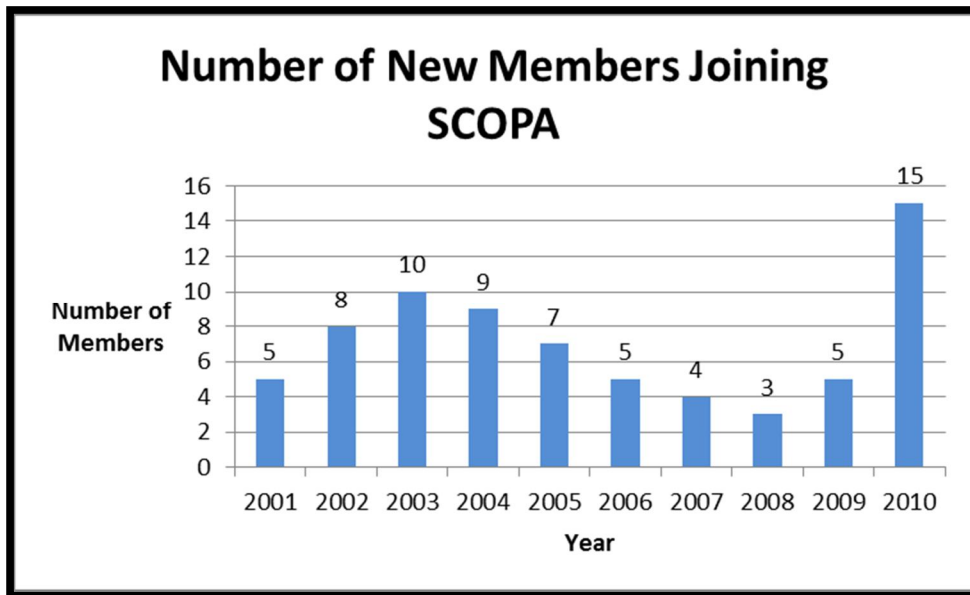
Source: Author's own adaptation of the minutes of Scopa. 2001 - 2010.

Since its inception, SCOPA has held several public hearings in an effort to ensure responsibility and accountability. To date, SCOPA boasts several achievements. Despite these achievements, SCOPA faces many challenges that affect its ability to conduct oversight efficiently and effectively. The Standing Committee on Public Accounts needs to adopt certain practical measures to enable it to carry out its oversight functions properly. The committee lacks technical experts and has inadequate financial resources to increase its oversight capacity (Idasa, 2010:6). Another well-known challenge is the failure of government departments to implement SCOPA's resolutions their lack of co-operation. This is seen in a number of Auditor-

General and SCOPA reports whereby recommendations are made year after year without any improvement. This is evident in Table 6.2 which indicates that most departments did not resolve more than half of SCOPA resolutions. A number of resolutions were made in the area of compliance, but reporting on predetermined objectives is an area which has received almost no attention. It is encouraging that action has been taken on almost all resolutions, but the majority of these actions have not been fully completed. Most of these resolutions are standing over from prior years (Auditor-General Report, 2010/2011:75). Therefore, the completion of actions will need to be seriously monitored.

Despite these difficulties, SCOPA members continued with their robust questioning which sought to get answers on various issues highlighted by the Auditor-General. The committee indicated that ministers will in future be called to appear before it (Idasa, 2010:6). The challenge here is the party list, whereby the minister is the senior member of the party and members serving in committees are juniors and this is applicable to all other committees in Parliament. As depicted in Figure 6.1, the turnaround rate of SCOPA's membership is a challenge.

Figure 6.1 gives an indication of the turnover arte of SCOPA for the period 2001 to 2010. It can be seen that the ten members of 2008 increased to 15 members in 2010. The turnover rate of SCOPA members remained relatively low between 2006 - 2009 and started to increase in 2010, a year after the national elections. Therefore, it can be deduced that change of leadership influenced the turnover rate. This can also be confirmed by the high turnover rate of SCOPA in 2004 as it was a year of national elections. It can, therefore, be deduced that other parliamentary committees experienced similar challenges. This poses a threat to the effectiveness of committees such as SCOPA. The Standing Committee on Public Accounts members interrogate

senior members of departments to get clarity on certain matters and they expect to get feedback at the next meeting. When the next meeting commences, there are new members who are not familiar with the issues on the table and this is a threat to democracy and accountability.

Table 6.2: Status of implementation of SCOPA resolutions

Auditee	Total number of resolutions	Resolutions in progress from previous year	Number of resolutions resolved	Number of resolutions in progress	Number of resolutions not auctioned	Total number of resolutions made relating to:		
						Financial management	Auditing of predetermined objectives	Compliance
Departments								
Defence	1	1	0	1	0	1	0	0
Justice & Constitutional Development	15	0	0	15	0	12	1	2
Public Works	4	4	0	4	0	2	0	2
Labour	3	2	1	2	0	1	0	2
Water Affairs	3	3	0	3	0	3	0	0
Presidency	0	1	1	0	0	1	0	0
Total	26	11	2	25	0	20	1	6

Source: South Africa (Republic). Auditor-General Report. 2010/2011. Pretoria: Government Printer.

The South African parliamentary oversight committee system is structured to promote accountability by the executive. The major observation is that the effectiveness of the

legislature in South Africa may be hampered by the fact that members of the legislature are junior members of the party while the executive is normally chosen from senior members. For instance, the minister is the senior member and this may pose problems for the legislature in holding the executive accountable.

A practical example is the case of the Minister of Defence. In 2010, SCOPA had a robust meeting with the acting Secretary of Defence, and several senior officials regarding the department's qualified audits reports from the Auditor-General. According to Idasa (2010:10), for years, the Department of Defence and Military Veterans had been getting qualified audits and this was a burning issue for SCOPA members. The delegation from the Department of Defence and Military Veterans was asked to leave after it failed to provide SCOPA with credible answers to questions relating to wasteful expenditure and irregularities around the purchase and awarding of tenders. This was seen on national television. Since then, SCOPA has more than once failed to get the Minister of Defence to appear before it and account for the state of financial management in the department (Idasa, 2010:11). This led to tension between SCOPA and the minister who publicly argued that she will not appear before SCOPA unless they apologise for the manner in which they treated her. The Portfolio Committee in the Department of Defence and Military Veterans and Military Veterans also tried to get the minister to comply but without success. The question can, therefore, be asked: what powers does SCOPA have in the event members refuse to appear before it? Ministers perceive themselves as senior party members and feel offended to be called by parliamentary committees.

At present, SCOPA amplifies and extends the work of the Auditor-General, rather than discovers new facts and information. The SCOPA's contribution is the public scrutiny of witnesses, holding them to account in a formal forum, but not necessarily finding and

clearly identifying who in the end is accountable for problems. In this way, a committee such as SCOPA follows up on the Auditor-General findings, giving affected parties a chance to explain themselves and how they will respond. Therefore, SCOPA is not necessarily a fact-finder itself.

6.4.2   The Joint Budget Committee

Monitoring expenditure is one way through which Parliament can track and respond to government performance during the year, and provides an important point for more detailed enquiries into policy outcomes and delivery (The Joint Budget Committee 2008). This committee considers the Budget in terms of the Medium-Term Expenditure Framework in order to allow Parliament to have an input during the process of drafting the budget. The committee is also responsible for the in-year monitoring of expenditure and oversight of the implementation of corrective actions in response to the SCOPA resolutions (Quist, Gertan and Dendura, 2008:43). This committee is important in this study since it follows up on resolutions.

6.4.3   The Standing Committee on the Auditor-General

The Auditor-General has a constitutional mandate and as the supreme audit institution of South Africa, it exists to strengthen the constitutional democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence. This is an oversight body that oversees the activities of the Auditor-General and also ensures his/her independence, impartiality, dignity and effectiveness.

6.4.4   Portfolio committees

A number of committees review the budget documentation. There are portfolio committees in each government department, which are responsible for reviewing the expenditure policies of their departments. The Portfolio Committee on Finance, responsible for the National Treasury, covers the macroeconomic policies of the Government (Quist, *et al.* 2008:44).

The National Assembly appoints from among its members a number of portfolio committees to shadow the work of the various national government departments. The work of committees is not restricted to government but committees may investigate any matter of public interest that falls within their area of responsibility. The role of portfolio committees is the following (Quist, *et al.* 2008:44):

a. to consider bills;

b. to deal with departmental budget votes;

c. to oversee the work of the department they are responsible for, and enquire and make recommendations about any aspect of the department, including its structure, functioning and policy.

It is common knowledge that politicians are appointed based on their political affiliation and this can be a challenge for parliamentary committees. The main challenge with these committees may be that members are politically appointed without the necessary skills required and these committee members rely mostly on reports they receive from departments. This may pose a challenge, since they may omit to report or scrutinise certain issues due to their lack of knowledge or understanding of financial matters. It is evident in the minutes of SCOPA that the majority of its membership consists of members from the ruling party and it can be deduced that committee members might

also neglect to report on certain matters in order to save their political parties some embarrassment. Despite the above-mentioned committees, the *Constitution* also makes provision for the creation of the Public Service Commission to promote governance in the public service. The Public Service Commission is analysed in the following section.

6.5   THE PUBLIC SERVICE COMMISSION

The Public Service Commission is an independent and impartial body created by the *Constitution* to enhance excellence in governance within the public service by promoting a professional and ethical environment and adding value to a public administration that is accountable, equitable, efficient, effective, corruption-free and responsive to the needs of the people of South Africa (Department of Public Service and Administration, 2010:1). The Public Service Commission is responsible to Parliament with regard to the exercising and performance of its powers and functions.

In terms of Section 196 of the *Constitution*, the Public Service Commission is competent to make recommendations, give directions and conduct enquiries with regard to:

a.   the organisation and administration of departments and the public service;

b.   the conditions of service of members of the public service and matters related thereto;

c.   the promotion of efficiency and effectiveness in departments of the public service.

The Public Service Commission submits reports annually on the status of the public service and these reports also cover the status of public finance in terms of misconduct and fruitless expenditure.

Table 6.3 and Figure 6.2 give an indication of the number of financial misconduct cases for the financial year 2001/2002 to 2009/2010. The figure does not provide a sound picture about the state of financial management in the public service. A key challenge, according to the Department of Public Service and Administration (2010:17), is the fact that some public servants who are implicated in acts of financial misconduct resign before disciplinary hearings can be concluded and then accept appointments in other departments. In fact, nothing is resolved; a problem just moves to another department. As stated by the Public Service Commission, in the 868 cases reported for the 2007/2008 financial year, 50 of the officials (6%) left the public service before disciplinary hearings could be concluded. In 2008/09, 17 of the implicated employees resigned after charges of misconduct were levelled against them.

Table 6.3: Total cost of financial misconduct per financial year and the number of cases reported

Financial year	Financial cost of misconduct	Total number of cases of financial misconduct
2001/2002	R4.2M	434
2002/2003	R331M	849
2003/2004	R20.4M	582
2004/2005	R 120M	513
2005/2006	R 45.7M	771
2006/2007	R130.6M	1042
2007/2008	R 21.8M	868
2008/2009	R 100M	1204
2009/2010	R 38M	1344

Source: Own adaptation of information from the State of the Public Service Reports. 2001-2010. Pretoria: Government Printer.

The financial cost of misconduct increased from R4.2 million in the 2001/2002 financial year to R331 million in the 2002/2003 financial year and since then it has fluctuated. Although the financial cost of misconduct fluctuated over the years, the number of cases of financial misconduct remains unacceptably high.

Figure 6.2: Total number of financial misconduct cases
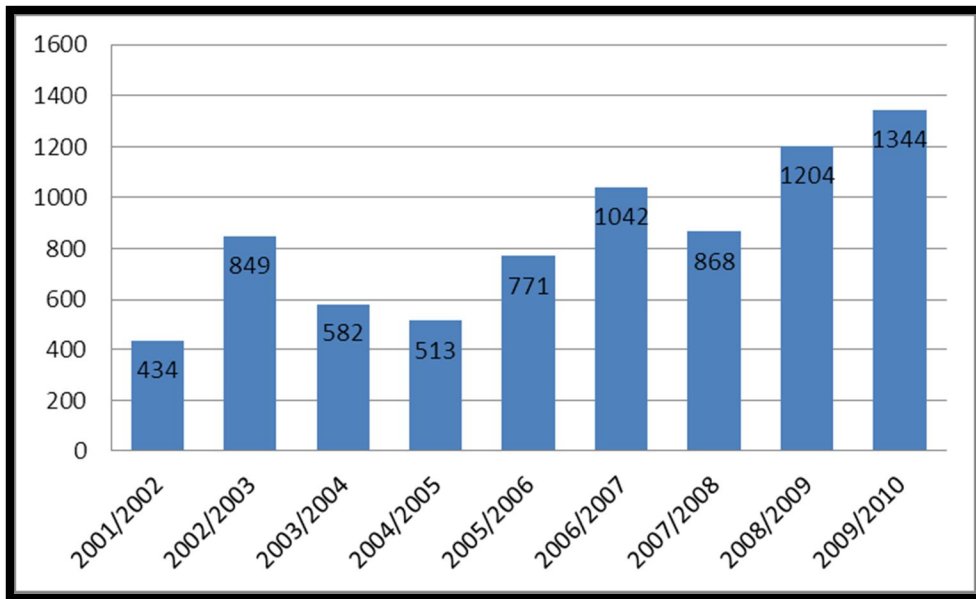
Source: Own adaptation of information from the State of the Public Service Reports. 2001-2010. Pretoria: Government Printer.

There is reason for concern, given the fact that these employees may still join other departments because they have realised that, due to operating in silos, departments do not always know about the real reasons that led to someone resigning from another department. Through a sharing of information, members who leave their departments under these circumstances should be made known to the broader public service. It should no longer be possible for an official to join one department 'undetected' after having evaded disciplinary action in another department. These acts of misconduct cost the taxpayers millions of rand as indicated by Figure 6.3.

Figure 6.3 indicates the total cost of financial misconduct. Financial misconduct by any employee results in material and financial detriment to the state and, therefore, should not be tolerated. It is important to note that these are the figures of financial misconduct that are known and reported. There are those that are not known and covered. The Public Service Commission's reports do not indicate the amounts recovered from the members.

Figure 6.3: The total cost of financial misconduct in million rand per financial year
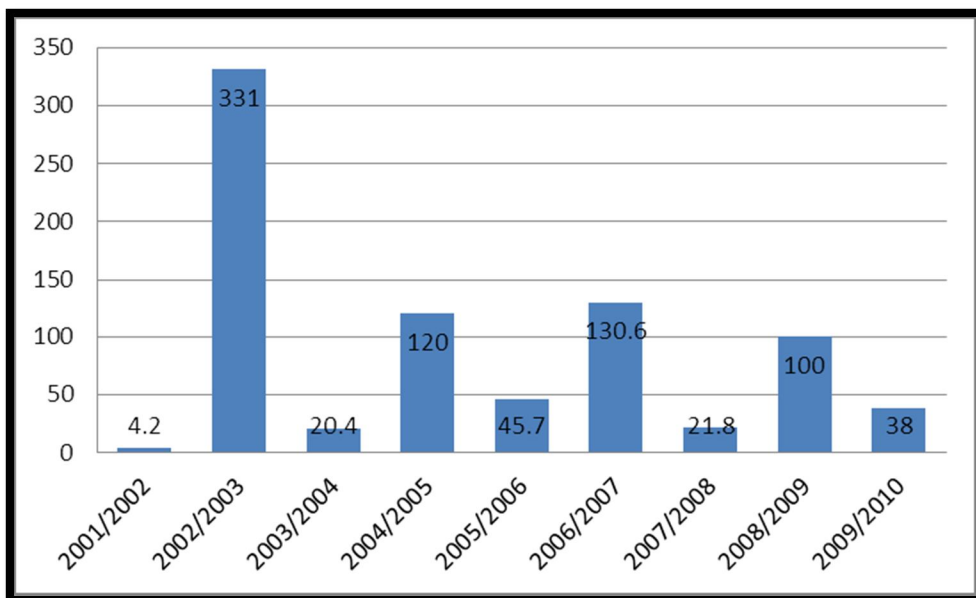

Source: Own adaptation of information from the State of the Public Service Reports. 2001-2010. Pretoria: Government Printer.

In 2007/2008 the number of cases decreased compared with to the previous financial year but the following two financial years experienced a significant increase to 1 344 in the 2009/2010 financial year. This increase could be attributed to a number of factors such as poor administrative control and lack of leadership (Department of Public Service and Administration, 2010:25).

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Despite the Government's efforts to root out corruption in the public service, the picture in the figure remains discouraging, "as the most prevalent transgressions reported to the Commission, are fraud and theft" (Department of Public Service and Administration, 2003:7). More disturbing is the fact that dismissal as a sanction was only imposed in approximately 50% of the cases. A solid management practice is widely recognised as the first line of defence against serious transgressions such as fraud and theft. The accountability and capacity of managers to manage discipline need to be improved. This will encourage managers to act severely against transgressors and, therefore, the management of discipline must be included in the performance agreements of managers.

6.6   PERFORMANCE MANAGEMENT AS MECHANISM FOR RESPONSIBILITY AND ACCOUNTABILITY

The world has seen a global trend towards public sector reform as an initiative to improve service delivery in the public sector. Managing performance is a key element in the delivery of service by the public sector. The world has recognised the importance of performance management both in the private and public sector (Performance Based Management Special Group, 2001:i). This is the only way organisations are able to measure how individuals performed. Performance evaluation in the private sector is automatic since it is based on profitability and rate of return. However, the public sector is not profit driven, and performance is measured in terms of value-for-money principles, namely economy, efficiency and effectiveness. These principles were analysed in Chapter 4. This is confirmed by Fourie (in Bekker, 2009:7), who states that the analysis and evaluation of financial management in the not-for-profit organisation makes performance measurement in the public sector a very complicated issue. Performance management is seen in a number of government regulations and can be

a valuable tool for legislative bodies to measure both individual and organisational performance.

The PFMA introduced performance management into the public sector. The efficient and effective management of state resources is encouraged by the *Constitution*. The PFMA emphasises the need for accountability for performance results by focusing on outputs and responsibilities, rather than only on procedural accountability, which ensures that rules have been adhered to (Roos, 2009:13). In other words, in terms of budgeting and financial management, the focus is not only compliance with the relevant Appropriation Act, but also obtaining value–for-money from each department within government for every rand spent.

The importance of performance in public sector service delivery in South Africa is also demonstrated in the White Paper on Transforming Public Service Delivery, 1997, "*Batho Pele"*, by its selection of one of the eight service delivery principles, namely: "Value for money – public services should be provided economically and efficiently" (Department of Public Service and Administration, 1997:15). Section 195(1)(b) of the *Constitution* also supports the concept of value for money, which states that public administration must be governed by democratic values and principles enshrined in the *Constitution*, including the principle of promoting the efficient, economic and effective use of resources.

The Department of Public Service and Administration developed a policy and set guidelines through which the individual performance of senior management in the South African public service must be measured and managed (Department of Public Service and Administration, 2003:Chapter 4). The Performance Management and Development System (PMDS) are only applicable to levels of director up to the level of

Head of Department. The Department of Public Service and Administration sets out the minimum requirements in its guidelines applicable to the PMDS. For departmental and financial performance, the National Treasury, (2001) produced guidelines through which performance may be measured, mainly through the annual reports of departments. These guidelines, with specific reference to performance management as contained in the PFMA and Treasury Regulations, have a significant impact on the management of government departments and individual managers.

The importance of performance management is also indicated in the Public Service Regulation, which states that, departments must manage performance in a consultative, supportive and non-discriminatory manner in order to enhance organisational efficiency and effectiveness, accountability for the use of resources and the achievement of results. Performance management processes must link to broad and consistent plans for staff development and align with the department's strategic goals.

Even though there are pieces of legislation for performance measurements, there must be some form of internal control that will assist in meeting legislative requirements. According to Shah (2007:160), internal control is a process that is effected by an entity's legislative body, management and other personnel, and is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

    a.   effectiveness and efficiency of operations;

    b.   reliability and financial reporting, and

    c.   compliance with applicable laws and regulations.

One other method of internal control, as described by Schwella *et al.* (1996:121), is standard working procedure; it leaves no room for making decisions in an unstructured way. One may ask about the objectives of these regulations. Managers are seriously disadvantaged in their efforts to improve programme efficiency and effectiveness because of inadequate information on programme performance (Du Randt, 2000:8). It is obvious that measuring performance is important for the effective management of programmes. By measuring performance and acting on the outcome, the organisation will be:

a. focusing on results not inputs;

b. identifying areas in need of change, currently affecting performance;

c. using the results as a basis for planning and budgeting;

d. using the results to become a learning organisation; and

e. motivating staff by rewarding performance (Du Randt, 2000:8).

Although the PFMA contains numerous requirements with reference to performance management and related aspects (Sections 2.1.1 and 2.1.2), until 2007, limited guidance was provided to different stakeholders to enable them to manage performance (Roos, 2009:58). According to Roos (2009:58), limited support by way of documentation and other mechanisms were implemented within government to assist accounting officers and departments to be able to comply with the requirements of the PFMA. In 2007, the National Treasury released the Framework for Managing Programme Performance Information. According to this framework, plans were initiated by Cabinet in 2004 for a monitoring and evaluation system and subsequent to that the Presidency developed the Government-wide Monitoring and Evaluation (GWM&E) system (National Treasury, 2007:2–4). This framework will be analysed in this chapter.

6.6.1 Financial performance management in the public service

After the implementation of the MTEF in 1998, the focus on performance in the public service shifted from input-based control mechanisms to output-based and outcome-based management (Pauw *et al*. 2002:77). The output rendered by the department comes from the strategic plan of a department directed by the policy priorities of government (Visser and Erasmus, 2002:65). The outputs are defined as measurable objectives while performance indicators and targets are selected from each output to be achieved by the end of a specified period (National Treasury, 2001:37). The outputs are aligned to the provisional budget allocations assigned to a department, through the medium-term fiscal process (National Treasury, 2003:8).

When planning and budgeting for the following financial year, departments compile an operational plan representing the first year of the strategic plan and sets out a route to deliver service for the coming financial year (Pauw *et al*. 2002:103). Various stakeholders deliberate and the final operational plan should be aligned with the approved budget for each main division within a vote. The reason for this is to ensure that the planned services correspond with the funding available to render these services (TUT, 2004:17).

It should be mentioned that planning and budgeting remain a mere forecasting of future events and are subject to change. There are many variables that can influence the execution of a plan hence the introduction of the PFMA by the National Treasury, Treasury Regulations and In-year Monitoring and Reporting Guide to make provision for adjustments to the operational plan of departments. While financial reports must be submitted on a monthly basis to the executive authority and treasury, they should be

complemented by non-financial indicators at least on a quarterly basis (Guide for Accounting Officers, 2000:16).

Performance management, which serves as monitoring and controlling mechanism within the organisation, is strongly linked to financial management. Therefore, legislative bodies can use performance management to measure financial performance of government institutions and this will assist in ensuring financial accountability and responsibility. Financial management is linked to three critical processes, which are discussed in the following section.

a.   Strategic planning

Strategic plans set out what the department intends to do and the funds it will spend in the coming financial year. Without strategic plans, there is no effective operational plan. A strategic plan includes measurable objectives, expected outcomes, programme output, indicators and the targets of its programmes. Gordon (1993:1) views strategic planning as a process by which an organisation attempts to control its future destiny. Cohen and Eimicke (1995:196) define strategy as the basic pattern of current and planned resource deployments and environmental interaction that indicates how an organisation achieves its goal.

Strategic planning and compilation of strategic plans regarding public financial management in the public sector are prescribed in the National Treasury Regulations (2005:15). Chapter 5 of the regulations relates to the aspects that form the basis of strategic planning. Chapter 5 requires the accounting officer to develop a strategic plan for his/her institution as the basis for:

a. planning outputs the institution requires to deliver in order to achieve the programmed objectives/outcomes identified by the executive;

b. multiyear projections of revenue and expenditure which the Minister of Finance is required to table annually in the National Assembly;

c. medium Term Expenditure Framework of the national government;

d. annual reports of accounting officers in terms of the Act;

e. relevant performance standards to be included in the employment contract between the accounting officer and the relevant executive authority; and

f. effective, efficient, economic and transparent use of the resources of the institution in carrying out his/her responsibility.

In terms of the National Treasury Regulations, the accounting officer must ensure that a draft strategic plan for the institution is available to the National Treasury in time for consideration of the Medium Term Expenditure Framework for the relevant financial year. The final strategic plan includes amendments made during the budget consultation process and submitted to The National Treasury and made available to relevant personnel in the institution before the start of the financial year to which the plans relate. Strategic planning will assist the legislative bodies as it is the road map for departments. The legislative bodies will be able to look at measurable objectives from a strategic plan and the finances linked to them.

b. Operational planning

Without this, there is no sensible performance contract. Operational plans should be drafted and submitted, as this will show how institutions intend to spend the allocated funds and their capacity to spend. The primary function of operational plans is to translate the strategic direction derived from the strategic plan into detailed

specifications and provide a framework for achieving the objectives of the spending agency (Visser and Erasmus, 2002:68). Therefore, operational plans are nothing more than the operational plans of spending agencies and they reflect the activities and functions of a department as derived from the strategic plan. As such, the operational plans serve as an extension of the strategic plan at operational level, but with the important distinction that they reflect a particular year of the three cycles of a strategic plan. This is the reason why the annual budget can be linked to an operational plan. Incidentally, the budget serves as the financial components of an operational plan, since an operational plan in itself is not designed to be a detailed exposition of expenditure and revenue (Visser and Erasmus, 2002:68). Furthermore, the plan is meaningless if it is not accompanied by an approved budget through which the objectives can be achieved.

Of particular interest in the operational plan are the key performance areas and indicators containing the following information (Visser and Erasmus, 2002:69-70):

a. activity – listing of programmes, projects and functions;

b. budget – financial implication aligned to each of the functions as identified;

c. outcome(s) – these are listed against each specific programme, projects or function, and should be as far as possible, contain specific outcomes (which can be measured); and

d. performance indicator – by which stated outcomes are determined or measured or evaluated.

The operational plan will assist the legislative bodies as it provides the framework for achieving objectives of the spending agency. Since this plan is linked to the budget, one will be able to know how allocated funds were spent.

c.   Performance contracts.

Section 6.6 stated that performance management serves as a mechanism to ensure accountability and responsibility. Performance contracts, in turn, provide more detailed operations whereby directors-general and other officials are held accountable and responsible for their actions. Without quantified goals in operational plans and the linkage thereof to performance contracts, one cannot have effective financial management. Accounting officers are champions of both strategic and operational plans. The soundness and viability of strategic and operational plans are determined by the approach adopted by accounting officers. For the delivery of an effective and efficient service, operational plans are an excellent basis. However, if they contain unrealistic projects that cannot be brought to fruition, the effects can be serious. Their failure could be for various reasons: costing exercise which cannot fully acknowledge the extent of variables, reliance on unsuitable or unreliable providers of materials, or even resignation of key personnel.

6.6.2   Monitoring and reporting

The PFMA requires the accounting officers (and those to whom managerial responsibilities have been delegated) to regularly monitor and report on their departmental performance against the agreed budget for the year. Monitoring and reporting are a process designed to improve the use of limited financial resources in the delivery of services to communities. The intention is to develop a single process (based on the early-warning system, which has evolved over the past two years) to meet the information needs of managers and satisfy the reporting requirements of the PFMA, as well as the provisions of the Division of Revenue (In year management, monitoring and reporting, 2000:4). Monitoring and reporting provide information and

ensure that evaluation is sound and form the basis for accountability and responsibility as problems will be identified at an early stage and be dealt with.

6.6.2.1   In-year management, monitoring and reporting

The PFMA specifies a variety of reports, monthly, quarterly and annually, with various responsibilities for executive authority and accounting officers. Figure 6.4 illustrates the requirements, which are analysed in this section. As depicted in this figure, the legislature also forms part of in-year management, monitoring and reporting.

Figure 6.4:   In-year management, monitoring and reporting
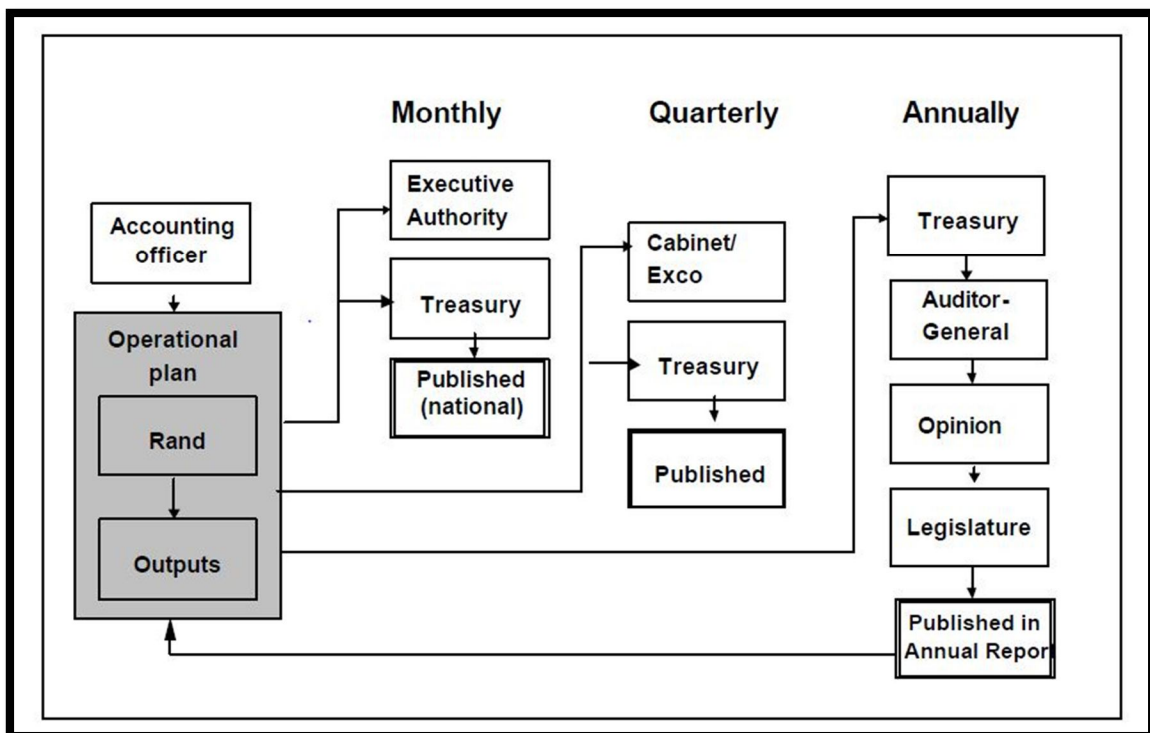
Source: South Africa (Republic). National Treasury. Guide for Accounting Officers 2000. Pretoria: Government Printer.

To ensure timely identification, if there is any deviation from the operational plan, Section 40 (4)(b) of the PFMA requires accounting officers to submit monthly

information on the actual revenue and expenditure of the previous month against the budget to the relevant treasury and the executive authority responsible for that department. Quarterly reports must also be submitted reflecting actual performance against service delivery (The National Treasury, 2000:8). Reports fulfil the role of alerting managers when remedial action is required. The reports are important as they are able, if used correctly, to provide any deviation against the budget and early action can be taken. However, the reports can be manipulated like any other report, and as a result, can provide inaccurate information. They are not without challenges as they can be manipulated and, therefore, provide inaccurate information. It is through these reports that the legislative bodies will be able to exercise control and provide early warning of overspending and underspending.

a.   Monthly reports

According to the National Treasury (2000:20), the accounting officer must submit to the relevant treasury and executive authority information on:

a. actual revenue, expenditure and transfers for that month, in the format determined by the National Treasury;

b. actual expenditure on any conditional grants under the Division of Revenue Act;

c. projections of anticipated expenditure and revenue for the remainder of the current financial year, in the format determined by the National Treasury; and

d. any material variances and a summary of actions to ensure that the projected expenditure and revenue remain within the budget.

The monthly reports presented to the executive authority should contain at least the information given to the National Treasury and they must be complemented by quarterly reports on:

    a. detailed information on the state of finances;

    b. detailed information on corrective measures taken (e.g. disciplinary action);

    c. progress on implementing the PFMA (internal controls, audit committee, clearing of audit queries); and

    d. non-financial information to enable measurement of progress against service delivery indicators also as objective.

Monthly reports are important for the legislative bodies as they provide mechanisms to ensure control. These reports will provide the legislature with information on the state of finances and progress on implementing internal control.

b.   **Quarterly reports**

Quarterly statements are published in the *Government Gazette* by the National Treasury giving details about the revenue and expenditure of each of the 10 revenue funds with actual performance against the budget for each vote. The press, parliamentary committees, non-governmental organisations, the public and any interested party can monitor the department's progress through these reports and accounting officers must prepare themselves for this.

Any information on grants made under the Division of Revenue Act must be reported in terms of the Act. The accounting officer effecting the payment must report the funds transferred to each government entity within 15 days of the end of every quarter to the relevant treasury.

c. Annual report

The accountability cycle is not complete without the production and publication of annual reports. Annual reports review performance and achievement against the plan and budget approved by the legislature at the beginning of the year (National Treasury, 2000:21). Each department must publish an annual report that represents the state of its affairs, its financial result and position at the end of the financial year, and its performance against its predetermined objectives. Any material loss through criminal conduct, unauthorised, irregular, fruitless and wasteful expenditure, and any criminal or disciplinary steps taken as a result of such losses must be included in the annual report.

The department's efficiency, economy and effectiveness in delivering the outputs specified in the operational plan, as well as any other information required by the legislature and the use of any foreign assistance or aid must also be indicated in the annual report.

In terms of the PFMA, the submission time of appropriation accounts to the Auditor-General and the National Treasury is two months and strong sanctions were introduced for delays, which are deemed financial misconduct. It is the responsibility of the accounting officer to ensure that systems and staff are capable of preparing high quality financial statements within two months of the year-end. The Auditor-General must then report to the national Parliament, the legislatures and the National Treasury on the date of submission, and be asked to comment on the quality of data – should this prove to be poor, a charge of financial misconduct may result. In the event that the financial officer submits incomplete financial statements, the Auditor-General will no longer finalise these.

Table 6.4: Reporting responsibilities of the accounting officer

Responsibility	Action required	When	Reference
Unauthorised and other expenditure	Report, in writing, to the relevant treasury (and tender board in the case of irregular expenditure) particulars of unauthorised, irregular or fruitless and wasteful expenditure	On discovery	Section 38(1)(g) of the PFMA
Undercollection or overexpenditure	Report to the executive authority and the relevant treasury any impending: • undercollection of revenue • shortfall in budgeted revenue • overspending of the vote or main division	No specific time stipulated	Section 39(2)(b) of the PFMA
Financial statements	Submit financial statements to the Auditor-General and the relevant treasury	Within two months of the end of the year	Section 40(1)(c)
Annual reports	Submit to the relevant treasury and executive authority: • annual report • audited financial statements • report of the Auditor-General	Within five months of the end of a financial year	S 40(1)(d)
Breakdown per month	Provide the relevant treasury with a monthly breakdown of the anticipated revenue and expenditure for the year	Before the beginning of the financial year	S 40(4)(a)
Actual and anticipated figures	Submit to the relevant treasury revenue and expenditure information for the previous month and the budget for that month	Within 15 days of each month-end	S 40(4)(b)
Projected figures	Submit to the relevant treasury and executive authority: • a projection of expenditure and revenue to the year-end • an explanation of material variances • the remedial actions taken to remain within budget	Within 15 days of the end of each month	S 40(4)(c)
Conditional grants	Ensure all conditional grants and transfers are made in terms of the DoRA or an appropriation Act	Promptly	
Inability to comply	Report to the relevant treasury and executive authority the reasons for	Promptly	S 40(5)

	failure to comply with the reporting requirements		
Other information	Supply to the relevant legislature, treasury, executive authority and the Auditor-General any information, documents or explanations, as prescribed or required	As regulated or required	S 40(1)(f) and 41
Inventory	When transferring assets and liabilities to another department, file a copy of the signed inventory with the relevant treasury and the Auditor-General	Within 14 days of the transfer	S 42(3)
Utilisation of saving	Submit to the executive authority details of the exercise of virement	Within seven days	S 43(3)
Directive that will lead to unauthorised expenditure	If any directive of an executive authority results in unauthorised expenditure, file copies of the directive with the Auditor-General, the National Treasury and, in the case of a province, with the provincial treasury	Promptly	S 64(3)

Source: South Africa (Republic). National Treasury. Guide for Accounting Officers 2000. Pretoria: Government Printer.

Accounting officers have certain responsibilities in annual reporting. Table 6.3 summarises the reporting responsibilities of accounting officers in the context of the annual report. Table 6.3 indicates responsibility, action required and when the action is required.

The accounting officer must also submit the department's annual report with audited financial statements and the Auditor-General report to the National Treasury and the executive authority within five months of the year-end (National Treasury, 2000:23). Annual reports must be finalised within five months of the year-end and this must be ensured by the departments and the Auditor-General. This includes co-ordinating interim audits and ensuring that financial and other records are available and ready for auditing at the end of the year. The reduced timescale enhances accountability and

results in actual figures being available in time to influence submissions to the next budget cycle as indicated by the dotted lines in Figure 6.5. It appears that the accounting officer fulfils an important role in financial reporting. Figure elucidates the reporting responsibility of the accounting officer.

Figure 6.5: Reporting time scales

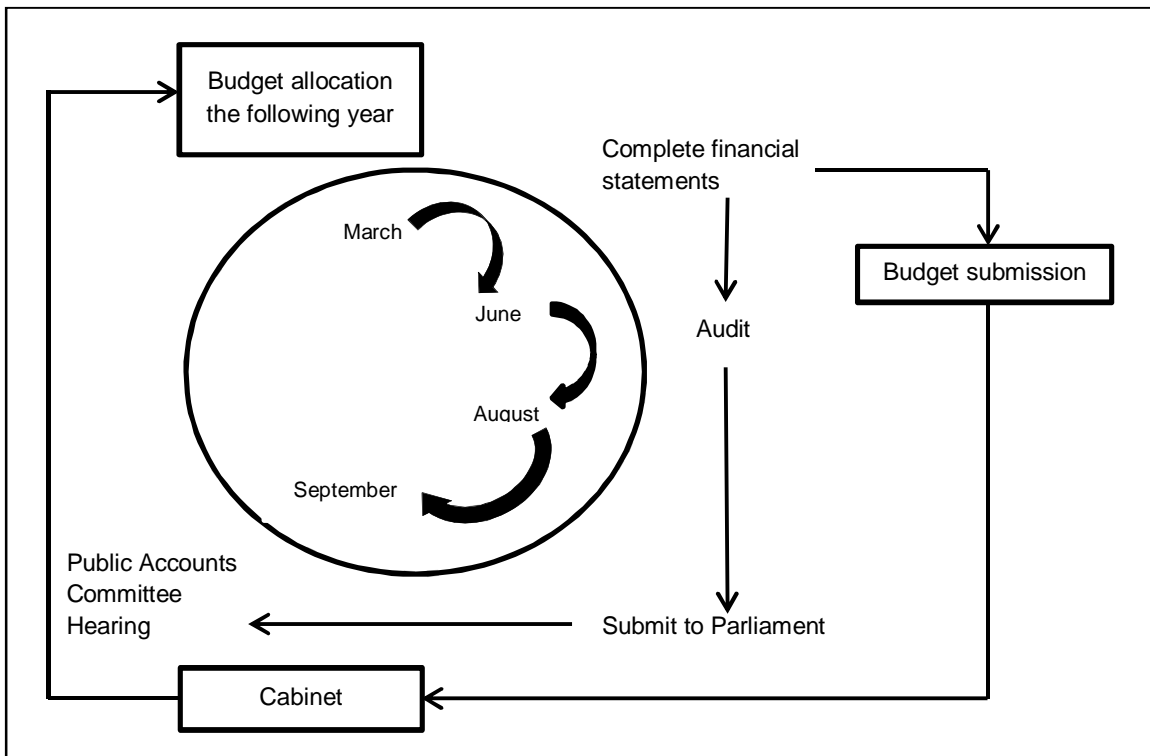

Source: South Africa (Republic). National Treasury. Guide for Accounting Officers 2000. Pretoria: Government Printer.

From what has been analysed so far, it is clear that the legislature is involved in the process of financial reporting and this is one of the tools the legislature can use to ensure financial accountability and responsibility. The National Treasury (2000:23) confirms that the legislators fulfil a significant role in monitoring the performance of accounting officers during the financial year. Audit committees also fulfil an important role in the financial performance and the following section analyses audit committees.

6.6.3   Audit committees

In South Africa, the first King I report on corporate governance in 1994 recommended that all companies establish audit committees and went on to focus on the independence of the audit committee and the value of a strong internal audit function (Brewer, 2001:36). In 2001, the King II report on corporate governance stated that the audit committee should be an important committee of the board, with a strong responsibility to review control systems, including financial controls and risk management systems (van der Nest, 2006:146).

The induction pack for audit committees, National Treasury (2001:2) mentions audit committees as being an integral part of the process of transparency, accountability and improved financial management. This provides the reasons for the existence of audit committees and as a result this becomes a legislative requirement for government. In terms of the PFMA, audit committees are compulsory for national and provincial government departments, as well as for public entities under the control of government.

The audit committee is an important tool in corporate governance and supports accountability and responsibility. The function of the audit committee has been defined in a number of publications such as the Treasury Regulations, (National Treasury, 2003) and the American Bar Association. The composition, functions and operation of audit committees in the South African public sector have been defined in Chapter 3 of the Treasury Regulations (National Treasury, 2003). The audit committee is responsible for evaluating the implemented procedure by management in order to deal with internal control issues (National Treasury, 2003:13). Audit committees are established to fulfil certain functions, which are defined in a multitude of publications

and regulations in countries worldwide. The functions of audit committees are defined in the publication of the American Bar Association (1994:28-29) as the following:

a. to recommend which firm to engage as the corporation's external auditor;

b. to review the external auditor's compensation, terms of engagement and independence;

c. to review the appointment and replacement of the senior internal audit executive;

d. to serve as a channel of communication between the board and both external and internal audit;

e. to review the results of the external audit, management letters and management's responses. The committee must also review reports from the internal audit that are material to the corporation, and also review management's response to these reports;

f. to review the corporation's annual financial statements and any significant disputes between management and the external auditor in this regard;

g. consider, in consultation with the external auditor and the senior internal audit executive, the adequacy of the organisation's system of internal financial controls;

h. to consider major changes and other major questions of choice regarding the appropriate auditing and accounting principles and practices to be followed when preparing the corporation's financial statements;

i. to review the procedures employed by the corporation in preparing published financial statements and related management comments; and

j. to meet periodically with management to review the corporation's major risk exposures.

Departments also have internal audit committees whereby every manager is responsible primarily to maintain systems of internal control, which, according to Pauw *et al.* (2009:163) is fundamental to the management of risks that are significant to the fulfilment of strategic and programme objectives. Internal audit provides an independent, objective assurance that the systems of internal control function as expected. Internal audit brings a systematic, disciplined approach to evaluating and improving the effectiveness of risk management and governance processes.

This chapter so far has emphasised the impact of structures and institutions. Therefore, the assumption is that if one wants to get governance right, one needs to manipulate the structures within which it is presumed to be generated. Institutional arrangements remain important because they determine much of what role the state can actually fulfil in governance. Even so, thinking about governance in a process perspective is important because governance is not so much about structures but more about interaction among structures.

In order to break auditing functions into a more manageable component, Briaotta (in van der Nest, 2005:77) divided the functions of audit committees into three categories. These three categories of the functions of audit committees are as follows.

6.6.3.1   Planning function

This function relates to the committee's own co-ordinated plan on how to achieve its objective of overseeing and monitoring financial reporting and auditing. The plan of the audit committee must include:

a.   a review of the overall purpose and objectives of the entity's overall audit plan in accordance with the committee's charter, and an appraisal of the resources

available for the audit. The review and appraisal must conform to the committee's goals and objectives and must be presented to the board for its approval;

b. a review and consolidation of the audit plans of both the internal and external audit groups; and

c. an appraisal of the corporate audit plan annually.

The planning of the committee should be structured to accommodate the different segments of the audit cycle: the initial planning, pre-audit and post-audit segments (Van der Nest, 2005:77).

6.6.3.2   Monitoring function

Although the audit committee is not operationally involved in the accounting and auditing activities, it must provide assurance to the board that these functions are being performed as required.

According to Briaotta (in Van der Nest, 2005:77), the following should be monitored by the audit committee:

a. the internal audit function;

b. the internal control system and related business risks;

c. financial reporting disclosures;

d. conflict of interest, ethics and fraud;

e. corporate prerequisites;

f. corporate contributions;

g. information technology systems; and

h. other tasks as requested by the board.

The committee may, in these monitoring activities, retain the necessary expertise when required. Therefore, the question can be asked whether these committees are assisting in providing the legislature with information to exercise an oversight over financial accountability and responsibility. Despite all these, the financial management in the public sector remains challenged.

6.6.3.3   Reporting function

The third function of the audit committee is the reporting function. The audit committee should report directly to the board of directors and not to the chief executive officer. However, this differs in government departments where the audit committee will report to the head of the department (accounting officer).

The audit committee must provide a formal report which contains a summary of its findings and recommendations. In the South African public sector, the chairperson of the audit committee must write a report that will be included in the annual report of the specific government department (National Treasury, 2003).

It is clear that the audit committee has become crucial not only to the audit process, but also to the pursuit of good governance and corporate accountability. Section 77 of the PFMA outlines the composition of the audit committee, which states that the audit committee must consists of at least three persons of whom, in the case of a department:

a.   one must be from outside the public service;

b.   the majority may not be persons in the employ of the department, except with the approval of the relevant treasury; and

c.   the chairperson may not be in the employ of the department.

Section 77 further states that the audit committee must meet at least twice a year and may be established for two or more departments or institutions if the relevant treasury considers it to be more economical. It is clear from the composition of the audit committee that it is an independent body, which can be a useful tool for the legislative oversight as early warning for the legislature in order to take action in time. The audit committee report and recommendations can be useful for the legislative oversight bodies to exercise their accountability and responsibility. According to Section 3.1.12 of the Treasury Regulations, an audit committee must report and make recommendations to the accounting officer, but the accounting officer retains responsibility for implementing such recommendations.

The above functions are important for accountability as they support governance and the weaker these functions, the poorer the governance and systems are. These functions are the backbone of the legislative oversight bodies. Their absence could lead to poor accountability and responsibility of public finance and ultimately to the collapse of the country.

6.6.4 Government-wide monitoring and evaluation system

In an effort to assist the promotion of accountability and responsibility, the Government-wide monitoring and evaluation (GWM&E) system was introduced. The aim of the GWM&E system is to contribute to improving governance and enhancing the effectiveness of public sector organisations and institutions (National Treasury, 2005:14). The system's objectives are the collection and collation, analysis and dissemination and the application of information on the progress and impact of programmes and initiatives in order:

a. to ensure transparency and accountability;

b.   to promote service delivery improvement;

c.   to ensure compliance with statutory and other requirements; and

d. to promote the emergence of a learning culture in the public sector, (National Treasury, 2005:14)

The public sector delivers services essential to the well-being and development of the nation. To ensure that public service delivery is as efficient and economical as possible, all government institutions are required to formulate strategic plans, allocate resources for the implementation of those plans, and monitor and report the results. Performance information is essential to focus the attention of the public and oversight bodies on whether public institutions are delivering value for money by comparing their performance against their budgets and service delivery plans, and to alert managers to areas where corrective action is required.

In 2004, the Cabinet initiated plans for a monitoring and evaluation system for government, and the Presidency subsequently developed the GWM&E system as indicated in Figure 6.6. Although there are various existing systems gathering valuable information within government, there are also a number of gaps in the information needed for planning the delivery of services and for reviewing and analysing the success of policies (National Treasury, 2007:2). The GWM&E System seeks to enhance the functioning of these systems by describing them and explaining how they relate to each other.

Figure 6.6: Components of the Government-wide Monitoring and Evaluation system
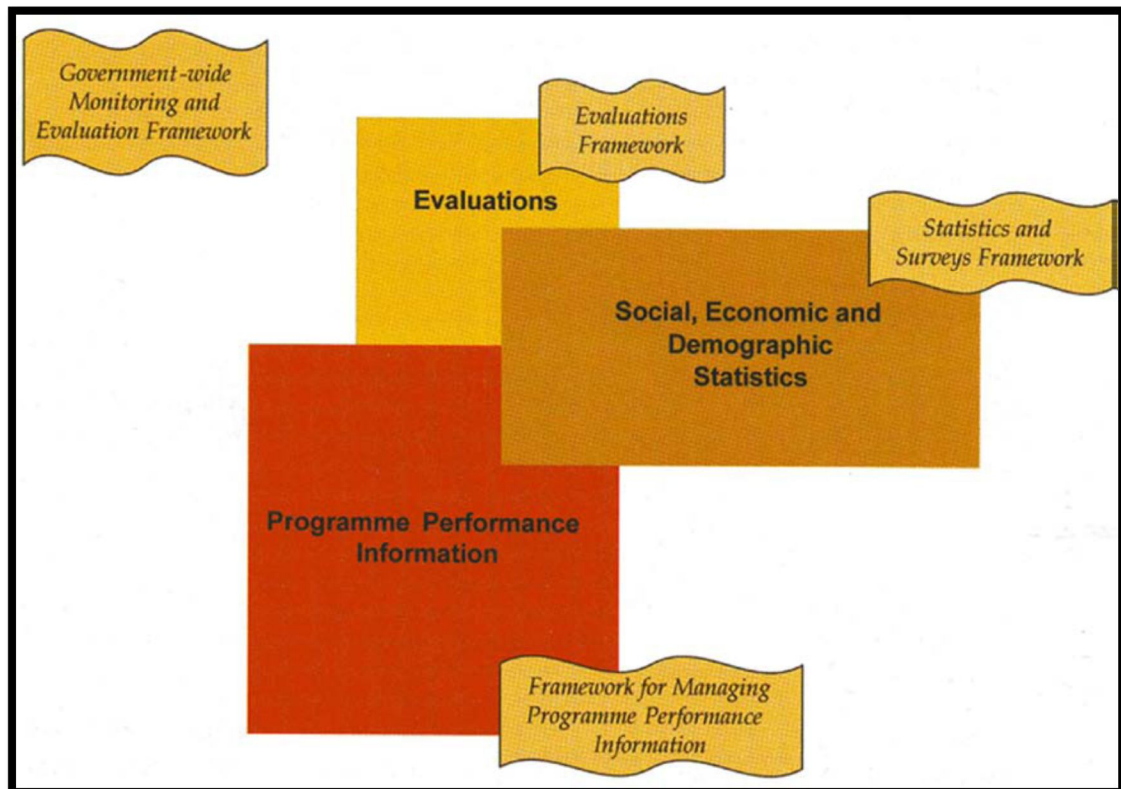
Source: South Africa (Republic). National Treasury. 2007. Framework for Managing Programme Performance Information. Pretoria: Government Printer.

The system as indicated in figure 6.6 has three components (namely:

a. programme performance information, the focus is on information that is collected by government institutions in the course of fulfilling their mandates and implementing the policies of government;

b. social, economic and demographic statistics, the focus here is on information collected by Statistics South Africa through the census and other surveys;

c.   evaluation, the focus of this component is on the standards, processes, and techniques of planning and conducting evaluations and communicating the results of evaluations of government programmes and policies.

The challenge with the GWM&E system is that it does not undertake primary research or data collection itself but rather draws information from a range of other sources. The government's major challenge is to become more effective and the monitoring and evaluation process can assist the public sector in evaluating its performance. This will assist the public sector to identify factors which contribute to its service delivery outcomes.

Although well-known performance models are being implemented and used in government departments, there are still challenges with regard to financial performance. According to a number of Auditor-General reports, unauthorised, fruitless and wasteful expenditure continues to rise in some government departments. Unauthorised expenditure is either the overspending of a budget appropriation, or expenditure not in accordance with the approved budget. A department's approved budget should be based on its operational plan, which represents the upcoming year in terms the strategic plan.

6.7   CONCLUSION

This chapter analysed the legislative bodies and their role in public financial accountability and responsibility. It is disturbing that South Africa is now 18 years in democracy, but parliamentary committees and the legislature face enormous in living up to their increasingly complex role in ensuring accountability and responsibility. The *Constitution* recognises that legislatures have a critical role to play in overseeing better performance by departments and public entities. The absence or lack of accountability

in government departments as seen in a number of reports is a threat to the country's democracy and if not dealt with robustly, will affect a number of developments in the country.

The *Constitution* outlines the oversight powers of the National Assembly by requiring that it must provide for mechanisms to ensure that all executive organs of state are accountable to it and to maintain oversight of the exercise by the national executive authority, including the implementation of legislation. This means that parliamentary committees derive their powers from the *Constitution* and if they are not respected and their recommendations are not carried out then the *Constitution* is not respected.

Bodies analysed in this chapter appear to have little impact. Committees' hearings and recommendations may not have visible or have impacts, but the need to prepare for and withstand scrutiny should not be taken lightly, and this can be a valuable contribution to good governance.

What is needed is a political back-up to identify issues that the executive should account on. The chairpersons parliamentary committees need to pursue an accountability agenda that unfortunately will embarrass the ruling party into doing what it resents, namely accountability to Parliament. Chairpersons will need to push for more powers to hold officials accountable. This chapter also analysed performance management as a tool for the legislature to enforce accountability and responsibility. Performance management if applied correctly by the legislature and those in authority will improve the services provided by the public sector and it will reinforce accountability of role players in the public sector for resources used and outcomes achieved. If performance in the public sector is optimally managed, it will have a positive impact on service delivery, accountability and value for money.

This chapter focused on the role and purpose of audit committees as an integral element of accountability and good governance, operational plans and strategic plans. Business and strategic plans rely heavily on realistic objectives and they are useful for the legislative as they contain measurable objectives. This will assist the legislative body to demand answers if objectives are to be achieved.

CHAPTER 7   CONCLUSION AND RECOMMENDATIONS

7.1   CONCLUSION

The objective of this research was to analyse legislative oversight bodies responsible for ensuring public financial accountability and responsibility and also to assess the current state of the public financial management system in South Africa. It is important to underline that the objective of this research was not to evaluate and score the performance of institutions or any public financial management offices or office-bearers, but rather to assess the capacity of the public financial management systems themselves in order to support sound fiscal policy and financial management. The information in this study suggests that there is an absence or lack of accountability in government departments and this is a threat to the country's democracy, assuming that democracy includes consistent accountability. The problem is not lack of rules, processes or approaches to management but rather the current rules being not observed and lack of enforcement of punitive measures for non-observance.

The state has established government departments to implement its public administration functions. The management of financial resources is found in all government departments and public entities because they all utilise public funds in the performance of their functions and must account to Parliament on how these funds are used. It is against this background that every organ of state is supposed to develop and implement effective financial management systems to manage the finance effectively and efficiently.

Parliamentary oversight bodies have an important role to fulfil in government to ensure public financial accountability and responsibility. These committees are a natural venue for legislative oversight, as they can focus on the discrete policies and programmes

within their jurisdiction. The role of committees such as public accounts and finance committees is becoming increasingly important, particularly in the context of the complex contractual relations of the legislature and the executive. These committees fulfil a major role in oversight as they have the capacity to deal with detailed reports and can request that members of the executive and public servants provide them with the necessary information. Their multiparty nature also enhances their ability to conduct oversight. Nevertheless, the role of committees in conducting oversight is not without problems. Currently, several weaknesses such as lack of powers to enforce their recommendations and revolving membership are hampering their effectiveness. These weaknesses are entrenched in the overall context of the parliamentary and political system and are not easily changed. Each of these factors has considerable effect on the operations and impact of the parliamentary committees. These factors are also intertwined with much larger issues of parliamentary representation and responsible government.

Government increasingly realises the importance of efficient and effective public resource management as a tool for achieving socio-economic objectives, particularly in the area of poverty reduction. However, managing public resources has become much more complex and has to deal with multiple dimensions and there are numerous examples of failure of efforts to resolve the issues, which have created scepticism on the part of the public whether governments have the capacity to deal with these issues. The recognition of the inadequacies of the conventional approaches to managing public resources contributed to the emergence of a new approach generally known as 'new managerialism'.

The new approach is expected to facilitate the tasks inherent in the multiple dimensions of public resource mobilisation and expenditure management, namely macroeconomic

stability and responsiveness, maintenance of financial discipline, transparency, managerial flexibility and accountability for results, financial disclosures, citizen participation and political acceptability. While some of these objectives are of a continuing nature, some are new and reflect the changing fiscal realities. Together, they offer a formidable agenda for public resource management. The issue is whether these objectives can be achieved with the existing machinery of resource management in the public sector.

This research was an attempt to seek an answer to the challenge of legislative oversight bodies in the South African parliamentary system for the purpose of ensuring public financial accountability and responsibility. The basic foundation of this study was to research and evaluate whether there is enough oversight by the legislature for the purpose of ensuring financial accountability and responsibility in the public sector. It appears that despite legislative oversight, public financial management in South Africa faces enormous challenges such as financial maladministration and corruption.

In order to provide an answer to the research question and achieve the research objectives, it is necessary to provide a brief overview of important research findings. Oversight of the executive is indeed the most important function of any legislature. It involves monitoring the activities of the executive to ensure that they are carried out legally, and according to legislative intent. Yet, legislatures face complex challenges in their pursuit to ensure oversight over the executive. It is clear from the available literature and the media that the executives are not always willing partners in the process. This study revealed a number of factors that hinder the oversight role of the legislative oversight bodies and these factors are the following:

a. The turnover rate of members of parliamentary committees such as the Standing Committee on Public Accounts remains a challenge. This poses a threat as there are no consistency and continuity in offices to follow up on matters and ensure that recommendations are implemented by government departments. Committees such as the Standing Committee on Public Accounts interrogate senior members of government departments to get clarity on certain matters and they expect to get feedback at the next meeting. When the next meeting commences, there are new members who are not familiar with the issues and they must be given time to familiarise themselves with the matter. To be effective as a committee, member experience counts and it takes time to become experienced. Continuity and stability of membership are important for the committee's capacity and corporate memory, and committee composition and turnover can make a difference to the information needed. The high turnover rate of Standing Committee on Public Accounts will render the committee less effective. This will not assist the legislature to ensure public financial accountability and responsibility and will be a threat to democracy and good governance.

b. Some parliamentary committees rely on *ex post facto* information as they do not go on fact-finding missions and get first-hand information. The Standing Committee on Public Accounts relies on Auditor-General reports as they do not conduct their own investigations. It is common knowledge that reports can be manipulated and therefore will not provide an accurate picture of the state of public finance. Although parliamentary committees have little influence on the reports, relying on the reports and answers from members of the executive alone could hamper the effectiveness of the legislative bodies to oversee public financial accountability and responsibility.

c. The study revealed that it is a challenge to retain directors-general in most government departments. Most directors-general do not complete their term of office, which is five years. This remains a challenge for effective public financial management as directors-general are accounting officers of their departments. It is also a challenge when directors-general have to face parliamentary committees and cannot answer questions as they are new in the department. It also appears that there are many directors-general in acting capacity. Therefore, without any director-general to verify what is in the report, the work of the legislative bodies is made difficult and this threatens constitutional democracy and governance.

d. One of the secondary research questions in Chapter 1 was: what powers do legislative oversight bodies have? Schoeman and Fourie (2008:802) define public administration as an expression of governmental power that has profound implications for the effectiveness and efficiency of government as it defines the conduct of democracy and shapes the relationship between government and its citizens. One of the means of maintaining this relationship is the oversight role that the legislatures fulfil in holding the executive accountable. Parliamentary committees have powers to summon members to appear before the committees but have no powers to impose their recommendations to government departments. There are punitive measures for non-compliance but they are not enforced. It appears that there is total disregard for financial regulations by government officials and no punitive measures are imposed on them. The key to a successful parliamentary committee is a formal and clearly defined framework for powers and practices. Without this framework, even the most committed chair and committee members will have significant challenges in making sure that the committee is effective, operates with a formal and

clearly defined framework of powers and practices and has the capacity to put those powers into practice.

e. Officials tend to resign once there are allegations of corruption levelled at them and join other institutions or they are suspended with pay and the case takes long to be finalised.

To achieve the objective, this study was divided into seven chapters. The purpose of Chapter 1 was to provide a general introduction and research approach to the study. It included the research problem and aim, the scope of the research, assumptions and research methods. It also introduced the types of methodologies used, significance of the study, limitations and the organisation of the study. The need for this study is highlighted in the fact that despite legislation, the organisational and institutional arrangements for legislative oversight have become increasingly challenged. The progress and achievements of the Government in the management of public finance in South Africa are not promising for a developmental state hence the study was conducted.

The problem statement highlighted that even though endowed with rich oversight bodies, policies and Acts, the state of public financial management in South Africa is illustrated in a number of clean qualified audits. The problem of public financial management, if not resolved holistically, may hamper, rather than assist, government departments with the speedy delivery of service. One of the core issues reflected in the problem statement is the fact that parliamentary oversight bodies have a responsibility to uphold and strengthen the country's democracy by enabling oversight, accountability and governance in public sector finance, thereby building public confidence. The research question "to what extent are the legislative oversight bodies effective in

ensuring public financial accountability and responsibility?" was answered throughout the study and will be emphasised later in this chapter.

Chapter 2 was devoted to the theory of public administration. The chapter analysed public administration in general, the general theories of public administration and the conceptual of P(p)ublic A(a)dministration as both a discipline and practice in depth. The chapter analysed the purpose and the historical perspectives on public administration. The role and purpose of the state in public administration and the environment of public administration was also analysed. The economic role of the state has changed to that of regulator of financial institutions to ensure fair competition and maintain safety and soundness of financial management systems. Public administration functions were analysed and the chapter concluded with an analysis of the development of public administration in South Africa. The chapter suggested that public administration and politics go hand in hand and pure politics and pure administration are nearly impossible.

There is an increase in the number of service delivery protests in South Africa, which indicates that people want to see their taxes being spent appropriately and which forces government to become more accountable. Public administration underlines the relationship between the public administration environment, the generic functions of public administration and management and good governance principles in order to provide the opportunity for enhanced public financial management. Chapter 2 also highlighted public management. It is through public management that policies are implemented to ensure that the principles of public finance are adhered to. This will ensure effective financial accountability and responsibility. Chapter 2 is was important for this study as it analysed public administration and its function and where finance fits in.

Chapter 3 was devoted to the international perspective on public finance. Democracy as an accountable system implies international benchmarking. The South African public financial management system is based on the model of a number of countries. This chapter analysed the public financial management of Australia, New Zealand and Canada. These countries have similar public management systems to that of South Africa and implement similar systems of control. The importance of this chapter was to provide recommendations for the improvement of public financial management in South Africa based on other countries. This chapter seems to suggest that political interference in public administration is not unique to South Africa but it also takes a centre stage in Australia, New Zealand and Canada. Parliamentary committees are experiencing similar challenges as in South Africa. These challenges include the high turnover rate of membership, lack of powers by parliamentary committees to act on individuals and increasing financial maladministration.

Chapter 4 analysed public the finance management system in South Africa. The chapter started by analysing the *Public Finance Management Act,* 1999 (Act 1 of 1999) (PFMA) which is the most important document in the management of public finance in South Africa. The different types of budgeting systems were analysed illustrating the budgetary reform from traditional budgeting, which was an input process and rule bound, to performance-based budgeting. The role players in budgeting were analysed. The significance of the introduction of the Medium Term Expenditure Framework was analysed and the budget review as well as budget policy statement were included in the analysis. The chapter concluded by analysing procurement and its development since government services revolve around procurements and this is where most financial maladministration and corruption occur. It is important to note that financial maladministration on its own does not render public account committees ineffective. This fact answers one of the secondary research questions: to what extent are role

players such as committees on public accounts effective in fulfilling an oversight role? Parliamentary committees are doing what they are supposed to do in fulfilling an oversight role, however, there are many factors that impact on their performance such as high turnover rate, lack of political will and lack of powers to enforce compliance. What is lacking is for the committee's recommendation to be enforced upon government departments.

As highlighted in Chapter 2, one of the functions of public administration is financing. Therefore, public financial management was analysed in terms of the financing functions of public administration and with an understanding that public administration is responsible for an effective service delivery. Without finance, the state will not be able to deliver services in an accountable and responsible manner. The South African Government introduced a number of control measures, which were accepted through a democratic system to enforce public financial accountability and responsibility. Moreover, there are a number of parliamentary committees which have direct or indirect control of public finance and which could ensure that public officials act in an accountable and responsible manner. Therefore, there are means to promote financial accountability and responsibility.

Parliamentarians are accountable to the voters through a system of representative democracy. The key principle of representative democracy is the political responsibility and accountability of the elected political representatives, instead of direct participation by individual taxpayers. It is the political responsibility and accountability of the elected political representatives to govern in the interests of the individual citizens.

The *Public Finance Management Act,* 1999 (Act 1 of 1999) creates a culture of accountability, openness and transparency in the public service and advocates value

for money in the procurement of goods and services. Public institutions can be judged on their ability to deliver services and goods and their accountability. Furthermore, the PFMA aims to improve accountability by requiring that managers take responsibility for their actions and achievement.

In Chapter 4, the budget was analysed as an instrument of legislative oversight to ensure financial accountability and responsibility. A budget states in detail how the available public funds are going to be spent and this makes it possible to measure overspending or underspending. Therefore, the budget provides a point of departure for accountability and responsibility and it is a useful tool for the legislature to enforce financial accountability and responsibility. This chapter concluded by analysing procurement and its development. It was important to include procurement in this study as the government is a large procurer of goods and services. It is common knowledge that most financial misconduct and corruption take place in the procurement process in South Africa. It is, therefore, important for the legislative oversight bodies to use procurement regulations as a mechanism to enforce financial accountability and responsibility. Chapter 4 is essential for this study as it pointed out tools that parliamentary committees can utilise to enforce public financial accountability and responsibility.

While Chapter 4 analysed the public finance management system in South Africa, Chapter 5 examined the theory of governance within public administration particularly elements of good governance. Parliaments are an important component of national governance systems. The key functions of parliaments are legislation, oversight and representation. By fulfilling these roles effectively, parliaments can contribute to the elements of effective governance: state capability, accountability and responsiveness. The chapter defined governance from various angles. This chapter also touched on the

King I and II reports on corporate governance. Accountability and responsibility were analysed where types of accountabilities were provided. Central to this chapter is the comprehensive scrutiny and examination of the PFMA and its regulations. Among other topics, the PFMA and accountability, the PFMA and governance, and institutions of governance were analysed. The chapter concluded with bodies supporting governance whereby it was highlighted that the work of these bodies work is interrelated and they cannot operate in isolation from each other. This chapter is important for the study as it provided an overview of institutions of governance and their role in accountability.

It has become increasingly clear that the success of a country's development initiatives hinges on the country's effective economic policies and good governance as a political imperative with a high value placed on political and social justice and public accountability. Good governance as a relational concept creates a situation where people see themselves as part of the larger society and seek a balance between their self-interest and society's collective interest. The chapter emphasised the elements of good governance as they are important in the public sector. Investors want to invest in a country committed to good governance. Therefore, the absence of governance can destroy the country's economy and its administrative system. Some of the key elements of governance as analysed in Chapter 5 were accountability and responsibility. The PFMA outlines the responsibilities of public office-bearers and how they should be held accountable. The legislature must ensure that those found neglecting government policies at the expense of the public are dealt with. It can be said that accountability in South Africa is not taken seriously. This is evident in the high number of financial maladministration cases and committee reports. The conviction and going to jail of corrupt officers is a positive step in ensuring financial accountability and responsibility.

Chapter 5 also analysed accountability. Public accountability has for many centuries been a central issue in the area of public resource management. Indeed, it has over the years framed the discourse on financial management in government. The renewed interest in public accountability and its attempt to dominate current public debate seem to imply that the normal prescriptions associated with it have not been fulfilled. Such non-fulfilment may, however, be relative in the sense that while public expectations have increased, they have not been met by a corresponding public scrutiny, or that accountability has been less than it should be.

Interest in public accountability may also have been revived for several other reasons. For example, the customary care that the state is expected to provide to its citizens may not have materialised. A state has a duty to take an inter temporal view and build up security for future generations. In countries where governments are heavily indebted, physical assets left for future generations are in disrepair and require massive investment to restore them to full operation, cumulative environmental pollution threatens to reduce life spans despite medical progress, and families find that the value of their savings is eroded by imprudent policies pursued by governments, the security for future generations is likely to be threatened, raising the demand for accountability. Also, where there is lack of legal framework conducive to economic development, the existence of too many procedural layers and regulations that tend to promote rent-seeking behaviour among civil servants, lack of consistency in policies and the inability to identify priorities and implement them, doubts will be raised about governance, which tends to call for more accountability.

Chapter 5 concluded by analysing the turnover rate of directors-general in the South African Government. The study revealed that there is a high turnover rate of directors-general in South Africa and this is a great concern as directors-general are accounting

officers for government departments. It is important to mention that with every new director-general coming into office, new strategies and plans may be introduced, thus subjecting a department to a process of frequent change. It is even more difficult because when a new director-general takes office, the predecessor is no longer in office and there is no proper handing and taking over of office. It is also a challenge for the legislature as proper accountability will not be given by departments, particularly financial accountability. Parliamentary committees produce report after report for departments and recommendations are given where accounting officers have to act on those recommendations. Therefore, it becomes complicated for accounting officers to act on those recommendations when he/she is new in the department. The other disturbing discovery in the chapter was that most directors-general are in acting capacity and it is common knowledge that when people act they hardly take decisive or tough actions as some of them might hope to be appointed permanently in those positions. Although the global trends suggest that South Africa is not unique in turnover rate, more rigorous intervention is required to reduce the turnover rate. This will ensure that there is continuity of office, accountability of public finance will be improved and good governance and institutional knowledge will also be retained.

Chapter 6 focused on the South African legislative bodies and their functions. In this chapter, selected legislative bodies that ensure public financial accountability and responsibility were analysed. The legislative, judicial and executive authorities were analysed. Selected legislative oversight bodies responsible for supporting constitutional democracy as identified in Chapter 9 of the *Constitution* were analysed. There are many legislative bodies in South Africa, however, not all of them are applicable to this study as some of them have no direct role in public finance. Other instruments utilised to ensure public financial accountability and responsibility were also analysed. Parliamentary committees and their role in accountability were analysed and focus was

also given to performance management as a tool to enforce accountability. The chapter ended with an analysis of audit committees and their role and functions as well as the analysis of the Government Wide Monitoring and Evaluation system.

Chapter 6 is important as it analysed clearly the available bodies, relevant legislation and the instruments supporting public finance management in South Africa. The chapter suggested that these instruments alone are not enough but they must be understood by those in authority and applied appropriately. It is disappointing that despite these bodies, legislation and instruments available to ensure sound public financial management, the public service is clouded by financial maladministration. It was indicated in this chapter that parliamentary committees have little or no power to act against those who ignore their recommendations.

The *Constitution* outlines the oversight powers of the National Assembly, by requiring that it must provide for mechanisms that will ensure that all organs of state are accountable to it. Therefore, parliamentary committees derive their powers from the *Constitution* and if they are not respected and their recommendations are not followed, then there is a serious violation of the *Constitution.* Bodies analysed in this study appeared to have little power and what is therefore needed is a political backup. Chairpersons of parliamentary committees will have to pursue an accountability agenda. Unfortunately, this will embarrass the ruling party into doing it resents, namely accountability to Parliament. There are many instruments available for the legislative bodies to ensure public financial accountability and responsibility and if used effectively, public finance can be improved in South Africa.

In the current chapter, conclusion and recommendations will be drawn. Pointers for the future and opportunities for further research will be highlighted.

7.2 RECOMMENDATIONS

This study analysed the international perspective on public finance with an overview of public finance in Australia, New Zealand and Canada. In the analysis of these countries, it was clear that their public account committees form a significant part of the government financial accountability cycle. Their committees are concerned with value for money in the administration of government policy rather than with policy itself, and the committees assist the legislature to hold the government to account for spending taxpayers' money and for stewardship over public funds. These committees help to make sure that the government accounts for its operating policies and actions, and for its management and use of public resources. In addition to the public accounts committees, other oversight processes and legislative committees contribute to a legislature's capacity to hold a government accountable for its spending, including question period, Crown corporation committees and estimates committees.

In view of the study, the following recommendations are provided to improve the work of parliamentary oversight bodies in public financial accountability and responsibility and ultimately to improve public finance:

7.2.1 Performance

The emphasis on performance is expected to contribute to the movement away from the traditional control culture rooted in process controls, inputs, minutiae and a kind of one-size-fits-all approach to one that focuses on conservation and utilisation of resources, which emphasises economy and effectiveness in the delivery of services to the public, and which includes a publicly articulated framework for evaluating performance with reference to explicit criteria, including empirically based bench-

marking. Measuring performance is also a tool to measure financial accountability and responsibility.

A performance-based culture does not evolve on its own. Administrative cultures that have grown over the years are not susceptible to quick and programmed changes. Rather, they evolve themselves through a restructuring of the existing institutions and developing appropriate information systems; and when the procedural and operational changes made as part of the overhaul become ingrained habits and individual responses reflect the new requirements.

The performance management culture that is sought should be rooted in trust (where individuals or organisations are assigned both tasks and responsibilities) and flexibility, so that decisions on resource utilisation and delivery of services can be made closer to the point of delivery. Ensuring the effective implementation of performance management requires not only the alignment of measures and management systems, but also strong leadership and demonstrated commitment. This will assist the legislative bodies to measure financial performance, which will ultimately improve financial accountability and responsibility.

7.2.2 Budget

The concept of budgeting should move away from a narrow view of seeing a budget as an instrument to allocate resources and control expenditure to a broader view of seeing a budget as a tool to promote efficiency, effectiveness and accountability in public spending. The South African sovereign has adopted performance budgeting to improve allocation of public resources and financial management as well as to instil a culture of accountability. This is a mechanism the legislature can use to hold government departments accountable for what they do with appropriated funds.

The budget is an instrument of accountability and there must be a strong link between policy decisions and the budget process. Improving the institutional environment (i.e. rules, customs and incentives) in which the budget and policy process operate will greatly enhance accountability. The budget gives transparency where one will be able to see what is budgeted for and what the spending pattern is.

Budget transparency helps to strengthen government institutions involved in public service delivery to function better. Transparency makes institutions function well by rendering them publicly accountable. Accountability improves their service delivery; transparency helps institutions forge broad coalitions with government and civil society in support of their mandates. Budgeting, therefore, is a useful tool for legislative bodies in ensuring public financial accountability and responsibility as it is easy to measure what is budgeted for against what has been spent.

7.2.3   Strategic plans and budgeting

Strategic plans and budgeting should be used as mechanisms to enforce accountability and responsibility. Poor financial management can be linked to poor planning and budgeting. The link between strategic planning and budgeting should be an organisational process and should be viewed and monitored periodically to check if funds are in line with departmental needs or plans. Departmental funds must be monitored against departmental strategic plans to avoid overspending and underspending.

7.2.4   Medium Term Expenditure Framework

Essentially, the Medium Term Expenditure Framework consists of a top-down resource envelope consistent with macroeconomic stability, a bottom-up estimate of the current and medium-term cost of existing priorities, and a framework which matches these

costs with available resources through an iterative decision-making process. The three key components of Medium Term Expenditure Frameworks are medium-term macroeconomic projections, expenditure estimates for individual spending agencies based on clearly defined output budgeting seeking to improve strategic prioritisation and the efficiency of public expenditure. However, Medium Term Expenditure Frameworks are not the universal panaceas that many have taken them to be. There are in fact few well-established Medium Term Expenditure Frameworks in developing countries. Those that do exist are still evolving. Proper Medium Term Expenditure Frameworks should be established for their intended purpose. The Medium Term Expenditure Framework should make public management transparent and accountable. The Medium Term Expenditure Framework must be used as an expenditure management tool and planning tool by linking budget and policy.

7.2.5   Auditing

Frequent auditing of the executive and the bureaucracy is an indispensable mechanism for achieving transparency about how public funds have been used and what value was obtained from the use of such funds. Taking action on audit findings should be of supreme importance to the legislature and its various portfolio committees. While the quality of audit reports may vary, it is important for the legislature to follow up on audit reports. In these circumstances, support must be provided to the public accounts committees to strengthen the follow up procedures and practices.

7.2.6   Code of ethics

One element of enhancing accountability is to enforce a code of conduct or ethics for professionals working in or with the public sector. Among other things, the code of conduct would ensure competency and diligence, objectivity and independence, trust

and respect in the execution of professional duties. A code of ethics is not only relevant for professionals. It is equally important in all aspects of governance. However, to have a mere code of ethics in place without ensuring full abidance by such a code will have little value. A code of ethics is not a mere statement but a commitment executed towards ethical practices, attitudes and processes. To add value to the world of public administration, adherence to such codes should be inculcated and diligently enforced.

7.2.7   Revolving membership

The study revealed that there is a lack of continuity of office by SCOPA members and this could be a threat to the effectiveness of this committee. Therefore, it can be assumed that other parliamentary committees experience similar problems. While revolving membership is a problem for all oversight bodies, it may affect the parliamentary oversight bodies the most because of their wide range of interests and their sensitivity and complexity. Commitment is needed from political parties in maintaining and supporting these bodies for much longer periods of time. This will allow the bodies to gain expertise and greater integration among themself, which, in turn, may reduce partisan tensions and increase the depth and strength of committee reports. While desirable for all, parliamentary oversight bodies may benefit most given the unique nature and complexity of its responsibilities. It is recommended that the members of committees should serve at least for the term of office of the President or government, which is five years. This will ensure continuity and will lead to much effectiveness of parliamentary oversight bodies. One can attribute revolving membership to lack of commitment. Members of Parliament must show a common commitment across party lines to good governance. They must also demonstrate the understanding of structures and problems rather than a relentless search for guilty parties and maximum political embarrassment.

7.2.8 Powers of parliamentary committees

To be effective, parliamentary oversight bodies should be granted specific authoritative power, and use these powers appropriately. These bodies need more powers to hold officials accountable. For example, SCOPA acts as the custodian of public funds, however, it lacks the authority to enforce compliance of its recommendations. Certainly, the powers of SCOPA as a sub-structure of the legislature are limited to making recommendations to Parliament. Therefore, the power to impose compliance is with Parliament as the public's representative. Despite these powers, there are many instances where departments failed to implement resolutions. The lack of follow-up after recommendations constitutes the 'broken link' in the chain of accountability. Furthermore, the lack of an institution or committee to oversee the implementation of parliamentary resolutions exacerbates the likelihood of departments failing to implement resolutions. These powers will enforce accountability and responsibility of public finance.

7.2.9 Resignation of officials alleged to have been implicated in misconduct

It is a common practice in South Africa that once allegations of corruption or financial misconduct have been levelled against officials, they quickly resign. Officials should not be allowed to resign once there is a case of financial misconduct against them. They should only be allowed to resign once the case is concluded and every cent has been recovered. In other cases, they remain "suspended" but still on the payroll while very little further is done, or only by pressure through other interest groups.

Officials charged with financial misconduct and found guilty should not be allowed employment in any other government department. A system should be created to blacklist them in all government systems for possible future employment. These

officials often resign and take up positions which are more senior in other government departments while there is the likelihood that their corrupt behaviour will continue.

7.2.10   Office of the Auditor-General

The office of the Auditor-General performs its role as the supreme audit institution in South Africa and an independent constitutional body, accountable to the National Assembly. The reports produced by the Auditor-General provide the starting point for investigations by the public accounts committee. The Auditor-General alerts Parliament to problems in financial administration and management in government. The office of the Auditor-General does not investigate or report on all expenditures and activities of government, nor could it, considering the size and complexity of the South African Government. Audits by the office and investigations by the public accounts committee are able to examine but a small sample of the activities of the government, and then only after the event. The audit process is in no way effective simply because it deals with past issues. The knowledge that government expenditures and activities are likely to be audited by the office of the Auditor-General, and may subsequently receive attention from the public accounts committee, serves as a caution and a deterrent, and keeps officials on their toes.

However, the Auditor-General is only one link in the long chain of accountability. Its effectiveness should be increased by the support of the public accounts committee. Ultimately, accountability is to Parliament. The public accounts committee is the body to which Parliament assigns the task of examining the reports of the Auditor-General.

7.2.11 Ministers to appear before parliamentary committees

The major reason of the weakness of the South African system for accountability lies in the failure of the system to ensure that ministers place a sufficiently high priority on their management roles and responsibilities. Ministers should appear before parliamentary committees in their own right to explain and protect their use of their statutory powers and responsibilities for administration. It has the additional purpose of requiring directors-general to take their administrative responsibilities more seriously. At present, some directors-general think so little of their accountability that they send subordinates to answer for them before the public accounts committee. This delegation shows a lack of respect not only for Parliament and the public accounts committee but also for the responsibilities that Parliament has assigned them.

The matters for which director-general will be accountable before the public accounts committee are those for which they and they alone have responsibility. Ministers do not have these responsibilities. Directors-general owe a duty to the law, to Parliament and to the people of South Africa. They should give as much emphasis to this duty as they give to their loyalty to their ministers. The researcher is not satisfied that the present procedures for the accountability of the director-general ensure that they place sufficient emphasis on their obligations and duties, apart from their loyalty to their ministers and the government of the day. The accountability of directors-general before the public accounts committee would not only encourage but demand that they pay more attention, in the public interest, to their duties, to the law and to Parliament.

Accountability is not simply a matter of officials giving an account of how they have used their powers and performed their duties or of allotting blame when something goes wrong. Accountability has an internal or personal dimension, the knowledge that

there are proper and improper ways to act, and that a responsible public office-older should choose the proper ways and avoid the improper. An effective system for accountability would instil that sort of internal awareness into all officials. If there is any question whether a proposed course of action meets acceptable standards, officials should apply one final test by asking themselves: could I satisfactorily defend this before the public accounts committee? Alternatively, since accountability is ultimately to the public, the test could be worded: could I satisfactorily defend this course of action in public?

7.2.12   Public Finance Management Act

It is clear from the study that the results-oriented approach to performance management inherent in the PFMA requires a very different skills complement to the skills profile currently in the public sector. While it is often noted that such skills are unfortunately in short supply in the public sector, it should also be noted that until the promulgation of the PFMA, such skills were never demanded in the public sector. Procedural accountability required only administrators who could comply with regulations. Accountability for results and value for money requires managers with initiative who will effectively and efficiently employ the public resources over which they have stewardship.

The PFMA represents a destination on which all departments will gradually converge, given their initial condition. The departments and public entities should assess the current extent of their compliance with the Act and put in place implementation plans for achieving compliance.

7.2.13 Turnover rate of accounting officers

The collective experiences of other countries and the resultant different approaches that are presented in this study highlight the need for a more rigorous analysis of the challenges and opportunities in the South African system. The international experiences reveal that specific interventions to manage director-general appointments and terminations must be seen in the context of the overall system and not just within the confines of what was and is intended. Although the director-general contract appointment system might have been relevant at a particular point in time, a central focus has to be on whether it is still relevant today, and if necessary, what universal experiences can assist in reshaping the system of the future. Specific aspects of one system cannot be imported into the South African situation without recognising the overall context within which such an aspect evolved and its specific contextual relevance. It is, therefore, recommended that there must be a system in place to retain talent in the public service particularly among the directors-general. Retaining directors-general will assist the legislative bodies in ensuring public financial accountability by ensuring that there are people to account and give answers when necessary.

7.2.14   Appointments of Directors-General

While appreciating the role of the President in the appointment process, a more active involvement when problems do emerge in these executive relationships is needed. A more active role for the Department of Public Service and Administration in the management of contracts and in their renewal is needed. In many countries such as the UK, France, Australia and Japan, the careers of heads of department are managed centrally and are to a large extent removed from direct political control. These experiences appear to be influencing much of the thinking around how the system in

South Africa could be stabilised and managed. Against this background, it is recommended that the appointment of directors-general be removed from the President and be given to the Department of Public Service and Administration.

7.2.15   The overall heads of department turnover system

It is evident from the international experiences that it takes longer to establish and stabilise a system that works optimally for a country. This system is not only moulded around culture and tradition, but also by specific (changing) realities in the socio-political and socio-economic environment of the country. Many systems evolve and change over time due to the changes in socio-economic conditions and, therefore, there will always be a need to re-evaluate and assess the impact of particular approaches and strategies. Given the international experiences and the realities of the directors-general turnover and its impact, the following steps are recommended:

a   Retain the current system while strengthening recruitment and selection processes

The system introduced in South Africa was established in direct response to a career-based closed public service system. As a result of the introduction of the new system, it has been possible to attract individuals from outside the public service into most levels of the administration of departments. The system as established serves to ensure that people with innovative leadership capabilities could be brought into the public service. In addition, the contracting system serves to ensure that there is a focus on performance among directors-general, as their security in the positions and possible contract renewal depend on demonstrating performance.

The position of the director-general carries with it a high level of engagement with stakeholders and hence has political implications for government. Having some level of political guidance and involvement is thus necessary and appropriate. The position of the director-general thus requires people who are able to embody the value perspectives of the new society and are able to engage with the political policies of the government in power. This system thus needs to be strengthened by putting in place rigorous recruitment and selection processes, which will ensure that the best talent is attracted to the public service and that the directors-general appointed have the capacity to understand and engage with political change and political office-bearers.

If correct choices are made at the outset, this will lead to a general reduction in turnover among directors-general and it is possible that serving directors-general will remain in the public service until retirement. Given that these appointments are time bound, the possibility of non-contract renewal will serve as an effective mechanism to encourage higher levels of performance. This system will also ensure that new people can be brought in when externally infused innovation is needed.

b Recruit directors-general for permanent positions in the public service

A permanent public service, with directors-general as a core rank within such a service, will ensure a high level of stability. In such a system, people will be appointed through a rigorous and credible process and on the basis of qualifications and skills. On appointment, they will become part of a senior grouping that can be rotated anywhere in the public service. By appointing correct individuals, departments will have the required competencies of directors-general. Directors-general will have the requirement to serve any appointed executive authority and clearly articulate their policy

perspectives when engaging with stakeholders. The professionalism they will demonstrate will ensure that they can be deployed to any department.

Rather than join a specific department, on appointment, they will join the public service and form part of a leadership core. Entry into such levels will be done on the basis of a competitive evaluation process and only a small number will be accepted to this grouping each year. Application to be a member of such a group can be from within or outside the public service and the entry procedure would be the same. As appointments will be to the public service and not to specific departments, deployment to posts where a director-general is needed will be done centrally in the public service. There will have to be a serious review of legislation for this option and it will require a strategy on how the current group of directors-general could be incorporated into the permanent public service.

c   The use of career public service personnel and rotation of directors-general

In order to create continuity, the system should be open to career public servants for directors-general with no short-term contracts and who will be committed to remain in the public service even after serving as director-general in a particular department. A rotational system would serve to avoid a situation where permanent public servants are discouraged by the reality of moving from permanence to a contract arrangement. Within a rotational system, current public servants would be posted to a different director-general position where appropriate or could return to positions previously held prior to their promotion to director-general positions. As the risk levels are lower for such officials, this will be factored into the director-general salary level established for serving officials.

This option will require changes to legislation or regulations to govern the specific conditions relating to appointments to director-general positions from within the public service. More research for this option is required to alleviate any negative unintended consequences. Future research should also identify weaknesses as far as rules exist, but which are not applied and followed and why this is not done. It should further provide clear ways and means to do so in order to correct these weaknesses.

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