

**Leadership perspectives on service delivery in the South African Public
Service: A critical overview of the public
financial management systems from 1994 to 2004**

by

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DECLARATION

I, Matshidiso John Mabala, hereby declare that this research entitled “Leadership perspectives on service delivery in the South African Public Service: a critical overview of the public financial management systems from 1994 to 2004”, is my own original work and has, as far as I am aware, not previously in its entirety or in part, been submitted at any university in order to obtain an academic qualification and that any references included herein have been duly acknowledged.

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LIST OF ABBREVIATIONS

A-G:	Auditor-General
ACDP:	African Christian Democratic Party
ANC:	African National Congress
AO:	accounting officer
AZAPO:	Azanian People's Organisation
BAS:	basic accounting system
BBBEE:	broad-based black economic empowerment
BEE:	black economic empowerment
CD:	chief director
COSATU:	Congress of South African Trade Unions
D:	director
DA:	Democratic Alliance
DCC:	departmental control committee
DD:	deputy director
DG:	director general
DoRA:	Division of Revenue Act
DPSA:	Department of Public Service and Administration
DWAF:	Department of Water Affairs and Forestry
ENE:	estimates of national expenditure
EOI:	expression of interest
EU:	European Union
EWS:	early warning system
FEDUSA:	Federation of unions of South Africa
FFPlus:	Freedom Front Plus
FIRR:	financial internal rate of return
FMIP:	financial management improvement plan
FMS:	financial management system
FOCC:	financial opportunity cost of capital
FOSAD:	Forum of South African Directors-General
GAAP:	generally accepted accounting practice
GRAP:	generally recognised accounting practice
HDE:	historically disadvantaged entities

HDIs:	historically disadvantaged individuals
HOD:	head of department
ID:	Independent Democrats
IFP:	Inkatha Freedom Party
IMF:	International Monetary Fund
JV:	joint venture
KPA:	key performance area
LOGIS:	logistic system
MEC:	Member of the Executive Council
MF:	Minority Front
MP:	Member of Parliament
MTEC:	medium term expenditure committee
MTEF:	medium term expenditure framework
MTSF:	medium term strategic framework
NACTU:	National Council of Trade Unions
NAFCOC:	National Federated Chamber of Commerce
NCOP:	National Council of Provinces
NNP:	New National Party
NPV:	net present value
OA-G:	Office of the Auditor-General
OECD:	Organisation for Economic Co-operation and Development
PAC:	Pan Africanist Congress
PFA:	Public Finance Act
PFMA:	Public Finance Management Act
PMB:	programme management and budgeting
PPP:	public private partnership
PPPF:	preferential procurement policy framework
PRI:	poverty redressal index
PSP:	professional service provider
ROE:	return on equity
ROI:	return on investment
RSA:	Republic of South Africa
RTC:	regional tender committee
SACTWU:	South African Catering Transport Workers' Union

SARB:	South African Reserve Bank
SCM:	supply chain management
SCOPA:	Standing Committee on Public Accounts
SMART:	simple, measurable ,attainable and reasonable with time lines
SONA:	State of the Nation
STB:	State Tender Board
SWOT:	strengths, weaknesses, opportunities, threats
TBVC:	Transkei, Bophuthatswana, Venda, Ciskei
TOR:	terms of reference
UCDP:	United Christian Democratic Party
UDM:	United Democratic Movement
UIF:	Unemployment Insurance Fund
USA:	United States of America
VAT:	value added tax
WARMS:	water use authorisation and registration management system
WfW:	Working for Water
ZBB:	zero-base-budgeting

Unless otherwise indicated:

Reserve Bank or Bank means the South African Reserve Bank

Constitution means the Constitution of the Republic of South Africa, 1996

Minister means the South African Minister of Finance

Lekgotla (Sepedi/Northern Sotho) and imbizo (Zulu) both refer to a meeting or gathering of people called to discuss topical issues

ABSTRACT

This research focuses on the effectiveness of the leadership roles played by political leaders in guiding the implementation of government processes to attain the required objectives and goals. The Constitution vests the National Assembly and provincial legislatures with the power to exercise oversight of their respective executives in addition to their legislative and other powers. In order to facilitate Parliament's oversight of the national executive organs of state, section 92(3)(b) of the Constitution requires of members of the Cabinet to provide Parliament with full and regular reports concerning matters under their control.

Parliament and the legislatures have a critical role to play in overseeing effective performance by organs of state. Political leadership, through Parliament, ensures that the objectives of the state are always at the forefront of any activities that government departments and public entities engage in. The delivery of services by the government and the reporting of any achievements are also crucial and ensure that citizens know what services the government is delivering.

The challenge facing the government is whether the delivery of services is effectively done and whether people for whom the services are intended do actually benefit from them. This calls for an effective monitoring and evaluation mechanism to determine whether the objectives of the government have indeed been met. Before the monitoring process can commence, effective financial management and reporting systems should be put in place to ensure that the delivery of essential services can be correctly accounted for.

The South African Government has developed a financial management policy, the Public Finance Management Act (PFMA), No. 1 of 1999, the implementation of which is aimed at ensuring effective financial management processes that will help safeguard public resources. Through the oversight process of Parliament, the politicians are able to oversee the government

functions being performed by government departments and public entities through the process of analysing these reports as and when they receive them.

In the exercising of its oversight function, Parliament has been successful in some areas and unsuccessful in others as identified in this report. It is the aim of this report to identify those areas that have not produced good results and to make recommendations on how to deal with these areas in order to produce better results.

CHAPTER 1

RESEARCH PROBLEM AND RESEARCH DESIGN

1.1 INTRODUCTION

The introduction of the Public Finance Management Act, No. 1 of 1999 (PFMA) as a document guiding the effective and efficient management of public resources has intensified the already high demand for financial management training to public servants and politicians alike. At present and ever since the new dispensation came into effect in 1994 in South Africa, many new people have become part of the South African Government, either as public administration officials or as politicians, than was the case before the new dispensation. Due to the lack of exposure in the field of public administration and financial management in particular, as well as the introduction of reforms in the public service, there is a growing need for officials in government as well as politicians to undergo training in the broader area of public administration and management in order to enable them to manage and account for state resources effectively.

“Leadership perspectives on service delivery in the South African Public Service: a critical overview of the public financial management systems from 1994 to 2004” is a research topic that aims to identify and research those leadership issues in the South African public service that have a positive influence on service delivery as well as those that impede service delivery.

Addressing the above research topic comprehensively in this thesis will not be easy as consideration will also have to be given to many diverse issues from different disciplines not directly related to public administration. This chapter will provide the type of research approach and methods which will be used to gather and analyse information that will be applied to test the identified research problem. This includes the choice of a particular research method, as well as an indication of why the particular research method was adopted.

1.2 TYPE OF RESEARCH METHODS

The nature of the problem to be investigated guides the type of research methods to be used, as well as the design of the research. The problem identifies what needs to be investigated while the methods to be used can be regarded as the parameters within which the solutions have to be derived from. The main question to be asked, then, is: how do we proceed with the choice of an appropriate research methodology in addressing the above topic within the discipline of public administration and financial management in particular?

Research methods and approaches differ in as much as they are also influenced by the type of problem to be researched, as well as the area within which the research is being conducted. Research within particular sciences, e.g. social science or natural science, will also determine whether the research should be qualitative, quantitative or a hybrid of the two. There are major differences between the two types of research as can be seen from the following analysis:

1.2.1 Qualitative research methods

Qualitative research, according to Snape and Spencer (in Ritchie & Lewis, 1999:2), is defined as follows:

Qualitative research is a situated activity that locates the observer in the world. It consists of a set of interpretive, material practices that makes the world visible. These practices...turn the world into a series of representations including field notes, interviews, conversations, photographs, recordings and memos to the self. At this level, qualitative research involves an interpretive, naturalistic approach to the world. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or to interpret, phenomena in terms of the meanings people bring to them.

According to the above, it can be concluded that in performing qualitative research, different researchers, having researched the same issue and using the same information, can arrive at different conclusions or opinions.

Snape and Spencer (in Ritchie & Lewis, 1999:2), state that there is a fairly wide consensus that *qualitative research* is a naturalistic, interpretative approach concerned with understanding the meanings which people attach to phenomena (actions, decisions, beliefs, values etc.) within their social worlds. Bryman (1988:8), in his support of the above, states that the way in which people who are being studied understand and interpret their social reality is one of the central motives of qualitative research. This definition by Bryman focuses on some key aspects of methodology as a defining characteristic of qualitative research.

In his doctoral thesis, Phahlamohlaka (2003:81) reports that qualitative research methods were developed in the social sciences to enable researchers to study social and cultural phenomena. In this regard, Phahlamohlaka identifies examples of qualitative research methods such as action research, case study research and ethnography.

While the above definitions of qualitative research hold, some writers define *qualitative research* in terms of what it is not. Strauss and Corbin (1998:11) delineate qualitative research as any research not primarily based on counting or quantifying empirical material. They state that the term 'qualitative research' means any type of research that produces findings not arrived at by statistical procedures or other means of quantification.

Some data collection methods have also been identified with qualitative research, examples of which are observational methods, in-depth interviewing, group discussions, narratives, and the analysis of documentary evidence. These methods derive their results from responses by individuals or from observation of particular activities.

1.2.1.1 Observation

Results from observational methods are derived at after a length of time watching or observing activities in order to determine a particular pattern. Observation is one of the most basic methods of obtaining information about the world. According to Chadwick, Bahr and Albrecht (1984:73), “We all observe at one time and we tend to do it on a regular basis, although the degree to which we do it systematically varies from individual to individual and from setting to setting.” This then makes observation an important method of gathering valuable information to be use in qualitative research.

Chadwick *et al.* (1984:74), state that the observational method has the advantage that it allows the researcher to record behaviour as it occurs, as seen by a disinterested outsider, rather than relying on a subject’s retrospective or anticipatory reports of personal behaviour. These authors state further that as much as there are these benefits, the observational method of conducting research also has its disadvantages in that:

- In observation the basic tools for data collection are the sense organs, although mechanical devices such as video cameras and recorders are often used nowadays. To the degree that observers must rely on their senses, the inadequacies of personal observation must be recognised.
- Selective perception is often a problem. Even the best-trained researcher may produce biased data because of selective perception.
- Senses do not operate independent of past experiences. Consequently, both what is observed and the interpretations attached thereto are influenced by what has previously been seen, heard, felt, and done.

A case study is another research method that falls within observation. With a case study, an observation is made of an existing or past operation or activity as well as the results obtained through that operation. Lessons are then learnt which are used to define and determine possible future courses of action. Case study observations are helpful as learning tools because of their

practical nature and can be used to get a feel of real situations. A case study often involves the observation of behaviour in its natural setting. A researcher's understanding is increased because he or she deals with subjects in their real world, and not in an artificial one created by the researcher.

1.2.1.2 Alternative qualitative methods

With in-depth interviewing, every answer or response to a question is further analysed and followed up with more questions. Group discussions help because ideas from different people bring together different opinions, ensuring that information from many sources is considered. Different people can interpret documentary evidence differently, and this will depend mainly on each individual's particular needs and the purpose for which the information is needed.

1.2.2 Quantitative research methods

Apart from qualitative research methods, there is a research method the results of which are derived from findings based on statistical procedures or any other means of quantification. Phahlamohlaka (2003:82) states that quantitative research methods were originally developed in the natural sciences to study natural phenomena. These methods include laboratory experiments, formal methods (like econometrics), as well as numerical methods such as mathematical frame working.

The quantitative research methods are used mainly when conducting statistical research. These research methods will normally be used to determine the extent to which particular actions are performed or any related results that can be quantified. It is easier to come to an exact answer when using quantitative methods than using qualitative methods which often use incomplete analysis to support a particular end result.

1.2.3 Combining qualitative and quantitative methods

There is extensive debate in social research about whether qualitative and quantitative approaches should, or even can, be combined. Some writers argue that the approaches are so different in their philosophical and methodological origins that they cannot be effectively blended. Others, while recognising the very different ontological and epistemological bases of the two paradigms, suggest that there can be value in bringing the two types of data together. But even within the latter context it is often emphasised that the purpose of bringing different approaches together is to yield different types of intelligence about the study subject rather than simply to fuse the outputs from qualitative and quantitative enquiry (Chadwick *et al.* 1984:74).

Through conducting multiple research methods, the researcher has to confront the tensions between different theoretical perspectives while at the same time considering the relationship between the data sets produced by the different methods. The two methods can be used to supplement and support each other to strengthen the argument being advanced, especially because both methods have both advantages and disadvantages associated with them when used separately.

1.3 CHOICE OF RESEARCH METHOD FOR THIS STUDY

As indicated above, the problem to be researched is an indicator of the research method to be used. Some problems are structured such that a combination of a number of research methods can be used to come to an acceptable outcome. The problem to be researched in this paper relates to the effectiveness of the oversight function performed by the political leadership over the administrative function to achieve government objectives and goals in order to deliver the services of government, with particular emphasis on financial management systems that are used in the Public Service to achieve specific government goals and objectives.

There are different leadership issues, styles, types and methods to consider for this research, the determination of which will require a thorough analysis. The analysis and evaluation of financial systems require an in-depth consideration of what each system is able to achieve and talking to different users as well as observing particular operations and outcomes can attain this. Although different researchers can determine these, using diverse methods, it is argued that, for this research, a qualitative approach could be the most appropriate method to bring about more reliable results.

In this study, the research method conducted, adopted a three-dimensional approach as indicated in Figure 1.1 which is adapted from Wessels and Pauw (1999:395). According to this diagram, there are many qualitative research methods that can be used in conducting research that will result in a qualitative report and only three (as indicated) are considered for this study. The approach for this study considered the history of public financial management systems and leadership processes in South Africa previously and currently in use, a review of the literature by various authors that have written on public financial management systems and leadership processes as mandated through different acts of Parliament and legislation as well as a descriptive analysis of activities as they unfold practically within the South African Public Service. This is discussed below in more details as follows:

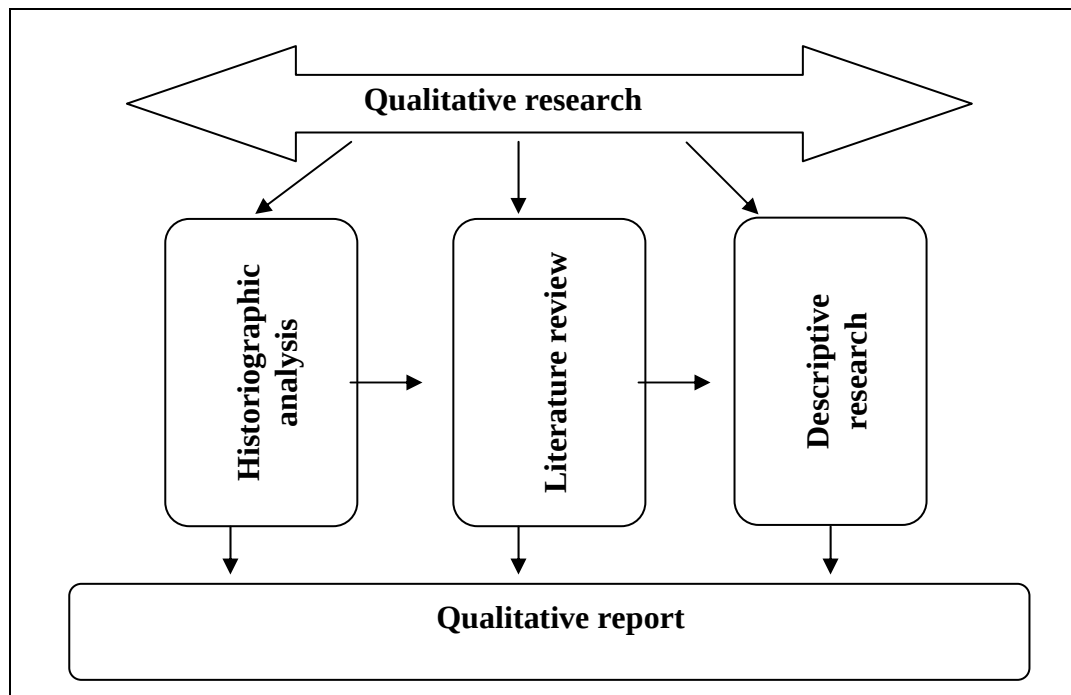
1.3.1 Historiographic analysis

Although the research is based on a ten-year period from 1994 to 2004, an understanding of the origins and operations of budgeting and financial management systems in the public service will help to pave the way for a better knowledge and understanding of why the current South African systems had to undergo reform and be transformed.

During the tricameral parliamentary system (1983-1993), as well as periods before the era of the separate development rule in South Africa, different financial management systems were in operation. These were used to satisfy the particular needs of that time. The adoption of the Westminster

parliamentary system had the effect that even the bureaucracy would be moulded along that particular system. Financial reforms in countries such as Australia, Canada, New Zealand and Britain played an important role in shaping the financial management systems within the South African government and were, therefore, considered in this research.

Figure 1.1: A three-dimensional approach to qualitative research



Source: As adapted from Wessels and Pauw, 1999:395. Reflective Public Administration: Views from the South.

1.3.2 Literature review

The review included books, journals, publications and other material that were found to be relevant to the study. Internally (within government) generated material such as acts of Parliament and Government Gazettes played a major role in tracing the origins of specific processes leading to the current situation in the Public Service.

Literature relating to general public administration and financial management in particular, both within and outside South Africa, were considered and analysed. The findings revealed that governments all over the world have to

deal with the issue of accountability and financial management. This results in reforms being introduced within the South African Public Service to attend to a number of identified shortcomings, especially in the area of oversight to be played by parliament.

1.3.3 Descriptive research

This is research that is conducted based on personal observation of events taking place within identified research areas at given times. Leedy (1989:140) describes *descriptive research* as follows: “To behold is to look beyond the fact; to observe, to go beyond the observation. Look at the world of men and women, and you are overwhelmed by what you see. Select from that mass of humanity a well-chosen few, and these observe with sight, and they will tell you more than all the multitudes together. This is the way we must learn: by sampling judiciously, by looking intently with the inward eye, then from these few that you behold, tell us what you see to be the truth. This is the descriptive survey method.”

As indicated, the South African Public Service is undergoing transformation and a number of reform processes have been introduced. The implementation of these transformation processes were observed and analysed as they unfolded. It is expected that more will be learnt as the processes take effect, either successfully or without success. Because the South African Government applies uniform systems of budgeting and financial management in all government departments, the findings from the practical operations in some areas were considered as equally applicable in the Public Service as a whole.

1.4 TARGETED AUDIENCE

This research is targeted mainly at public sector organisations in the first and second spheres of government, including the political office-bearers as well as the public office-bearers employed in these spheres. This is so because these spheres of government are financially managed in accordance with the

requirements of the Public Finance Management Act, No. 1 of 1999 that assigns specific responsibilities to these public office-bearers to conduct their affairs in a responsible and accountable manner.

The general public is also earmarked to benefit from this research in that the research will provide an opportunity for the public to gain an insight into how government systems are applied to manage the scarce financial resources at the disposal of the government. The general public will also be able to determine the effectiveness of the oversight role played by Parliament.

1.5 PROBLEM STATEMENT

The adoption of a professionally oriented public administration by the South African Government has brought with it the assigning of leadership and management responsibilities to different role-players in terms of the Public Finance Management Act (PFMA), No.1 of 1999. Where, in the past, clarification in terms of the specific roles and responsibilities of political leaders and administrative managers could not be easily given, the PFMA has been able to differentiate between these by spelling out clearly what role each plays.

An important phenomenon affecting the administration of public affairs, according to Thornhill and Hanekom (1995:2), is the relationship between the political head of a state department – the minister - and the top public official in his/her department, especially the director-general. Ministers, on one hand, are normally responsible for the:

- Political direction
- Leadership
- Motivation
- Control
- Management and responsibility and
- accountability

for a particular department of state. They also perform specific tasks in terms of statutes adopted by the legislature, such as the determination of policy programmes. Public managers, according to these authors, usually act as advisors to ministers with regard to technical and political matters, policies and resources management, which means that they have to identify themselves with the policies of the government they serve.

In most governments, the role played by the politicians is that of leadership in the form of developing the mission and vision, as well as the general strategic direction that particular departments have to take. In the South African Government, the leadership role is played by different committees within Parliament as well as departmental ministers who are tasked with the direct responsibility of strategically guiding the individual departments. As stated by Locke (1991:4), the leader specifies the end, as well as the overarching strategy for reaching it. Most of the strategies of different government departments are prepared in consultation with respective ministers and are supportive of the Constitution of the country.

While the above is true in relation to political leaders, administrative managers in the public sector are responsible for the day-to-day running of their institutions' affairs. Locke (1991:4) states further that the manager and subordinates act in ways that constitute the means to achieving the stated end. In short, leaders develop the vision and mission while managers implement those.

In terms of its oversight responsibilities of providing leadership for the effective running of government processes, Parliament has, through its policies, directed that public financial management systems should be introduced that will be able to address issues related, but not limited, to generally accepted accounting practice (GAAP) or generally recognised accounting practice (GRAP), with particular emphasis on accrual accounting. Section 40(1)(b) of the PFMA states that the accounting officer of a department, trading entity or constitutional institution must prepare financial statements in accordance with generally recognised accounting practice. The

purpose of this is to align public financial management with internationally and nationally recognised practices, especially within the private sector and also with the International Monetary Fund policies that play a major role in the funding of most government operations. Government is also required to prepare annual budgets in accordance with a multi-year period of three years. This is referred to as a medium term expenditure framework (MTEF). Although multi-year budgets are prepared, spending thereof still follows that of a single year and this is not bringing in the intended benefits of the MTEF.

Properly designed systems to manage public resources effectively and efficiently are needed to ensure appropriate service delivery by the organs of state. A process to monitor and evaluate the success with which the government is implementing its programmes and strategies to achieve its goals will help to provide that assurance if the process is independent from the organs of state to be monitored and evaluated. Parliament appoints different role-players to provide this assurance, examples of which are the Office of the Auditor-General and different portfolio committees. Through these, Parliament is able to oversee the work of the different organs of state.

Most government departments and municipalities experience problems of spending their allocated budget within the given financial year while some have not been able to prepare their financial statement in accordance with GRAP because of ineffective internal financial management systems, with the result that the Auditor-General has, on a number of occasions, issued qualified reports to those departments.

Given the above and the fact that South Africa is still undergoing transformation, the research question to be addressed is: To what extent does the current parliamentary oversight process in South Africa have an impact on service delivery and effective financial management in the South African public sector towards attaining government objectives of ensuring maximum service delivery?

1.6 HYPOTHESES

The following hypotheses are put forward:

H (Null): The current parliamentary oversight process plays an effective leadership role and has an effective impact on service delivery and financial management in the South African public sector towards attaining the government objectives of ensuring maximum service delivery.

H (Alternative): The current parliamentary oversight process does not play an effective leadership role and does not have an effective impact on service delivery and financial management in the South African public sector towards attaining the government objectives of ensuring maximum service delivery.

1.7 OBJECTIVES OF THE STUDY

Systems of public financial management are key components of public administration, which in turn is an integral part of government. Public administration has transformed and has been modernised in the past number of years as governments all over the world have gone through transformation.

As with other countries, South Africa also went through different regimes and as such, different systems of financial management. The introduction of the tricameral system, the granting of “independence” to some territorial areas within South Africa, as well as the recognition of self-governing states also had implications on public administration in general and on public financial management in particular.

The objective of this study is two-fold; being firstly to evaluate the current financial management systems in use in the South African Public Service to determine whether they meet the new reporting requirements in terms of generally recognised accounting practice as prescribed by the PFMA, and secondly, to determine the effectiveness of parliamentary oversight or leadership in ensuring that the Public Service delivers on its mandate.

This will be done by identifying the functions and responsibilities of government; evaluating the effectiveness of financial management systems used to manage and account for public resources and identifying the leadership roles played by different role-players in ensuring effective oversight and delivery of services to the public.

1.8 LIMITATIONS OF THE RESEARCH STUDY

The study will be conducted within a controlled environment in that restrictions will be made to apply as follows:

1.8.1 Period of review

The research is conducted within a ten-year period, covering the financial years 1994/95 to 2003/04. This period has been chosen to coincide with the ten years of democratic rule in South Africa. It is also assumed that a ten-year period will be reasonable enough to give an indication of the success or failure for a country the size of South Africa with its dynamics during this period. Where statistics are given or mention is made of periods beyond the indicated ten years, this will be done only to put an emphasis on a particular point as well as to show a link between periods before and after the ten year period.

1.8.2 Own bias

It will be important for the researcher to maintain a bird's eye-view of proceedings and be divorced from the activities and happenings within the Public Service if unbiased results are to be obtained as the researcher is currently employed in a government department. To offset this, the researcher will consider literature and government publications that discuss/deal with some of the practical issues under review in government and will make recommendations based on those. Other international methods of addressing

similar issues will also be considered to give support to the results thus obtained.

1.9 SCOPE OF THE STUDY

In Chapter 2, the role and purpose of public administration is analysed. This is done by analysing the role and purpose of the state through the consideration of different functions that the state performs. Because the state does not operate in isolation, the different environments within which the state operates are also considered. This is followed by analysing the different functions of public administration that give valuable support to the operations of government.

In Chapter 3, a historical overview of the financial systems operated in government is given, followed by the identification of financial management systems currently in use within the South African Public Service. Financial management in the South African Government is mandated by national policy that directs how the processes have to be conducted. These political mandates are identified, showing how they affect the operations of managing government finances. The location of different reform processes taking place in the South African Public Service is also identified and analysed.

Chapter 4 analyses the actual implementation of existing financial management systems in the South African Government. This is done by analysing planning and budgeting systems as well as expenditure management and control. Methods of financial reporting and accountability are analysed, including how some of these systems are applied internationally. Practical methods of managing programmes and projects are also determined.

Chapter 5 considers the effect of leadership on the successful implementation of government projects and processes. This is done by defining leadership and differentiating leadership from management. The different responsibilities of leaders and managers are identified, where after methods of managing performance in government are considered.

Chapter 6 analyses the effectiveness of leadership on service delivery in the public sector. The role of the National Assembly in exercising oversight through different parliamentary committees is also analysed.

In Chapter 7, shortcomings that impede the effectiveness of service delivery in the public sector are identified and solutions and recommendations to rectify these shortcomings are provided.

CHAPTER 2

ROLE AND PURPOSE OF PUBLIC ADMINISTRATION

2.1 INTRODUCTION

The late 1980s and early 1990s have witnessed transformation in the public sectors of many developing and developed countries all over the world. The rigid, hierarchical, and bureaucratic form of public administration, which has predominated for most of the twentieth century, is starting to change to a flexible, market-based form of public management. This is not simply a matter of reform or a minor change in management style, but a change in the role of government in society and the relationship between government and citizenry. Traditional public administration, according to Hughes (1994: 1), has been discredited theoretically and practically, and the adoption of new public management means the emergence of a new paradigm in the public sector.

The transformation as observed above has not only manifested itself within advanced countries in the world but also within some less advanced countries as they also start to realise the benefits of a transformed Public Service. According to Peters (1996:2), numerous efforts have been occurring all over the world since at least 1980 and in most industrialised democracies these reforms have originated internally, but in many of the less developed countries they have been imposed by agencies of external aid as conditions of receiving assistance (United Nations Development Programme 1988). International organisations such as the Organisation for Economic Cooperation and Development (OECD), the World Bank as well as the International Monetary Fund (IMF) are known to impose reforms that suit their operations in exchange of giving financial assistance, and, according to De Montricher (in Peters & Pierre, 2003:297), consequently try to influence institutional arrangements, the tendency being to unify guidelines and evaluate national patterns according to a standardised norm of efficacy and efficiency.

In this chapter, a short analysis of the driving force behind transformation in the South African public service will be given; whereafter a description of what constitutes public administration will also be given. Because public administration is performed within the framework of functions of the state, the rationale for the existence of the state or the purpose thereof will be discussed with due consideration to the different roles that the state plays. Governments exist to serve the citizens of particular countries and within this function of serving the citizens, governments interact with individuals and different people grouped together in different formations or environments. These environments will be identified with an indication of how the state operates within them in order to influence or be influenced by them. At the end, the different functions of public administration will be identified, giving an indication of how the state operates within these functions to achieve its goals.

2.2 TRANSFORMATION IN THE SOUTH AFRICAN PUBLIC SERVICE

South Africa, as one of the developing countries, has been undergoing transformation within its administration that has been influenced by political reforms within the country and has resulted in issues that were previously overlooked, like gender equality, general transformation and Black Economic Empowerment, to name but a few, taking centre stage. The White Paper on Transforming Public Service Delivery (the Batho Pele White Paper) lays down eight principles for the transformation of public service delivery. The White Paper also lays down norms to ensure that the Public Service puts the principles into practice. The eight principles that form the basis of Batho Pele and whose effective implementation, according to the Department of Public Service and Administration, 1997, is required for successful delivery of services, are the following:

- **Consultation:** Citizens should be consulted about the level and quality of public services they receive and, wherever possible, should be given a choice about the services that are offered.

- **Service standards:** Citizens should be told what level and quality of public services they would receive so that they are aware of what to expect.
- **Access:** All citizens should have equal access to the services to which they are entitled.
- **Courtesy:** Citizens should be treated with courtesy and consideration.
- **Information:** Citizens should be given full, accurate information about the public services they are entitled to receive.
- **Openness and transparency:** Citizens should be told how national and provincial departments are run, how much they cost, and who is in charge.
- **Redress:** If the promised standard of service is not delivered, citizens should be offered an apology, a full explanation and a speedy and effective remedy; and when complaints are made, citizens should receive a sympathetic, positive response.
- **Value for money:** Public services should be provided economically and efficiently in order to give citizens the best possible value for money.

The result of applying the above principles is that focus has now started to shift away from administration to management. Although the success with which these are being applied is not yet determined, this is seen to be in line with the objectives of the new administration. According to Hughes (1994: 1), this new paradigm poses a direct challenge to what had previously been regarded as fundamental and almost eternal principles of public administration. The first of these was that governments should organise themselves according to hierarchical bureaucratic principles most clearly enunciated in the classic analysis of bureaucracy by the German sociologist Max Weber. The second principle was that, once government involved itself in an area, it became the direct provider of goods and services through the bureaucracy. Thirdly, it was thought that political and administrative matters could be separated. The administration would be an instrument to carry out

instructions, while any matters of policy or strategy were the preserve of the political leadership. Fourthly, public administration was considered a special form of administration and, therefore, required a professional bureaucracy, employed for life, with the ability to serve any political master equally.

Almost all of the above have not materialised or been able to withstand the test of time and contemporary public administration challenges these fundamental principles, hence the continuous re-look into public administration all over the world. Current reforms in the South African public service have resulted in public private partnerships being established between the public and private sectors to jointly deliver required services, and the political head and administrative head of departments are finding more reason to work together on policy and operational issues than was the case before, as well as many officials in government now being employed more and more on fixed term contracts as opposed to permanent contracts.

The financial management part of public administration has been directly affected by reforms brought about and as such, also needed to be re-evaluated. When the PFMA, 1999, was introduced, the questions that needed to be answered were; why introduce the PFMA? and what is wrong with the current operations? In its first PFMA briefing session in 1999, National Treasury listed a number of reasons as to what needed to be improved to bring about effective financial management in the public sector as follows:

- No visible linkage between strategy, policy and resources (budget)
- Lack of performance specification, measurement and accountability
- Accounting and reporting use of cash resources - no discipline for recording and management of other assets and liabilities
- Weak information strategy
- No consolidated financial statements
- Financial systems- legacy and not integrated
- Capacity of financial managers/accountants
- Weak financial management systems and processes

To fully address the above would necessarily need a management that is output-based and a leadership that looks at broad issues and provides appropriate guidance and leadership. Training of officials in relevant skills is a big challenge that will also have to be considered.

2.3 PUBLIC ADMINISTRATION

The activities of the state that are performed in the delivery of essential services are usually identified as forming part of public administration. The term 'public administration' has, therefore, come to be associated almost totally with government bureaucracy. Apart from being an activity and a profession, the term 'Public Administration' also means the study of the public sector.

When answering the question about the origin of public administration, Du Toit and Van der Walddt (1999:22) state that public administration is needed when people work together or perform and achieve something together. Communities used to conclude agreements with a government to ensure an orderly existence in terms of which the government would govern on behalf of the community. The agreement, according to the authors, meant that the freedom of the individuals was limited to a certain extent, but that the accepted government had a duty towards the individual and the community. This duty meant that the government had to promote the interests of the community by rendering common or collective services such as defence, water and health services to the inhabitants. Thus each government, according to the authors, needed public administration in order for it to render these collective services.

Public administration has a long history, one paralleling the very notion of government and the rise of civilisation. According to Gladden (1972:1), some form of administration has existed ever since the existence of governments:

First comes the initiator or leader to render society possible, then the organiser or administrator to give it permanence. Administration, or the

management of affairs, is the middle factor in all social activity, unspectacular but essential to its continuance.

Hughes (1998:23), notes that recognisable administrative systems existed in ancient Egypt to administer irrigation from the annual flood of the Nile and to build the pyramids. According to the author, China in the Han dynasty (206BC to AD 220) adopted the Confucian precept that government should be handled by men, chosen, not by birth, but by virtue and ability and that its main aim was the happiness of the people.

Public administration can, thus, be said to have originated through the realisation by a group of people that they had to work together in an orderly manner for a common cause. It can also be said to be a system used by government to render services in terms of an agreement between it and the community.

The administration of public affairs results from political activities, and forms part of political life (Cloete, 1991:56), and does not only take place in a political environment, but concerns all areas of social life (Hanekom & Thornhill, 1993:180). Effective governments all over the world are run on sound systems of public administration. The past number of years has seen public administration in general undergoing transformation and being modernised in line with changing world trends, needs and requirements of the population at large as well as changes in governance. Public administration provides government with the mechanism to ensure that effective delivery of services takes place. According to Stillman (1976: 269), administration is the most obvious part of government; it is government in action; it is the executive, the operative, and the most visible side of government itself.

Hughes (1994:7), maintains that *public administration* is the use of managerial, political, and legal theories and processes to fulfil legislative, executive and judicial governmental mandates for the provision of regulatory and service functions for society as a whole or for some segments of it. This

definition is very broad and includes almost all conceivable facets of the government sector.

A more precise definition is given by Vocino and Rabin (1981:4) who define *public administration* as the application of organisational, decision-making, and staffing theory and procedures to public problems. The authors define organisational theories and procedures as involving the operation of large bureaucratic networks that get government's business accomplished. Decision-making theories and procedures within public agencies control who gets what, when, and how, while staffing theories and procedures in public agencies determine staffing levels and manage relations with labour unions.

If it can be accepted that public administration has to do with the bureaucracy, then it can be assumed that the state plays an important role in the administration of public affairs. The state exists to satisfy the welfare and security requirements of a country's citizens.

2.4 PUBLIC ADMINISTRATION FUNCTIONS

An effective public administration is performed through a number of functions, which, according to Cloete (1991:2), are the following: policy making, organising, financing, personnel provision and utilisation, the development of work procedures and, the exercising of control measures. These functions are performed by different individuals and groups of people with the purpose of ensuring successful implementation of the aims of the state in its quest to deal with the needs of the communities. These functions are discussed as follows:

2.4.1 Policy-making

In the public sector, the decisions that are normally taken by politicians to guide a particular course of action relating to, amongst others, the utilisation of government resources, usually result in government policy. To this end, 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, the Cabinet Lekgotla, which is a gathering of the President and Cabinet ministers together with the directors-general of government departments, is held yearly in February and July. During this gathering, issues are discussed to guide the government to meet its objectives for that particular year. The decisions made at the Lekgotla tend to guide future government actions and processes and as such, become government policy when implemented. After the Cabinet Lekgotla, every government department is expected to identify issues raised at the Lekgotla affecting its activities and then work out strategies and mechanisms of addressing them, according to the Government Communication and Information Services' (GCIS) official publication that reports on issues that the Cabinet Lekgotla addresses, (<http://www.info.gov.za/speeches/2005>).

The activities of the state are aimed at attending to specifically identified objectives or goals. In order to meet these objectives, an indication should be made in terms of what is envisaged, how action shall take place, who shall act, when action will take place and what shall be dealt with, according to Thornhill and Hanekom (1995:55).

Government policies are not only determined at Cabinet level, but are also determined by each individual minister in charge of a particular government department in order to guide the general activities of that department in the regular execution of its functions. Many activities and functions of government overlap amongst departments and this requires of them to ensure efficient management of the execution of those activities.

2.4.2 Organising

Once the objectives of the state have been determined and policies and plans devised, the implementation process should take place. Implementing government objectives requires the availability of resources, mainly human,

financial and physical resources. Having identified the resources needed to implement the objectives, the managers have to draw up a framework or organisational structure indicating how the human resources will be applied to achieve the objectives.

Organising normally includes the scientific structuring of an organisation to implement the plans. The organising process should take into consideration the differing needs, available resources as well as human resource capacities. In organising, the manager establishes structures (units and positions with assigned authority and responsibilities) and procedures for coordinating activity and taking action, (Allison in Lane,1990:20).

2.4.3 Financing

Financing relates to the function of availing financial resources to an organisation's operations. The financing of government operations is normally the responsibility of the Minister of Finance, acting in conjunction with Cabinet. This entails, amongst others, raising funds through taxes, the raising of loans nationally or internationally, the selling of government stock as well as by attracting donor funds. The funds so received are normally earmarked and applied for specific purposes, like capital projects. In South Africa, part of the financing function of the National Treasury, of which the Minister of Finance is a member (Section 5 of the PFMA,1999 as amended), is to ensure, through its monitoring process, that the funds provided are utilised effectively and are accounted for.

To ensure the effectiveness of the financing function, the National Treasury has developed Treasury regulations that are amended regularly in line with any amendment of the PFMA to guide government departments, public entities and constitutional institutions on the best management of public resources. To give effect to this, new financial management and reporting systems are continuously being developed to move away from those systems that are based on the old Exchequer and Audit Act, No. 66 of 1975. As the PFMA, 1999 is gradually being implemented and amendments made, some of

the existing financial management systems will have to be further evaluated for effectiveness and appropriateness and where needed, be further developed to meet new reporting requirements.

2.4.4 Personnel provision and utilisation

With *personnel provision* is meant the function of availing human resources to implement or put into operation the political decisions that have been taken to achieve predetermined government goals. The operations of providing personnel and setting them to work, i.e. the staffing of public institutions, constitute an extensive field of work and involve many separate activities, including, but not limited to, attracting personnel and ultimately managing their performance.

The staffing function is, according to Cloete (1998:213), also known as the personnel function, personnel administration or human resource management and the separate staffing activities within this function must be performed by officials with appropriate skills. This is necessary because the success of the administrative function depends, to a large extent, on the availability of appropriately skilled officials. These appropriately skilled officials must also be utilised effectively to achieve the required results.

2.4.5 The development of work procedures

The *development of work procedures* refers to the “what” and “how” parts of the implementation process. Cloete (1998:248) states that “after policy has been formulated, the organising and financing functions have been completed, and personnel members have been appointed, the work can commence”.

The work procedures prescribe specifically what needs to be done and how it has to be done to meet the requirements or goals. Work procedures can also be likened to specific plans or methods that have to be devised to perform tasks when one is confronted with completely new tasks.

The introduction of new financial systems will also require the development of new work procedures or methods to meet reporting requirements as advised through the PFMA, 1999 as amended. It is, therefore, necessary that a clear understanding of what is to be achieved should be determined before the work procedures are developed.

2.4.6 The exercising of control measures

Once legislation has been passed to give effect to policies, the organisational arrangements have been completed, funding provided and personnel appointed to implement the policies, control measures have to be put in place to ensure effectiveness and accountability. The PFMA emphasises the importance of control, especially where financial resources are concerned. Section 39 of the PFMA, 1999 lists accounting officers' responsibilities relating to budgetary control, making it an obligation for the accounting officer to comply with those responsibilities.

The above functions are necessary for the effective implementation of government policies which, when properly administered, can lead to the effective delivery of services by the state. It follows then that the state should lay the foundation for these functions to be performed.

2.5 ROLE AND PURPOSE OF THE STATE

The proper role of government is the subject of a never-ending debate. A large part of this debate concerns the many questions on the kind of activities that government has to undertake and how comprehensive these activities have to be. Gildenhuys (1993:4) states that the original approach to the obligation and related activities of the state apparatus emanated from the *laissez-faire* idea under which governments were expected not to intervene in the private, economic and social activities of the individual citizen. Governments were only expected to maintain law and order and to protect the life and private property of the individual. According to this system, the social and economic activities of individuals were left to be controlled by a system of

free association and a free economic market, while differences and disputes between them were settled by independent courts of law according to common law principles.

The above could not be sustained and governments have more and more engaged themselves in quite a number of activities, depending on the type of government system applied. According to Thornhill and Hanekom (1995:1), the function of government, with its complicated network of executive institutions, is to deal with all facets of public service and their concomitant administrative problems. In South Africa and other countries, different government departments and parastatals perform different activities on behalf of the state. The public sector, through its operations, affects the way the economy is run and thus, also the lives of the society in general, either directly or indirectly.

In mixed economies, there must be some demarcation between those activities that fall within either the public sector or the private sector. Those in favour of, for example, the market system because of its perceived benefits, will support the state adopting a minimum regulatory function in the running of a country's economy. These are the people who believe in the model of the free market as the basis for a more dynamic economy and argue that governments are currently involved in activities which are inappropriate and that the size and role of government must drastically be cut back. Hughes (1994:88) states that the current debate on the role of government mainly concerns its economic aspects: should it provide the goods and services it does, or should some be handed to the private sector? Should it subsidise or regulate to the extent that it does?

The same debate as the one above has also been taking place in the democratic South Africa since 1994 and some of the reforms introduced thereafter have been the result of this debate. South Africa has seen the unbundling of state enterprises such as Eskom, Telkom, the forestry part of the Department of Water Affairs and Forestry as well as the South African Railways. This was to ensure that the state is left with what it can operate

efficiently and effectively. This can be argued to be a realisation by government that it was inappropriately engaged in what it should not be engaged in.

Gardner (1978:3), in trying to identify the specific activities or responsibilities that belong to government, suggests two approaches to dealing with this issue, namely, the positive approach and the normative approach. According to Gardner, the positive approach accepts the fact that governments exist. Through this approach, different specific governmental activities can be identified. The approach attempts to explain why governments do what they do and tries to develop models that assist in predicting how governments will respond to different events under various circumstances.

The normative approach to a definition of the role of government begins with some idea or image of how the activities of a society ought to be structured and organised and then develops a picture of the activities that government should carry out in this ideal or preferred set of circumstances. Most governments are established along the normative approach.

As stated above, the responsibility for providing services such as welfare, protection, defence, health, security, education and maintenance of roads normally resides with government because private companies provide them at a cost that is usually higher than what the citizens can afford.

While the above holds where government is engaged in the provision of goods and services, the role of government is not, as Walker and Mengistu (1999:1) observe, limited to the provision of goods and services only. Government creates the environment within which economic growth can generate jobs, and through which the living standards of the population can be raised. Government provides the regulatory and legislative framework in which all sectors of the economy conduct their business. The role of government can thus be said to be broad, but deals with many issues related to the protection, promotion, support and maintenance functions.

2.5.1 Protection function

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 South African Constitution, 1996, the state must respect, protect, promote and fulfil the rights as stated in the Bill of Rights. The same 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 protection function can also be extended to that of natural resources also because human beings and animals depend on the environment for their existence.

For example, the protection of the environment is promoted in terms of the National Veld and Forest Fire Act, No. 101 of 1998, that has been promulgated to create a framework to prevent and combat veld, forest and mountain fires throughout the country and thereby limit and reduce the damage and losses caused by fires to life, fixed property, infrastructure, fauna and flora and veld in South Africa. The protection of indigenous forests and plantations is promoted in terms of the National Forests Act, No. 84 of 1998 which ensures that South Africa's forest resources are protected, used, developed, conserved, managed and controlled in a sustainable and equitable manner, for the benefit of all.

2.5.2 Maintaining or ensuring the supply of essential resources

It is the responsibility of government to ensure that there is adequate supply of essential resources such as food, water and shelter to its citizens. Although some of these are shared with the private sector, the responsibility of the state cannot be delegated. While performing this function, the state also has to put in place laws and regulations to regulate the supply of the above essential services. The state performs its regulatory function by introducing monetary and other policies, as well as implementing and monitoring these through its many government departments and institutions as indicated. It plays a

regulatory function by, e.g. legislating and enforcing laws of contract, consumer protection and justice, in order that the market economy may function effectively. The market mechanism has, on its own, been found to be inadequate to solve the equitable allocation of resources.

In South Africa, as an example, labour laws are monitored by the Department of Labour while environmental laws are closely monitored by the relevant Department of Environmental Affairs and Tourism. The regulatory function played by the Department of Water Affairs and Forestry through the establishment and implementation of provisions within different processes of legislation such as the National Water Act, No.36 of 1998 and the Water Services Act, No. 108 of 1997, ensures that the quantity and quality of water that can be accessed and used for different purposes is effectively managed for the benefit of all citizens within the country. This is done to ensure that no individual or a selected group of people can personalise and enjoy water as a natural resource to the exclusion of others.

2.5.3 Supporting persons who are unable to care for themselves

The state has a responsibility towards its citizens to ensure that their welfare is promoted. This is done by promoting 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 government 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.

The economic condition of any country is important for the well being of the society in general. There are a number of maladies that are a direct consequence of the way a country's economy is performing. The effects of unemployment are not felt only by the unemployed themselves, but also the entire population gets affected. Poverty could lead to unrest, infighting, theft,

sickness and other ills which could be associated with an unstable environment.

The South African Department of Social Development plays 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.

2.5.4 Promotion function

Governments at all levels have long undertaken to promote, amongst 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 citizenship, including physical education.

Governments promote scientific and technological advancement and regulate its applications. The protection and publication of patent rights is one method of ensuring that the scientific and technological advancement efforts of individuals are recognised.

Because the fully “free” market economy does not exist, the state has found itself having to develop intervention policies to promote issues like employment, domestic and international trade, as well as supply and credit policies. Johnson (2004:6) states that stimulating private economic investment has emerged as a central goal of states and cities and a political measurement of performance. The state promotes steady and balanced economic growth through its fiscal, monetary and economic roles, and these are analysed as follows:

a) Fiscal role of government

The fiscal role played by the government at any particular time is a composite of past and current decisions embodied in many diverse spending and tax programmes. Economists and society's views of the role of the state in the economy have changed remarkably in the past number of years. Because of this, public institutions and the government's involvement in the economy have changed as well. According to Tanzi and Schucknecht (2000:6), spending by government has increased considerably in most European countries since 1870. Although this increase has not been equal in all countries, it is nevertheless remarkable that the growth in public spending has been a general phenomenon despite the considerable institutional differences and geographic and language barriers that have existed amongst industrialised economies. This increased public spending, according to Tanzi and Schucknecht (2000:6), has continued up until 1980 when it started to grow at a slower rate.

In South Africa, government spending has followed the same pattern of growing gradually over the past few years since the democratically elected government came into being. An analysis of government spending in national departments during the financial years 1995/96 to 2001/02 shows that there has been a sustained increase in government spending. According to the Department of State Expenditure's (now the National Treasury) National Expenditure Survey (1999:13), total government spending in the financial year 1995/96 was R151 831 000 000 as compared to R247 250 000 000 in the financial year 2001/02, an increase of 61,41 percent (Table 2.1 below).

Table 2.1 National Budget spending: 1995/96 to 2001/02

Financial year	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Spending (R 000 000)	151 831	176 291	190 607	204 293	216 780	230 722	247 250

Source: National Expenditure Survey: Department of State Expenditure (1999:13)

One of the roles and functions of government is the provision of goods and services to the country's citizens. To enable government to provide these services, financial resources are needed. Government finances its expenditure from a number of sources, including, but not limited to, own revenue, borrowing, and the selling of its stock as well as from raising taxes. The fact that these funds come at a cost has the effect that they should be effectively managed and carefully utilised. A careful decision on how much to spend, where to spend it and what to spend it on is a continuous challenge facing government. Funds received through borrowing are normally charged interest, while raising the level of taxation is not popular with taxpayers. The selling of government stock alone will not bring the desired financial resources and as such, it needs to be supplemented.

The fiscal role of government is best described through a policy that takes into consideration the level and composition of government spending and taxation. This is referred to as fiscal policy and in South Africa it is driven by the Department of Finance. The main instrument of fiscal policy is the budget. In South Africa, the main budget is the responsibility of the Minister of Finance who presents his budget to the Parliament yearly (usually in March), outlining how government proposes to fund its expenditure for the ensuing financial year that starts at the beginning of April and ends at the end of March the following year. Through the fiscal policy, the Minister is able to demonstrate how government influences demand management of financial resources.

Mohr, Fourie and associates (2000: 451) state that the budget is essentially a reflection of political decisions about how much to spend, what to spend it on and how to finance it. Government uses the allocation policy to allocate the budget among different needs. According to Hughes (1994:85), the budget sets out both the overall level of government activity and specifies which activities are to be carried out publicly rather than privately. The allocation function refers to the role of government in achieving an efficient allocation of resources. Bailey (1995:19) refers to this as the allocative efficiency or the “first best” allocation of resources. The existence of the problem of scarcity makes it crucial for government to ensure that resources are allocated for the benefit and satisfaction of the society’s needs in general. The root of the allocation question lies with the basic economic proposition that wants exceed the means available to satisfy them, so that choices must be made about which wants will be satisfied and which must remain unsatisfied. Government also has to deal with market distortions caused by monopoly power and other forms of market failure.

Through the fiscal policy, government is able to stimulate economic growth and employment, redistribute income, control inflation and deal with issues related to the balance of payments. According to Collinge and Ayers (2000:294), the government’s regulation of the business cycle through the fiscal policy has long been advocated by John Keynes through his writings in 1936. Currently, the proponents of the Keynesian theory still support the notion that when the economy is in recession, increased government spending could be used to stimulate it while taxes could be used to cool the economy down during boom times. In South Africa, both the Minister of Finance and the Governor of the Reserve Bank have used the fiscal policy to influence the economy, like authorising increased government spending, reducing the repurchase (repo) rate, as well as reducing or increasing the tax rate. Depending on the state of the economy at a particular point in time, the above as well as other mechanisms are used to influence the economic operations of a country either negatively or positively.

b) Monetary role of government

Government plays the role of regulating the flow of money within a country. In South Africa, this role is played by the central bank, commonly referred to as the South African Reserve Bank (SARB) and which, according to section 223 of the Constitution, 1996, is regulated in terms of an act of Parliament. The Act of Parliament referred to here is the South African Reserve Bank Act, 1989, (No. 90 of 1989).

The South African Reserve Bank (SARB) is the central bank of South Africa, which, according to the South African Reserve Bank Act, 1989, (No. 90 of 1989), as amended, was established by section 9 of the Currency and Banking Act, 1920, (No. 31 of 1920). The objectives of the SARB are stated in both the Constitution, 1996 and the SARB Act, 1989 as follows:

- (1) The primary object of the South African Reserve Bank is to protect the value of the currency of the Republic in the interest of balanced and sustainable economic growth in the Republic (sections 3 and 224 of the SARB, 1989 and the Constitution, 1996 respectively).
- (2) The South African Reserve Bank, in pursuit of its primary object, must perform its functions independently and without fear, favour or prejudice, but there must be regular consultation between the Bank and the Cabinet member responsible for national financial matters (section 224 of the Constitution, 1996).

The South African Reserve Bank is responsible for, amongst other things, the implementation of a monetary policy in South Africa. As the country's monetary authority, the Reserve Bank, according to the Banks Act, 1990, (No. 94 of 1990), has the following main functions:

i) Issuing of bank notes and coins

The issuing of bank notes and coins is the sole responsibility of the South African Reserve Bank and it is a process that is largely guided by the public's cash requirements.

ii) Acting as banker for other banks

In performing this function of acting as banker for other banks, the South African Reserve Bank keeps the minimum reserves that banks are required to hold and which form part of the monetary base that the banks can use to create the demand deposits.

iii) Acting as banker for the government

The Reserve Bank is currently the main banker for the South African Government. The Bank grants credit, deals with the weekly issues of Treasury bills on behalf of the Treasury, advises the government with regard to monetary and financial matters and is responsible for the administration of all exchange control regulations.

iv) Acting as custodian of the country's gold and other foreign reserves

The Reserve Bank, according to Collinge and Ayers (2000:317), keeps all the country's gold and foreign exchange reserves, except for the necessary balances held by commercial banks and the Treasury.

v) Formulating and implementing monetary policy

The Reserve Bank makes use of the instruments of monetary policy to address monetary problems. Monetary policy can be defined as the measures taken by the monetary authorities to influence the quantity of money or the rate of interest with a view to achieving stable prices, full employment and economic growth. Monetary policy, according to Tribe (2005:205), uses changes in interest rates, and thus the cost of borrowing, to influence the economy.

c) Economic role of government

In a free market economy, it is accepted that the market forces play a dominant role in terms of guiding the economic activities of a country. The assumption made is that the consumers know what they want and they constructively and efficiently find ways of satisfying their individual needs. This has the implication that the role of government is limited and it only intervenes minimally. The economic system of South Africa is a mixed one because there is no single system that is being used exclusively, but a combination of a number of systems. Cronje, Le Roux, Reed, Van Helden and Van Schoor (2000:97) note that South Africa implements a combination of the command mechanism, tradition and market economic systems to manage the economy of the country. Although these systems are not always simultaneously utilised, there is an element of any one of them being in operation either on its own or in combination with the others.

Because there are no perfect free market economies, government intervention will be necessary to address economic responsibilities that are not catered for by the market system. In this respect, Gardner (1978:3) identifies three general economic responsibilities of government, which are:

- (1) the responsibility to ensure a high level of utilisation of the resources of the economy ("full employment") and a stable level of prices,
- (2) the responsibility to ensure that the distribution of income amongst the individuals who comprise society is satisfactory or acceptable, and
- (3) the responsibility to ensure that the resources of society are used efficiently for the satisfaction of the wants of the people in the society.

The government performs the above through its instruments or functions commonly referred to as the enabling, stabilisation, distribution and allocation functions.

i) Enabling function of the state

For the economy to perform well, the intervention of the state is needed. Through its regulatory function the government is able to stimulate the economy and ensure the protection of those that cannot survive by themselves. The private sector needs the state to ensure that fair competition prevails. The government uses its economic policies to stimulate the economy, but also to protect the wealth of the country from foreigners. Some of the enabling roles that the state performs in a number of ways are indicated below:

ii) Stabilisation function

At the macroeconomic level, market systems tend to experience phases of rapid economic growth (called booms) followed by periods of economic decline (called recessions). This phenomenon, according to Mohr *et al.* (2000:434), is called the business cycle. The stabilisation function refers to monetary, fiscal and other measures by government to promote macroeconomic stability. It relates to the maintenance of high levels of resource utilisation and stable price levels. According to Gardner (1978:4), this means that all persons actively seeking employment should be able to find positions and the jobs held should match the talents and capabilities of the jobholders. It also means that the purchasing power of money should not change drastically over time. People should be able to hold wealth in forms involving fixed money denominations such as bonds and insurance policies without fear that the real value of these holdings will be eroded by inflation.

It is not often that the above situation materialises in practice in the economy. Many governments are trying hard to move closer to this ideal situation but this is just impracticable. Unemployment in South Africa is high in terms of international trends. Depending on the definition of unemployment and the data source, (according to Nattrass and Seekings, 1996), unemployment has been measured in South Africa as ranging from 14 percent to 34 percent, although Statistics South Africa reports in its Labour Force Survey Key

Findings (<http://www.statssa.gov.za>), that unemployment as at September 2004 was at 26,2 percent.

The unemployment level has a major impact on inequality and makes people accept any type of work that comes their way because there is not much to choose from. During the period 1994 to 2002, the economic situation of South Africa has been characterised by increasing prices and the decreasing value of its currency, the rand, as compared with other major currencies. This type of situation is worrying to investors because the objectives of full employment and price stability rank high for most people.

iii) Distribution function

The distribution function refers to steps that are taken to achieve a more equitable or socially desirable distribution of income. The market economy has a disadvantage as it is not able to distribute income equitably. Although no system can be said to be absolutely able to distribute income equally, market systems are said to tend to produce socially unacceptable income distributions in that the wealthy are able to accumulate even more while the poor continue to remain poor.

The government has the ability and responsibility to influence decisions that other institutions would, under normal circumstances, not be able to influence. It also has the authority to compel individuals to engage in transactions in which they would not engage on a voluntary basis, and it is this power that enables it to transfer income or wealth from some individuals to others. In a pure or unadulterated exercise of the distribution responsibility, government would provide money transfers to those individuals whose wealth or income was to be increased and would obtain the funds to finance these transfers by imposing taxes on those whose wealth or income was to be diminished. In South Africa, government progressively taxes individuals and businesses based upon their ability to pay. This is a clear illustration of government implementation of a distribution responsibility. According to Bailey (1995:17), government balances efficiency with equity in the allocation of resources by

using taxation, social security and the distribution of public sector services to influence the distribution of income.

The minimum wages that unions negotiate for and the implementation of which is also imposed by some governments (as with the wages for domestic workers in the case of South Africa) also do play a part in ensuring that some wealth is distributed to the workers for services rendered. Another way of distributing the income that government successfully implements is the payment of grants to the needy, especially the elderly, children and orphans. In South Africa, the system of sustaining the unemployed by distributing money to them has not found favour yet, except where they have worked and contributed to the Unemployment Insurance Fund (UIF).

The high level of unemployment currently experienced in South Africa, as noted by Nattrass and Seekings (1996:56), and the fact that unemployment figures are generally not reliable, make the effective management of this process difficult. Although official unemployment figures differ from unofficial figures, people are starting to raise concerns about government's ability to address unemployment. According to Abedian and Biggs (1998:38), unemployment has actually worsened; the number of jobs has shrunk, not grown, at a time when the labour force is rising.

iv) Allocation function

Government uses the allocation policy to allocate the budgeted amounts among different needs. According to Hughes (1994:85), the budget sets out both the overall level of government activity and specifies which activities are to be carried out publicly rather than privately. The allocation function refers to the role of government in achieving an efficient allocation of resources. Bailey (1995:19) refers to this as the allocative efficiency or the "first best" allocation of resources. The existence of the problem of scarcity makes it crucial for government to ensure that resources are allocated for the benefit and satisfaction of the society's needs in general. The root of the allocation question lies with the basic economic proposition that wants exceed the

means available to satisfy them, so that choices must be made about which wants will be satisfied and which must remain unsatisfied. Government also has to deal with market distortions caused by monopoly power and other forms of market failure.

The allocation mechanisms of government assist to ensure that the costs or benefits of a transaction or activity are borne or enjoyed also by parties not directly involved in the transaction or activity. These types of costs or benefits are referred to as externalities. According to Mohr *et al.* (2000:432), where costs are involved, it is referred to as *negative externalities* while *positive externalities* refer to benefits. The ban on smoking in public places is one mechanism that the South African Government has introduced to address the negative impact caused by smoking on non-smokers, especially in public places like restaurants.

Where there are negative externalities, the price mechanism usually fails to bring about a socially efficient allocation of resources. In these cases, Collinge and Ayers (2000:201) recommend that the government should intervene to promote efficiency. This can be done by regulating the activities of the producers or by taxing them to recover the costs placed on society, such as added taxes imposed on liquor and cigarettes. Positive externalities may result in the under consumption or underproduction of the goods and services concerned. The government may, therefore, have to step in to achieve a socially efficient consumption and production level by subsidising the relevant goods and services.

In performing the above functions, the state interacts and operates in an environment it influences and also gets influenced by it. This environment is dynamic and needs an approach that will consider this dynamism.

2.6 ENVIRONMENT WITHIN WHICH THE STATE OPERATES

Governments are created by people to serve the people. In order to be able to serve its citizens effectively, the government is obliged to interact with the

different people it is obliged to serve. People belong to different interest groups, and depending on particular needs, these groups are mostly found where issues related to, for instance, politics, economics, social needs and technology are attended to. These different groups will, for the purpose of this research, be referred to as particular environments to enable a discussion of their specialised nature. Governments interact with each other and as such, both the international and the national environments are also important to consider.

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. It follows from the above, therefore, that public administration will be applied in every area within which the state operates. Interaction between government leaders and those the government is obliged to serve is important to enable the state to understand what specific services are needed for it to provide. Failure to understand the community's needs may lead to the provision of poor quality services.

2.6.1 Political environment

Government operates in a political environment where the interaction between itself and its administration on the one hand and members of the public on the other hand takes place. This political interaction happens internally within the country and is the basis for a harmonious internal existence. Because the government is made up of individuals appointed through a political process, they are also expected to account to the electorate for their activities through a similar political process. The public participates indirectly in the affairs of government through their political representatives. These are people elected to ensure that the accountability of government is enforced.

Many parliamentary committees (like the portfolio committees) have been formed to monitor the activities of the state departments, as well as the cabinet ministers in charge of these departments in order to ensure

effectiveness in the delivery of essential services. Through this interaction as well as entering into cooperative agreements with other governments, the state is able to function within a political environment that ensures that it succeeds in performing its identified responsibilities.

The political environment within which governments operate presupposes the need to bring government as close to the people as its clients as possible. The division of government structures into smaller units, like provinces and municipalities, also strengthens the relationships that government should have at different spheres.

2.6.2 Economic environment

The economic environment within which the government operates comprises interaction with other governments on economic issues, as well as direct internal participation in the economy through regulatory processes and monitoring. When a government issues economic directives to either stimulate the economy or hold the growth of the economy back, it takes direct charge by operating in the economic environment.

Economic systems differ from one country to another. Some governments prefer mixed economic systems while others have tried to operate a specific type or single economic system, such as capitalism or socialism. The government is able to influence the choice of a particular type of economic system that should operate in that country and as such, the economic system of any country is always closely associated with the political system of that particular country.

2.6.3 Social environment

According to Gildenhuys and Knipe (2000:118), societies represent integrated political, economic and social systems. The social fabric of society is an important part of political and socio-economic interactions. Social principles play an important part in securing good governance by ensuring that the

broader needs of the community are recognised as opposed to individual needs.

Government operates within the social environment by, for example, encouraging the society in general to participate in activities that will improve their health. In South Africa, the government also provides social grants to those members of the society that are not able to care for themselves. This government action, according to Ranney (1966:52-53), is of a welfare state nature, where the state is supposed to ensure the highest possible degree of material and spiritual well being of all members of society by engaging in basically all areas of societal life, with a view to providing for societal needs. The implementation of the social requirements by government is done through public administration. For the social grant system to operate effectively, proper financial management systems have to be put in place and have to be managed effectively.

2.6.4 Technological environment

The South African Government, as with other governments throughout the world, has embraced technology in its operations to an extent that previous manual financial reporting systems and operations have been substituted by information technology (IT) systems, such as the basic accounting system (BAS) to effect remunerative payments and the logistic system (LOGIS) to account for inventory and effect payments for services rendered through non-remunerative activities.

Technology is also expanding at a fast rate and improvements are being made on a regular basis to the existing technological innovations. The fact that most communication and financial management processes are technologically implemented can be argued to indicate that technology is important for the effectiveness of public administration. Haynes (2003:131) states that new managerialism has tended to present an argument that information technology (IT) offers unique opportunities to the public sector for it to become more economic and efficient, especially in its processes of

bureaucracy and administration. The management of public finances in most government departments and institutions is done through computerised spreadsheets, while most financial systems are run on information technology and internet and other communication methods are also technologically influenced.

The above are essential for the administrative system of government to deliver a faster and effective service to the clients served by the government. For this reason, it would be necessary for government leaders and managers to be up to date with the technological improvements that are introduced regularly and apply them within the financial functions and reporting systems that they lead and manage. The importance of information technology (IT) has also been acknowledged by the British government of Tony Blair (Cabinet Office 1999:2) when it declared in its white paper on modernising democracy that: “we will use new technology to meet the needs of citizens and business, and not trail behind technological developments.”

2.6.5 International environment

Governments interact internationally with other governments and institutions like the IMF and World Bank in their regular operations. This interaction takes place through, amongst others, political, economic, social and technological means. It can be argued, therefore, that it is through some of these interactions that bilateral and multilateral trade and political agreements are entered into.

In most cases, the agreements that are concluded are mostly at political level and need to be implemented within government departments through the administration process of the state. Where 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, 1999, to ensure that there is financial reporting and accountability throughout the entire contract period. This is done

within the functions of public administration and is aimed at enhancing the operations of government.

The above are necessary for the state to operate effectively as it interacts with its stakeholders in the delivery of essential services. In order for the state to put into operation its policies and meets its service delivery targets, its public administration function must be effective.

2.7 IMPLEMENTING THE FUNCTIONS OF THE STATE

In order for the South African Government to implement the functions mentioned above, different government departments have been established to perform their functions and related activities. Departments report regularly to the Cabinet on the effectiveness of carrying out their duties. There are different methods that departments use to report to the Cabinet. One such method is by a group of departments that have been put together in terms of the type of service they perform. Following is six groups made up of different departments that normally report to the Cabinet collectively as indicated. In terms of this grouping (or clustering), departments that deal with security-related matters, such as safety, defence and the police, as an example, are grouped together while those concerned with economic issues such as agriculture and water affairs are grouped together. As a result of this, there is a:

Cabinet committee for the Social Sector;
Cabinet committee for the Economic Sector;
Cabinet committee on Governance and Administration;
Cabinet committee on Investment and Empowerment;
Cabinet committee on International Relations, Peace and Security;
Cabinet committee for Justice, Crime Prevention and Security.

This grouping and reporting method is aimed at being of assistance when it comes to collective reporting on related issues. It is also helpful for a group of departments to approach the National Treasury as a collective to request for

funds to be utilised for related issues, for instance, the Department of Water Affairs and Forestry and that of Local Government can make a combined request to the National Treasury for funds to address water shortages in rural areas. It also encourages departments that perform related work to plan and work together on related projects.

2.8 CONCLUSION

The effectiveness with which a government performs its duties in the delivery of services to the citizens of a country can be determined by the satisfaction that is derived from the services so rendered. A general assumption can be made that when the citizens of a country are satisfied with the performance of their government, negative demonstrations against that government by the dissatisfied will be minimised. Although it is not easy for the government to satisfy everybody all the time, the growth of an economy coupled with the reduction in unemployment and inflation are normally considered by most people to be a positive indication of growth and development of countries.

Government plays many roles through its established government departments, public entities and other constitutional institutions that are assigned different functions to meet specific needs. In order to effectively perform the functions assigned to government departments, public entities and constitutional institutions, financial resources have to be made available. These financial resources have to be effectively and efficiently managed in accordance with government prescripts, like those provided for under section 38(1) and (2) of the Public Finance Management Act, 1999 as amended by Act 29 of 1999.

The effective management of the public financial resources in accordance with the PFMA requires appropriately developed financial management systems that will be operated to achieve the goals of government. Because the state does not operate in isolation, it needs to acquire the necessary expertise that will enable it to interact with different stakeholders in different environments that exist within and outside the country. The challenges of the

international world make it necessary for a government to equip itself with the correct skills. Officials will also have to be trained to operate these financial management systems and report correctly on information acquired using them.

The South African Government has developed financial management and reporting systems as well as financial procedures such as the BAS, LOGIS, Treasury regulations and the PFMA that it uses to manage and report on its financial resources. For these financial systems and procedures to be implemented successfully, they need to be well understood, easy to operate and should also meet the international requirements for effective financial reporting. This will enable the government to report uniformly in line with those countries and institutions, like the World Bank and the International Monetary Fund (IMF), that it shares information with. Some of the financial management systems that were developed and utilised for financial reporting before and immediately after 1994 were still based on the then Exchequer and Audit Act, No. 66 of 1975 and other related prescripts, which do not meet the requirements of the current order, such as reporting on accrual basis.

It is the responsibility of the state to ensure that it develops and aligns its financial management and reporting systems and activities with those of its business partners like the private sector with whom it does business, as well as some international governments and public institutions and entities. The development of public financial management systems is analysed in the following chapter.

CHAPTER 3

DEVELOPMENT OF PUBLIC FINANCIAL MANAGEMENT SYSTEMS

3.1 INTRODUCTION

The study of public financial management is conducted within the financing function of public administration and will, therefore, not be complete without reference to public administration in general. Public financial management is a key component of public administration that in turn is an integral part of government.

Chapter 3 analyses the different public financial management systems that have been introduced to manage the financial resources within South Africa since 1994. This is done by first identifying those systems that have been in use in the South African public service and in other countries. The legislative mandate for the development of some public financial management systems in the country will be discussed, with particular reference to the rationale, aims and objectives for developing the financial systems.

The South African public service is currently undergoing transformation, which started in 1994. The different reform processes within the area of financial management will be identified and discussed with the aim of establishing which processes have been completed. Problems experienced with the restructuring process will be identified.

3.2 HISTORICAL OVERVIEW OF PUBLIC FINANCIAL MANAGEMENT IN THE PUBLIC SERVICE

Public administration, as noted by Thornhill and Hanekom (1995:20), is divided into six functions of which financing is one of them. The discussion of public financial management in this research paper is conducted within the financing function of public administration as noted above and with an understanding that public administration is responsible for the service delivery

of any government. Thus, one cannot ignore the fact that politics and practical ideology do play a determining role in the formulation of the financial policies of a government.

According to Gildenhuis (1993:3), the prevailing political ideas 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. Thus, the logical point of departure for studying the theories of public financial management and administration would be a study of the philosophical premises of public finance within a framework of different political ideologies, which may form part of the fundamental principles of public financial management and administration.

There seems to exist a strong and direct relationship between public administration and governance and this is captured by Woodrow Wilson (1856-1922) when he wrote in 1887 about the proper relationship between politics and administration and asked the following question: "What part shall public opinion take in the conduct of administration? The right answer seems to be, that public opinion shall play the part of authoritative critic." It can, thus, be argued that an effective government is one that takes public opinion into consideration and develops its objectives and goals in line with what the majority of the population want.

Following from the above, the question to be asked could be: when or after how long should government consider public opinion? Should the state be proactive and consider public opinion before it becomes an issue of concern? In South Africa during the latter part of 2004 until 2005, communities in many parts of the country started to show their frustration with the slow pace of the government's delivery process of essential services such as water, electricity, housing and jobs by holding public demonstrations. These demonstrations could either be seen as a genuine cry for help or as a political manoeuvre to win votes where elections are about to take place, as in the case of South Africa where local elections are about to be conducted in March 2006.

As a former British colony, South Africa's system of governance has been influenced by that of Britain to the extent that even its public financial administration was applied in almost the same way. The British system of public financial administration is based mainly on the assumption that the executive should be held responsible by the legislature for all financial activities. The components of financial administration and financial practices, according to Thornhill and Hanekom (1995:114-115), thus reveal that accountability is one of the cornerstones upon which the British system of public financial administration is founded.

According to the above authors, the Union of South Africa adopted primarily the Cape system of government as a model when unification was implemented in 1910. Seeing that the Cape system was based mainly on the British system, to a great extent the Union of South Africa followed the system that developed during a period of six centuries in Britain. With the establishment of the Republic of South Africa in 1961, the system of financial administration of the Union of South Africa was adopted without significant changes. The system was continued in its basic form after the adoption of the Constitution of the Republic of South Africa Act, 1983 (Act 110 of 1983). The Constitution of the Republic of South Africa Act, 1993 (Act 200 of 1993), which created a new full democratic state even 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 (section 191).

With the above, it may be argued therefore that the existing system of financial administration in South Africa is based mainly on the British system of accountability of the executive to the legislature as one of the system's most salient characteristics. Although cosmetic changes were implemented within different homelands and self-governing territories, the influence of the historically adopted British system has remained a force for a long time.

Governments operate in terms of goals and objectives that are determined in advance to ensure the delivery of services. It is through the administrative arm

of government, or the bureaucracy, that the political side of government is able to attain its intended goals. Government policy is often influenced and directed by prevailing thoughts within the ruling party or the majority party in Parliament. South Africa, as with most Western governments' democracies, have adopted the Westminster system of government that has Parliament as the highest law-making body and then the Cabinet of ministers reporting to it, with the leader (President or Prime Minister) elected from within the ruling party.

The elected members of Parliament have a responsibility to account to the voters or taxpayers through a system of representative democracy, the key principle of which, according to Gildenhuys (1993:52), is the concept of political responsibility and accountability of the elected political representatives, instead of direct participation by the individual taxpayer. Goldsmith (1980:17) argues that it is the political responsibility and accountability of the elected political representatives that guarantee that they will govern in the interest of the individual citizen and not in the exclusive interest of some defined groups or in the personal interest of the political representatives themselves. This accountability of the elected political representatives also requires them to assume leadership of the administrative functions of government by ensuring that the delivery of services is accomplished in accordance with the political mandates of the ordinary citizens.

To be able to realise their goals, objectives and targets, governments all over the world have to execute a variety of functions successfully. Because of differences in needs and ideology from country to country, government priorities also differ in accordance with each country's particular needs. Some governments have a preference for welfare programmes to deal with welfare-related issues. The countries that practise this type of system are, according to Hughes (1998:93), referred to as the welfare states.

In both capitalist-oriented and socialist-oriented countries, the manner in which government utilises and accounts for public resources is important

because this will determine the effectiveness of their system of governance. Ineffective governance will be rewarded by a show of no confidence by the electorates, which will be a clear indication that current policies do not meet the requirements of the communities being served.

3.3 CURRENT PUBLIC FINANCIAL MANAGEMENT SYSTEMS IN SOUTH AFRICA

The issue about the role and importance of public financial management systems in public financial management is not new and can be explained in terms of political responsibility and accountability. Public financial management is as old as governance itself. The origin of democratic principles of approachability in public finance can, according to Gildenhuys (1993:52), be traced back to the English *Magna Carta* of 1215 and the slogan of “no taxation without representation” of the American Civil War against Britain. This document is said to have contributed to setting up a relationship between the sovereignty (King), the feudal lords and the subjects in terms of stipulating that the collection of tax should be agreed upon and be accounted for.

It cannot be argued conclusively that the above is the period from which the authorities had to start accounting to the public about the management of public financial resources at their disposal. It can, however, be argued that this is one of the clearly recorded and reported cases when taxpayers demanded a proper account for their taxes from the authorities, and by so doing, ensuring that they had a say in the management of their taxes. Gildenhuys (1993:53) contends that the signing of the *Magna Carta* by King John can therefore be regarded as the historical event which granted the taxpayers’ elected political representatives in Parliament the authority over public financial matters, and by which the taxpayers in England obtained indirect authority over the manner in which taxes may be collected and spent. The principle of public financial accountability, as applied today, has undergone a significant transformation, the purpose of which has always been

to ensure more efficient, accountable and responsible management of public resources.

Public financial management systems are those systems, mechanisms and/or processes (either computerised or non-computerised) that are applied in the day-to-day management and control of public financial resources. These systems support and are crucial to an effective functioning of an effective system of public administration.

In South Africa, the historical processes of public financial management can be identified within the type of government existing at particular times in the past. As political transformation and reform processes unfolded, different systems of managing public finances were also introduced to address the financial management obligations of the government of the day, including that of different administrations and independent states.

3.4 NATIONAL POLICY

Every government is obliged to account to the citizens of that country in terms of how it manages its affairs. Different legislative measures contribute to formalising the obligation by ensuring that rules and guidelines are clearly stated and implemented. The South African Government has an obligation to account to the public on how it manages its financial resources and in order to meet this obligation, it operates within specific guidelines as indicated below.

Financial management in the South African public service is mandated by the Constitution, 1996 (Act No. 108 of 1996) and guided by the Public Finance Management Act, 1999 (Act No. 1 of 1999), as well as other provisions emanating from the PFMA. It is within these two acts that political accountability and reporting are made obligations to the executive authorities.

Different acts have helped to formalise this obligation by ensuring that the reporting is implemented. The South African Government has an obligation to account to the public on how it manages its financial affairs and in order to

meet this obligation, it operates within specific guidelines as mandated by, amongst others:

- The Constitution of the Republic of South Africa, 1996 which requires national legislation to establish a national treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing:
 - (a) generally recognised accounting practice
 - (b) uniform expenditure classifications and
 - (c) uniform treasury norms and standards
- The Public Finance Management Act, 1999 in terms of which government policy on public financial management in South Africa is applied. All government departments, entities and constitutional institutions have adopted the PFMA and apply its provisions to manage the financial resources allocated to them. The Public Finance Management Act, 1999 gives guidance on how financial resources and assets have to be managed. In the past and before the promulgation of the Public Finance Management Act, 1999, budgets used to drive strategic plans in such a way that plans would be compiled based on the amount of money that was available during any particular financial year. This has now changed and strategic plans determine the amount of funds needed to implement government objectives.

The Public Finance Management Act, 1999, as amended by Act 29 of 1999, mandates government to:

- (i) modernise the system of financial management
- (ii) enable public sector managers to manage, but at the same time be more accountable
- (iii) ensure the timely provision of quality information and
- (iv) eliminate waste and corruption in the use of public assets

The promulgation of the PFMA was a direct response to the requirements of the Constitution for the establishment of policy to manage financial resources.

- the Division of Revenue Act (DoRA), (No. 5 of 2002), (this is an Act of Parliament that is passed annually to give effect to the Minister of Finance's budgetary proposals) to:
 - (i) provide for the equitable division of revenue raised nationally among the three spheres of government
 - (ii) promote cooperative governance and principles of intergovernmental relations on budgetary matters
 - (iii) promote better coordination between policy, planning, budget preparation and execution processes
 - (iv) promote predictability and certainty in respect of all allocations to provincial and local governments in order that such governments may plan their budgets over a multi-year period
 - (v) promote transparency and equity in all allocations, including in respect of the criteria for their division
 - (vi) promote accountability for the use of public resources by ensuring that all transfers are reflected on the budgets of benefitting provincial and local governments; and
 - (vii) ensure that legal proceedings between organs of state of the three spheres of government are avoided.

The above have been enacted to ensure that the implementation of public financial management is given preference and managed at the highest level of government and also that reporting and accountability are applied consistently throughout the public sector. Regulations, specifically the Treasury regulations, have been developed to guide and ensure that there is effective implementation of the provisions of the PFMA and other acts of Parliament having financial implications.

Section 38(1) of the PFMA obliges the accounting officer of a department, trading entity or constitutional institution to manage and use the financial and other resources of the state in a responsible manner. Although the Act does

not prescribe in detail how the above has to be done, it requires that effective, efficient and transparent systems of financial and risk management and internal control have to be developed.

In terms of the PFMA, the accounting officer must also take effective and appropriate steps to collect all money due to a department while safeguarding and maintaining the assets and liabilities of those institutions, (section 38(1)(c)(i) and (d)). These are required for the effective functioning of government and accord different accounting officers the opportunity to develop appropriate mechanisms unique to the operations of their own departments to enable them to manage their own resources.

As already stated, the introduction of the medium term expenditure framework (MTEF) as the basis for a more strategic approach to public expenditure planning and management in South Africa was one of the most important measures taken by government in 1997. This budget allocation mechanism ensures that managers know in advance the amount of money they could get (indicative allocation) during a particular rolling three-year period, based on their strategic plans. (a “rolling three-year period” is referred to as a situation where after the end of the first financial year out of three financial years, one additional financial year is added to the remaining two in such a way that the financial years under consideration will always be three). The indicative allocations strengthen planning and ensure that managers are able to plan their activities for the future three years and by so doing ensure that service provisions continue to be provided while possible disruptions are minimised.

3.5 RATIONALE, AIMS AND OBJECTIVES OF PUBLIC FINANCIAL MANAGEMENT SYSTEMS IN SOUTH AFRICA

It is accepted that governments are striving towards the realisation of predetermined goals: goals which are embodied in specific objectives and specific targets. Each government institution, at whatever level of authority, pursues predetermined goals, objectives and targets that are reflected in its annual operational and capital budgets. When the general goals of

governments are studied, one can ask questions such as: why do governments exist, what do they do and why do they do what they do?

Gildenhuys (1993:3) states that when studying the theory of public financial management, one is not really concerned with political problems of what governments should be doing; what they do is normally accepted as a premise. The questions to be answered are: what are the *goals* of governments; what are the *functions* by which they strive to realise their goals and objectives; what is the nature of the *public services* rendered in order to fulfil their functions; and how and from which *sources of income* should public services be financed?

The financing of governments comes in a number of ways, the most common being through companies and individuals' taxes; borrowings; and the sale of government stocks. The providers of these financial resources would like to know, through proper financial reporting systems, how these resources are being accounted for.

Because of the importance of financial accounting, it can be argued that financial accountability is to public administration what odometer reading is to travelling in a motor vehicle. When taking a journey by car, one would be interested in determining the distance travelled after any particular interval as well as the remaining distance. A well-functioning odometer helps by keeping track of the kilometres travelled at any particular point during the course of the journey.

It is through financial accountability that all interested people in the activities of government, including but not limited to taxpayers and investors, can determine the government's ability and competence of managing public financial resources at its disposal. Should there be a doubt about this competency and ability, the providers of these financial resources are likely to display a reluctance of supporting the government by withholding their funds.

3.6 LOCATION OF PUBLIC SERVICE REFORMS IN SOUTH AFRICA

Reforms in the public service are usually influenced by and aligned to the ideological orientation of the government of the day. It rarely happens that a new and incoming government embraces in totality, and implements policies, reform processes and financial management systems of a predecessor government. Depending on the frequency of changes in government, administrative systems will be affected accordingly and this might bring about questions of stability in government administration. Fry (1989:31) reports about authors such as Max Weber who have argued that public administration should be professionalised and be independent of politics. This will accordingly result in managers not being appointed for their loyalty to the ruling party, but for their skills, expertise and knowledge of administering public affairs and should be rewarded for these efforts. The professionalisation of public administration will bring stability to the profession and efficient and effective systems will continue to operate irrespective of which political party is in power.

Although the above could be an ideal situation, it might not be possible to attain and implement, especially in view of the fact that government employees also have their own rights of association and will, in one way or another, affiliate to a political party of their choice and as such, may find themselves open to political influence. It is for this reason that a balance should be struck between politics and administration that will ensure independence from direct political influence while maintaining professionalism and fairness in performing government duties by all public servants, especially those in senior positions.

The South African Government has introduced some reforms with the aim and purpose of putting right the historical imbalances and ensuring a fair distribution of resources. Some of these reforms that have been brought about relate to changes in the structure of government, as well as those that relate to the effective management of public financial affairs. The successful

implementation of these reforms by government departments and public entities has been a key challenge to the success of government as a whole. The following have been major reforms introduced in South Africa in recent years:

3.6.1 Structural reforms

Structural reforms can be defined as those reforms that are brought about by changes in the structure of an organisation or those, the implementation of which, will affect the structure of an organisation. In South Africa, the political dispensation of 1994 brought with it political changes that affected the whole government structure that existed before. This change in organisational structure is captured in full in the Constitution, 1996 and is best explained by analysing the political environment that existed before the 1994 general elections in terms of which government was run.

The South African system of government is based on the Westminster system and has been adopted from the British colonial era. Only small and cosmetic changes have been effected. Some of these changes were made through the Republic of South Africa Constitution Act, 1961 and the Republic of South Africa Constitution Act, 1983 (Act 110 of 1983). According to Kuye, Thornhill and Fourie (2002:31), during the period of the National Party government, four so-called 'independent states' were established within the territory of South Africa.

These 'independent states' were Transkei, Ciskei, Bophuthatswana and Venda. A further six so-called 'self-governing territories' were established in an effort to promote the policy of separate development for the various indigenous peoples. Thus the following areas had legislative and executive powers: KwaZulu-Natal, KwaNdebele, Qwaqwa, Gazankulu, Lebowa and KaNgwane.

Prior to April 1994, the South African system of government was highly centralised but simultaneously fragmented along racial and ethnic lines.

According to the Department of Finance's Intergovernmental Fiscal Review (1999:1.1), there were, in total, seventeen systems of government and administration that consisted of:

The three separate administrations covering Whites, Indians, and Coloureds under the tri-cameral system.

The four provincial administrations of the Cape, Transvaal, Orange Free State and Natal within the Republic of South Africa.

The three separate administrations covering whites, Indians, and coloureds under the tricameral system.

The four provincial administrations of the Cape, Transvaal, Orange Free State and Natal within the Republic of South Africa.

The four "independent states" of Transkei, Bophuthatswana, Venda and Ciskei.

The six "self-governing" territories of Gazankulu, KaNgwane, KwaNdebele, KwaZulu, Lebowa and Qwaqwa

The Department of Finance reports further that the entire government had a total staff complement of over 1,3 million government employees scattered all over the country in about 130 government departments, each having both a political and administrative head of department.

The correct number of administrations and departments that existed prior to 1994 is actually difficult to quantify and different analyses have brought about different statistics, depending on the exact description of what constituted an administration and a department, as can be seen by the diverse information provided by both the Department of Finance and the Public Service Commission.

Table 3.1 Number of administrations and departments prior to rationalisation

Administration	Departments	Total
Republic of South Africa		53
1.Central administration	37	
2.Provincial administration *	16	
"Independent" (TBVC) states		80
1.Transkei	20	
2.Bophuthatswana	26	
3.Venda	16	
4.Ciskei	18	
Self-governing states		62
1.Gazankulu	9	
2.KaNgwane	10	
3.KwaNdebele	10	
4.KwaZulu	13	
5.Lebowa	10	
6.Qwaqwa	10	
TOTAL		195
*Major components within the provincial administration, generally referred to as "departments"		

Source: Adapted from "Public Service Commission report on *The Rationalisation of Public Administration in the Republic of South Africa. 1994 –1996*"

The Public Service Commission, in its report entitled, 'The rationalisation of public administration in the Republic of South Africa, 1994 – 1996', reports that the rationalisation of the existing institutional structures presented a daunting challenge. It is stated in this report that in its pre-rationalised state, South Africa was served by 15 major administrations, made up of the central administration of the Republic, comprising of its four long-standing provincial administrations (Transvaal, Natal, Orange Free State and Cape Province), the administrations of four states regarded as independent (Transkei, Bophuthatswana, Venda and Ciskei) and the administrations of the six self-governing territories (Lebowa, Gazankulu, KaNgwane, KwaNdebele, Kwa

Zulu and Qwaqwa) as indicated in Table 3.1. Each of the 15 major administrations was divided into a varying number of departments and other organisational components. Most of the departments in the 15 administrations were further subdivided into regional offices, sub-offices and other institutions.

The above gives a picture of uncertainty in terms of the actual size and cost of the public service before rationalisation, and this suggests and gives confirmation that duplication and wastage could have prevailed and this would normally post a major threat to accountability and proper management.

The above resulted in difficulties to implement uniform accountability arrangements because each sphere of government was independent and could take whatever action it deemed to be the correct one under the prevailing circumstances. Although the “central” government (as the administration for the whites-only came to be known as) endeavored to effect some uniform administration and accountability mechanisms, the large volume of transactions overwhelmed it and this made the whole process difficult to manage.

Although it did not literally bring a “new South Africa” in the place of the old one as such, the Constitution, which is normally considered the cornerstone of the existence of any country, was rewritten to reflect South Africa’s new constitutional status and new ideas that would be used to steer the country in a different direction to the one that existed before. The process of drawing up the Constitution was completed in 1996.

When the final Constitution was completed in 1996, it actually formalised and put into operation a number of transformation changes that were gradually being introduced in the mainstream governance of the country since 1994 in preparation for the formal new order. It is in the Constitution, 1996, that the importance of general government administration, including public financial management, is highlighted. In South Africa, public administration and general financial management are dealt with in terms of sections 195 and 213 of the Constitution respectively.

It is stated in section 195 (1) of the Constitution, 1996, that public administration must be governed by the democratic values and principles enshrined in the Constitution, including the following principles:

- a) A high standard of professional ethics must be promoted and maintained.
- b) Efficient, economic and effective use of resources must be promoted.
- c) Public administration must be development-oriented
- d) Services must be provided impartially, fairly, equitably and without bias
- e) Public administration must be accountable.

Issues about managing public financial resources (the systems, through which public resources are managed, are specified in the Public Finance Management Act, No. 1 of 1999, are discussed in the Constitution (1996:120).

The above, in effect, imply that public administration should be governed in accordance with specific basic values and principles that are acceptable to society in general. These basic values and principles are necessary requirements from specific individuals entrusted with the safeguarding of government resources in terms of the Public Finance Management Act, 1999. The individuals referred to in sections 6, 38, 45 and 63 of the PFMA, 1999, are treasuries, accounting officers, managers at different levels as well as executive authorities respectively.

The activities of government are, thus, executed according to the mandate provided in terms of different acts of Parliament, examples of which are the Constitution, 1996, and the PFMA, 1999. Through these, a number of guidelines in the form of regulations, such as the Treasury regulations and the Preferential Procurement rules, have been developed to guide the implementation of government processes.

In terms of the pre-1994 dispensation, there were seventeen (or fifteen, depending on which report is considered) administrations, different constitutions, rules and regulations to manage different governments. These administrations were reduced to a single government administration with one Constitution which, according to the National Treasury's Intergovernmental Fiscal Review (2003: 3), has the following features:

- A unitary system of government with three distinct, interrelated and interdependent spheres, with significant decentralisation of powers, functions and budgeting. They are referred to as spheres, rather than tiers or levels, to reflect that they are distinct governments in their own right, each accountable to its own elected legislature or council.
- National Parliament comprises two houses: a National Assembly and a National Council of Provinces (NCOP) representing provincial legislatures and organised local government. Where national government had 35 departments in 1994/95, these have been reduced to 34 in the 2002/03 financial years. In most cases, each of these departments has both a political head and administrative head of department (HOD) while in only a few cases two or more departments account to the same political head of department.
- The nine provinces each have their own legislatures and executive councils, as well as administrative structures. In the financial year 2002/03, the nine provinces had a combined total of 115 departments or votes, with almost all of them having both a political and administrative head of department.

According to the Municipal Demarcation Board's annual report (1999/2000: 18), 843 municipalities were established during 1995/96, i.e. after de-racialising the structures. These were redemarcated into 284 municipalities in 2000, covering the whole of the country. In 2003, the 284 municipalities have

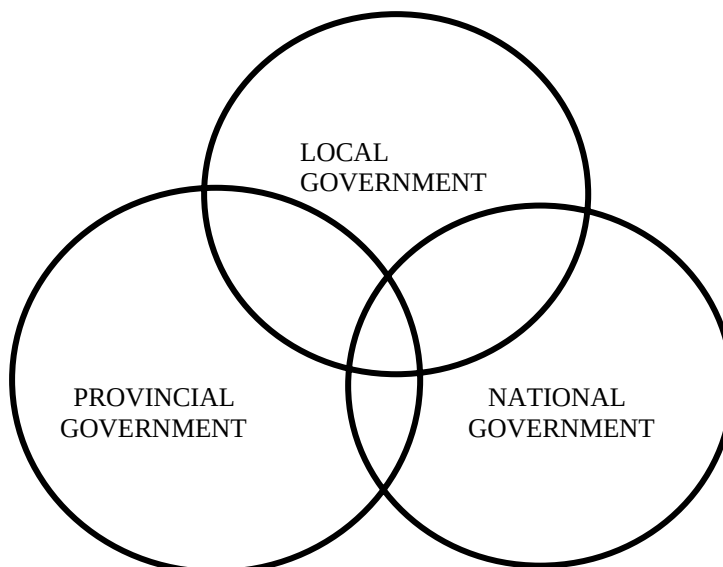
been categorised as metropolitan, district and local municipalities, and they comprise political and administrative components.

The Constitution entrenches co-operative government, obliging the three spheres of government to cooperate and to negotiate political and budgetary issues amongst them as indicated in Figure 3.1 below.

Chapter 3 of the Constitution defines each sphere of government as distinct, yet interdependent and interrelated to the other (section 40(1)). According to Patrick Flusk (in NBI's Democratic Local Government 2000-2001: A Guide for Councillors), this interdependence and interrelatedness apply both vertically (between the spheres) and horizontally (within each sphere) as shown in Figure 3.1 below: (Intergovernmental relations):

The national government operates mainly as the policy-making body while the operations take place in the other two spheres of government. The National government is situated and operates mainly centrally from the government head offices in Pretoria.

Figure 3.1: Intergovernmental relations



Source: Democratic Local Government 2000-2001- A Guide for Councillors

Some national departments have regional offices in the provinces, examples of which are Departments of Home Affairs and of Water Affairs and Forestry. In the case of concurrent functions according to schedule 4 of the Constitution, 1996, the provinces are responsible for the departments performing their functions in conjunction with national sphere departments.

The need to bring about uniform processes in the South African public sector through reforms was not a new experience. As early as the 1960s such a need was identified in most developed countries as the role of government was constantly evaluated. Walker and Mengistu (1999:1) note that the need to reform government became apparent in developed countries in response to rising budget deficits and poor public sector performance in the 1960s and 1970s. Earlier theories that deficit financing could stimulate economies were replaced by a greater understanding of structural problems, which required longer-term reorganisation. According to Walker and Mengistu (1999:1), critics argued that increasing government's share of expenditure did not deliver more in terms of better outcomes of government policy. This is more of a concern in South Africa today where there is a move away from the notion of the total government expenditure (input) to that of what goals are achieved (output) with that expenditure.

In South Africa, unlike other parts of the world, the need to bring about uniform executive processes was necessitated by political changes that resulted in the government administration also having to adapt, especially because the existing administration was found unsuitable to the new direction that the government wanted to follow. These changes could be viewed as being politically, rather than economically, enforced.

3.6.2 Public financial management reforms

Linked to changes in theories about general government administration were changes in the approach to public financial management. Different public financial management systems have been in operation for a long time, depending on the requirements of different countries. In South Africa, the

Exchequer and Audit Act, 1975 (No. 66 of 1975), was extensively used to guide the management and control of financial resources in the government sector in general. This piece of legislation was the cornerstone of public financial management in South Africa prior to 1994 and was used to exercise expenditure control and accountability. The self-governing states retained this Act in its entirety without amending it and was applied in the same way that it was applied in the RSA. In as far as the newly created “independent” states were concerned, it was amended in name with a few additions in the contents to address the specific needs of the particular state. It assumed different names as follows:

In Transkei it was called the Financial Arrangements with the Transkei Act, 1976, Act No 106 of 1976.

In Bophuthatswana it was called the Financial Arrangements with Bophuthatswana Act, 1977, Act No 93 of 1977.

In Venda it was called the Financial Arrangements with Venda Act, 1979, Act No 105 of 1979.

In Ciskei it was referred to as the Financial Arrangements with Ciskei Act, 1981, Act No 118 of 1981.

Along with the different exchequer accounts, the independent states developed their own treasury instructions that were applied to effect financial discipline. The effectiveness with which these instructions were implemented could only be verified from the audit findings from the different audit reports issued by the auditors-general to indicate the state of financial management within these independent states.

According to Walker and Mengistu (1999:48), apartheid left South Africa with a high degree of inequality in wealth, income and distribution or access to resources and public services. According to these authors, although several countries confront poverty and experience gaps between rich and poor, few

have the racial and geographical disparities created by apartheid. South Africa's dilemma is the co-existence of a relatively sophisticated, First World sector within an impoverished developing nation. Walker and Mengistu also argue that although the previous dispensation developed a pool of expertise and structures for financial planning and management, these were concentrated in white public servants and within the Pretoria bureaucracy. The system also engendered corrupt and bloated bureaucracies within nominally independent states that failed to maintain effective systems of accounts. Thus, South Africa's dual economy is more complex than the obvious disparities in access to economic opportunities and raises a number of challenges to transformation, both political and economic.

In the current dispensation, the Public Finance Management Act (PFMA) No. 1 of 1999, substituted the Exchequer Act, 1975, and assigns specific roles and responsibilities to managers at different levels and holds them accountable for decisions taken by them. With the current reforms, more emphasis is placed on public expenditure management as opposed to simple expenditure control and budgeting.

3.6.2.1 The Public Finance Management Act (PFMA), No. 1 of 1999

With the introduction of the Public Finance Management Act, 1999, a number of financial management reforms were brought about that amended the historical manner in which financial management was conducted. Before 1994, different financial management systems were in operation in South Africa, with each serving a particular group of people in line with the political dispensation applicable during that time.

The Public Finance Management Act was promulgated in 1999 as an Act of Parliament that gave effect to Sections 213, 215, 216, 217, 218 and 219 of the Constitution of the Republic of South Africa (Act 108 of 1996) for the national and provincial spheres of government. These sections require national legislation to:

1. establish a National Treasury;
2. introduce generally recognised accounting practices;
3. introduce uniform treasury norms and standards;
4. introduce procurement reforms;
5. prescribe measures to ensure transparency and expenditure control in national and provincial spheres of government; and
6. set the operational procedures for borrowing, guarantees and oversight over the various national and provincial revenue funds.

Where the Exchequer Act, No. 66 of 1975, was adapted from independent state to independent state prior to 1994, the PFMA, 1999, is applied uniformly across the whole country. The PFMA adopts an approach to financial management which focuses on outputs and responsibilities rather than the rule-driven approach of the Exchequer Act. The PFMA, as such, replaced or overrode the previous national and other independent exchequer acts and superseded any other financial management provisions of the past.

In terms of Section 63(1)(b) of the PFMA, 1999, it is a requirement that the political heads of department or executive authorities should assume a meaningful role within the financial activities of their particular departments and should sign off on certain financial and budgetary statements like monthly and quarterly reports. This involvement of political heads was not a requirement in the previous dispensation and is considered as an achievement if managed correctly by both the administrative head and the political head of a department.

Purpose of the Public Finance Management Act

According to the PFMA User Guide (1999:3), the purpose of the Public Finance Management Act, 1999 is, amongst others, to:

- a) regulate financial management in national and provincial governments, institutions, entities and enterprises
- b) ensure that all revenue, expenditure, assets and liabilities are managed efficiently and effectively
- c) stipulate the responsibilities of persons entrusted with financial management, with specific reference to the Minister of Finance, Treasuries, accounting officers, accounting authorities of public entities, external auditors, audit committees and the Accounting Standards Board; and to
- d) provide for matters connected with financial management

One of the most important deviations of the PFMA is the fact that unlike in previous legal measures where the responsibility of financial management was placed on financial managers, Section 45 of the Act requires every manager (both financial and non-financial managers) to exercise financial management as part of their functions and are thus held accountable for the decisions they make. This has the advantage that financial management is not the preserve of financial managers only, but every manager at any level is now obliged to account for the funds allocated to and used by them.

3.6.2.2 Division of Revenue Act (DoRA)

The management of revenue raised nationally is dealt with in terms of Sections 213 and 214 of the Constitution of the Republic of South Africa, 1996, Act No. 108 of 1996 (1996:120). South Africa is divided into nine provinces, each managing its own affairs to the extent as set out in the

Constitution. Although the provinces act independently, the different levels of their capacity and ability to deal with different issues of national policy require the national government to assume the uniform implementation of financial management and other policy matters.

Despite their significant expenditure responsibilities, provinces have limited sources of own revenue. In terms of section 228(1) of the Constitution, provinces may impose taxes, levies and duties other than tax, VAT, sales tax, rates on property and customs duties. They may also levy a flat-rate surcharge on the tax bases of any tax, levy or duty imposed by national legislation, except for corporate income tax, VAT, rates on property and customs duties.

As can be deduced from Table 3.2, provinces that are classified as poor, e.g. Eastern Cape, Limpopo, Mpumalanga, North West and Free State, also have a low revenue-generating capacity. The revenue-generating ability of the nine South African provinces is diverse and as such, financial capacity is biased towards a few affluent provinces. The introduction of the Division of Revenue Act, passed annually, has been necessary to promote an equitable allocation of the nationally available resources. Provinces like Gauteng and the Western Cape are able to generate relatively more than the other provinces. This could point to the level of economic development, which might mean that less developed provinces will also have very low revenue-generating capabilities.

For this reason, the national government has developed a mechanism of raising funds nationally and distributing them equitably to all spheres of government. This arrangement is provided for in section 213 of the Constitution, which stipulates that:

- (1) There is a National Revenue Fund into which all money received by the national government must be paid, except money reasonably excluded by an Act of Parliament.
- (2) Money may be withdrawn from the National Revenue Fund -
 - (a) in terms of an appropriation by an Act of Parliament; or

- (b) as a direct charge against the National Revenue Fund, when it is provided for in the Constitution or an Act of Parliament.
- (3) A province's equitable share of revenue raised nationally is a direct charge against the National Revenue Fund.

Section 214 (1) of the Constitution requires an act of Parliament to provide for

—

- a) the equitable division of revenue raised nationally among the national, provincial and local spheres of government;
- b) the determination of each province's equitable share of the provincial share of that revenue; and
- c) any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made.

i) Revenue management

According to the National Treasury's Intergovernmental Fiscal Review (2003:19), provinces rely on national transfers, which make up over 96,1 percent of total provincial revenue in 2002/03. These transfers are said to comprise the equitable share which constitute 86,6 percent of total provincial revenue and conditional grants, which constitute 9,5 percent. Provincial own revenue constitutes only 3,9 percent. The share of national transfers in total provincial revenue grew to 97,1 percent in 2005/06. While this is attributable to strong growth in national transfers, it is also partly due to slow growth in provincial own revenue.

Despite the promulgation of the Provincial Tax Regulation Process Act, 2001, which sets a framework for provinces to impose taxes and expand their own revenue sources, provincial own revenue remains a small portion (4 percent) of total national revenue.

Table 3.2 National and provincial revenue generation

	Provincial and national revenue collection from 1999/00 to 2005/06						
Financial year	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	R,000	R,000	R,000	R,000	R,000	R,000	R,000
Eastern Cape	374 000	395 000	486 000	823 000	517 000	528 000	552 000
Free State	262 000	305 000	334 000	384 000	346 000	380 000	390 000
Gauteng	1 046 000	1 168 000	1 308 000	1 413 000	1 459 000	1 560 000	1 656 000
KwaZulu-Natal	613 000	908 000	986 000	821 000	712 000	841 000	891 000
Limpopo	247 000	321 000	265 000	413 000	330 000	345 000	366 000
Mpumalanga	363 000	155 000	238 000	365 000	281 000	303 000	320 000
Northern Cape	79 000	89 000	107 000	87 000	93 000	93 000	96 000
North West	321 000	425 000	264 000	278 000	333 000	322 000	349 000
Western Cape	733 000	765 000	955 000	1 040 000	1 030 000	1 030 000	1 086 000
Provincial revenue	4 039 000	4 531 000	4 942 000	5 624 000	5 087 000	5 402 000	5 707 000
National revenue	198 162 000	215 592 000	248 262 000	278 508 000	299 431 000	337 960 000	369 870 000
Total revenue	202 201 000	220 123 000	253 204 000	284 132 000	304 518 000	343 362 000	375 577 000

Source: National Treasury. Budget Review 2005

ii) Objectives of the Division of Revenue Act

Problems are usually encountered between different business entities and spheres of government doing business with each other in terms of receiving payment for work done. In the public sector, these problems are made worse by the fact that the different spheres of government receive their funding from the same source, i.e. the Revenue Fund. The South African government has a policy that discourages different spheres of government settling their contractual obligations through legal means, as this will bring the operations of government in disrepute. Promoting co-operative government in intergovernmental budgeting is thus the general object of the DoRA (2002:4).

Although every year improvements are reported on the implementation of the objectives of DoRA, there is, however, a concern that payment for services rendered is lagging behind amongst the three spheres of government. The fact that legal proceedings amongst the organs of state are discouraged, puts an added pressure on the ability of many government departments in general and government in particular to deliver satisfactory services according to the mandate received from the taxpayers.

Many municipalities find themselves unable to meet their contractual obligations in terms of paying for services rendered, as most users are unable to pay for the services received. As reported by Dhlamini in City Press (2005:5), most councils in the end have to write off the debt as a result of the inability of users to pay for the services.

3.6.3 Budgetary reforms

Linked to changes in policies about general government administration were changes in the approach to budgeting. Budgets were initially viewed as technical tools with a strong focus on expenditure control and accountability, rather than on deliverables and creating appropriate incentives. Apart from the fact that the previous Constitution of the Republic of South Africa, 1983 was racially based and its resources allocated unjustly and inequitably, the

different government administrations, while applying the Exchequer Act, 1975, used different approaches to manage their financial resources.

Budgeting has a historic existence that spans hundreds of years in the past. As indicated, one of the functions of government is to efficiently distribute the available resources. The primary tool available to government to effect this redistribution and delivery is the budget. It is thus not surprising that most government reforms include the manner in which budgets are compiled as well as the distribution of revenue. Budgets have historically been considered tools to account for spending and controlling funds. For this reason, budget reform processes tended to focus on different budget formats such as a shift from line item to programme budgeting and to performance budgeting.

McKinney (1986:129) states that public budgeting developed out of the political and social necessity to share power. It was through the budget that the English aristocracy, in article 12 of the *Magna Carta* (1215), obtained both symbolic and substantive control over the king's absolute power of the purse. The barons obtained the power to say no to the king's revenue-raising objectives. Prior to engaging in domestic and foreign activities, the king was required to consult the barons and follow a recognised procedure before resources could be raised. In terms of the above, the budget could be said to be a product of the institutionalisation of the rules and processes wrested from a sovereign, excessively jealous of his prerogatives. The budget has, over time, evolved as a formal instrument guaranteeing accountability and as an important instrument of control in the modern democratic state.

Various countries such as New Zealand, Canada and Australia, have had to re-define their budgeting methods and strategies in line with new developments that were taking place in the budgeting area. This was influenced mainly by the need to effect accountability and improve the efficiency of the management of scarce financial resources. Other influences were the wars that would require more money to fund them, as well as changes in governance or the government structure. The reforms in South Africa being discussed here have mostly been influenced by the political

changes that occurred and that also affected the structure of government. However, the financial administrative reforms adopted in recent years have followed those introduced in countries like Australia and New Zealand in the areas of budgeting and general financial management, according to the Department of State Expenditure's PFMA Departmental Briefing (1999:2).

3.6.3.1 Budget defined

Different authors define *budget* in different ways. Although Kohler (1956:67) defines *budget* as a financial plan serving as a pattern for and control over future operations as well as a systematic plan for the utilisation of manpower, material or other resources, Turnbull III (1970:100) describes it as dealing specifically with money because it tells how much money is planned to be spent while specifying when it is going to be spent. Both these definitions put more emphasis on control. It is, however, the definition by McKinney (1986:131) that is found needing further attention. McKinney states that a *budget* is an economic, planning, and social document. It is a comprehensive financial work plan covering a specific period of time. The plan outlines the services and activities or projects to be provided and indicates the necessary expenditures and available resources in quantitative terms. The plan takes into account community preferences as competing claims and indicates how the resources will be allocated to satisfy these claims. All those whose preferences count are represented in the budget in financial terms, that is to say, the groups or individuals receiving benefits, like subsidies in the form of welfare, tax relief, and day care, will be indicated.

McKinney (1986:131) argues that a budget links the financial resources and human behaviour necessary to accomplish policy objectives. Because the budget allocates scarce resources, it is an economic instrument. It is a political instrument as it settles conflicts in determining who will get how much of the available scarce resources and when. It is a social instrument as it is a device for distributing benefits and costs according to community preferences. It is within this context that budgeting will be discussed in this research. This

is in line with the approaches followed in different countries in the world, as well as in South Africa, when dealing with budget matters.

Budgets are increasingly being used for political reasons in the quest for power. The focus has shifted to include institutional arrangements and the link between policymaking and budgets has been strengthened too. Mohr *et al.* (2000:451) state that the budget is essentially a reflection of political decisions about how much to spend, what to spend it on and how to finance it. Because of the important effects that government spending and the way it is financed have on macroeconomic variables such as aggregate production, income and employment and the price level as well as on the distribution of income, the budget preparation process has to take these factors into consideration.

In South Africa, it is the responsibility of the Minister of Finance to present the budget to the Parliament before the beginning of every financial year, outlining how government proposes to fund its expenditure for the ensuing financial year. The minister also indicates how the total budget has been allocated to different departments, with particular emphasis on the specific functions that should be carried out by the departments with the funds so allocated. Through the budget, the minister demonstrates how government manages the financial resources of the country in any particular financial year. The financial year in South Africa is from 1 April up to 31 March the following year.

3.6.3.2 Functions of a budget

The previous section gives an indication of the functions of a budget as a planning instrument and as a control instrument. The specific activities to effect these functions are discussed below:

i) Budget as a planning instrument

One of the functions of a budget, according to Turnbull III (1979:101), is to allocate financial resources in accordance with identified measurable objectives. Because government financial resources are scarce, they need to

be managed with care. Before these resources can be used, a plan, detailing the specific activities, functions and objectives to be achieved should be prepared. The plan should include answers to questions such as: who, where, how much, when and why?

The policy direction of an organisation or government department can be described within its budget allocation. As a plan, the budget indicates a specific policy direction for a specific period of time, usually a financial year or a multi-year period. It contains a set of co-ordinated choices aimed at achieving articulated goals and objectives. Through the MTEF process that South Africa has adopted as part of its budget planning mechanism, multi-year budgets are prepared to give policy directions for a number of financial years in the future, usually three years, according to the Presidency (2001:3).

The availability of financial resources will always be an important factor to be considered when goods and services have to be acquired; and where the original plan does not meet the intended objectives, it should be amended without any waste of time and a different course of action taken. A plan gives the direction towards which the intended activities will be directed.

The allocation criteria determine how limited resources are to be divided among alternative uses. If these criteria are defective, it is likely that a mal-distribution of government resources will result. Resources will be allocated to some structures that should not receive them, while units that do need them may not be allocated sufficient funds. This outcome denies the government component the best potential use of its scarce financial resources.

In South Africa, the medium term budget policy statement issued by the Minister of Finance during February of every year is an important policy document that gives a plan of how the financial resources of this country are to be used within a specified number of months or years. Through this document, the minister states how and for what purposes the funds have been allocated. It is during the tabling of the budget policy statement that the government's influence on the economy is demonstrated quite clearly. The

effects of changes on taxes, welfare allocations and the available government financial resources are stated. This document outlines the possible economic situation the country is likely to face in the near future. Most economists and business people would normally make their future plans based on the policy statement of the Minister of Finance.

Fiscal policy is an important government instrument for planning purposes and the main instrument for realising fiscal policy is the budget. Through the fiscal policy, the government is able to stimulate economic growth and employment, redistribute income, control inflation and address issues related to the balance of payments. The proponents of the Keynesian theory advocate the use of fiscal policy to regulate the business cycle. According to them, when the economy is in recession, increased government spending could be used to stimulate the economy while taxes could be used to cool down the economy during boom times. The South African Reserve Bank also plays a particular role when it influences the rate at which it lends money to the commercial banks through the repurchase (repo) rate.

ii) Budget as a control mechanism

In general, needs always exceed the available resources, according to Cronje *et al* (2000:78-79). Where the resources are more than the needs, the control on the usage of those resources might not be as necessary as when the needs outnumber the available resources by far. In the public sector, control over the scarce financial resources is essential because the taxpayers want assurances on how public funds are being spent by the government.

A budget can also be used to monitor and assess the performance of various programmes and individuals by providing continuous feedback on their spending progress. Variance analysis of performance at timely intervals permits corrective action to be taken.

A budget serves as a contract between the provider of the funds and the deliverer of goods or services. With the amount of financial resources

allocated, specific output is expected. In the South African Government, the executing authority also expects a specific level of performance from the manager as a result of the allocation of an amount in the budget. This accountability is explicitly implied in government when the executive authority presents the budget for the financial year and expects the administrative officials to spend and deliver on the agreed objectives according to Section 65 of the PFMA, 1999.

3.6.3.3 Multi-year budgeting

In practical terms, according to Lee and Johnson (1998:65), budgeting is a continuous process that is conveniently subdivided into blocks of time. As such, budgets reflect a short-term perspective, a medium-term perspective, as well as a long-term perspective. The short-term perspective determines how much can be spent in a particular month, quarter and current budget year. The medium-term perspective determines programming and estimating within the next three- to five-year period. The long-term perspective determines what the implications are of government taking on a programmatic commitment on a permanent basis.

Budgets were, for a very long time, according to Lee and Johnson (1998:65), prepared on a year-to-year basis. The seemingly unsophisticated nature in the past of administering a government as well as the size of budgets themselves necessitated a short-term type of budgeting. As the size of governments and of budgets increased, so was the need to have a longer-term budget. Short-term budgets, because of their size, have the advantage that they are easy to prepare and manage. They are effective for short-term planning. The authors note that it might be easier to prepare and manage short-term budgets for a single financial year than for more than a year.

Unlike short-term budgets, medium- to long-term budgets are effective as a planning tool. It might not be necessary to plan for the short-term operations. Government responsibilities have become increasingly complex and the need to plan and provide resources over a longer period has become necessary.

Most people are used to short-term budgeting and moving to long-term budgets usually create some problems of incrementalism, i.e. a situation where the current budget would just be increased by a percentage amount to arrive at the following year's budget. The problem with this budgeting method is that the increased budget cannot be associated with increased services to be offered. However, the short-term nature of an annual budget is often criticised on the basis that it impedes effective expenditure management, and as such, planning becomes ineffective.

According to Axelrod (1988:274), an annual budget carries the burden of past policy, budgetary and legislative decisions, leaving little room to manoeuvre. Hence, in any one year, the overwhelming proportion of expenditures is uncontrollable. Whether unconcretionary programmes, or fixed charges like interest on debt and retirement contributions, the effect is to reduce sharply the range of executive and legislative discretion in any one year; at best, then, short of a crisis, chief executives and legislative bodies can only nip at the margins of the budget. The medium-term budget can be a mechanism used to solve this problem.

As one of its reform processes, the South African Government introduced a medium-term budgeting process referred to as the medium term expenditure framework (MTEF) to strengthen its planning process catering for the longer periods than what used to be.

i) The medium term expenditure framework (MTEF)

The medium term expenditure framework (MTEF) was introduced in 1997 by the South African Government as the basis for a more strategic approach to public expenditure planning and management to deal with the short-term budgeting processes of the previous years. According to the Department of Finance's Draft MTEF Handbook (1997:4), the introduction of the MTEF was the result of a continuous realisation of the weaknesses of the budgeting system applicable during that time. These weaknesses are reported to be the following:

- The budget was prepared on an incremental basis, which implied that a certain percentage would be added to the previous year's estimates to arrive at a figure for the next financial year. The process of preparing the budget did not involve reviewing whether the particular activities were in line with government priorities or whether they were being implemented in the most effective manner.
- In some votes, the structure of the budget did not adequately reflect the activities that departments were responsible for.
- The budget structure did not show any forward planning of the budget. There was no link between planning and budgeting, as these activities were kept separate from each other.
- The processes of preparation and monitoring the budget were quite separate.

The results of these weaknesses, according to the Department of Finance, were that:

- Funded programmes/activities continued from year to year, even when they were not consistent with changing priorities and circumstances.
- The budget process did not involve assessing the real funding requirements of services, but was based on adding a small percentage to the previous year's allocations, with the result that essential services were under funded.
- The efficiency and effectiveness of government services were not being reviewed.

- Capital spending proceeded without an assessment of recurrent cost implications and whether sufficient recurrent funds would be available to cover the recurrent costs that would arise.

It can be argued that most of the financial reforms introduced by the South African Government were aimed at attending to some of the above weaknesses. The reforms are also aimed at enhancing and facilitating effective financial reporting.

As a government depends to a large extent on funds received through taxes, it has to account to the taxpayers for what it does with the funds so received. These taxes are generally not sufficient to meet all the needs of the community and as such, apart from raising taxes, governments also borrow to augment available funds. These borrowed funds come with an added interest and to avoid this additional burden would only be through measures that are efficient and effective to do away with wastage. It was for this reason that control measures had to be implemented to safeguard existing resources.

The MTEF is also based on the premise that managers will have longer planning periods and as such, be able to manage their financial resources effectively when acquiring goods and services.

ii) Objectives of the medium term expenditure framework

Reforms are normally introduced with a view to making improvements where gaps have been identified. According to the Department of Finance's Draft MTEF Handbook (1997:5), the MTEF was introduced with an objective of improving the budget process in such a way as to:

- restructure expenditure both within and between sectors in line with clearly established priorities
- identify the actual costs of particular activities so that the government could begin to move away from incremental budgeting

- plan for restructuring of expenditures, as these shifts in expenditures cannot take place from one year to the next
- introduce a more rational approach to resource allocation by identifying a few priority activities, which would receive adequate funding and provide greater value for money.

The above objectives can be met only if the implementation thereof can be monitored. Corrective action also needs to be taken if intended objectives are not met.

iii) Benefits of the MTEF approach to budgeting

When it was first introduced, the medium term expenditure framework was hailed as an answer to problems that were experienced in the government concerning budgeting (Draft MTEF handbook, 1997:5). The major concern was the fact that budgeting, during that time, concerned itself more with financial allocations (input) than with what the funds were allocated for (output). This had the effect of encouraging managers and politicians to demand the allocation of more funds without indicating what the funds would be used for. Accountability would then be compromised in the process. The MTEF budgeting method has its own advantages and disadvantages.

iv) Advantages

The introduction of the medium term expenditure framework has the following benefits for the legislators, the government as well as civil society and citizens (Walker & Mengistu, 1999:32):

a) For legislators

The inclusion of estimates for the outer years (i.e. years beyond the first or current financial year) allows members of Parliament (MPs) to debate the

trends in spending and the direction of policy. They are better able to assess whether funding requests are consistent with the broad objectives of government and to assess progress towards transformation goals. Instead of simply presenting legislatures with requests to approve inputs to departments, the MTEF approach requires that legislators be presented with agreed outputs, timeframes and reports on actual expenditures and outputs of the previous year. This allows them to assess what the money is intended to buy and how well specific departments performed in the previous cycle.

- i) Within the system there are clearer roles and responsibilities for central agencies and line managers
- ii) Appropriate sanctions can be prescribed and enforced for political and administrative decision-makers
- iii) It is easier to judge whether output targets have been met than if an amount of money has been wisely spent
- iv) There is greater transparency and accountability and more space for participation by the legislature
- v) There is a stronger political role in deciding priorities and negotiating budget trade-offs

b) For civil society and citizens

- i) It creates an enabling environment for the government to do its job better
- ii) Greater transparency and accountability gives citizens a better idea where and how their tax money is spent
- iii) The emphasis on operational efficiency and improved incentives should improve service delivery

c) For government

- i) There is greater political involvement in making resource allocation decisions based on strategic priorities
- ii) Policy-making is determined by what is affordable. This leads to fewer policies that are unlikely to be implemented, which helps to improve the

- credibility of government
- iii) Expenditures are linked to delivery and outcomes by ensuring that resources are allocated to what will be delivered
 - iv) There is a comprehensive framework for government activity, linking medium-term targets, tax policy, debt management and expenditures to meet strategic objectives
 - v) Identifying the actual costs of providing services moves departments from an incremental approach to budgeting

As indicated, the mere introduction of reforms does not bring with it better management and control of financial resources. The successful implementation of these reforms is key to the manner with which government is expected to run its affairs. There are different role-players in the government, each allocated specific responsibilities aimed at effectively implementing the reforms and policies introduced. Government's role is captured in terms of what each individual or group of people do in promoting these policies.

v) Challenges facing the MTEF

Although the MTEF method of budgeting has many advantages as depicted above, it needs to be understood and implemented effectively. The fact that MTEF allocations are made for a number of years in the future can be seen to constitute incremental budgeting as the allocations for the outer years are a percentage increase of the financial year under consideration's figures. Although inflation and some other factors might have been taken into consideration, it cannot be determined with certainty whether those factors will lead to a continued increase in price.

The MTEF budgeting method was supposed to eliminate the issue of roll overs where it would not be necessary for departments to ask for rollovers of unspent funds where these had been committed over a number of years within the MTEF. Currently departments are still required to requisition for

unspent funds by way of rollovers into the following financial year. This leads to the benefits of the MTEF process being lost.

3.7 CONCLUSION

Effective financial management within a government is dependent on effective public financial management systems that are used to report, account and manage financial resources. These systems are usually affected by the type of government system in place. They change in line with reforms that take place within countries to enable them to account for policies and processes introduced as a result of the reforms.

In South Africa, the democratic processes introduced as from 1994 have also brought about financial reform processes that aligned themselves with the new order. These reform processes are entrenched in the Constitution and are obligatory in terms of an act of Parliament. This Act of Parliament (the PFMA, No.1 of 1999), assigns different responsibilities to political office-bearers in terms of reporting and accountability.

The political office-bearers, as leaders, are obliged to understand the different accounting and reporting financial management systems for them to be able to give the leadership direction and oversight that the public managers expect from them. It is the managerial leaders that should be able to advise on the effectiveness of these systems.

Parliament needs to understand how public funds are utilised and accounted for. As indicated, there are many systems that are used to report, account and manage public financial resources; be it goods or services. When these different systems have been developed, questions to be asked are: how effective are they being implemented and what results are they producing? These questions can be answered through a process of determining or evaluating the implementation, as well as the effectiveness of these systems once they are implemented and these are analysed in the next chapter.

CHAPTER 4

FINANCIAL MANAGEMENT IMPLEMENTATION IN THE PUBLIC SERVICE

4.1 INTRODUCTION

Different institutions manage their resources differently and in a way that will satisfy their needs. The public sector reports and accounts for its resources in a way that suits it as well as those it does business with. The South African public service has developed financial management systems, through its reform process, to manage its financial resources. In this chapter, an analysis will be made of how public financial management, after systems have been developed and put in place (as discussed in the previous chapter), is currently being applied or implemented in the South African public service. This will be done by way of considering the current methods of applying and implementing public financial management processes and systems that include, but will not be limited to, budgeting, accountability, project evaluation as well as supply chain management within the South African public service.

Different processes relating to dealing with financial management currently being applied within the South African public service will be analysed. Because the South African government operates uniform and transversal systems of financial and resource management throughout the public service, the observations and decisions thus reached will help show how the public service operates.

4.2 FINANCIAL MANAGEMENT IN THE PUBLIC SERVICE

Financial management in the Public Service is carried out in a number of ways depending on the management style within different organs of the state, but in line with the different legislative prescripts. In most cases, strategic plans are required to determine the direction a particular department or institution wants to take.

Activities to be performed are planned and then funds needed for the implementation of those activities are identified through a budget process. The expenditure incurred in the performance of functions is then managed in such a way that maximum benefit can be attained with the allocated budget. Budget allocation is one of a number of ways that the state uses to fund its activities. The allocation is then made to different government departments out of the National Revenue Fund that is established by the National Treasury in terms of section 213(1) of the Constitution of the Republic of South Africa, 1996. The National Treasury (representing the government) raises funds from different sources within and outside the country. These funds are then allocated to different government departments and entities through a budgetary process that considers overall government objectives to be attained through the spending of those funds.

Through their operations, most government departments are able to raise funds internally. These funds are then paid into the National Revenue Fund that is managed by the National Treasury on behalf of the government. In a few circumstances, some departments such as the Department of Water Affairs and Forestry (DWAF), have been given the authority to raise and keep the internally generated revenue for their own internal operations.

The Department of Water Affairs and Forestry, as one of those departments that are able to generate and keep those funds for its own operations, operates a trading account which it keeps separately from the funds received from the National Treasury through the normal budgetary process. The activities performed under DWAF's trading account require more funds than the revenue generated from these activities with the result that the shortfall thus experienced is always augmented or supplemented from the National Revenue Fund as it appears in DWAF's vote 34 budget document for the financial years up to 2003/04.

Most departments still manage their finances on a cash basis and this is not in line with the requirements of the Constitution. According to section 216(1)(a) of the Constitution, 1996, government financial management must be

managed in terms of generally recognised accounting principles which introduced accrual accounting. Under the cash accounting basis, transactions and other financial activities are recognised when cash is received or paid, whereas under accrual accounting, activities and other financial transactions are recognised when incurred and without consideration of whether the money is paid/received or not. Under the financial management system (FMS) used by government departments, cash-related transactions are recognised when funds are actually received and this system does not make provisions for future receipts. Because this is not in line with the requirements of accrual accounting, it has influenced many departments to incorporate the basic accounting system (BAS) as their financial system because of its perceived ability to report more efficiently on some issues than the FMS.

4.2.1 Planning and budgeting in the Public Service

In the South African Public Service, planning and budgeting support each other. It is strategic plans that influence the way that budgets are allocated and not the other way round. Because of the intrinsic relationship that exists between these two, the discussion of any one of them will necessitate the mention of the other. Budgeting should never be considered complete without plans being put in place first.

4.2.1.1 Planning cycle

The planning process in the public service is centrally managed. Every year in September government departments compile their strategic plans within which service delivery priorities are identified for the short-term, medium-term and long-term periods based on the identified needs of the departments or the communities they serve. Managers, representing different functions within those departments, identify key areas within which services have to be provided. These key performance areas (KPA's) are determined for each department. When the plans are completed, they are prioritised in order to determine their level of importance and hence funding, because they will be competing for the same scarce financial resources.

The strategic plans are prepared for a short- to a medium-term period and incorporate budgets that have been prepared in accordance with the MTEF requirements. After completion, these are then submitted to cluster committees for review before they are submitted through each department's minister to the Cabinet. The MTEF allocations, after approval by Cabinet, are then tabled in Parliament. This normally takes place during November and covers a period of three financial years.

According to the Presidency's Planning cycle for the Government of the Republic of South Africa 2002-2004, all government departments' planning and budget cycle is performed within the national planning and budget cycle as shown in Table 4.1. The incorporation of the planning cycle with that of the budget cycle strengthens the notion that plans guide budgets.

Table 4.1: Government planning and budgeting cycle

Period/ Month	Planning or budgeting activity
September	Submission of annual reports and audited financial statements in terms of the Public Finance Management Act (PFMA)
September	Medium term expenditure committee (MTEC) meets for consideration of the next medium term expenditure framework (MTEF)
September/ October	National and provincial departments conduct strategic planning and identify priorities for the short, medium and long terms. Provinces review the integrated development plans (IDPs) and include summaries in reports for national cluster synthesis.
October	Treasury committee considers budget adjustment estimates for the current year
October/November	National departments and provinces prepare mid-term reports and submit them to the Presidency and the

	corresponding Clusters together with their reports, strategic plans, priorities and local integrated development plans
November	Clusters review material and integrate short-, medium- and long-term priorities in consultation with co-ordinating ministers
November	Cabinet approves the MTEF for the next three financial years and tables it before Parliament for adoption
November	The Forum of South African Directors-General (FOSAD) goes on a strategic planning workshop on the draft medium term strategic framework
November/ December	Clusters review and finalise plans with co-ordinating ministers and distribute documentation for the following January Cabinet Lekgotla
January	Cabinet Lekgotla reviews priorities, approves the medium term strategic framework (MTSF) for the next MTEF period and also lays the basis for the President's State of the Nation Address
February	State of the Nation Address
February	The MTSF is made public and communicated to all affected participants
February	Budget Day by the Minister of Finance. The MTEF budget is tabled before Parliament
March	Consolidation of the MTSF for budgeting processes
March/April	MTSF consults with provinces in the Budget Council and with Local Government in the Budget Forum and PCC. Local government commences IDP process
April/May	MINCOMBUD finalises the medium-term policy priorities (MTSF) for the next MTEF period for budgeting purposes
MTSF informs the MTEF	

June	National departments and provinces submit their MTEF budgets to the National Treasury
July	Cabinet Lekgotla reviews progress, reprioritises and lays the basis for the new planning cycle starting in September, as well as the budget estimates in October
September	Planning cycle sequence recommences

Source: The Presidency: Planning cycle for the Government of the Republic of South Africa 2002-2004

The above planning cycle is important for the effective management of time and resources. With this alignment of the planning cycle with the budget process, the strategic plans of the government are now used to direct the budget allocation and thus enhance performance reporting. This has been one of the most important reforms that the government has introduced, the correct implementation of which will ensure success in running the affairs of the state.

Although the above planning and budgeting process does assist in the attainment of government objectives, there is one major shortcoming or weakness. This relates to the fact that the government operates within three spheres, being the national, provincial and local government spheres. The local government planning and budgeting process is not aligned to that of the other two and this can make planning difficult.

4.2.1.2 Budget as a planning instrument

As indicated, budgeting in government departments is performed on the basis of the strategic plans and operates within the national guidelines as shown in Table 4.1. The community's needs are always more than the resources available to satisfy them and every year strategic plans point to an increase in the number of projects that need to be funded and completed in order that departments meet their identified service delivery needs and priorities. The key performance areas that form the basis of each department's strategic plans are then costed to determine their financial value for the particular

MTEF period. The costs so determined translate into a budget of the particular department for the budget period under review.

The above is in line with the definition of a *budget* by Vocino and Rabin (1981:232), who refer to it as a document indicating how a public institution spends resources in order to realise specific public goals. The government in general spends its resources to realise its specific goals. In realising these specific goals, the government mainly applies two budgeting methods to allocate its financial resources and these are the incremental budgeting method and the zero-based budgeting method (ZBB).

Although strategic plans determine the amount of money that is ultimately required, many budget allocations of most government departments still show strong tendencies of previous year allocations being percentage increased to reflect current or MTEF allocations, as shown in the estimates of national expenditure (ENE) report produced yearly. Incremental budgeting assumes that prices will be affected by increases in inflation and other natural causes having an effect on the ultimate prices of goods and services to be acquired. With incremental budgeting, it is assumed that the activities and functions that were performed in the previous financial year will continue, but at a little higher cost as affected by inflation and other minor costs. This is clear when budgets for administrative costs and maintenance of infrastructure are prepared where a percentage of the previous year's allocation is added.

Zero-based budgeting is recognised and used extensively in the Public Service and is considered the most appropriate budgeting method to be used, especially where new projects are considered because costing can be done from the start of the project. This budgeting method has been in existence and used over a long period in governments of countries like the United States of America (USA). According to Nigro and Nigro (1980:346), Jimmy Carter, as Governor, ordered the implementation of zero-based budgeting for the State of Georgia after it was introduced to him by Peter Phyr. Peter Phyr, according to Garbutt (1992:111), invented zero-based budgeting whilst at Texas Instruments when the company faced a dramatic change in the market

for its products and in the skills required from its workforce and management. It is reported that the company needed to break away from the comfortable habits of incremental budgeting and start from scratch.

Later, in 1979, when Carter became President of the USA, ZBB is reported to have been introduced into the federal administration and has since been used as part of the federal administration's budget process.

Zero-based budgeting is applied differently from incremental budgeting as it assumes that the cost of any project is determined from the start or from the unfinished/remaining part that still needs to be completed, while incremental budgeting adds a percentage to the previous allocation as a result of inflation and rise in costs. Zero-based budgeting starts from the assumption that levels of expenditure in the previous financial year do not necessarily justify continuation of the same expenditure in future financial years. All spending must be justified from zero every year, including spending on existing projects that were not completed in the previous financial year.

The advantages of the zero-based budgeting method, according to Garbutt (1992:112), are that it:

- a) forces examination of all current services and support activities in the light of corporate objectives and strategies, not just new proposals;
- b) looks for alternative ways of performing activities and eliminates activities which are no longer necessary;
- c) identifies the resources required to perform activities at various levels of priority;
- d) is effective in ranking all activities in terms of importance and securing optimum allocation of scarce resources.

The above advantages have played a major role in influencing the South African Government to adopt the zero-based budgeting method to manage its budgets through the introduction of the MTEF budget method. With the MTEF,

it is assumed that expenditure for the number of years in the future can be determined and costed from zero based on the specific requirements for each year. Through budgets, most government departments are able to determine the number of projects and activities that they can engage in, as well as determining the time frame it will take to complete them. This enables the departments to plan effectively for the future.

4.2.1.3 Budget as a control mechanism

The plans that were considered during the determination of the amount of money to be provided assist the controlling function of ensuring that the allocated funds have been used effectively and efficiently for the purposes for which they were provided. For this reason, regular reporting that is done either monthly, quarterly or annually is performed by many departments to ensure that targets are met. The budget is used to control expenditure either before spending takes place or after spending has already taken place. Theo Haiman (in Basi, 1968:133) defines *control* as follows:

Control is the process of checking to determine whether or not plans are being adhered to, whether or not proper progress is being made towards the objectives and goals, and acting if necessary to correct any deviations.

According to Gildenhuis (1993:410), *a priori* control is prescribed control, i.e. control measures which are based on prescriptions and which are framed *before* any act takes place and prescribe how the act should take place while *ex post facto* control is exercised after the act has taken place.

In most South African government departments, both control measures are extensively applied in the management of public financial resources. In applying *a priori* control, departments are guided by the Treasury Regulations. This is a document that prescribes how the public sector financial transactions should be conducted. To assist them further in the implementation of the Treasury Regulations, departments develop internal departmental rules and

other control mechanisms to strengthen their internal application of the financial management requirements.

Currently, most government departments apply for *ex post facto* approval from the National Treasury in instances where control measures were not adhered to in the acquisition of goods and services and where urgent decisions were acted upon before approval was given. Depending on the reasons advanced, the National Treasury is authorised to grant *ex post facto* approval, failing which the expenditure becomes unauthorised and only Parliament can condone it, should Parliament be satisfied that no ulterior motives were present.

4.2.2 Expenditure management/control in the Public Service

The National Treasury has introduced a number of mechanisms and processes to manage state expenditure to ensure that scarce financial resources are utilised efficiently and effectively to meet general government targets. The early warning system and the tendering procedures are used respectively to ensure that spending is monitored and controlled and also that the acquisition of goods and services is done transparently with a view to the requirements of the department and within the available financial resources.

4.2.2.1 The early warning system (EWS)

The early warning system is an expenditure control mechanism under which all government departments in the national and provincial spheres of government report monthly to the National Treasury. Table 4.2 serves as an example of a standard early warning report that is used to report expenditure details of departments to the National Treasury. The report shows the budgeted amount or expected expenditure for the department for the 2004/05 financial year which is expected to be spent within the said financial year as R3 865 504 000,00. Although this money is allocated to the department, it has to be requisitioned from the National Treasury on a monthly basis in advance because the National Treasury does not keep this money. It is kept at the

South African Reserve Bank and, according to the Banks Act, 1990, (No. 94 of 1990), earns interest at the normal applicable rates applied within the SARB.

In terms of the EWS, actual expenditure levels are monitored on a monthly basis and are compared with projected expenditure levels. Although it is not expected of any particular department to spend a twelfth or 8,33 percent of its allocated budget every month, the early warning system contributes to monitor deviations from the planned expenditure levels. The EWS operates on the basis of expenditure for the ensuing quarter being forecasted and cash for that period being requisitioned in accordance with the forecast. The actual expenditure for that period is then compared with the forecasted expenditure to identify a pattern. Money withdrawn in excess of actual needs, and not in terms of the forecast denies government the opportunity to earn interest, while spending more than the available requisitioned amount comes at an additional cost. A comparison of the monthly forecast expenditure with the monthly actual expenditure indicates the difference between the two being very small. This will not cause any problems and shows that the cash flow management within the department is very strong.

In line with the project life cycle, spending starts at a slow pace during the planning stage but improves when the actual implementation commences. This is confirmed in the EWS report when it is indicated that there is little spending at the beginning of the financial year whereas towards the 3rd and 4th quarters of the financial year spending increases and reaches the highest level towards the end of the financial year. Through the EWS reports, the amount of money that the National Treasury draws and avails to government departments monthly is controlled. Large drawings associated with low expenditure levels deny the National Treasury the chance to earn interest while the opposite results in penalties from the Reserve Bank and other commercial banks. Early warning reports are submitted to the National Treasury through the minister of that particular department. Through the early warning reports, ministers also get the opportunity to know about their

departments' expenditure patterns which might give an indication of the rate and level at which services are being delivered.

Every quarter government departments submit a report to the National Treasury that combines the monthly reports up to the end of that quarter. The report of the 3rd quarter is important as it comes at a time when adjustment estimates will have just been tabled, indicating the additional funds provided for each department. As shown in Table 4.2, this is the time when concerns are raised about the ability of particular departments to spend their allocated funds.

Table 4.2: Early warning system report

ACTUAL AND PROJECTED EXPENDITURE: 2004/2005 FINANCIAL YEAR																			
Vote 34: Department of Water Affairs and Forestry																			
	April	May	June	July	August	September	October	November	December	January	February	March	Total expenditure End of October 2004	Projected expenditure from November to 31 March 2005	Total expected expenditure	Original budget	Adjusted budget	Adjusted	Variance between
PROGRAMMES													Expenditure	Expenditure	Expected	Budget	Budget	Budget	Available funds
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000			R'000	R'000
Administration	14,873	20,205	16,211	27,503	26,925	29,421	47,817	23,060	26,978	27,579	29,651	31,118	182,955	138,386	321,341	252,762	29,279	282,041	(39,300)
Water resource (P&R)	13,012	16,895	26,574	19,412	19,053	18,718	21,515	38,015	41,705	49,631	50,959	106,295	135,179	286,605	421,784	340,954	80,830	421,784	0
Water resource (Operations)	43,713	48,061	170,868	105,451	78,132	48,585	116,548	(7,246)	104,388	109,855	109,520	241,307	611,358	557,824	1,169,182	1,024,801	144,381	1,169,182	0
Water services(P&R)	6,524	2,854	2,968	3,253	1,478	3,052	1,429	5,436	5,361	7,851	11,388	8,817	21,558	38,853	60,411	60,411	0	60,411	0
Water services (Operations)	12,706	69,947	242,136	99,869	87,696	28,109	182,317	119,559	110,008	114,345	134,650	245,343	722,780	723,905	1,446,685	1,273,361	173,324	1,446,685	0
Forestry (P & R)	638	844	1,227	1,021	1,228	1,989	1,286	2,522	2,273	2,424	2,143	2,612	8,233	11,974	20,207	20,207	0	20,207	0
Forestry (Operations)	23,066	26,345	65,204	28,120	46,104	34,740	37,116	35,821	29,868	32,392	31,575	32,451	260,695	162,107	422,802	329,648	93,154	422,802	0
Theft and losses	0	42	6	328	18	114	50						558	0	558	0	0		(558)
Unallocated trading account	596	521	612	263	384	51	107						2,534	0	2,534	0	0		(2,534)
TOTAL EXPENDITURE	115,128	185,714	525,806	285,220	261,018	164,779	408,185	217,167	320,581	344,077	369,886	667,943	1,945,850	1,919,654	3,865,504	3,302,144	520,968	3,823,112	(42,392)
Land and subsoil assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Theft and losses	0	42	6	328	18	114	50						558	0	558		0	0	(558)
Unallocated trading account	596	521	612	263	384	51	107						2,534	0	2,534			0	(2,534)
TOTAL EXPENDITURE	115,128	185,714	525,806	285,220	261,018	164,779	408,185	217,167	320,581	344,077	369,886	667,943	1,945,850	1,919,654	3,865,504	3,302,144	520,968	3,823,112	(42,392)

Source: Department of Water Affairs and Forestry's early warning system report for October 2004

Control incorporates the development of a feedback mechanism to measure the results of a department's activities. This mechanism serves to determine whether tasks, projects and programmes have been executed in accordance with identified targets and specifications. It is through the early warning system reports that departments can determine their level of spending. Where this is not satisfactory, a department takes appropriate action to manage under spending or overspending to ensure that proper financial management is applied.

4.2.2.2 Revenue collection and debt management

In South Africa, the public sector institutions are the major providers of services to the majority of users in the country. The users are expected to pay for the services provided to them so as to enable the state to continue to provide these services. Revenue collection in the South African public service since the 1980s is facing many challenges. The collection of revenue for the above-mentioned services by the state does not meet the usage of the services so provided. Because of the pressure on the state to continue providing these services, some municipalities have had to cut water and electricity supplies to those people that have not been able to pay for the services and in other instances where it was obvious that payment could not be received (Dan Dhlamini in City Press, April 2005:5), some of these debts had to be written off.

The Department of Water Affairs and Forestry, as an example, receives part of its funds from internal operations in the form of internally generated revenue from the sale of raw bulk water, as well as from the sale of its forestry resources. Revenue is managed both manually and through a computerised system called the Water Use Authorisation and Registration Management System (WARMS). The WARMS is used mainly to manage the sale of water and not for other types of revenue.

Water users for agricultural purposes are registered, giving an indication of the quantity of water that they will need on a regular basis. At the end of every

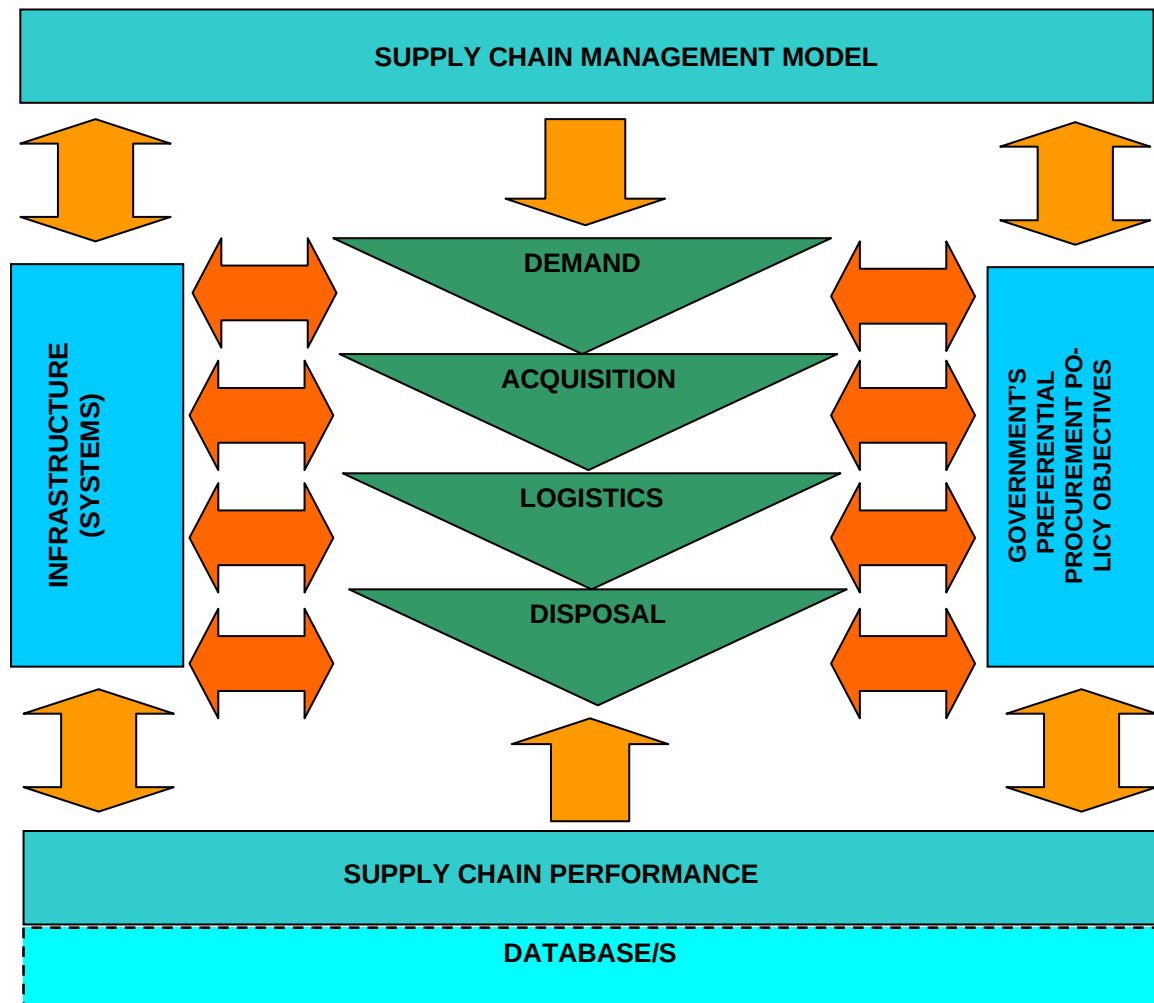
month, consumption figures are determined and statements of usage prepared and sent to the users. The process of registering the users and collecting revenue had been done manually, although processes are now at an advanced stage to have these computerised. Those in arrears are reminded to pay and the irrecoverable debts are then written off as bad debts. According to DWAF's annual report (2005:166), debts amounting to R12, 9 million and R 29, 2 million were written off as irrecoverable in the financial years 2003/04 and 2004/05 respectively. If it is assumed that similar amounts were written off yearly in the past ten years, it can be assumed that this particular Department has lost over R100 million during the said period.

4.2.2.3 Supply chain management (SCM)

Supply chain management, as introduced and applied in the South African public service, is a relatively new concept that refers to the effective and efficient acquisition of goods and services by the state. It covers five areas (as shown in Figure 4.1), within which the state normally operates concerning the acquisition of goods and services. The acquisition of goods and services from the many service providers to the South African Government is done in accordance with the PFMA guidelines. In terms of section 38(1)(a)(iv) of the PFMA, the accounting officer of a department, trading entity or constitutional institution must ensure that a department, trading entity or constitutional institution has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective.

The national government operates a centralised system of procurement of goods and services through the State Tender Board (STB). The State Tender Board has been established to ensure uniformity of approach in the acquisition and management of goods and services to the state. With the introduction of the PFMA, it has become necessary for every accounting officer to manage the procurement affairs of his/her department on its own as part of financial management.

Figure 4.1 Supply chain management



Source: National Treasury. Supply Chain Management Guide to Departments, 2004

The introduction of the supply chain management system of procurement is aimed at further strengthening the procurement activities through a uniform but decentralised procurement system. According to the National Treasury's "Supply Chain Management Guide to Accounting Officers/Authorities (2004:9)", there are four major objectives to be attended to with the introduction of SCM and these are:

- transformation of government procurement and provisioning practices into an integrated supply chain management function;
- introduction of a systematic approach for the appointment of consultants;

- creating a common understanding and interpretation of the preferential procurement policy; and
- promoting the consistent application of 'best practices' throughout the government's supply chain.

As part of the accountability requirements of the accounting officers introduced in terms of the PFMA, 1999, the Department of Water Affairs and Forestry has, since the year 2000, been operating its own procurement processes as part of a pilot project introduced by the National Treasury to move away from the centralised tendering system of the State Tender Board. The successful implementation of the procurement processes by other government departments resulted in the full-scale implementation of the procurement policy which in turn has resulted in the introduction of the SCM process.

As part of the implementation of its own procurement processes, DWAF has developed procurement policies and guidelines to implement the government's procurement policies as directed by the PFMA. These include the accounting officer's procurement procedures and the preferential procurement policy framework (PPPF). The preferential procurement policy framework is implemented by way of allocating preference points to three groups of service providers deliberately chosen, being the historically disadvantaged individuals (HDIs), women and disabled people, irrespective of their race. Within the HDI component is included 'black people', a term which is generic and used to define blacks, coloureds and Indians in accordance with the broad-based black economic empowerment (BBBEE) strategy.

Out of a total of ten preference points, five are allocated to black people, three to women and two to disabled people. The preference system is applied on projects or contracts with a monetary value not exceeding R3.0 million and is done to encourage participation by those who, in the past, were not afforded the opportunity to take part in the procurement process. The procurement of any goods or services, the value of which exceeds R3.0 million, is done

through an open tender process that does not take into consideration the preferences indicated above.

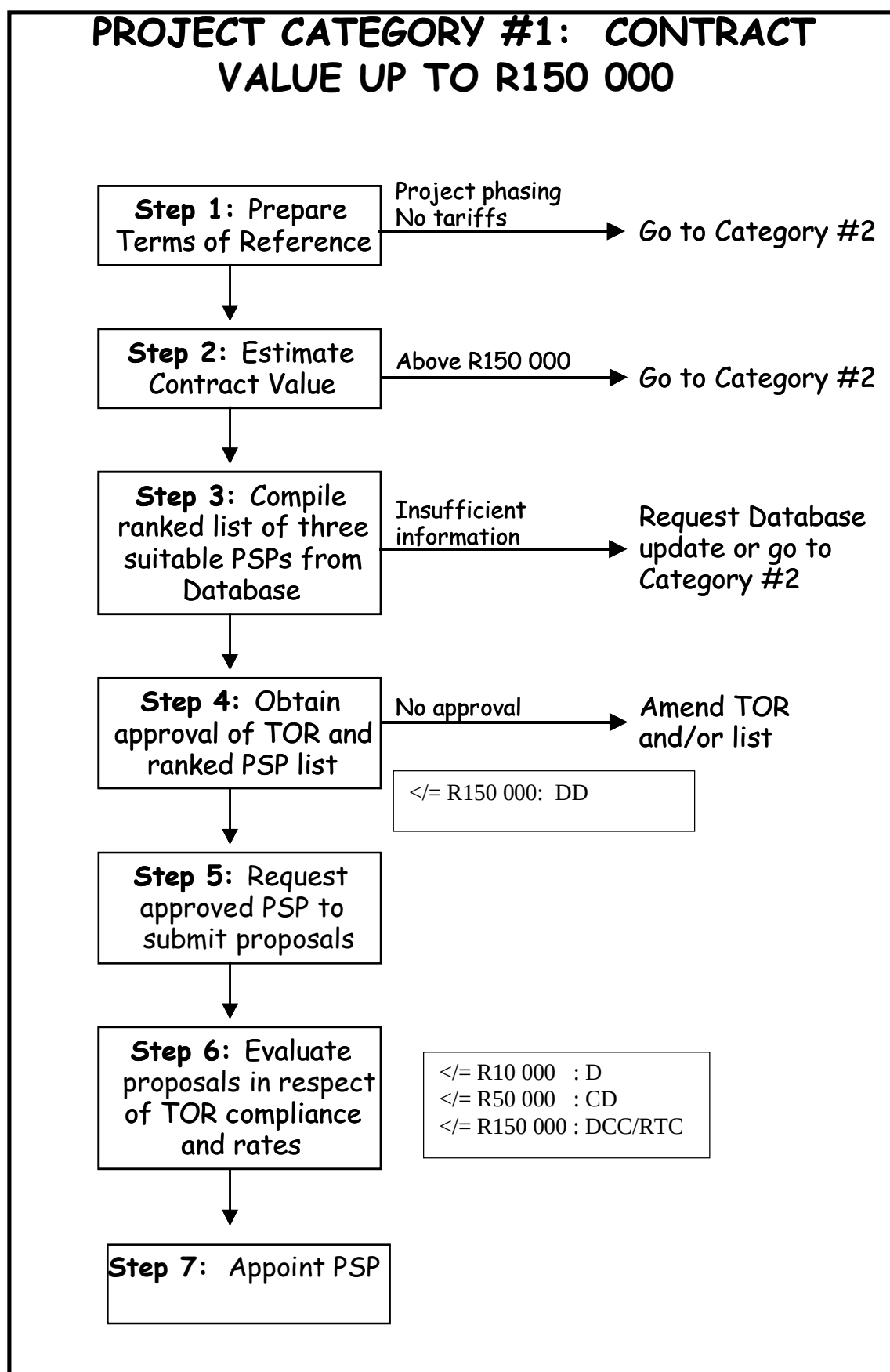
In the Department of Water Affairs and Forestry, the appointment of a service provider for the acquisition and/or delivery of goods and services is done in accordance with a process that is adopted from the department's policy on the appointment of professional service providers (PSPs), 2001 and is described below. The process takes into consideration three categories within which goods and services are provided, based on monetary values as shown in Tables 4.3 to 4.5 as follows:

Project Category 1: Contract value up to R150 000 (Table 4.)

The general approach to the procurement of goods and services below the expected contract value of R150 000 is to speed up the procurement process while ensuring that many small service providers are given a chance to showcase their ability. The successful implementation of a small project like that equips the particular service provider and provides experience to compete for contracts in categories 2 and 3. Some people qualifying as small service providers have graduated through this category and are now in a position to compete for contracts of a larger value in the next categories.

Due to the many service providers within category 1 with usually new or recently established businesses without enough capital funds to sustain them beyond the current contract, these service providers normally experience operational problems and cease to operate if they are not paid on time or given a second contract immediately. As much as there have been many entries in this category, there have also been many that had to exit the system at this level.

Table 4.3 . Project category 1: contract value up to R150 000



Source: DWAF's policy on the appointment of professional service providers

Many service providers in category 1 are relatively unknown and are therefore, usually hand picked by managers and advised to register on the departmental database and then given a specific assignment or appointed. This makes many of them to depend on the particular manager to continue creating work for them, failing which they normally cease to operate.

Within the projects of the Working for Water (WfW) programme of the Department of Water Affairs and Forestry, people start by being appointed as general workers, thereafter graduate to operating small projects for a period of about three years. This process provides training as well as to ensure that service providers are given work for a number of years. When they are ultimately set off, they stand a better chance of succeeding on their own due to the experience they will have gained.

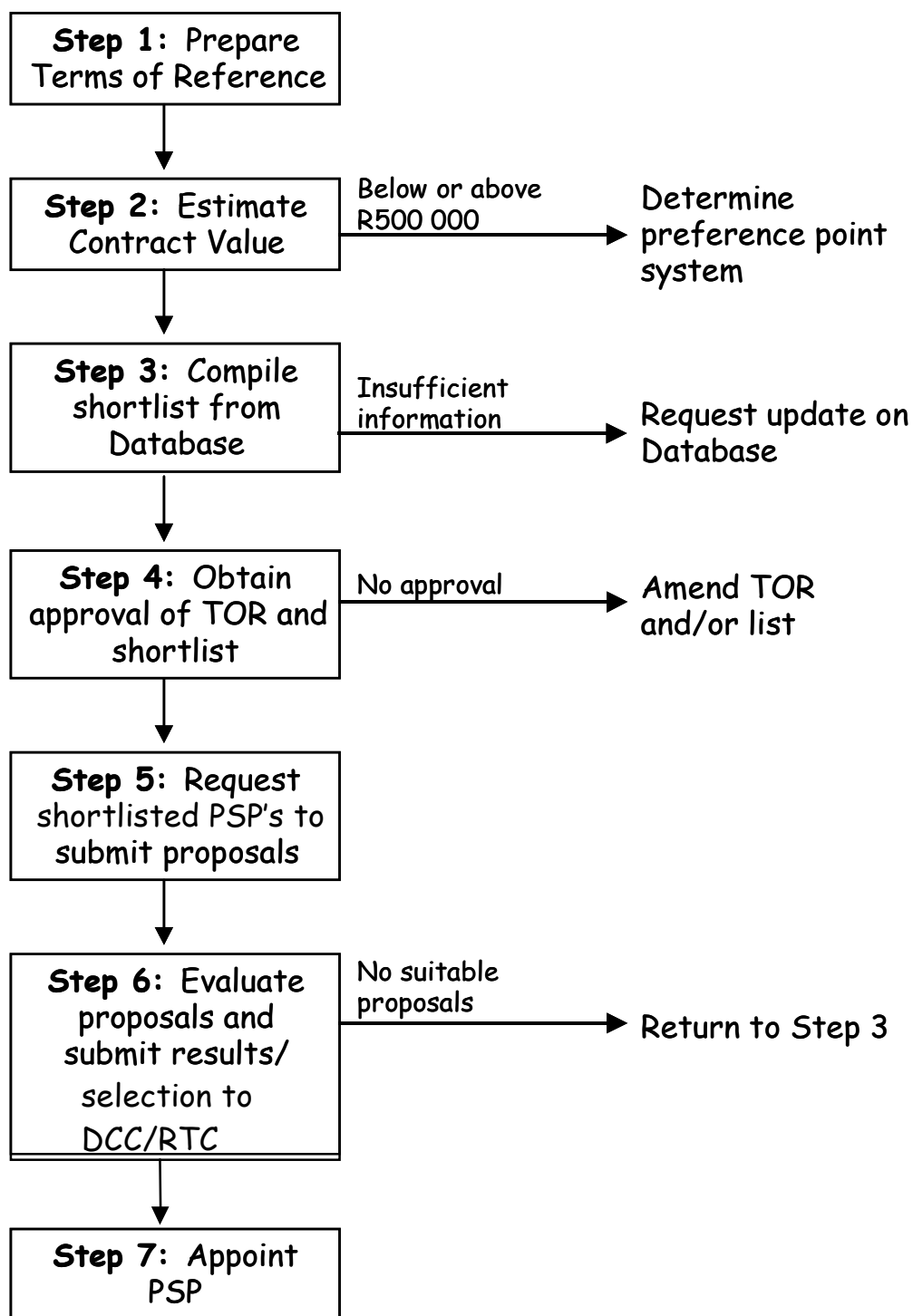
Contract value of between R150 000 and R3.0 million (Table 4.4)

The general approach to the procurement of services in this project value range is a strengthening of the historically disadvantaged enterprises (HDE) sector through deliberate and active measures aimed at capacity building and skills development. These measures include the implementation of participation rates and joint ventures (JVs).

Where specified participation rates are not achieved in initial proposals, compliance needs to be negotiated. A price premium (of up to 10%) may be allowed in instances where this approach requires investment in assets or time on the part of lead PSPs. Competitive selection is to be followed under all circumstances. Innovation towards BEE advancement is encouraged and actively supported by DWAF.

Table 4.4. Project category 1: Contract value above R150 000 and up to R3m

PROJECT CATEGORY #2: CONTRACT VALUE ABOVE R150 000 AND UP TO R3 MILLION



Source: DWAF's policy on the appointment of professional service providers

The appointment of service providers for contracts of between R150 000 and R3.0 million is done by way of selecting up to three service providers from the departmental database and requesting them to submit a quotation or proposal in terms of how much they will charge the Department for providing the particular service.

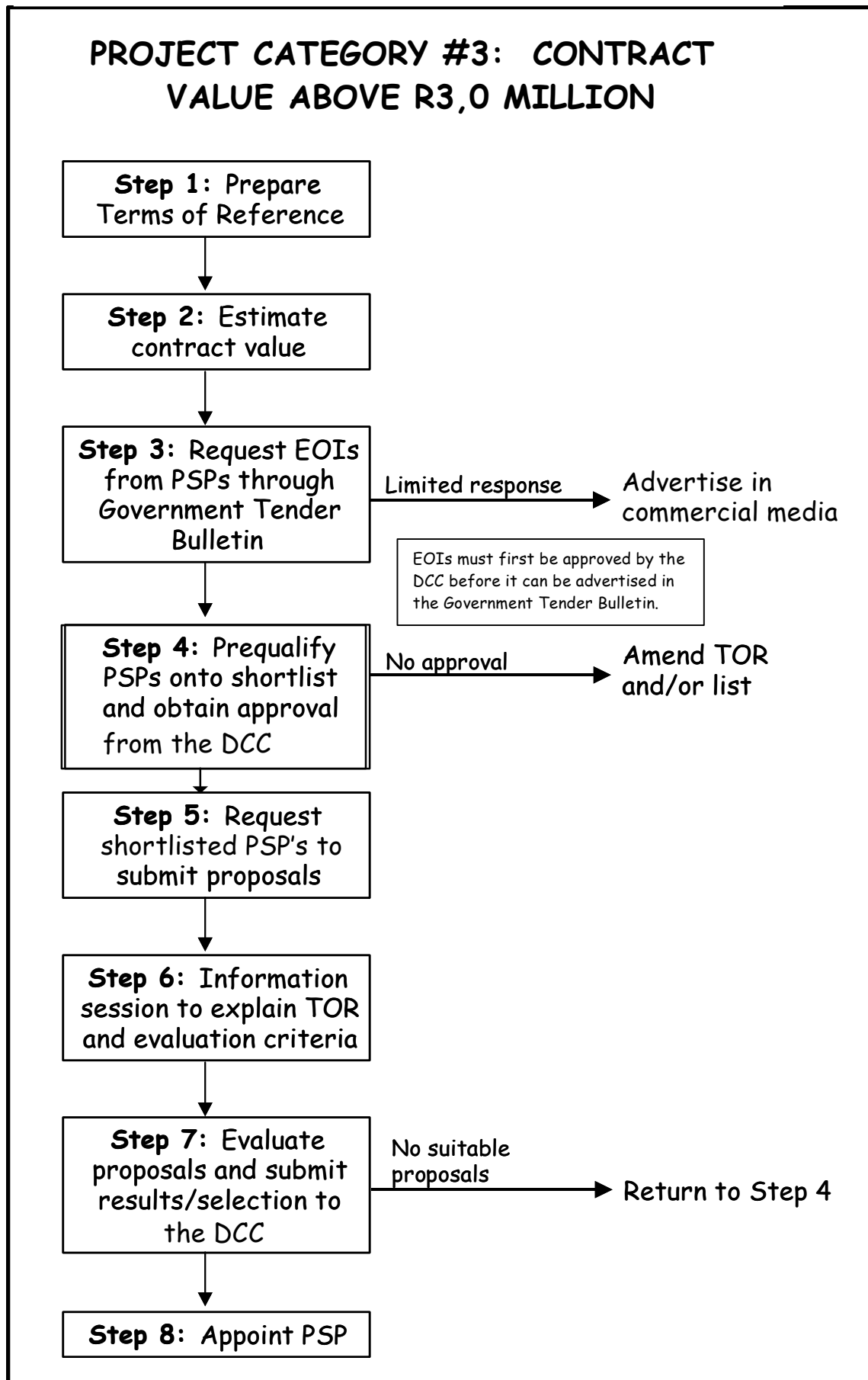
Project Category 3: Contract value of above R3.0 million (Table 4.5)

For contracts of more than R3.0 million, the open tender process is preferred where the professional service providers that meet the initial requirements will then be short listed and approached with the request for them to submit an expression of interest (EOI) document. The preferred supplier will then be selected on the basis of satisfying the prescribed criteria and will be approached to provide the required service.

As a result of the likely high contract value, and the multidisciplinary and probable complex nature of such projects, the approach to procurement usually emphasises and acknowledges that:

- ❑ the PSP with the best technical capabilities and project approach is selected at all times;
- ❑ investment on the part of PSPs and DWAF in terms of time spent up to appointment is minimised;
- ❑ few single PSPs have in-house resources to meet project requirements and JVs are thus common;
- ❑ multiple associations of various kinds amongst potential PSPs are frequent and considerable diversity in project conceptualisation and processes exists, thereby often rendering single selection procedures impossible to implement.

Table.4.5. Project category 3: contract value above R3.0 million



Source: DWAF's policy on the appointment of professional service providers

Up to two appointments per year of the same service provider can be made within the same category of goods and services to be provided. A third appointment in the same year within the same category can only be done with the concurrence and approval of the Departmental Control Committee (DCC).

4.3 FINANCIAL REPORTING AND ACCOUNTABILITY

Financial reporting and accountability can be regarded as the final stage in financial management. Different financial management systems can be developed and implemented, but if those systems are not effective in managing and reporting on available financial resources, they will not be effective for instilling confidence in the minds of taxpayers and the providers of donor funds. Financial reporting is a prerequisite for effective governance as it encourages transparency.

Financial institutions such as the World Bank and the International Monetary Fund, developed uniform financial reporting methods for organisations that borrowed money from them to report on. These methods ensure that reports are easily understood and that similar issues will be reported in the same way, reducing disparities of reporting and as such, fraud and corruption.

The South African Constitution, 1996, guides the manner in which financial management and reporting have to be performed in the public sector. Section 216(1) requires national legislation to establish a National Treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing generally recognised accounting practice and uniform expenditure management, amongst others.

Traditionally, governments used to deploy input-based budgeting systems and cash-based accounting systems. However, these systems do not provide the information that is necessary for a government to operate efficiently and effectively. Therefore, a growing number of countries have already shifted or are planning to shift from cash-based to some form of accrual accounting in the public sector. Usually, the implementation of some accrual based-system

is linked to wider financial management reforms including performance management requiring information on cost, according to Van der Hoek (2005:32).

Up to 2004, the South African public service utilised two methods of financial reporting, being the cash basis of accounting and the accrual basis of accounting. Concerns have been raised in the past with regard to the continued utilisation of the cash accounting method as this reporting method does not recognise particular transactions and the information provided in this way is not compatible with a world-class standard of reporting.

4.3.1 Cash accounting

With the cash accounting method of financial reporting, all cash receipts are recognised when cash is received and all cash outflows are recognised when cash is paid. Non-cash transactions are generally not recognised. Revenue and debt are only recorded when received or when financial statements are compiled.

4.3.1.1 Characteristics of cash accounting

There are many features of cash accounting but the following, according to Gutu, (in the East & Southern African Association of Accountants General 2003/04:2) are the easily identifiable ones:

- recognises transactions and events when cash is received or paid;
- measures financial results of a period as the difference between cash received and cash paid;
- discloses information about sources of cash raised, uses and application of funds and the cash balance at the end;
- measurement focus of cash accounting is cash balances and changes therein;

- cash includes cash in hand, cash in transit, cash on deposit and near cash;
- near cash consists of temporary investments in marketable securities; and
- all other assets other than cash are not recognised (in “pure” cash accounting).

In South Africa, public entities and constitutional institutions report to Parliament through respective Executive Authorities. Most of these institutions manage their financial activities in line with generally accepted accounting practice that incorporate accrual accounting.

4.3.1.2 Limitations of cash accounting

Although cash accounting has and is still being used quite extensively in the South African public service, it does not match the requirements of contemporary financial reporting. The following are some of the limitations associated with the cash accounting method of financial reporting (Gutu, 2003/04):

- cash accounting ignores other resource flows which may impact on the ability of a government department to provide goods and services now and in the future as it focuses only on cash;
- it does not record the benefits obtained from assets over a number of accounting periods;
- cash accounting limits the ability of the electorate to hold the government accountable for its management of assets and liabilities; and
- managers and those who prepare statements in a cash-based environment have the ability to manage the timing of cash flows by delaying receipts or payments until the next reporting period, thereby manipulating the outcome reported.

The cash accounting basis of reporting has some advantages in that it provides links to cash budgets and appropriations and might be readily

understandable and timely, according to Pauw *et al.* (2002:180). While the present cash accounting system has continued to serve the government by producing reports that enabled managers to make financial decisions over the past number of years, it has not been able to provide correct information on, for example, capital assets and debtors. With cash accounting, spending on what is used over a number of years is recorded only when money is spent. No subsequent account is therefore taken of whether the asset is still in use, has reached the end of its useful life or has been sold, according to Gutu (2003/04).

Likewise, information on debtors is only recorded for one financial year, with the result that accumulated debt and the period over which the debt has been outstanding are not reported on. This makes revenue collection and debtors' management difficult.

4.3.2 Accrual accounting

Accrual accounting is, according to Pauw *et al.* (2002:140), the method of accounting those records:

- amounts that are due to an organisation, when such amounts have not yet been received
- amounts which the entity owes or for which it is liable, when such amounts have not yet been paid.

With accrual accounting, the shortcomings mentioned above and that which are associated with the cash accounting method of financial reporting are taken care of. Accrual accounting is regarded as an effective financial reporting method that is able to address most financial transactions that are, otherwise, not dealt with by the cash accounting method.

With accrual accounting, income and expenditure items, according to Hepworth (2003:37), are recognised as they are earned or incurred unlike

with cash accounting, where the recognition is made only when payment is made or received. This might be long after the agreement was signed or the decision made. Accrual accounting enhances planning and the budgeting process because it takes into consideration transactions that will be concluded in future.

Where the introduction of full accrual accounting is not possible, the modified accrual accounting could be introduced. In arguing for modified accrual accounting, John Denis (1993:29), states that modified accrual accounting is similar to GAAP except that only financial assets are booked as assets. Financial assets are cash; items that are expected to become cash (such as accounts receivable) and investments that generate a return in cash. Physical assets are expensed when acquired.

The concept of modified accrual accounting, according to Denis (1993:29), stems from the principal objective of a government's financial statements which is to present the net debt position - that is, liabilities, net of financial assets that must be satisfied out of future revenue. The intent, according to Denis, is to inform taxpayers how much of future taxes must be devoted to paying for government activities already undertaken. Consumption of physical assets and writing down items such as prepaid expenses and deferred costs, while valid charges against the cost of operations cannot be used to pay off debt.

4.3.3 Benefits of accrual accounting over cash accounting

The benefits of accrual accounting over cash accounting, according to Pauw *et al.* (2002:181), include that:

- an assessment of the stewardship or accountability of management can be made
- a determination of the true cost of goods and services rendered can be made

- an assessment of the level of borrowings and other liabilities, as well as of the extent of guarantees provided by the government, can be made.

The above factors are essential to ensure effective reporting and accountability.

4.4 INTERNATIONAL FINANCIAL REFORM PROCESSES

As financial reform processes have been taking place in South Africa since the start of the new political dispensation in 1994, the questions to be asked are: why financial reforms? What was wrong with existing practices and what can be learnt from similar processes elsewhere in the world? The financial management reforms in the South African public service are not done in isolation but have been influenced by international reforms in a number of countries such as New Zealand, Australia and Canada.

In many of the Organisation for Economic Co-operation and Development (OECD) countries, financial reforms are reported to have been underway for more than a decade while in some countries they have only just started (OECD, 1997:7). According to the OECD, the task has not been completed in any of the countries that have sought to transform public administration, but in none there is no serious risk of abandoning the reforms and reverting to the traditional command and control relationship between the centre of government and public agencies and between the centre of departments and operating units.

In South Africa, the above is evidenced by a move by government towards the transformation and restructuring of public entities in such a way that they are less centrally controlled and are semi-autonomous. Although this is taking place, accountability is still within the department that is in charge of these entities. As an example, public entities such as the Airports Company of South Africa (ACSA) and Transnet are accountable to the departments of transport and trade and industry respectively.

The Public Finance Management Act of 1999, as well as the medium term expenditure framework, are reported to have been influenced by financial reforms in countries such as New Zealand, Australia and Canada, according to the OECD (1997:8). These financial reform processes have been implemented in these countries as follows:

4.4.1 New Zealand

The public sector reforms in New Zealand were part of a broader movement towards a market-oriented economy. According to the OECD (1997:75), the reforms were initiated by two laws - the State Sector Act, 1988 and the Public Finance Act, 1989 - that were conceived as a package and have been characterised by the New Zealand controller and auditor-general as “enormous, ambitious, and in large part unprecedented anywhere in the world”.

These reforms were mostly initiated in 1984 with the election of the new Labour Party. Prior to the 1984 reforms, government departments were run by permanent heads or public servants who were appointed by the government itself. According to Frances Goldman and Edith Brashares (in Savoie, 1996:194), government departments encompassed a wide range of functions, many of which were commercial in nature. By 1984, government departments included, *inter alia*, banks, hotels, and an airline, and these operations were not managed as a business.

New Zealand has sought to structure public management along the lines of business organisations operating in a market economy. Most countries have not progressed more in their restructuring, although some, like South Africa, continue to make progress in introducing reforms.

The OECD (1997:76) reports that before reforms, New Zealand had a centrally controlled state sector. Departments had very little discretion in managing their resources or in carrying out assigned tasks. They were expected to comply with *ex ante* rules, and they generally were not held

accountable for how well they performed. It is further reported that one-size-fits-all management was practised by the Treasury, which issued voluminous guidelines covering just about every type of administrative action involving the expenditure of public funds.

4.4.1.1 The Public Finance Act (PFA), 1989

In New Zealand, most reform processes came about through the Public Finance Act, 1989 which applies a corporate accounting framework to government finances in order to effectively measure performance so that departments and the government can be held accountable for success or failure. It is through the Public Finance Act (PFA), 1989, that responsibilities are assigned to specific officials who are in turn held accountable for their actions. Some of the reforms initiated through this Act involve the following:

4.4.1.2 Change from cash accounting to accrual accounting

Cash-based accounting operates in such a way that expenses are recorded only when the cash is actually spent and not when the expense is incurred or committed. This has the effect that budgets are the same as or equal to the projected spending. Before 1984, the New Zealand government was operating a cash-based accounting system that was found inefficient for the purpose of proper recording and accounting.

Similarly, with cash accounting debtors are taken on only when payments are made and not when the debt is raised. The receipt of payments end up inflating the total receipts because these are regarded as being receipts for that particular period when it actually relates to a period in the past.

4.4.1.3 Shift from inputs to outputs

The Public Finance Act, 1989 played a role in enhancing the role of the chief executive officer in that it provides for appropriations to be made by output classes rather than by inputs and for both the budget and appropriations to be

on an accrual basis, according to the OECD (1997:78). This shift from inputs to outputs is helpful to the executive officers and accounting officers because they can apply their resources in a manner that is manageable and enables them to deliver basic services to the best of their abilities.

The PFA sought to advance the measurement of performance by distinguishing between outputs (the goods and services produced by departments) and outcomes (the results or impacts of government outputs on society). Outcomes are the responsibility of ministers, while outputs are the responsibility of chief executives. The PFA provides for the *ex ante* specifications of outputs; it conceives of the budget and ensuing appropriations as “contracts for performance” which specify the resources allocated for the supply of outputs.

These arrangements, as the OECD has noted, are predicated on a sharp distinction between the roles of ministers and chief executives. The former are purchasers of services, while the latter are providers. As purchaser, the minister has the option of obtaining services from either public or private suppliers, though, in fact, most outputs are produced by departments and crown entities.

4.4.2 Australia

Financial reforms in Australia were initiated as long ago as the early 1980s, with two broad initiatives, namely the financial management improvement Programme (FMIP) and programme management and budgeting (PMB) introduced to lead the financial reforms. Reforms in Australia have more to do with reallocating public resources - putting them to more effective use - than with cutting them; with getting more value for public money by motivating civil servants to perform more effectively and efficiently.

In most instances, reforms are initiated where there is a feeling that public sector performance is lacking behind that of the private sector or of other government institutions within or outside particular countries. It seems that

reforms in Australia had their origin in the widely held view that the performance of public administration had fallen below desired and acceptable levels. In South Africa, for instance, reforms were initiated as part of addressing imbalances of the past concerning the allocation of resources, as well as to address accountability and productivity in the public service.

As indicated, most reforms in Australia were brought about through the FMIP and the PMB. The OECD (1997:49), reports that prior to the FMIP, the Department of Finance handled the finances of all departments, which role was inconsistent with the new doctrine of managerial responsibility. As from the 1980s, departments were required through the Audit Act to produce their own financial statements, including statements of assets and liabilities. Where departments were reporting through the normal cash-based methods, accrual accounting was now obligatory and a phased approach was adopted.

4.5 CONCLUSION

Financial management in the South African public service is performed in terms of national policy emanating mainly from the Constitution, 1996 and the Public Finance Management Act, 1999 as amended. The implementation of the PFMA has resulted in a number of financial reforms being introduced. Most of these reforms relate to financial reporting and accountability by public sector managers and political leaders holding different positions in government.

Most of the financial and reporting reforms within the PFMA emanate from those that were introduced in countries like New Zealand, Australia, Canada and Britain and this makes it necessary to evaluate the success of the implementation of these reforms in these countries. Although these reforms have only just been implemented in the area of budgeting, expenditure control and financial reporting, they have an impact on the management and evaluation of government programmes and projects.

Policies of government need to be implemented if its goals and objectives are to be attained. It is the responsibility of leaders to ensure that the direction government wants to take is clearly articulated and understood by those that will be spearheading it, while the managers in government have to ensure that its objectives are correctly implemented. The responsibilities of both the leaders and the managers in the Public Service should be clearly identified so that each knows what is expected of them.

CHAPTER 5

LEADERSHIP PERSPECTIVES IN THE PUBLIC SERVICE

5.1 INTRODUCTION

The existence of the public sector is supported by an essential element of the human resources functioning, namely efficiency and effectiveness, in the performance of tasks. In South Africa, democracy has brought about new challenges and it is thus not surprising that investments in its human resources are at the core of this country's strategy to build and maintain its new government in order to strengthen its national economy. The ushering in of the democratic dispensation in 1994 has made it necessary for the public service to undergo transformation so as to bring about transformed democratic, economic and social goals of Government.

In as far as training and development of its people are concerned, South Africa has been able to develop, through the South African Qualifications Authority, new programmes, such as the National Qualifications Framework that is at the forefront of the government's human resources development strategy. These programmes and strategies can only function and succeed if the internal capacity and quality of leadership in the public sector are ready, willing and capable of meeting the challenges. A country that is in transition, such as South Africa at this point, needs leaders that understand the strategic direction that it is pursuing and should be able to help attain those identified objectives.

Without effective leadership, the government will not be able to convince the public that it is able to lead and meet the challenges facing it. Without effective leaders, the government will not be in a position to manage national, provincial and local government plans efficiently and effectively. Without effective leadership, the government will not be able to train the kind of people at all levels who can produce results by managing a variety of tasks

simultaneously and still meet deadlines, given the limited resources that the government is consistently faced with.

In terms of the governance structure of this country and in order to effectively implement functions assigned to the government, specific management and leadership roles and responsibilities have been assigned to holders of identified posts, examples of which are heads of department, executive authorities, chief executive officers and managers at different levels. These are the public servants and political leaders whose strategic positioning and leadership skills are crucial to this country's public sector success. It is imperative, therefore, that the provision of skills to those responsible for leading and managing particular institutions should be given priority.

5.2 DEFINING LEADERSHIP

Leadership cannot be defined by the position that one holds. Different writers and experts have presented different definitions and views about leadership; each presenting what he/she views as a true definition of leadership. As Schein (1992:56) observed, "These days, everyone seems an expert on leadership. Chief executive officers, self-help gurus, management theorists, politicians, spiritual advisers, and even sports personalities are all publishing their own personal lessons on leadership. Public sector managers are left to their own devices to decide which person can help them solve their workplace problems best. But the advice is often filled with rhetoric: A leader has to be an animator, creator of culture, sustainer of culture and change agent." Or the recipes may seem too simple: Leaders simply need a belief in oneself; passion for the job; and a love of people (Handy in Hesselbein, 1996:8).

Locke (1991:2) defines *leadership* as "the process of inducing others to take action toward a common goal". According to Locke, this definition subsumes three elements:

- *Leadership* is a rational process. Leadership exists only in relation to others - namely, followers. Accordingly, if there are no followers, there is

no leader. Implicit in this definition is the premise that effective leaders must know how to inspire, and relate to, their followers.

- *Leadership* is a process. In order to lead, the leader must do something. As Gardner (1986:88) has observed, leadership is more than holding a position of authority. Although a formalised position of authority may greatly facilitate the leadership process, simply occupying such a position is not sufficient to make someone a leader.
- *Leadership* requires inducing others to take action. Leaders induce their followers to act in numerous ways, such as using legitimate authority, modeling (setting an example), goal-setting, rewarding and punishing, organisational restructuring, team-building, and communicating a vision.

In South African politics and elsewhere in the world, mention is usually made of political leaders, as well as leaders of the opposition. These people are referred to as leaders in that they satisfy the above three definitions of leadership as explained by Locke. These leaders have followers; they regularly address their followers in public and induce them to take action on identified issues of public interest. They act by leading their followers in a particular political direction identified by their respective political parties. It is also expected of public office-bearers, both administrative and political, to motivate their subordinates in such a way that they will respond positively when requested to do so.

According to Mauriel (1989:3), strategic leaders are people who have a clear vision - based on a widely shared set of values and aspirations - of where their organisations should be heading and who can clearly articulate that vision in a manner that motivates others. They are an inspiration to others both internal and external to their organisations, are sensitive and effective listeners tuned to hear and understand the needs and demands of their constituents, to understand the significance of their constituents' evaluations

of the organisation's performance, and to interpret and clarify the trends that indicate future needs and directions for their organisations.

Mauriel further states that strategic leaders are analysts and assessors of their situations in terms of politics, markets, and finances. They understand the value and impact of the services provided by their organisations in political, market, social, human and financial terms. But more importantly, they know how to use that information to adjust the mission and vision, to mobilise resources and to generate action. They do this by modifying as necessary the strategic plan and then moving the organisation to achieve the results necessary to make the strategic plan happen, thus bringing the vision closer to realisation.

From the above, it can be deduced that should a leader not understand the direction to which he/she wants to take his/her followers, the leadership role will be lost. The unwavering confidence to reach the goals and taking others along as well shows that the incumbent is also a team leader. Leaders have to have passion in what they are doing and be able to take criticism very well without losing sight of their goals and objectives.

Because leadership involves both the leader and the led, it is very important that every affected person should be part of the process. Saul (1991:5) sees strategic leadership as part of the extended team, a team that comprises leaders and managers, subordinates and employees, unions and the community, as well as shareholders and the government, amongst others. A team has got a leader as much as it has followers. For the leader to be able to steer the organisation successfully, the co-operation of the followers or subordinates is very crucial. For this reason, Saul stresses the importance of having a leader doing a SWOT (strengths, weaknesses, opportunities and threats) analysis of his/her team to identify those attributes that are strong and will need to be nurtured as well as those that are weak and will need to be strengthened.

A true leader combines the attributes of all these people, the resources as well as available skills to build a winning team that should be able to come up with a winning product. This is expected of public sector office-bearers as well. There are so many views about leadership that in the end, the public sector manager might agree with Peter Drucker (in Hesselbein, 1996) that the only definition of a *leader* is someone who has followers.

The above definitions of a leader or leadership also apply to the area of financial management. A good leader will be able to lead in different environments and for the purpose of this topic, it is argued that the same principles of leadership also apply to the public financial management area as officials in leadership positions have to provide direction in managing public finances.

5.3 LEADERSHIP THEORIES

Various writers and experts have given their own interpretation of leadership, with some writers believing that particular behaviours determine who the leaders are and what they do as well as how they lead. Theories regarding leadership have been proposed in the past, and even at present more theories are still being discussed in terms of what it takes to be a good leader. The trait theory, the behavioural theory, as well as the situational theory are the most commonly referred to.

5.3.1 Trait theory

The trait theory is one of the oldest theories on leadership that was simple to apply. *Traits* are patterns of observable behaviour/action, i.e. ways of behaving or habitual ways of thinking. The trait theory assumes that leaders are born and not made. Some people are said to possess the trait of charm when they characteristically act in a charming manner, or are said to be pessimistic if they habitually express negative thought. According to Shelley

Kirkpatrick (in Locke, 1991:24), few issues have had a more controversial history than that of leadership traits. There is considerable evidence that effective leadership is characterised by the traits of honesty or integrity and self-confidence; there is less conclusive evidence regarding the role of the traits of creativity, flexibility, and charisma.

In the nineteenth and early twentieth centuries, “great man” theories are said to have been highly popular. The great man theories asserted that especially people from upper classes inherited leadership qualities. Stressing hereditary superiority, the great man theories evolved in the early part of the twentieth century into trait theory.

Kirkpatrick (in Locke, 1991:25) indicates that the trait theories made no assumptions about whether leadership traits were inherited or acquired, but simply asserted that leaders were different from non-leaders in their characteristics. Researchers, accordingly, tried to define leadership by identifying traits of historical figures like Napoleon, Machiavelli, Winston Churchill, Julius Caesar and Joan of Arc. The trait view has reportedly been thrown into confusion at mid-century when early reviewers of leadership research came to the conclusion that there is no clear tie between a leader’s traits and effective leadership.

This can be supported by the high emergence in South Africa of leaders like Stephen Bantu Biko, Nelson Mandela, and Robert Sobukwe amongst others, whose leadership roles have influenced many black youngsters, as well as skilful managers with no history of being related to known great leaders. It can, however, be argued that those individuals who have been exposed to being around leaders at a young age tend to stand a chance of understanding leadership roles and issues better and would not struggle much should they be thrown into leadership positions than those that have never been exposed to leaders at an early stage.

As Madi (2000:34) puts it, to be a conqueror, be apprenticed to a conqueror. Choose a mentor whom one admires, trust and may look up to for sound,

honest advice and guidance. Accordingly, Madi supports a school of thought that says that leaders learn from others and are then able to build on to what they have learnt.

5.3.2 Behavioural approach

The behavioural theory focuses more on what good leaders do rather than on their characteristics or traits. This is a radical departure from the trait theory in that it assumes that leaders can be trained or developed. With the behavioural theory, it is assumed that the way that individuals behave in particular situations or under particular circumstances will identify them as leaders.

In a classroom situation or at work where there are a number of people interacting with each other quite often, there will always be those that will start to behave in such a way that will suggest that they are giving directions or instructions to achieve some goals, especially where no leader can be identified. This could be proof that life does not allow a leadership vacuum to exist. During periods of disaster in particular, it is always encouraging to see people assuming leadership roles and responsibilities by giving instructions spontaneously and by intuition without even checking whether they will be listened to or not and those that follow the instructions without enquiring about the leadership credentials of those giving the instructions. This type of leader, even though not designated as such, will act in a way that will make his/her behaviour to resemble that of appointed leaders. It could be that they have inborn leadership qualities that make them behave like leaders.

5.3.3 Situational theory

The situational theory assumes that while leaders are not born, particular situations make some individuals leaders. Fiedler (1976:45) observed in his contingency theory of leadership that there is no single leadership style. Successful leadership depends on the fit with regard to the leader, the subordinate and the situation. According to this theory, anybody can be a

leader at any given point in time and the support that the followers can give will influence whether that person succeeds or not.

There is a greater realisation in the world today that leaders are developed rather than born. Various political leaders today have undergone some form of training in the area of leadership. It could be in public speaking or any form of training that will make them to be respected or followed. They have to realize the importance of training for leadership. Various universities offer management and leadership courses for aspirant leaders in politics or business.

In South Africa and up to the 1980s, special schools for the sons of chiefs were run to prepare these youngsters for the leadership roles lying ahead of them. Apart from the fact that these youngsters were born to inherit the leadership roles of their fathers, it was also realized that their leadership gifts needed to be supplemented with formal leadership education to help them cope with the increasingly dynamic environment ahead of them. This, in itself, was a confirmation that people are not necessarily only born to be leaders but can also be turned into leaders.

5.4. LEADERSHIP VERSUS MANAGEMENT

There is a perception in business circles that the public sector does not compare favourably with the private sector in terms of management functions. It is often argued that the public sector, due to its non-profit orientation, is not sensitive to the need for effective business practices. The Public Finance Management Act, 1999 aims to dispel these perceptions by assigning responsibilities to specific individuals to manage the affairs of government efficiently and effectively. The question to be asked is whether the government sector needs leaders, managers or both. Is there room for both or can one perform the functions of the other? What differences are there between leadership and management and what roles and functions do the different individuals given the title of manager or leader perform that make them different from each other?

Sometimes, depending on different situations, leadership and management are used interchangeably to refer to the same issues. Some writers have tried to differentiate between the two while others see no distinction between them at all. According to Locke (1991:4), despite an ongoing dispute among writers on leadership over whether there is a valid distinction between leadership and management, there is a belief that the distinction is not only valid and important but also simple. The author reports further about the distinction as follows:

- The key function of a *leader* is to establish the basic vision (purpose, mission, overarching goal, or agenda) of the organization. The leader specifies the end as well as the overarching strategy for reaching it.
- The key function of a *manager* is to implement the vision. The manager and subordinates act in ways that constitute the means to achieve the stated end.

This distinct difference is further supported by both Brevis, Vrba and De Klerk (1997:86), as well as Georgiades and Macdonell (1998:37), who argue that there is a fundamental difference between leaders and managers in that leaders focus on behavioural aspects like motivating and energising people while managers focus on non-behavioural aspects of management, e.g. selection of goals and objectives, development of strategies and control of activities required to accomplish those goals. Kotter (in Harvard Business Review, 1991:4) views the distinction between leadership and management in terms of their respective roles in the change process. According to him, leadership involves bringing about change, envisioning a new future for the organisation and impassioning people to commit and dedicate themselves to the new direction. Management is more directed at maintaining the *status quo*, albeit very effectively and availing the sustained effort needed to maintain new directions. South Africa serves as an example as the Exchequer

and Audit Act, 1975 had to be transformed to cater for the new demands of a democratic South Africa. This culminated in the PFMA, 1999.

Leadership is about challenging the unknown in a changing atmosphere and as Handscombe and Norman (1989:3) observe, change needs to be managed in a proactive manner. This can also be said to be applicable to South Africa when the PFMA was introduced and managers had to deal with and manage the changes that were taking place in moving into a future unknown environment. Top management must therefore modify existing management practices and take on methodologies more appropriate to tomorrow's highly competitive and changing environment. In this way, a deeper and firstly a more determined sense of strategic mission or purpose will have to be required. Secondly, a close integration between the key aspects of operational and strategic management and their effectiveness must be secured. Thirdly, significant investment in manager and management team development will be required to establish essential conscious competence in areas such as strategic decision-making, opportunity and risk management, and innovation - including lateral thinking and team leadership of realistic strategic implementation plans. These, according to the above authors, are the functions of a leader.

In reality, as John Gardner (1986:88) has noted, this distinction often gets blurred. This is not because the distinction is invalid, but because in practice the roles of leader and manager have no clear line of demarcation. Effective leaders must play a role in implementing their own visions, and effective managers must not only buy into the leaders' vision, they must act, in part, as leaders to those below them. The above applies as well to the financial management environment of any institution.

According to Abraham Zelenznik (in Harvard Business Review, 1991:13), most societies, and that includes business organisations, are caught between two conflicting needs: one, for managers to maintain the balance of operations, and one for leaders to create new approaches and imagine new areas to explore. The above statement assumes that the differences between

management and leadership are so clearly defined and fundamentally obvious that each deals with different issues from the other. It should, however, be noted that management consists of the rational assessment of a situation and the systematic selection of goals and purposes; the systematic development of strategies to achieve these goals; the marshalling of the required resources and the motivating and rewarding of people to do the work. In the end, managers are the implementers and problem-solvers of decisions made by the leaders.

John Kotter (in Harvard Business Review, 1991:4) states that management is about coping with complexities. This is true also for leaders, because both of them, in most cases, have to steer the organisation through turbulent and unpredictable situations.

The above is also true for the government service because government also has to deal with transformational complexities while ensuring that the country is managed and led in the right direction. Unclearly defined roles between leaders and managers will most likely lead to confusion and mistrust. It is generally accepted that there are day-to-day activities and functions in government that have to be performed by managers to implement the broader policy issues set by politicians as leaders of the country. The Public Finance Management Act, 1999 (section 65), requires political leaders to be actively involved with providing strategic leadership to the portfolios that report to them. It is the executive authority (minister or MEC) who is required to table in Parliament the strategic plan of his/her department and not the accounting officer. The strategic direction (vision, purpose, mission, overarching goal or agenda) of a department is developed in conjunction with that department's minister who has to give the required direction. Heads of department, as accounting officers, implement the vision and manage the process within allocated financial resources and capacity constraints, and are held accountable by Parliament.

Because of the diverse nature of the roles and functions of the political office - bearers and administrative officials, both functions are required for the smooth functioning of government. Administration supports the leadership role played by the politicians in identifying and determining the strategic direction which a particular government department or constitutional institution should take. These positions are mutually inclusive and are both needed in the public sector for different reasons.

Table 5.1: Differences between managers and leaders

Managers	Leaders
• Plan to meet current objectives • Make the best use of resources • Manage today's problems • Focus on making processes work • Ensure people work to contract • Seek improvement through training • Establish standard procedures • Focus on efficiency • Look at present	• Create a long-term vision • Set a broad purpose and direction • Create a better future • Focus on the product • Inspire people to do more • Teach by example and praise • Create more effective systems • Focus on effectiveness • Look to the future

Source: Philip Haynes, 2003:66. Managing complexity in the public service

One approach to a better differentiation of the roles of managers and leaders is to see the overlap between good leadership and good management as relatively minimal. Such approach emphasises the bipolar nature of management and leadership characteristics as put forward in Table 5.1 by Haynes (2003:66).

According to Haynes (2003:66), the challenge will be for each individual to keep to their assigned roles or, in complex situations, step out of a tightly prescribed role to take on the skills required for a specific context.

5.5 LEADERSHIP/ MANAGEMENT RESPONSIBILITIES OF PUBLIC OFFICE-BEARERS

Within the South African public service, different public office-bearers are assigned different and specific responsibilities in terms of the Public Finance Management Act (PFMA), 1999 in accordance with positions that they hold. The PFMA gives effect to Sections 213, 215, 216, 217, 218 and 219 of the Constitution of the Republic of South Africa, Act 108 of 1996 for the national and provincial spheres of government. This Act (section 63(2)) makes it a requirement for executive authorities in the South African Government to play an oversight role in the management of key functions and activities that account to them, while managers are responsible for the day-to-day management of key activities (section 38).

5.5.1 Leadership responsibilities of political office-bearers

While implementing the leadership decisions of the political office-bearers, government officials have to develop implementation strategies to carry out the day-to-day activities of government departments in line with the political needs and aspirations. Different political office-bearers are assigned different responsibilities in terms of Section 92 of the Constitution, 1996. However, Section 63 of the PFMA, 1999, assigns specific financial responsibilities to the executive authorities as follows:

- (1) (a) Executive authorities of departments must perform their statutory functions within the limits of the funds authorised for the relevant vote.

(b) In performing their statutory functions, executive authorities must consider the monthly reports submitted to them in terms of sections 39 (2) (b) and 40 (4) (c).

(2) The executive authority responsible for a public entity under the ownership control of the national or provincial executive must exercise that executive ownership control powers to ensure that that public entity complies with this Act and the financial policies of that executive.

The above stipulations are an indication of the seriousness with which the executive is expected to assume direct responsibilities and be involved with the day-to-day issues affecting their departments. The monthly reports referred to above are aimed at keeping track of monthly expenditure of the different government departments. By exercising these leadership functions, the executive authority is able to determine the pace of service delivery within the departments, entities or institutions that report to him or her.

Prior to 1994, the proper leadership roles and responsibilities of political office-bearers were not clearly defined. The oversight function was in most cases left to the bureaucrats, with very little being assigned to the politicians. This state of affairs did not allow politicians to be informed about the activities in the public entities as well as in government departments that they were in charge of as much as it would have been expected of them. According to the Presidential Review Commission Report (1998:24), the above situation showed itself clearly in the area of budgeting where it is reported that “In the past, budgeting was a secret, highly centralised affair. The role of Parliament in reviewing the budget was a formality- Parliament merely ‘rubber-stamped’ the budget compiled by the executive.”

The above situation did not help to ensure that the members of Parliament were empowered to exercise their responsibilities in managing the financial affairs of the state. The Public Finance Management Act, 1999, is aimed at addressing this shortcoming in that it assigns specific responsibilities to

executive authorities to exercise their oversight function over government departments and public entities. It is not only executive authorities (e.g. ministers and MECs) that are given oversight functions to oversee activities of government departments.

Through Parliament, different committees have been established to oversee the functions and activities of government departments and public entities and to report back to Parliament to enable it to exercise its oversight role. This enables members of Parliament to gain knowledge into the activities of government departments and of government in general.

5.5.1.1 Individual and collective responsibility

Section 92, when read together with section 55(2)(b)(i) of the Constitution, 1996, provides clarity in terms of what the functions of the other organs of state are. According to section 92 of the Constitution, 1996;

- (1) The Deputy President and Ministers are responsible for the powers and functions of the executive assigned to them by the President.
- (2) Members of the Cabinet are accountable collectively and individually to Parliament for the exercise of their powers and the performance of their functions.
- (3) Members of the Cabinet must -
 - (a) act in accordance with the Constitution; and
 - (b) provide Parliament with full and regular reports concerning matters under their control.

Section 92(2) of the PFMA entrenches the doctrine of ministerial responsibility by directing that members of the Cabinet are individually and collectively responsible and accountable to Parliament for the conduct of that part of the executive function of which they are in

charge. This responsibility and accountability is an obligation on the part of the Ministers to report back to Parliament.

Executive authorities are expected, in terms of section 63(1) of the PFMA, 1999, to consider monthly reports that they receive from accounting officers of departments that they are in charge of as part of performing their statutory functions. These reports should cover any impending -

- (i) under collection of revenue;
- (ii) shortfalls in budgeted revenue; and
- (iii) overspending of the department's vote or main division within the vote.

It is from these reports that executive authorities will have an understanding of some of the activities of the departments they are in charge of. Executive authorities should have an understanding of the reports given them to be able to gain appropriate knowledge of what is going on because reports on their own will not be enough but need to be correctly interpreted to enable management decisions to be made.

5.5.1.2 Ministerial or executive responsibility to inform Parliament

In terms of Section 92(3)(b) of the Constitution, and as supported by Sections 65(1)(a) and (2)(a) of the PFMA, 1999, the executive authority responsible for a department or public entity tables in the National Assembly or a provincial legislature, as may be appropriate -

- (a) the annual report and financial statements referred to in Section 40(10)(d) or 55(1)(d) of the Constitution and the audit report on those statements, within one month after the accounting officer for the department or the accounting authority for the public entity received the audit report.
- (2) If an executive authority fails to table, in accordance with subsection (1)(a),

the annual report and financial statements of the department or the public entity, and the audit report on those statements, in the relevant legislature within six months after the end of the financial year to which those statements relate -

- (a) the executive authority tables a written explanation in the legislature setting out the reasons why they were not tabled; and
- (b) the Auditor-General issues a special report on the delay.

As an example, there were 191 public entities in 2004. Of these, 165 had 31 March as their financial year-end. These 165 public entities had to table their reports by 30 September 2004 in terms of Section 92(3)(b) of the Constitution, as well as Sections 65(1)(a) and (2)(a) of the PFMA, 1999. On 30 September 2004, 73% (121 public entities) had tabled their annual report, financial statements and audit report to Parliament, whereas 27% (44 public entities) had not tabled as per PFMA requirements (Auditor-General, 2004:29). Table 5.2 below indicates the number of public entities per ministerial portfolio that did not table as required.

Table 5.2: Ministerial portfolios: Reports on public entities not tabled in Parliament

Ministerial portfolio	Total number of entities per portfolio	Number of public entities not tabled in Parliament	Percentage public entities not tabled per portfolio
Transport	11	6	55%
Housing	10	4	40%
Trade & Industry	18	6	33%
Other	126	28	22%
Total	165	44	27%

Source: Auditor-General, 2004:29. General report of the Auditor-General on audit outcomes for the financial year 2003 - 04

In accordance with the above sections, the ministers or the executive authorities are responsible and accountable to Parliament in terms of the activities of the departments and constitutional entities that report to them. The PFMA also obliges the minister to explain any failure to comply with the stated reporting requirements. In as far as the non-compliance as shown in table 5.2 is concerned, the affected executive authorities did table written explanations in the legislature setting out the reasons why they were not able to comply with the Act, and the Auditor-General issued a special report to that effect on the delay (Auditor-General, 2004:29).

5.5.2 Parliamentary committees

Apart from the individuals mentioned above, Parliament has identified some functions that are performed by committees established to ensure that the functions assigned to government departments and public entities for which they are responsible, are reported back to Parliament. The following committees are accountable to Parliament:

5.5.2.1 The National Council of Provinces (NCOP)

The constitutional role of the National Council of Provinces (NCOP) is to provide an effective bridge between provinces and the national sphere of government, and to contribute to the realisation of the constitutional commitments to co-operative and effective government, according to Corder *et al* (1999:11). As such, the NCOP does not perform oversight functions over the affairs of provinces or any sphere of government. According to Section 42(4) of the Constitution, 1996, the National Council of Provinces represents the provinces to ensure that provincial interests are taken into account in the national sphere of government. It does this mainly by participating in the national legislative process and by providing a national forum for public consideration of issues affecting the provinces.

To enable provinces to perform the powers devolved to them and provide services, they are constitutionally entitled to an equitable share of nationally generated revenue. The Constitution states in Section 227(1) that:

Local government and each province -

- (a) is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it; and
- (b) may receive other allocations from national government revenue, either conditionally or unconditionally.

The role of the NCOP is also to see to it that the intergovernmental relationship between provinces and both the national and local spheres of government is maintained and strengthened.

In South Africa, the responsibilities of government are increasingly becoming more extensive and complex in relation to the demands of the citizens of this country. With the lifting of restrictions that prevailed in the past, South Africa now finds itself a world player in the economic and political fields. In as far as the exchange rates are concerned, global activities affect many operations internally to the effect that the financial markets of developed countries are a considered factor in the operational activities of the local currency. Unemployment and the prevalence of diseases like HIV and Aids are a cause of concern and pose many challenges to the operations of the government. These place the responsibilities of executive authorities under constant scrutiny in terms of whether their policies can have a positive impact on the lives of the individual members of the society.

The above challenges require Parliament to be proactively effective in exercising oversight control over the activities and functions of government departments as implementing agents of the state. The question could then be asked as to whether the South African Parliament is indeed effective in

exercising oversight control over the performance of government responsibilities by heads of department and other organs of state. This question can be answered by way of identifying two reporting mechanisms applied by government departments to report to Parliament about their ability to meet government objectives and these are the budget process and the annual reporting process. Through these mechanisms, the National Assembly gets the opportunity to be informed about what is happening in government departments.

5.5.2.2 Portfolio committees

In terms of the parliamentary website <http://www.parliament.gov.za/pls>, portfolio committees are important elements in the functioning of Parliament as they are established as National Assembly committees to complement Parliament's activities and supplement its operations. The National Assembly appoints from amongst its members a number of portfolio committees to monitor the work of the various national government departments. Portfolio committees consider bills, deal with departmental budget votes, 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. The work of the portfolio committees is not restricted to government - they may investigate any matter of public interest that falls within their area of responsibility.

Portfolio committees consist of members from different political parties in the National Assembly who represent their political parties in matters dealt with by the particular government departments. Portfolio committees perform useful functions in attending to specific issues in more detail than would be the case if the same issues were to be discussed within a much bigger gathering such as the National Assembly.

Given their involvement in the legislative, budget and in-year monitoring processes, portfolio committees are ideally placed to exercise oversight of the

service delivery performance of departments and public entities that fall within the same portfolios, according to the National Treasury's Guidelines, 2005. The portfolio committee members analyse each function of a department for relevance and effectiveness. The portfolio committee would normally evaluate projects as well as the allocated budget for those particular projects. It is through the functions of the portfolio committees that budgets get redirected if it is found that specific functions have not been provided for.

Members of the portfolio committee have the opportunity of interacting with communities and they are in a better position to know what is happening on the ground and what the needs of the community are. Through regular meetings with the responsible minister the committee is able to influence spending, while also giving guidance in terms of how the funds should be spent.

5.5.2.3 Standing Committee on Public Accounts (SCOPA)

Sometimes referred to as the Public Accounts Committee (PAC), the Standing Committee on Public Accounts (SCOPA), is a committee of Parliament established to oversee the financial affairs of government in as far as different departments and institutions are concerned. SCOPA consists of politicians from different political parties, with the chairperson always coming from one of the opposition parties (except for a short period in 2002 after the resignation of the then chairperson). During the latter part of 2005, the chairpersonship was assigned to a member of the PAC. Appointing a chairperson from one of the opposition parties could be seen as an indication of the independence of the committee from the ruling party, and as such, an indication also that decisions of the committee will not be influenced by or be biased towards the ruling party.

The effectiveness of SCOPA to provide appropriate oversight and guidance to departments can be observed by the way departments respond to and solve issues raised by this committee. It is therefore important that committee

members should familiarise themselves with issues related to particular departments under consideration in order to provide this guidance effectively.

SCOPA gets financial information about departmental spending from reports issued by the Office of the Auditor-General. It is through these reports that the committee evaluates departmental spending and where irregularities have been identified, the committee calls the accounting officers of those departments to account before it.

SCOPA operates both at the national and provincial spheres of government. Accounting officers whose departmental activities are often brought to the attention of the Standing Committee on Public Accounts as a result of some wrongdoing run the risk of being reported to Parliament and can even be demoted or expelled as a result of that. As an example, the former director-general of the national Department of Health had to resign in 2001 when it was found that her department did not effectively manage a HIV/Aids project, known as the Sarafina project, that led to the Department incurring fruitless expenditure. This is the reason why SCOPA is considered one of the most effective parliamentary committees that ensures proper control over public resources.

5.5.3 The Auditor-General (A-G)

The Auditor-General is a state institution established in terms of chapter nine of the Constitution, 1996. The independence of the Auditor-General (and therefore, the Office of the Auditor-General) is guaranteed and stems from the fact that the incumbent is accountable only to the National Assembly.

The importance of the role played by the Auditor-General is best described by the fact that the financial oversight by parliamentary committees, mainly SCOPA, is based solely on the financial reports issued by or on behalf of the Auditor-General. In this respect, the Office of the Auditor-General (OA-G) provides extensive support to this committee in the form of briefings, report writing and training, as well as acting as an expert witness when government

departments and other institutions are called for hearings. The reports referred to above give an account of the financial affairs of institutions audited and as such, are regarded highly in Parliament. Through the audit of financial statements of public institutions, the Auditor-General is able to express an opinion in terms of whether or not the financial statements fairly present, in all material respects, the financial position of the entity at a specific date, as well as the results of its operations for the period under consideration.

In South Africa, the functions of the Auditor-General were established as early as 1910 and have evolved through a number of acts, including the Exchequer and Audit Act, No. 66 of 1975 which has been amended by Act No.12 of 1995 and which is in line with the new dispensation. In terms of the Public Audit Act, No. 25 of 2004, the Auditor-General performs the functions vested in him or her by virtue of any other law, in accordance with the provisions of the Act in relation to:

- the accounts which are audited
- the procedure according to which auditing is being done; and
- the steps taken by the Auditor-General as a result of an audit.

5.5.3.1 Functions of the Auditor-General

Although the Office of the Auditor-General has been in existence within the South African Government since 1910 (under different names like Comptroller and Auditor-General as well as Controller and Auditor-General), the functions thereof have continuously been amended to reflect changes in government itself. Currently in South Africa, the Auditor-General performs the following functions:

- (1) audits and reports on the accounts, financial statements and financial management of -
 - (a) all national and provincial state departments and administrations;
 - (b) all municipalities; and

- (c) any other institution or accounting entity required by national or provincial legislation to be audited by the Auditor-General.
- (2) audits and reports on the accounts, financial statements and financial management of -
- (a) any institution funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or
 - (b) any institution that is authorised in terms of any law to receive money for a public purpose.
- (3) submits audit reports to any legislature that has a direct interest in the audit, and to any other authority prescribed by national legislation. All reports are made public.
- (4) audits and reports on the consolidated financial statements of the following institutions in accordance with section 4 of the Public Audit Act (Act No. 25 of 2004):
- (a) the national government as required by section 8 of the Public Finance Management Act;
 - (b) all provincial governments as required by section 19 of the Public Finance Management Act; and
 - (c) a parent municipality and all municipal entities under its sole or effective control as required by section 122(2) of the Municipal Finance Management Act, and
- (5) audits and reports on the accounts, financial statements and financial management of -
- (a) any public entity listed in the Public Finance Management Act, and
 - (b) any other institution not mentioned in subsection (1) and which is -

- (i) funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or
- (ii) authorised in terms of any legislation to receive money for a public purpose.

The above functions are necessary for the smooth running of the Office of the Auditor-General and are there to ensure independence of this office. As a result of this independence, the Auditor-General determines the nature and extent of the audit to be carried out and requests the details and statements of accounts which might be needed. The above functions are performed in accordance with the requirements of section 188 of the Constitution, Act 108 of 1996:

5.5.4 Management responsibilities of administrative office-bearers

As with political office-bearers, administrative officials are assigned specific responsibilities in terms of the PFMA. These responsibilities are different from those given to political office-bearers in that the administrative responsibilities are mainly geared towards implementation and operationalising strategic political decisions. While the oversight roles played by the executive authorities are as stated above, section 38 of the PFMA, 1999, stipulates that the general responsibilities of the administrative head of a department (HOD) or accounting officer (AO) in specific cases where the HOD is not the AO should, amongst others, be the following:

- (1) The accounting officer of a department, trading entity or constitutional institution -
 - (a) ensures that that department, trading entity or constitutional institution has and maintains-
 - (ii) effective, efficient and transparent systems of financial and risk management and internal control;
 - (iii) a system of internal audit under the control and direction of an audit committee complying with and operating in accordance

with regulations and instructions prescribed in terms of sections 76 and 77;

- (iv) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective;
 - (v) a system for properly evaluating all major capital projects prior to a final decision on the project;
- (b) is responsible for the effective, efficient, economical and transparent use of the resources of the department, trading entity or constitutional institution;
- (c) is responsible for taking effective and appropriate steps to -
- (i) collect all money due to the department, trading entity or constitutional institution;
 - (ii) prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and
 - (iii) manage available working capital efficiently and economically;
- (2) An accounting officer is not allowed to commit a department, trading entity or Constitutional institution to any liability for which money has not been appropriated.

Although the above responsibilities are assigned to accounting officers in terms of the PFMA, some of these are normally delegated to officials at different lower levels within the public service for direct implementation. Every year in the Department of Water Affairs and Forestry, the DG delegates responsibilities that are assigned to him to different holders of positions in the department through a document entitled “Delegation of the DG’s responsibilities to holders of positions within the Department”. The delegation of responsibilities is done to ensure that the scope of management is broadened to ensure effective service delivery and accountability. However, the accountability for the financial administration of a department cannot be delegated.

The implementation of the above responsibilities often takes place through the programmes and projects that government departments and constitutional

entities run. The activities and functions of these government departments and constitutional entities are normally reported on in annual reports that have to be prepared yearly. Annual reports report on activities that took place in the past financial year. The details are indicated for every key focus area originally identified, including the amount of money allocated. The annual reports are used to evaluate the success or failure of the implementation of key government functions.

5.6 PERFORMANCE MANAGEMENT

The continued existence of every business activity, be it for profit or not, is based on whether it succeeds in meeting its targets. The continued evaluation of such a business activity will determine if it is worthwhile continuing with the activity. Those activities that do not meet the requirements for their existence are normally discarded. It is for this reason that government operations are also performance-managed to determine if performance is in accordance with the intended purposes.

Performance management can be effectively carried out in an environment that has a supervisor and subordinate(s) in terms of which the subordinate undertakes to perform duties or functions for or on behalf of the supervisor in accordance with an existing contract or agreement. The successful implementation of the stipulations of the contract depends to a large extent on how simple the work is, its measurability and the resources available to enable it to be performed. Government also has an agreement with the citizens of a country in terms of which the needs of the majority of the people in a country will be addressed within its capacity. It is for this reason that most political parties develop manifestos or charters indicating what activities they will perform for the country should they be elected to rule the country.

In government, the oversight role played by the political office-bearers is another form of managing the performance of the administrative office-bearers. This is done in accordance with the political mandate assigned in

terms of the Public Finance Management Act, 1999, and the parliamentary requirements.

5.6.1 Defining performance management

Faye (in Spangenberg, 1994:14) defines *performance management* as a set of techniques used by a manager to plan, direct and improve the performance of subordinates in line with achieving the overall objectives of the organization. This definition is people-oriented, explaining performance management only in relation to the work performed by individuals. It is, however, noted that performance management is not only related to human beings but to resources as well.

Some authors, such as Desatnick (1979:26), view *performance management* as beginning with a performance plan. While this might be true, there could be a problem if performance management is not linked to the organisation's overall goals and strategy.

A more general definition of *performance management* that also caters for the non-human issues is that which is given by Abedian, Stratchan and Ajam (1998:81), stating that *performance management* is concerned with measuring, monitoring and evaluating performance, and then initiating steps to improve performance where this is warranted. This definition is all-inclusive of performance evaluation of both financial activities and human-related activities. It does not matter, in terms of this definition, whether performance management is performed on financial resources or human resources. What is of importance is the ability to measure, monitor and evaluate performance and take appropriate action should there be a need.

Performance management can successfully be done where there are measurable objectives that have to be attained. Measurable objectives, according to the National Treasury's 2003 Estimates of National Expenditure, are specific, quantifiable outcomes that can be achieved within a foreseeable time period. They serve as a roadmap for achieving a department's goals and

define the actual impact on the public rather than focusing on the level of effort that is expended. They are tools that outline how a department will achieve its goals and assess the effectiveness of an agency's performance and the public benefit that is derived.

In government, the tangible goods and services that are produced by a department are called outputs and how well a department is delivering its goods or services are determined through a measurement of the quality, quantity and timeliness of its outputs. It is thus, of importance that the output should be quantifiable or else be qualitatively measurable.

5.6.2 Necessity for performance management

Performance management is normally conducted to encourage effective performance, reward above-average performers and take corrective action if needed. In the performance management of the human resources functions for the purposes of rewarding good performers, one weakness of the system that was in use during the previous regime is that it did not base rewards on performance, but on entitlement, seniority and longevity in service. This had the effect that good hardworking employees could be overlooked for merit awards and would then end up leaving the public service for the private sector.

The public service is perceived to lack the culture of professionalism, commitment to duty and excellence. There is a perception that the public service cannot be associated with effectiveness, efficiency and economy and this has become a major concern in the public service. This could be the result of a lack of understanding of the activities of the public sector. As observed by Hughes (1998: 84), all government activities require organisation and staff - the public or civil service. But the operations of the bureaucracy, its theories and principles, are not well understood and there is a curious ambivalence in public attitudes towards it by the citizenry. At the same time as there are demands for governments to do more and to do so more effectively and efficiently, the public services are often seen as parasitic on the private

sector. Rather than being seen as an instrument of the people, the public service is regarded with suspicion both for its power and for red tape, delay and inefficiency. At the end of the twentieth century, there seems to be great uncertainty as to the role of the public sector.

The performance management system currently operating is aimed at solving some of the above problems. It is only through managing its performance and introducing corrective action that progress can be made. The promotion of performance management in the public service is governed by Section 195(1) of the Constitution, 1996, which states that public administration must be governed by the democratic values and principles enshrined in the Constitution, including the following principles:

- a) the promotion of efficiency, economy and effective use of resources, and
- b) accountability of public administration.

Performance management is done for two purposes, namely, for the purpose of rewarding good or punishing bad performance and for taking corrective action where intended objectives have not been met. In the public service, the introduction of performance management has resulted in the introduction of rewards for good performance in the form of merit bonuses or notch increases while bad performance is punished by not making any awards or by expulsion in extreme circumstances. The rewards are spelt out in advance in percentages, indicating how much each deserving employee will get for their good performance.

Sanctions for poor performances are not always implemented and where action does take place, it does not match the level of poor performance experienced. This could be the fact that supervisors are not yet ready to take their responsibilities and deal with issues in terms of Section 81 of the PFMA, 1999, or it could be that they are not yet ready to manage performance effectively.

5.6.3 Organisational requirements for performance management

Performance management is a newly introduced requirement in the South African public service and for it to be effective and to succeed, the following organizational conditions, according to Abedian *et al.* (1998:102), are necessary:

- a) Measures of performance should be congruent with organisational and individual (the manager's) objectives.
- b) The development of performance measures and indicators should involve the management responsible for the activity so that they are committed to the achievement of performance and rewarded for it (there may be financial and non-financial rewards).
- c) Meaningful managerial discretion must exist for managers to realise activities in their areas of responsibility.
- d) There should be recognition that activity managers control outputs but not outcomes.
- e) Financial responsibility must lie with the activity or sub-programme manager.
- f) There should be recognition that outcomes are not always tangible and measurable, and that the responsibility for their development lies with policy-makers, top management and programme managers.
- g) The organisational context and budget framework must reflect the controls that the individual manager can exercise. Financial control and organisational accountability have to be congruent.

5.6.4 Steps in the performance management process

Performance management is a process that starts with the identification of objectives or goals to be achieved. These objectives should be aligned to the organisation-wide objectives as determined by the mission and vision of the organization. The objectives so determined should be simple, measurable,

attainable, reasonable and should have time limits within which to be achieved (normally referred to as SMART).

The second step is the entering into a performance agreement that will spell out what needs to be achieved, when and how (resources). The agreement or contract should be clearly understood by the contracting parties as it forms the basis of the evaluation process. Failure to agree on the deliverables might lead to disagreements in future. According to Abedian *et al.* (1998:102), the contract should:

- a) identify the key performance areas of the job
- b) clarify the intended results of the job and its contribution to organisational goals
- c) identify the requirements needed to get the job done effectively and the gap between what exists and what is required
- d) agree on the reporting time frames
- e) link performance to longer-term career development plan
- f) outline performance criteria indicating what needs to be achieved and the basis on which achievement will be assessed (measurement tools).

5.6.5 Performance management in the public service

In the South African public service, the responsibility to manage and evaluate the performance of government as a whole lies with Parliament. The Department of Public Service and Administration (DPSA) sets the standard within which public servants are to be performance-managed while the National Treasury determines the criteria within which government financial activities are to be performance-managed.

The Public Service Regulations, issued in terms of the Public Service Act, 1994 (Proclamation 103 of 1994), state that it is the responsibility of every manager to ensure that their subordinates enter into performance contracts that will guide them in discharging functions assigned to them. The signing of performance contracts by senior managers and accounting officers with

political office-bearers is seen as a step that ensures that the political office-bearers have a say in how departments are being run. The signing of performance contracts enables managers to know in advance what is expected of them in as far as deliverables are concerned. Previously, senior managers would be appointed without entering into any form of contract and this resulted in major problems when the relationship between the supervisor and the subordinate experienced problems or when there was no common agreement on the reward for performance. A performance contract is aimed at giving guidance to the performance of functions and the possibility of taking corrective action should there be a deviation from the intended direction.

Performance management is influenced by a number of factors. At the global level, according to Osborne and Gaebler (1993:67), there is a strong movement away from administration to management, and neo-liberals challenge the traditional role of the state in favour of leaner performance-driven state departments. Most developing countries still maintain a bloated public service which might not be performance-driven. In South Africa, the state still runs job creation schemes in different formats as part of providing work to unskilled people.

The above approach by Osborne and Gaebler is also supported by a number of authors, amongst them, Esman (1991:36), Landel-Mills and Serageldin (1991:29), Kaul (1998:64), as well as the World Bank (1999:73), who all propose that governments should introduce performance management measures if scarce resources, especially in the light of the ever-decreasing budgets, are to be stretched.

In the private sector, the dominant objective of a profit-oriented firm is to earn a satisfactory return for its owners. In this regard, the profit measure is probably the most useful criterion to analyse and evaluate different options and to support a decision on the most appropriate course of action. Management performance is analysed and evaluated on a combination of activities that are ultimately reflected in the profit measure. The profit

measurement further permits comparison of the performance between and amongst different organisations.

The absence of the profit measure in the public sector makes analysis and evaluation of management performance more difficult than in profit-oriented organisations. Within government, there is always talk about maximising the three E's, being economy, effectiveness and efficiency. Economy is measured by the relationship between quantity and quality of resource inputs and its related cost. Where the quality and quantity can be achieved with less costs, the economy is said to be performing positively. Efficiency is measured by the relationship between resource inputs and outputs which means that where more output can be attained with less input, there is efficiency in the operations. Effectiveness or efficacy is measured by the extent that outcomes and outputs have been achieved. It relates to achieving set objectives without evaluating costs or other related issues.

Although government is not driven by the profit motive, the service that it provides has to be such that economy, efficiency and effectiveness have been achieved. Performance evaluation should be applied to determine whether the above requirements have been met. Where performance is found to be above average or has exceeded the required standard and the agreement is to recognise such performance, this should be done. When recognising or rewarding performance, it should be borne in mind that money alone does not motivate employee performance, nor does it reinforce loyalty or devotion to various organisational initiatives, according to Luthy (1998:36). People want more than money; they want to be needed, valued and appreciated (Laabs, 1998:56).

One of the financial reforms brought about by the new dispensation is the direct involvement of members of Parliament (MPs) in the financial affairs of government in the form of getting reports on the management of individual government departments. The MPs are expected to provide political oversight and guidance to ensure that the objectives of government are attained. Because a budget is an instrument that provides information about the

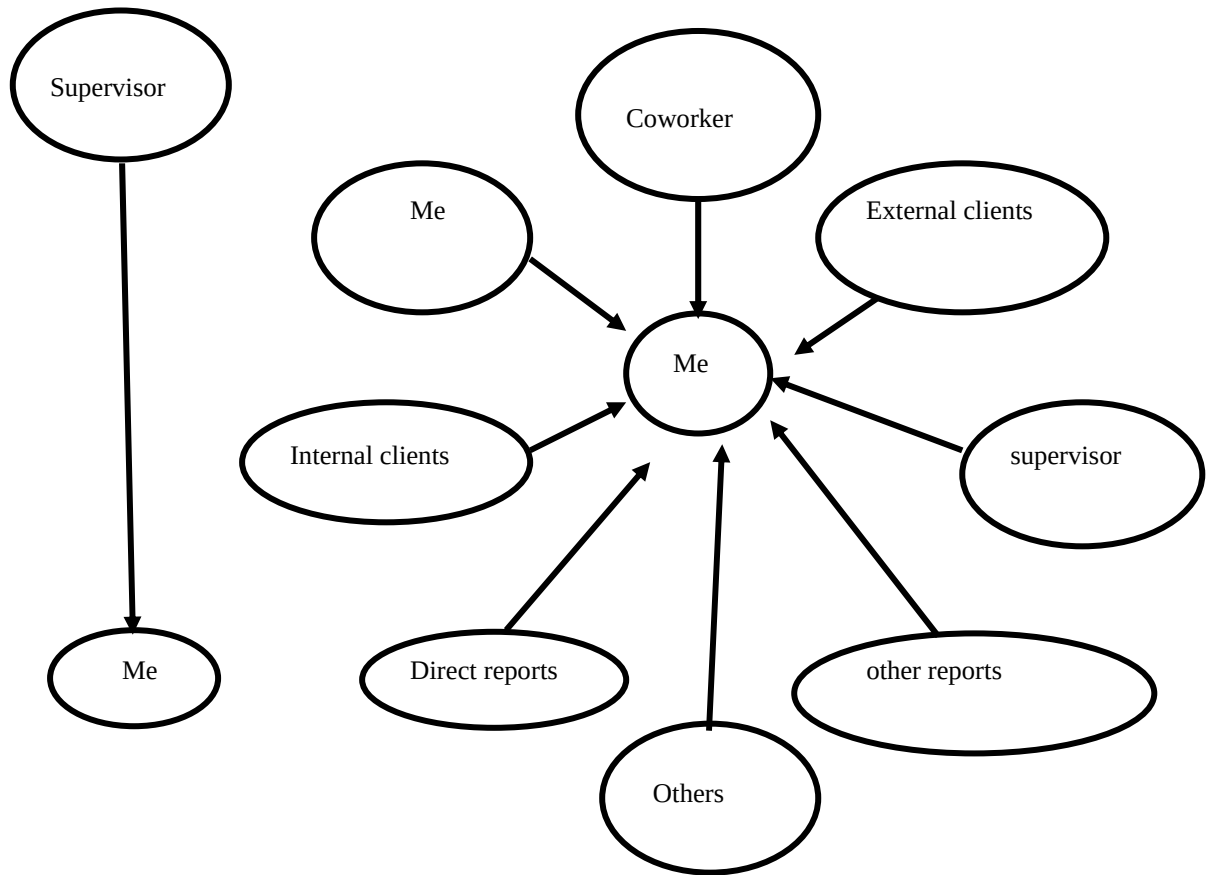
activities of a particular organisation, the strategic direction that a government department intends to take should be reflected in the strategic plans that include a budget proposal because budgets are influenced by strategic plans.

According to Section 5.3.1 of the Treasury regulations, issued in terms of the PFMA, 1999, the accounting officer of an institution is expected to establish procedures for quarterly reporting to the executive authority to facilitate effective performance monitoring, evaluation and corrective action. The executive authority reports to Parliament on the performance of his/her organisation through these quarterly reports.

The leadership role played by politicians is captured under section 27(4) of the Public Finance Management Act, No. 1 of 1999, stating that when the annual budget is introduced in the National Assembly or a provincial legislature, the accounting officer must submit to Parliament or the provincial legislature, as may be appropriate, measurable objectives for each main division within the department's vote. These measurable objectives would normally have been discussed and agreed upon with the executive authority before implementation and the output would also be clearly identified.

The above provision means that an accounting officer's work in terms of how he/she administers his/her department will not only be overseen by that department's executive authority, but by the entire Parliament/legislature in terms of reporting to them in accordance with predetermined measurable objectives developed for evaluating performance. To this end, Edwards and Ewen (1996:54) argue for a system that has a 360-degrees feedback mechanism within it. Under this system, individuals are not only measured by their immediate supervisors but by the entire circle of performance influences, as indicated in Figure 5.1 below.

Figure 5.1: Single versus multisource feedback system



Source: Edwards, M.R. & Ewen, A.J. (1996:54). How to manage performance and pay with 360-Degree feedback. Compensation and benefits review.

In a performance-based programme budgeting system, individual ministers would determine, in consultation with the head of department, the appropriate outputs to be produced. In the South African Government, the inclusion of measurable objectives for each programme within a vote takes effect from the 2003/04 financial year as directed by the National Treasury. This means that as from the 2003/04 financial year, reporting on the budget will have to give an indication of what government objectives will be addressed with the allocated funds and these objectives should be such that they can be measured.

5.7 CONCLUSION

The challenges facing many governments today are dynamically diverse and encompass modern-day issues such as politics, the economy, diseases and unemployment. These challenges are not different from those that are faced by businesses in the private sector and as such, the leadership approaches embarked upon to meet them will also be similar in some instances. As with private sector businesses, the government needs leaders as much as it needs managers because as much as their functions and activities are separate, they nevertheless complement each other.

The shareholders of a company usually give the general direction towards which the company should direct its resources, while the managers translate these policy guidelines into day-to-day operational activities that they implement to make profit. In government, the administrative process also depends on the leadership direction that it gets from the politicians in a number of ways. There is a growing need for politicians to get closely associated with the functions of the portfolios that they lead as part of ensuring that services are delivered in accordance with the political mandate assigned to departments and constitutional entities.

In most cases, politicians lack the capacity to monitor closely the administrative and governmental operations and as such, require a process to ensure that there is effective service delivery at the end of a particular period. Different committees have been established to assist Parliament to implement its oversight role within government departments. With the lack of capacity to monitor government operations, the effectiveness of these committees to effect proper oversight cannot be guaranteed. It is thus important that the effectiveness of the different parliamentary committees to exercise the required level of oversight should be determined and strengthened.

CHAPTER 6

THE EFFECTIVENESS OF LEADERSHIP ON SERVICE DELIVERY IN THE PUBLIC SERVICE

6.1 INTRODUCTION

The effectiveness of the public service to deliver essential services to a country's citizens is dependent, to some extent, on the political guidance provided by members of Parliament to the executive function of the state, as well as the success with which the administrative officials/managers are able to implement government projects. Cabinet ministers defend their departments' vote in Parliament by identifying, prioritising and detailing activities and functions that they will be performing with the amount of money allocated to them. The priorities so identified will, when accepted by parliament, guide the administrative function during the implementation process to achieve government goals.

The South African national electoral system provides for voters to vote for a party and not for an individual. This process could result in a situation where the appointed member to a political position might not be the preferred choice of the majority of people to serve them in that position, resulting in challenges to both the member and the party that the member represents. Political parties have their own means of reporting back to their members on the activities of government and because this reporting method is not formal and standardised throughout the country, different political parties account differently to their followers and constituencies. The informal constituency system applied in South Africa by most political parties, like the ruling ANC, allows political parties to assign specific politicians to some communities, with the aim that these politicians will serve those communities and inform them about what Parliament and the particular political party are doing to ensure that the community receives the required services. This is done to ensure that there is accountability by the politicians over the usage of the financial and other resources belonging to the state.

In this chapter, an analysis will be made of the effectiveness and influence that the different political role players have on service delivery in the public service. This will be done by evaluating the oversight role played by the National Assembly through the parliamentary committees like SCOPA, portfolio committees, the Office of the Auditor-General as well as executive authorities and the National Treasury. This will be done with particular consideration of how financial and annual reports are currently being utilised to effect the oversight responsibilities assigned to the different office-bearers. The effectiveness of the above role-players will be determined and evaluated.

6.2 ACCOUNTABILITY, OVERSIGHT AND THE CONSTITUTIONAL IMPERATIVE - THE ROLE OF THE NATIONAL ASSEMBLY

The word *accountability* is derived from the word “account” which, according to the Longman Dictionary of Contemporary English (1978:6), means a written or spoken report. Accountability would then mean the process of giving a written or spoken report. In the business world, the people who manage the financial figures of particular businesses are called accountants because they are able to give a detailed exposition of the financial activities of institutions, organisations and entities through written or spoken reports that help to portray the financial position of these entities at given intervals. In the South African public service, accounting officers of departments are those officials that have been assigned the responsibilities that are referred to in Section 38 of the PFMA, 1999. Accounting officers account to Parliament and to the executive authority under whose control the department falls.

Oversight, according to Corder, Jagwanth and Soltau (1999:2), refers to the crucial role of legislatures in monitoring and reviewing the actions of the executive organs of government. It refers to a large number of activities carried out by legislatures in relation to the executive. Different functions and activities are performed by the executive organs of the state in effecting their oversight function over government activities.

The question to be asked in relation to the above is: What specific role should the National Assembly and Parliament in particular play in ensuring effective management of performance by the bureaucratic machinery of the state? Should the National Assembly and Parliament accept the reports received from government departments and other organs of state without evaluating them to determine if the stated objectives of government have been met or should they analyse and evaluate them to determine if there is satisfactory performance by the organs of state in terms of the responsibilities and duties assigned them?

In terms of Section 133(3)(b) of the South African Constitution, 1996, members of the executive council (MECs) of provinces as well as ministers at national sphere are required to provide the legislatures with full and regular reports concerning matters under their control. This is done in full recognition of the role that is to be played by the legislatures.

As indicated, the political arrangement within government has been created to ensure policy development, provision of leadership as well as the playing of an oversight role over functions of government. Parliament plays a policy-approval role by passing of the budget and legislation. According to Section 55(2)(b) of the Constitution, 1996, the National Assembly must provide for mechanisms to maintain oversight of the exercise of the national executive authority, including the implementation of legislation.

Section 55(2) covers the following bodies:

- Executive organs of state in the national sphere of government
- National executive authority; and
- Other organs of state.

Section 239 of the Constitution, 1996, defines an *organ of state* as any department of state or administration in any sphere of government, or any functionary or institution exercising a power or performing a function in terms of the Constitution or exercising a public power or performing a public function in terms of any legislation. This definition is broad and would mean that

organs of state include Cabinet and any body or institution under its control through the relevant minister.

In terms of section 85 of the Constitution, 1996:

- (1) The executive authority of the Republic is vested in the President
- (3) The President exercises the executive authority, together with the other members of the Cabinet, by-
 - (a) implementing national legislation except where the Constitution or an Act of Parliament provides otherwise
 - (b) developing and implementing national policy;
 - (c) co-ordinating the functions of state departments and administrations;
 - (d) preparing and initiating legislation; and
 - (e) performing any other executive function provided for in the Constitution or in national legislation

From the above it can be deduced that national executive authority is exercised when any of the functions as listed above in terms of section (85)(2)(a)-(e) of the Constitution are performed by the national executive, i.e. the Cabinet.

In carrying out its tasks either by implementing legislation or policy, the executive assumes a powerful position that is able to influence or determine decisions being taken. In a constitutional democracy, an organ of state does not account to itself, but is held accountable to another organ of state that is distinct from it. This is done to ensure that there is separation of powers and provides for checks and balances on the exercise of executive power, making the executive more accountable to an elected legislature.

The South African Constitution, 1996 (section 40), recognises the principle of separation of powers by recognising the independence of the three spheres of government in the form of the local, provincial and national spheres of government. While this is the case, the question could be asked as to whether this principle of separation of powers still exists where there seems to be a closer relationship between the executive and the legislature.

Corder *et al.* (1999:5) note that South Africa's executive is not only chosen from the legislature but also primarily from the leadership of the majority party, which, in addition, and like in many other parts of the world, shows the existence of a strong party-based system within the country. This, according to the above authors, can hamper effective oversight as members of the legislature may be reluctant to call to account a government that is made up of leaders of their party. Members of the majority party, in particular, may be unwilling to subject the government to rigorous scrutiny for fear of being perceived as disloyal or even expulsion from the party and a consequent loss of their parliamentary position.

In South Africa, the role played by the opposition parties is crucial to the rigorous scrutiny of the functions of the executive authorities. The effectiveness of the opposition parties to successfully question the operations of the executive authorities where the majority party's members might not be willing to engage its own members is sometimes hampered by interruptions by the members of the ruling majority party in Parliament when different viewpoints are presented. The loyalty factor might result in a good point from an opposition member being disregarded, with adverse consequences to the country as a whole. An example of this is that on the 23rd February 1997 when the then Minister of Health, Dr Nkosazana Zuma, delivered her budget speech, discussions centred around the Aids awareness campaign that was presented through the play, *Sarafina 2*. The main issue was about the amount of money that was spent on this awareness campaign (instead of the number of people that benefited from it) which was viewed to have cost the state more money than was expected. An amount of R14 million was reported to have been allocated for this play. As reported by Wyndham Hartley and Tim Cohen in *Business Day* (1997/02/24:1-2), the opposition party member from the New National Party who was asking most of the questions was jeered at and prevented from raising further questions about the expenditure related to the Aids awareness campaign. When asked during a question and answer session on the adjustment estimates in the National Assembly where provision was made for *Sarafina 2* for the extra money required by her department, the minister is reported in the *Speeches to Parliamentary*

(www.parliament.gov.za/pls) as having told the opposition MPs that they could not find the Sarafina 2 money because “it is not there”. She is reported to have then been applauded by members of her own party.

Again, during the Limpopo legislative sitting in June 2004, a member of the opposition party, the Democratic Alliance (DA), Mr Mike Holford, raised a concern about the effectiveness of the Transport Department which cancelled the drivers’ licences of many drivers on allegations of corruption, and called for the resignation of the MEC in charge of that department. He was repeatedly shouted at by members of the ruling party and as such, could not finish presenting his point of view (Hansard. volume 10. part 5:64).

The above then questions the whole principle of oversight by the National Assembly in terms of whether its effectiveness and accountability is not compromised or made ineffective as a result of the political differences and the loyalty factor. Effective and proper oversight of the executive requires of members of Parliament and members of the executive to fully understand the constitutional justifications and rationale behind accountable government and the purpose it serves. It requires of members to outgrow party politics and consider facts at their disposal and deal with issues irrespective of the political home to which the person bringing up the issue comes from. It is recommended, therefore, that in order for effective oversight to take place, members of Parliament should look beyond their own political parties and interests and address governance issues objectively in a way that will enhance the oversight role of the National Assembly and by so doing, promote good governance.

There are a number of ways through which the National Assembly can effect oversight, two of which are financial oversight by analysing financial reports as well as the non-financial oversight where other parts of the annual report, except the financial statements, are considered. An example of financial analysis as part of oversight could be when SCOPA considers the report of the Auditor-General that is based on the evaluation of departments’ financial statements and other financial transactions. Where issues related to

performance and service delivery without reference to funds spent are considered, this could be referred to as part of non-financial oversight, e.g. an analysis of the number of people provided with clean water as well as the number of people provided with RDP houses does not refer to funds spent but the service rendered.

As part of their oversight role, portfolio committees usually consider both financial and non-financial reports. Following is an abstract from the parliamentary website www.parliament.gov.za/pls, indicating different issues of both a financial and non-financial nature discussed by different portfolio committees on 3 May 2003:

Portfolio Committee on Minerals and Energy (National Assembly), [Briefing by Empowerment Evaluation Committee on BEE in Liquid Fuels Industry], Committee Room S12A, Ground Floor, NCOP Wing, 09:00

Portfolio Committee on Transport (National Assembly) [Briefing by Department on Taxi Recapitalisation], Committee Room V227, Second Floor, Old Assembly Wing, 09:00

Portfolio Committee on Water Affairs and Forestry (National Assembly) [Discussion on and possible adoption of Forestry Regulations, Briefing on forest fires, Discussion on Gauteng, North West, Free State and Northern Cape reports & Free basic water report], Committee Room V454, Fourth Floor, Old Assembly Wing, 09:00

Portfolio Committee on Social Development (National Assembly) [Deliberation on Social Security Agency Bill], Committee Room 1, Ground Floor, 120 Plein Street, 09:00

Portfolio Committee on Finance (National Assembly) [Deliberation on and formal consideration of Government Employees Pension Laws A/B and Special Pensions Bill], Committee Room E249, Second Floor, National Assembly Wing, 09:30

Portfolio Committee on Public Enterprises (National Assembly) [Briefing by Department and Eskom Enterprises on Eskom Enterprises' business strategies], Committee Room S26, First Floor, NCOP Wing, 11:00

As can be seen by the headings of the issues that were discussed by these committees, it shows that a variety of issues related to the business of government are discussed.

6.3 FINANCIAL OVERSIGHT BY THE NATIONAL ASSEMBLY

Financial reporting has been relied upon in government over a long period in the past to provide assurances as to whether the financial resources provided through the budget process have been utilised correctly and in a disciplined manner to achieve predetermined government goals. The importance of the financial reports can be determined by the value placed on them by different users both from within and outside government, e.g. the different providers of donor funds, the World Bank, the IMF, public accounts committees, portfolio committees, depending on the type of relationship that they want to build as well as the information that they want. The official financial information about government operations is normally obtained from the budget report of the Minister of Finance as well as from the audited financial statements prepared yearly by the Auditor-General. The Minister is able to give an indication of how the funds have been allocated, while the Auditor-General gives an account of how and where the funds so allocated have been spent.

Because financial oversight is normally applied to past financial transactions, audited financial statements are useful to provide the required information to be used during the evaluation and analysis process to determine progress made. Apart from the financial statements relied upon at present and in the past, non-financial information within the annual reports is continuously providing a source of valuable information for the purpose of reporting on services delivered.

Currently (2004), Parliament's financial oversight role is limited to considering financial reports provided by the Auditor-General in respect of a particular financial year. Although its committees, such as the public accounts committee and portfolio committees, play an important role in engaging departments on budget and expenditure issues, this happens at varying times and in most cases, a few months after the transactions have taken place.

6.3.1 Oversight role of the portfolio committees

Members of the portfolio committees are appointed by the National Assembly. As reported by Parliament, <http://www.parliament.gov.za/particip/commit>, the National Assembly appoints from among its members a number of portfolio committees to shadow the work of the various national government departments. According to this report, each committee has between 17 and 19 full members and a number of alternate members.

Portfolio committees consider bills, deal with departmental budget votes, oversee the work of the departments they are responsible for, and enquire and make recommendations about any aspect of the department or entity, including its structure, functioning and policy. The work of portfolio committees is not restricted to government as they may investigate any matter of public interest that falls within their area of responsibility. It is reported in the above website as an example that, in 1999, the Portfolio Committee on Trade and Industry conducted an investigation into bank charges and interest rates. This is work that is exclusively within the private sector domain.

Because portfolio committees are expected to monitor the work done by government departments, it could be expected that there would be about 34 portfolio committees (the same as the total number of national government departments) represented in Parliament, although some committees might be responsible for more than one department, e.g. both Departments of Agriculture and Land Affairs share one portfolio committee, being the portfolio committee on Agriculture and Land Affairs. The combination of a number of departments to account to one portfolio committee reduces the total number

of portfolio committees in Parliament. According to the parliamentary website, <http://www.parliament.gov.za/pls>, as of June 2004, there were 27 portfolio committees dealing with a variety of government issues as shown in Table 6.1. These committees are made of members from different political parties.

6.3.1.1 State of the Nation Address

As indicated and in terms of the annual planning cycle for the South African Government, the President tables the State of the Nation Address (SONA) every year in February to the guide government's operations for the following financial year. In his speech, the President normally raises a wide range of issues that the government is expected to focus on either as new priorities or as a follow-up on functions that could not be finalised in the past. As an example, in his state of the nation address of 14 February 2003 (www.info.gov.za/aboutgovt/poa/index), the President identified tasks and specific areas in which the government needed to perform in order to bring services to the masses as follows:

“Building on the foundations we have laid down, we must, once more, set ourselves the necessary realistic tasks for the year. Needless to say, these must be located within the broad perspective we have just indicated. These tasks encompass such areas as:

- * expanded service provision;
- * improvements in the efficiency of the public service;
- * increased social and economic investment;
- * black economic empowerment;
- * greater all-round attention to the challenge of human resource development, to help reduce the unemployment levels;
- * further improvements within the criminal justice system;
- * further work on the important matter of moral renewal;
- * expanding our system of relations with the rest of the world;
- * accelerating the process of the formulation and implementation of the first NEPAD projects; and,

* advancing the African Union agenda, including the important issue of peace and security.”

The President is proud of the fact that the issues that he raises in SONA come from his interaction with South Africa’s masses. During his address to Parliament in 2003, he reported that, “with regard to the foregoing, Madame Speaker, we would like to emphasise that this programme is informed by the experience we continue to gain in implementing practical projects; by the interaction through iimbizo and other means with the people who, more than any consultants, know what their needs are and how these needs can best be met; and by the continuing research that we are conducting to collate and distil the experience of the First Decade of Freedom”.

“I wish to assure the thousands of South Africans who attended these izimbizo with Ministers, Premiers, MECs and Councillors that we have listened; we have heard; and we have better understood what the people want”, he said. The President stated further that, for instance, having listened to the people of Bekkersdal during the Presidential imbizo in Gauteng, the national government would work with both the Province and local government to introduce public works programmes in that area. “We shall find safe and secure land for settlement and upgrade community infrastructure both to improve social services and to provide some employment” (www.info.gov.za/aboutgovt/poa/index).

It is from guidelines presented in the State of the Nation Address that departments and affected entities are able to identify issues raised therein that affect them and are then able to react on them by preparing action plans to deal with the issues raised. When evaluating the work of departments and public entities, portfolio committees establish plans that have been put in place to attend to the issues raised in the SONA. These are then linked with

the budget process to identify financial resources needed to address the identified areas.

6.3.1.2 Minister of Finance's budget speech

The State of the Nation Address (SONA) is followed by the tabling of the budget by the Minister of Finance in February wherein he details, in financial terms, how some of the issues raised by the President in the State of the Nation Address will be funded. As an example, in his budget speech to Parliament tabled on 26 February 2003 (2003:5-6) and in response to issues raised in the President's SONA address, the Minister stated that " And yet, Mr President, you have charged us to do more. In your State of the Nation Address to this Parliament on 14 February you reminded us that the key task with which we are charged is ensuring a better life for all:

...The government must act to ensure that we reduce the number of people dependent on social welfare, increasing the numbers that rely for their livelihood on normal participation in the economy. This is also especially relevant to the accomplishment of the goal of enhancing the dignity of every South African."

Based on the above, the Minister then indicated how the budget would be divided amongst different departments to cater for issues raised in the SONA. This shows that the President plays a meaningful role to start identifying the direction that the economy should take.

Portfolio committee members make use of the budget speech of the Minister of Finance to start identifying specific areas in which funding will be needed by departments which they are responsible for. The adoption of the MTEF method of budgeting means that members will already know the approximate amount that the Minister will be tabling for their respective departments in the next three years and as such, will not be seeing the budget for the first time, although minor changes do occur regularly.

6.3.1.3 Budget votes

Different ministers submit their budget votes for debate after the Minister of Finance's tabling of his budget because the financial implications of their activities depend on the amount of money allocated by the Minister of Finance. During the debate on the ministers' budget votes for the ensuing financial year, the portfolio committee members, representing different political parties, are usually expected to indicate whether they support the budget vote presented.

To be able to indicate whether the budget vote is supported requires knowledge of what the budget entails and whether it caters for the majority of the issues that the public wants to be attended to. This requires of portfolio committee members to be part of the decision-making process of departments at an early stage to be able to have an influence in terms of which projects a department could embark on. This involvement is continuous and long term, and should not be seen as an isolated and once-off incident. Portfolio committee members would have had briefings by departmental officials during the course of the previous year on, amongst others, the budget allocation and non-financial matters identified in the annual report and as such, members would normally be in a position to know if the budget thus presented will be able to solve particular issues.

6.3.1.4 Consideration of the budget

The financial oversight role of portfolio committees normally takes place through the evaluation of the funds that are allocated to different departments. This is done by linking the allocated budgeted funds to specific activities or functions within departments. Portfolio committee members are interested in knowing how the budget is split horizontally amongst provinces as well as vertically between the national and provincial spheres of government.

The consideration of the budget as a document to be used during the oversight process assists members of the portfolio committee and enables

them to see the planned activities of departments. This is an indication of the forward-looking nature of a budget in that:

- it is a pre-financial year document that sets out the expenditure levels for the ensuing financial year
- it is a policy-approval document that authorises government to spend its appropriated funds
- it sets performance targets for the three years of the rolling MTEF
- it sets out policy priorities and trade-offs for the MTEF period.

The above issues illustrate the importance of a budget as a planning document that the members of the portfolio committee should utilise to control the activities of departments. Any planning document should also encompass the elements of control within it because control is essential for ensuring effective performance.

Part of the portfolio committees' financial oversight is directed at determining how the allocated budget to different organs of state has been spent. Considering the fact that other parliamentary committees such as SCOPA and the NCOP also play this role, it could be argued that no clear lines of responsibility exist for these committees in as far as financial oversight is concerned. The oversight function by these committees, if effectively coordinated, could be better utilised to address a wide scope of issues.

Audited financial statements assist to indicate whether the budget has been spent or whether some funds remained unspent or the budget was overspent. Other benefits of audited financial statements are that they can be used to:

- check if spending was in accordance with the financial provisions by comparing the allocated budget with the amount spent
- determine any level of under- or over expenditure at the end of the reporting period or financial year-end

- give assurance that financial activities or transactions have been conducted in a proper manner.

Although the expenditure report and financial statements could be helpful to the portfolio committee members if considered for exercising oversight control, a major problem could exist in that both the financial statements and the expenditure reports are backward-looking and only help to point out what happened in the past, with the hope that corrective action can be taken to rectify identified inefficiencies. An added inefficiency exists in that the financial statements are normally published in the middle of the following financial year and there could be less time for departments to attend to issues raised by the committee during its evaluation process.

The above might suggest that oversight control through the budget process could be difficult to reconcile with that done through the financial statements. There is no mechanism for regular reporting back to track progress on identified targets (what is referred to as in-year monitoring and control process).

Portfolio committees perform work that is used by Parliament to determine the effectiveness of government structures such as public entities and government departments. However, in performing their duties, the following challenges have been identified:

- **Inadequate time to deal effectively with issues**

As indicated above, portfolio committees shadow the work of various government departments and public entities and consider bills, deal with budget votes and make recommendations. As an example and in order to deal effectively with the above function, the portfolio committee on Water Affairs and Forestry oversees the functions of a total of eighteen government structures, being one national department (DWAF), 15 water boards, one schedule 3 public entity, namely the Water Research

Commission (WRC) and one schedule 2 public entity, namely the Trans-Caledon Tunnel Authority (TCTA).

According to the portfolio committee on Water Affairs and Forestry's Programme for Annual Report Hearing, October 2005, the structures referred to above were called before the committee for a briefing session that lasted three days. The meetings were held from 12 to 14 October 2005, starting at 11:00 and finishing at 17:00 on the first day, from 14:00 to 16:00 on the second day and from 9:00 to 12:30 on the third day. The sessions were scheduled for 15 minutes per entity and the department. Issues discussed ranged from the annual reports, including the audit report, to different functions and plans for the remainder of the financial year. If the amount of work performed by these entities is compared with the time allocated for the portfolio committee to do an effective analysis and still come up with meaningful recommendations, it could be argued that more time than what is indicated above is required for an effective oversight.

- **Lack of an effective different viewpoint/voice**

Because of the small size of some of the political parties represented in Parliament, they have no representation in some portfolio committees, as can be seen in Table 6.1. Parties with many seats in Parliament, and therefore many representatives, are able to have members in almost every portfolio committee. Because of its large number of seats in Parliament, the ANC has a large representation in every portfolio committee and as such, a big voice, represented by the time each member is given to present their case in these portfolio committee meetings.

Small parties, or those with few members in Parliament, will not be represented in many committees. Table 6.1 shows the African National Congress (ANC) being represented in all the portfolio committees, followed by the official opposition party, the Democratic Alliance (DA) and thereafter, the Inkatha Freedom Party (IFP).

Table 6.1 Parties represented in different portfolio committees

Portfolio committee	Parties represented
Agriculture and Land Affairs	ANC (15), DA(2), IFP(1), UDM(1), ID(1), UCDP(1), PAC(1), AZAPO(1)
Arts and Culture	ANC (15), DA(2), IFP(1), ID(1), FFPlus(1), UCDP(1), MF(1)
Communications	ANC (12), DA(2), IFP(2), ID(1), FFPlus(1)
Correctional Services	ANC (14), DA(2), IFP(2), ACDP(1), UCDP(1), MF(1)
Defence	ANC (14), DA(2), IFP(2), UDM(1), FFPlus(1), PAC(1)
Education	ANC (14), DA(2), IFP(2), UDM(1), ID(1), ACDP(1), FFPlus(1), UCDP(1), MF(1), PAC(1)
Environmental Affairs and Tourism	ANC (16), DA(3), IFP(2), ID(1),
Finance	ANC (12), DA(1), IFP(1), ID(1), AZAPO(1)
Foreign Affairs (Subcommittee on African Union)	ANC (7), DA(2), IFP(1), ID(1), UCDP(1), PAC(1), MF(1), AZAPO(1)
Foreign Affairs (Subcommittee on International Affairs)	ANC (12), DA(3), IFP(1), ID(1), FFPlus(1), UCDP(1), PAC(1), MF(1),
Health	ANC (13), DA(2), IFP(2), UDM(1), ID(1), UCDP(1), ACDP(1), PAC(1), MF(1)
Home Affairs	ANC (15), DA(2), IFP(2), UDM(1), ACDP(1), UCDP(1), PAC(1), FFPlus(1),
Housing	ANC (14), DA(2), IFP(1), UCDP(1), UDM(1), ID(1), PAC(1), MF(1)
Justice and Constitutional Development	ANC (10), DA(2), IFP(1), UDM(1), ACDP(1)
Labour	ANC (13), DA(1), IFP(2), ID(1), PAC(1), MF(1), FFPlus(1).
Minerals and Energy	ANC (15), DA(1), IFP(2), ID(1), PAC(1), FFPlus(1).
Provincial and Local Government	ANC (14), DA(2), IFP(2), ID(1), PAC(1), MF(1), UCDP(1).
Public Enterprises	ANC (10), DA(2), IFP(2), PAC(1),
Public Service and Administration	ANC (15), DA(1), IFP(1), UDM(1), UCDP(1), ID(1)
Public Works	ANC (15), DA(1), IFP(1), ACDP(1), ID(1)), PAC(1),
Safety and Security	ANC (13), DA(2), IFP(2), UDM(1), ACDP(1), UCDP(1), MF(1), FFPlus (1),
Science and Technology	ANC (12), DA(1), IFP(2), ID(1)), PAC(1), AZAPO(1)
Social Development	ANC (13), DA(2), IFP(1), ID(1), ACDP(1), UCDP(1), MF(1), PAC(1),
Sport and Recreation	ANC (15), DA(2), IFP(2), UDM(1), MF(1)
Trade and Industry	ANC (14), DA(1), IFP(2), PAC(1), AZAPO(1), MF(1)
Transport	ANC (15), DA(2), IFP(1), UDM(1), ID(1), ACDP(1), UCDP(1), AZAPO(1),
Water Affairs and Forestry	ANC (14), DA(1), IFP(1), UDM(1), ID(1), ACDP(1), UCDP(1), PAC(1)

As adapted from the parliamentary website <http://www.parliament.gov.za/pls>

In some instances, members have been assigned to more than one committee. The Azanian People's Organisation (AZAPO) is represented by only one member in Parliament. As shown in Table 6.1, the one member of this Party serves in six other portfolio committees. This has the implication that the party represented by this one member cannot attend or be part of the discussions taking place concurrently in other committee meetings. Because parties are also allocated debating time in accordance with the number of seats that they hold in the National Assembly, the small parties will also have less time to state their issues. The same can be said about other small parties such as the Minority Front (MF) and Freedom Front Plus (FFPlus).

The above has a negative influence on the quality of work of the affected individual members and of the committee as a whole. This will in general also negatively affect the work of Parliament.

- **Inconsistent membership of committees**

The effectiveness of portfolio committees depends on a number of issues, of which consistency of membership and attendance of meetings are amongst them. Consistency of attendance by the same members is important for ensuring that the memory of how decisions were taken in previous meetings is not lost.

A comparison of members that constituted some portfolio committees in 2002 with the list of members of the same committees in 2005 shows that there is a lack of consistency when it comes to members staying within the same committee for a longer period as follows:

In 2002, the portfolio committee on Agriculture and Land Affairs had thirty-four (34) members representing eight parties. In 2005, the same committee was made of twenty-two (22) members representing eight parties. Of the twenty-two members, only seven (7) were members of this committee in 2002. The situation in respect of the portfolio committee on

Housing does not differ much from that of Agriculture and Land Affairs in that it had thirty (30) members in 2002 and twenty-two in 2005, of which only four remained out of the original number of 2002. In 2002, the Portfolio Committee on Social Development was made up of thirty-one members of whom only seven are part of the same committee of 2005 made up of twenty-one members (<http://www.parliament.gov.za/pls>).

The above shows a retention of between 13 percent and 31 percent, which indicates that every year new members get appointed to the portfolio committees and as such, might need time to familiarise themselves with that committee's work. This situation is not encouraging, especially if it can also be considered that some of the members are alternates. Coupled to the above is the fact that only three members of parties other than the ANC in the current committees were members in the 2002 committee.

- **Poor attendance at committee meetings**

Regular attendance of meetings ensures that members are able to follow up on committee work and are then able to give guidance to Parliament and government departments and entities. Many portfolio committee meetings have a low attendance by members. Considering the attendance registers of many portfolio committee meetings for 2005, it transpires that on 13 September 2005, 11 members out of 18 attended the meeting. On 16 September 2005, 6 members out of 12 attended the Joint Constitutional Review Committee meeting. The above is a poor reflection of the rate of attendance of meetings by members which also shows that members could be having more than one meeting to attend and as such, eventually miss some of these meetings.

6.3.2 Oversight role of SCOPA

The work of the Standing Committee on Public Accounts is derived from reports of the Auditor-General. These reports are mainly in the form of audited financial statements (although non-audited reports are also considered) that

are prepared at the end of the financial year and presented to the department or government institution whose books are being audited.

SCOPA normally considers Auditor-General reports of government departments and entities towards the end of the financial year following the one for which financial reports are being reported on. This means that in instances where transactions reported on happened at the beginning of the financial year reported on, SCOPA will only deal with those issues in about two years after they were incurred.

SCOPA, for instance, sometimes considers and evaluates audit reports of departments almost two years after the beginning of the financial year under consideration. As an example (Table 6.2), SCOPA was only able to call the Department of Water Affairs and Forestry to a hearing on 12 March 2003 to discuss issues pertaining to the financial year ended 31 March 2002. This relates to a period of over twenty-four months after the beginning of the financial year under consideration and twelve months after the end of the financial year under review. For the financial years ended 31 March 2000 and 2001 respectively, the hearings were conducted on 8 May 2002, which is a period in excess of thirty-seven and twenty-five months after the beginning of the financial years under review respectively.

The above could have the risk and implication that SCOPA can allocate more time and resources on transactions that took place more than two years ago as if they are recent issues and by so doing, miss or overlook improvements that might have been made since the time the transactions or actions happened.

The above might not be helpful for effective oversight and for allowing departments to take remedial action in time to address identified shortcomings. Remedial action needs to be taken by the managers when identified shortcomings are still fresh in the minds of the managers.

Table 6.2: Dates of SCOPA hearings

	Department	Date of hearing	Financial year under review	No. of months since beginning of year under consideration
	Water Affairs & Forestry	12 March 03	2001/2002	24 Months
	Water Affairs & Forestry	8 May 2002	1999/2000 and 2000/01	25 and 37 respectively

Source: Adapted from the Auditor-General's reports

The length of time it takes SCOPA to deal with departmental issues could also be detrimental to a particular department by preventing it from taking immediate action against those implicated as some of the officials might already have left the public service. The other concern is that by the time SCOPA calls managers to account for the wrongs that happened in the previous financial year, the same wrongs could have been committed in the new financial year before the remedial action is taken as recommended by the Auditor-General and SCOPA.

Parliamentary oversight through the financial reporting mechanism has a number of weaknesses, some of which are the following:

- Progress or lack thereof is measured mostly in terms of money spent or not spent. Non-financial reporting where deliverables are shown in quantities or actual services delivered is often overlooked if it is not linked to money spent. As an example, every year towards the end of November, the National Treasury issues an expenditure report covering the first six months of the financial year. This report is issued before the tabling of the adjustment estimates and indicates the level of spending by each national department at the end of the six months. During this period, it is assumed that departments will have spent about fifty percent of their allocated budget and those that have spent less, are encouraged to increase their level of spending.

- Evaluation is backward-looking and not forward-looking with the result that emphasis is put on successes or failures of the past and not on current achievements or failures that might indicate that there are urgent shortcomings that need immediate attention.
- Deliverables are sometimes obscured should there be overspending of the budget. When the budget or programme has been overspent, this is viewed negatively and little attention is given to what has been achieved with the extra spending.
- Overspending of a programme is viewed negatively even though the vote might not be overspent. As an example, in his General Report (1999 – 2000:34), the Auditor-General reported that eight out of the nine provinces had overspent their programmes and votes while seven out of nine of those provinces had not spent all their money within the programmes and votes.
- Underspending of a programme or vote in earlier years is viewed negatively although some projects might be spread over a number of financial years. This might suggest that the advantages of the MTEF method of budgeting are not taken into consideration. In his General Report (1998 – 1999:48), the Auditor-General noted that there were still far too many departments that were surrendering unacceptably high amounts annually. He mentioned that eleven out of thirty seven departments still had more than ten percent of their voted funds available, although much of this amount had already been requested to be rolled-over to the following financial year.
- Decisions taken are often rule-bound and thus missing the dynamic achievement of goals through means that might be outside what was agreed upon. This might discourage managers from experimenting and initiating new ways of providing services.

The above weaknesses point to the fact that the budget and financial statements cannot be the only tools used by Parliament to exercise oversight over the performance of government departments. One other tool that could be used is the annual report.

6.4 PARLIAMENTARY OVERSIGHT THROUGH ANNUAL REPORTS

Parliament has put in place a process, through SCOPA hearings, for exercising oversight through the budget and financial reports as submitted by the Auditor-General. However, no such process exists formally for the oversight control through annual reports. The annual report, as applied in the South African public service, is a standard document that includes both financial and non-financial information and it comprises a number of sections covering the following areas:

- general information about the particular department or institution;
- information on how different programmes have performed in the past financial year;
- report of the Audit Committee on the overall performance of the department or entity;
- the annual financial statements, including the report of the Auditor-General and;
- the oversight report detailing progress on the implementation of projects and the meeting of identified targets.

Financial expenditure and budget allocation reports give an indication of the financial position of departments in terms of the financial management and spending of government financial resources. The Auditor-General reports that indicate misallocation of funds, theft of financial resources, underspending or overspending of government funds as well as budget reports by the Minister during the tabling of his budget encourage many people to develop an interest in the financial activities in the country. This could be an indication that most people are starting to develop an interest in what the Government does with the financial resources at its disposal. As an example, after the Minister had tabled the 2003/04 budget, comments were received from many parts of the community and are recorded in what has come to be known as Trevor's Budget Tips. Meetings were also held with many stakeholders in the country, amongst them the labour movement that was represented by the Congress of

South African Trade Unions (COSATU), the South African Catering, Transport Workers' Union, (SACTWU), the Federation of Unions of South Africa (FEDUSA), and the National Council of Trade Unions (NACTU), the business sector that was represented by the National Federated Chamber of Commerce (NAFCOC), and the banking sector represented by the Merchant Bank while the community was also present and represented by a delegation from Women, Youth, Co-operatives and Civic sectors (<http://www.info.gov.za/speeches/2003>).

Annual reports differ from budgets in a number of ways, including their reporting focus. Annual reports are backward-looking in that they:

- report on performance for the financial year ended on 31 March of the previous year,
- are not policy documents and
- may include post-financial year documents.

The above might suggest that annual reports are not powerful enough oversight documents to be used immediately to solve existing problems. But it is not only the financial report (quantitative) that is effective in the analysis, evaluation and determination of performance. Performance based on the quality of operations (qualitative) is possible and this is where the non-financial part of the annual report comes in. The following can be verified through the non-financial part of the annual report:

- whether the annual report considers service delivery performance;
- whether measurable objectives and performance targets are reported on;
- whether objectives are linked to the available budget; and
- whether key performance areas of departments are linked to government objectives.

Non-financial oversight covers a wider range of categories than just financial management. The categories normally covered include policy development, structural issues as well as current events. Policy reports cover a broad range

of activities that involve policy development and implementation, including the presentation of green or white papers, plans for the forthcoming year and statements of objectives or priorities. Reports on structural issues typically deal with matters of internal transformation, including issues such as representativity, human resources, and training and personnel development. Reports on current events deal with recent developments.

6.4.1 Shortcomings in annual reports

The fact that Parliament, through SCOPA, considers mainly financial reports prepared by the Auditor-General as against non-financial reports, might point to the fact that financial information is given more attention and consideration than non-financial information, giving an impression that financial information is more important to SCOPA than non-financial information. The consideration of financial reporting only is not enough as it might lead to a one-sided account of the proceedings and operations of the state and might result in inadequate information being considered for making important decisions. The National Treasury (2004:3), in its 2004 report to Parliament entitled “Guideline for legislative oversight through annual reports”, identified the following points as challenges associated with annual reports within the oversight role played by Parliament:

- **Parliament does not have a systematic process to deal with annual reports**

As indicated, financial reports are more easily attended to by parliamentary committees than non-financial reports. The oversight role thus played, gets weakened by not considering the entire report and some crucial information might not be considered in the process. Parliament needs to put a process in place to deal with both financial and non-financial reports.

- **Poor quality of non-financial information in annual reports**

Financial statements are presented in a standard way and this makes reporting to be simplified and easy to understand and interpret. Non-financial information comes in different formats and the quality of the information contained therein is very poor. This makes the interpretation of this information difficult. As with financial reporting, a standardised non-financial reporting method needs to be developed to supplement financial reporting.

- **Failure by some departments/entities to table their annual reports on time**

In terms of section 40(1)(c) of the PFMA, departments, trading entities and constitutional institutions must submit financial statements within six months after the end of the financial year to the Auditor-General for auditing and to the relevant treasury to enable that treasury to prepare consolidated financial statements. The Act requires that the above entities' annual reports, audited financial statements as well as the Auditor-General's report must also be submitted within five months of the end of the financial year to the relevant treasuries and executive authorities.

Although fewer problems have been experienced with the submission of the financial statements, problems have been experienced with the submission of annual reports. In its Cabinet memorandum no. 38 of 2004, entitled "2003/2004 Audit outcomes and annual reports", the National Treasury indicates that 55 departments and public entities did not submit their annual reports within six months from the year-end. This matter needs to be looked into and reasons for the failure determined so that remedial action can be taken.

- **Weak link between annual reports and budgets**

The oversight part of the annual report gives an indication of the achievements made by departments in terms of projects engaged in during the financial year. Although the report does give to some extent in percentage form, the levels of achievement, there is no relationship between the achievements and funds applied to meet the targets. This is in itself a weakness because the targets might have been met with funds not budgeted for.

- **Poor feedback from Parliament to departments**

Portfolio committee and SCOPA meetings with departments and other organs of the state are few and short in relation to the amount of work that they perform. SCOPA normally calls departments, public entities or constitutional institutions once a year to account for their operations for the entire year. These meetings, as indicated, are short and cover only a few areas. The time taken to report back to these organs of the state is as such, very short and does not allow enough feedback to be given. This restricts effective interaction between Parliament and the organs of the state.

6.5 ROLE OF THE NATIONAL TREASURY

Apart from the above role-players in the oversight function of the state, the Department of Finance (National Treasury) plays an important role of determining financial policy and monitoring implementation thereof. Most reports by the Auditor-General are based on financial policies developed and monitored by the National Treasury.

The National Treasury guides departments on how and when new financial provisions are to be implemented. Because of the phased implementation of the PFMA, 1999, the Office of the Auditor-General (OA-G) acts in consultation

with the National Treasury in terms of agreeing on which sections of the PFMA are to be audited. When accrual accounting was introduced within the South African public service in terms of the PFMA, 1999, the National Treasury determined the implementation year and started a process to ensure that every department was ready to implement the required provisions. The Auditor-General then audits the financial statements for compliance with consideration of readiness by government departments as determined by the National Treasury.

The early warning system is one reporting mechanism that is used by the National Treasury to determine the spending patterns and level of government departments. Through this mechanism, the National Treasury is able to guide departments on their financial needs for particular months during the financial year. In performing this monitoring function, the National Treasury assumes a superior position over other government departments while also being one of a number of government departments. The role of the National Treasury could, as such, be a confusing one, especially if its implementation function is not performed as expected. Although the PFMA clearly states its functions, it is upon this department to convince other departments that it does not view itself as superior to the others.

In 2004, the National Treasury conducted a research based on assisting members of Parliament to perform oversight over the activities of government departments, public entities and constitutional institutions entitled “Guideline for legislative oversight through annual reports, 2005”. The research paper takes members through the different steps that they should follow or things that they should consider when evaluating the performance of the above institutions. Through its functions, the National Treasury also plays an oversight role over the performance of government departments, public entities and constitutional institutions concerning the spending of government financial resources. These institutions and departments report regularly to the National Treasury through the early warning reports or any other mechanism identified.

The National Treasury, as a department in charge of developing financial policy, is responsible for ensuring the effective implementation of accrual accounting in South Africa as directed by the PFMA and the Constitution. The change from cash to accrual accounting should, however, not be regarded as an end in itself because the problems that exist as a result of inadequate cash accounting systems will not automatically be solved or go away. It will not automatically improve control or management where inadequate control and poor management is prevailing.

6.6 CONCLUSION

A government is expected to make a positive impact on the lives of the citizens of a country. When the electorate goes to the polls to elect their parties, they do so with the hope that these leaders will bring about a better life for them by way of, amongst others, creating jobs, providing essential services, as well as creating a conducive environment for them to establish businesses and perform their duties without much interference. Because a government does not function in isolation but interacts with different people and organisations in the performance of its duties, it gets ideas from them and implements those that are beneficial to its citizens.

With this in mind, it is important that the role of the government within public administration should be understood because the government performs its duties through administrative functions. All the activities of the state need to be funded and it is the responsibility of the government to ensure that there is sufficient funding for the programmes and projects that it wants to embark upon.

Where money is involved, there is usually a challenge in terms of how it is managed and accounted for. It is for this reason that effective systems of financial control, management and reporting should be developed and implemented. Systems of financial management are dynamic and change regularly to meet new reporting requirements. It is important for government leaders and managers to have an understanding of the financial reporting

requirements to be able to evaluate the effectiveness of utilising financial resources to achieve government goals and objectives.

Political leaders are expected to play an important role in guiding the strategic direction of government. In Parliament, different committees are established to provide this guidance and the effectiveness of Parliament in providing this depends on the effectiveness of these committees. It is, thus, important that these committees should be adequately assisted with the necessary information from government departments in order to fulfil this function.

CHAPTER 7

CONCLUSION AND RECOMMENDATIONS

7.1 CONCLUSION

The state performs its functions and activities within public administration. As the administration of public affairs results from political activities, the political leaders do need to have an insight into what is happening within public administration. This is done through an oversight process by Parliament that is applied to monitor the activities of the different organs of the state.

As part of implementing its public administration function, the state has established government departments for each function or a combination thereof to deal with and manage activities related thereto. The management of financial resources cuts across all government departments and public entities because all of them utilise public funds either directly or indirectly in the performance of their functions and are obliged to account to Parliament on how these funds have been applied. It is for this reason that every organ of state is expected to develop and implement effective financial management systems to manage the financial resources allocated to them effectively and efficiently.

The National Treasury's central role in the monitoring and control of the implementation of the PFMA requirements fully equips this Department to guide government departments in the effective performance of their financial administration functions. The Office of the Auditor-General gives an assurance to both the officials and politicians that the affairs of the state are run appropriately by auditing and issuing positive audit reports.

Political leaders guide the organs of state to meet government objectives. In performing the oversight role and giving guidance, politicians evaluate and analyse reports on the performance of government departments and public entities and determine whether government targets have been met or not.

This research has been an attempt to seek a solution to the problem of legislative oversight within the South African Parliamentary system for the purpose of ensuring that there is effective delivery of services to the citizens of South Africa. The basic premise of the study has been to research and evaluate whether there is adequate oversight that is performed by the legislatures to ensure that appropriate political leadership is provided.

Chapter 1 set out the problem statement and identified the importance of appropriate leadership and management in the compliance with prescripts, notably, the South African Constitution, 1996 and the PFMA, 1999. In this chapter, the limitations as well as the scope of the study were articulated, giving an indication of how the research would be conducted in addressing the identified problem and coming up with recommendations to solve it. In trying to identify the problem, the following hypotheses were put forward:

The current parliamentary oversight process plays an effective leadership role and has an effective impact on service delivery and financial management in the South African public sector towards attaining the government objectives of ensuring maximum service delivery.

The alternative hypothesis was that the current parliamentary oversight process does not play an effective leadership role and does not have an effective impact on service delivery and financial management in the South African public sector towards attaining the government objectives of ensuring maximum service delivery.

In order to address the above, Chapter 2 looked at the role and purpose of public administration as a whole and set out to identify the origins of public administration and its evolvement in South Africa. This was done by firstly, defining public administration and then determining public administration functions. The role and purpose of the state within public administration were also identified, and the environment within which the state operates in the

implementation of the functions of public administration was also determined. The findings in this chapter are that South Africa is not a unique country and its political transformation follows that of other countries that have undergone political transformation. In that process of political transformation, these countries also had to transform their public administration and also introduced some financial reforms in that process.

The implementation of public administration requires the utilisation of financial resources. These resources have to be appropriately managed and this can be achieved with the development of proper financial management systems and appropriately trained personnel. This aspect was discussed in Chapter 3 where the overall overview of public financial management in the public service was given. The current public financial management systems in South Africa were discussed in this chapter, analysing the different systems applied during the former dispensation and how the new order has influenced the move away from the old to the new financial management systems. Findings in Chapter 3 are that the introduction of the PFMA, 1999 as well as the MTEF method of budgeting have brought with them financial management improvements and benefits in the South African Public Service.

Much as the different public financial management systems have been developed, they need to be implemented so that their benefits can be felt. This issue is discussed in Chapter 4 where public financial management systems, amongst them, budgeting and supply chain management systems, implemented in South Africa were evaluated. Financial reporting and accountability were also discussed. In order to give recognition to the way that the financial reform process is being implemented in South Africa, a comparison with some of the international role players, namely Canada, New Zealand and Australia, was made. The research found that the route that South Africa adopted resembles that followed by these countries, with minor adjustments where appropriate. The implementation of the above financial management reform processes are in line with the requirements of the PFMA, 1999 and the South African Constitution, 1996.

Chapter 5 identified the role played by leaders in ensuring that the vision and mission as well as the management systems put in place are implemented. In this chapter, the different leadership theories were identified, indicating that leaders are not the same and act differently under different circumstances. The difference between leaders and managers was also discussed in this chapter as well as the different responsibilities given to each of them. The findings from this chapter are that each of the leaders and managers perform different functions where leaders determine the mission and vision of an organisation while managers implement the decisions of the leaders.

Chapter 6 identified the role played by the leaders and asked questions in terms of whether, in South Africa, the guidance and leadership provided by the leaders is effective enough to ensure that there is effective delivery of services within the country. The effectiveness of different Parliamentary committees to ensure accountability and oversight was also discussed. A list of shortcomings within the oversight function played by the political leadership were identified. The findings here are that there is much work that still needs to be done to bring an improvement to the existing current situation for South Africa to make a big impression in the area of oversight by its political leadership.

With the limiting factor of a ten year period that was identified at the beginning of this research, it can be concluded that the research, so far, has been able to confirm the alternative hypothesis that the current parliamentary oversight process does not play an effective leadership role and does not have an effective impact on service delivery and financial management in the South African public sector towards attaining the government objectives of ensuring maximum service delivery. It is, however, acknowledged that, with time and the acceptance that improvements are indeed needed, South Africa can make improvements and be one of the leading countries in the area of public administration, if the recommendations made below can be implemented.

In this chapter, shortcomings identified and expanded upon in the previous chapters will be further analysed and recommendations made on how to

address them. In suggesting recommendations, the work done by the National Treasury and the Office of the Auditor-General will, in some instances, also be considered.

7.2 RECOMMENDATIONS

In determining the appropriate means and ways the South African Government should adopt in ensuring effective oversight and service delivery, the following findings and shortcomings, as detailed below, have been identified. Based on these, recommendations are made in terms of how the shortcomings can be attended to.

7.2.1 Non-alignment of government planning and budgeting cycles

Government processes are not aligned. When the national Cabinet Lekgotla meets in January, with the involvement of provincial Premiers and DGs, it decides on the detail of the national programme for that year. At the same time, it also starts the process of reflection on medium-term priorities for the next MTEF period. The national and provincial planning and budgeting processes are aligned as they also share the same financial year-end. The local government process is not aligned to that of the other two spheres as it operates within its own financial year-end that starts at the beginning of July and ends at the end of June the following year. Other public entities, such as the water boards, also operate within the same framework as the spheres of local government.

The above makes it difficult for government to operate on the same reporting time frames and be able to produce a set of documents that takes into consideration all three spheres of government simultaneously. The fact that the Department of Provincial and Local Government oversees work done by the municipalities that have different reporting time frames inhibits effective reporting.

On the basis of the above, it is recommended that the planning and budgeting cycles of all three spheres of government be aligned and the financial reporting periods or financial year-ends be the same. This will ensure that there is consolidated reporting on the programmes of government and the progress thereof.

Presentations by departments at the medium term expenditure council (MTEC) to plan allocations for the following financial year should be guided by the medium term strategic framework (MTSF). Similarly, end of year reports submitted by departments and provinces to the Presidency and by clusters to the January Lekgotla are informed by the MTSF, which, in turn, inform the programme for the year. However, there is no proper alignment between the political strategic cycle of the MTSF and the budgetary process of the MTEF. Strategic planning through the MTSF is done over a five-year period while the MTEF process considers a period of three years. For these processes to support each other effectively, it is recommended that the period within which they operate should be properly aligned so as to provide appropriate leadership and guidance.

7.2.2 Poor feedback from Parliament to departments

The leadership role played by Parliament is crucial to ensuring that government departments and entities do not deviate from the predetermined objectives and plans of the government. This means that the monitoring and evaluation process Parliament engages in with organs of state should be taken seriously and agreements so reached, should be implemented. As has been indicated that parliamentary committees take long before providing feedback to departments, this situation should be attended to.

In order to address this shortcoming, it is recommended that parliamentary committees should schedule no fewer than two briefing sessions per financial year with government departments and other state organs. In these meetings, clear guidelines should be given to departments with clear reporting deadlines. If the oversight process is to be effective, Parliament and the

provincial legislatures need to put in place a mechanism or system for tracking resolutions and ensuring that they are brought to the attention of the relevant minister, MECs or accounting officers, as the case might be, on a regular basis until the matter has been dealt with, or an adequate response has been received.

The above can be done if the secretariats of these committees are sufficiently trained and developed to be able to interact regularly with departments immediately after every meeting, analyse progress reports of departments and make follow-ups where necessary. This intervention could lead to ensuring that parliamentary committees, like SCOPA, do not call departments to hearings two years after the events have taken place but immediately thereafter.

7.2.3 Weak link between annual reports and budgets

While budgets are used to plan for the future utilisation of government resources (forward-looking), annual reports are used to give an indication of how the government resources allocated to a department, state-owned enterprise or public entity, as the case may be, have been utilised (backward-looking). This makes it difficult for reporting as the reports will always refer to different periods.

In order to close the gap resulting from the above reporting mechanisms, it is recommended that a quarterly reporting process be established to report on the progress or achievements made on a quarterly basis. These reports should be used to compile the end of year annual report that will consider achievements made during the year. Although the gap will not close, it will be reduced such that reallocations or shifting of funds within programmes can be effected immediately.

7.2.4 Lack of an effective different viewpoint in Parliament

The effectiveness of the leadership provided by Parliament is dependent on a number of factors, including, but not limited to, depoliticising issues of national importance such as effective financial management during discussions. Where views by members from the opposition parties are not taken seriously in Parliament, important policy decisions could be missed as a result of party-political differences. This should be discouraged as members who consider themselves sidelined can find other ways of making their voices heard by deciding, amongst others, to approach newspapers.

In order to ensure that every member of Parliament (MP) is given an opportunity to present their issues, it is recommended that chairpersons of committees should protect the rights of every member and allow them to speak unhindered. A parliamentary procedural order should be established to the effect that time should be taken away from the party of a member that prevents another member from expressing an opinion on an issue and be given to the party of the member that was prevented from expressing his/her facts freely.

7.2.5 Inconsistent membership of portfolio committees; poor attendance of committee meetings and inadequate time to deal effectively with committee issues

The regular attendance of committee meetings by members ensures that issues brought to the committee's attention are effectively dealt with within the allocated time and that decisions so taken represent those of the entire committee and are legitimately presented to Parliament. Where membership of a committee is consistent, members are able to take advantage of different skills and knowledge amongst themselves and use these effectively for the benefit of the committee.

However, small parties are the ones negatively affected by the above challenges as they lack the numbers that allow them to attend all meetings. In

order to solve this problem effectively, it is recommended that each party be allocated no less than two party researchers per committee (preferably from their own party) whose duty will be to do research work and then report to the party members.

Alternatively, portfolio committees could be assigned a number of researchers whose responsibility could be to do research work on behalf of the committees and report on findings that will be used by the committee members to engage themselves with particular departments or entities. This will also ensure that committee meetings are focused and deal mainly with key issues emanating from the research work. This will also help departments to focus on their work and respond to specific issues raised within a given period.

The researchers should be specialists in at least one functional area while having general knowledge on other functional areas. They should be knowledgeable about budgets, strategic plans, in-year monitoring and control and have the ability to analyse reports and write good reports emanating from those reports. The researchers should also be allowed to engage departments and represent committee members during portfolio committee meetings with departments.

7.2.6 Poor quality of non-financial information in annual reports and no systematic process by Parliament to deal with annual reports

As indicated, Parliament, through SCOPA, deals more with financial reports emanating from the Auditor-General rather than with the non-financial reports resulting from the annual reports, and this happens long after the activities have taken place. The issues in the annual report are left to the other committees of Parliament, like portfolio committees. The process followed by the portfolio committees when dealing with annual reports is not systematic like that of the budget but fragmented and does not follow any predetermined pattern.

It is recommended that, when dealing with annual reports, portfolio committees should first develop a system of evaluation that will be used to deal with the different issues within the annual reports. The system should include regular reporting dates and the type of information to be included in the reports, among others.

It is also recommended that, when dealing with annual reports, portfolio committees should ensure that departments and public entities provide good quality service delivery information in their strategic plans with specific performance targets and time frames. These entities and departments should then be made to report on those targets in their annual reports.

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