The management of public expenditure by the Eastern Cape Department of Education and Health (2007/8 to 2011/12) and Compliance with the PFMA

A Dissertation presented to

Graduate School of Business
University of Cape Town

In partial fulfilment of the requirements for the Master of Philosophy in Development Finance Degree

by

Gloria Nokuthula Shabalala

Supervisor: Prof Paul Alagidede

December 2012
PLAGIARISM DECLARATION

I know that plagiarism is wrong. Plagiarism is to use another’s work and pretend that it is one’s own.

I have used a recognised convention for citation and referencing. Each significant contribution and quotation from the works of other people has been attributed, cited and referenced.

I certify that this submission is my own work.

I have not allowed and will not allow anyone to copy this essay with the intention of passing it off as his or her own work

Gloria Nokuthula Shabalala
ABSTRACT

Good financial and expenditure management remains a central issue of every governmental agenda as it relates to how available government resources are utilised. Financial management has undergone many reforms as the public administration discipline changed its approach. The classical approach to public administration gave rise to bureaucracies who in turn were bloated and largely inefficient. The new approach to public administration, NPM sought to promote good financial management through adoption of private sector practices by the public sector. The NPM approach gained momentum in the 1980s and 1990s.

Both developed and developing countries adopted the approach as a solution to existing inefficiencies and to reduce the size of government. SA also adopted the approach in 1995 resulting in the promulgation of the PFMA in 1999. The NPM approach devolved decision making by making management accountable for financial mismanagement and expenditure of resources under their control.

As a developing country, SA faces limited resources which have to be allocated to escalating and increasing needs. The Medium Term Expenditure Framework highlights the twelve key priorities of government. Health and Education are top of the lists. These two priorities are allocated the lion’s share of the budget each and every year. Therefore, it is crucial to analyse how this allocated budget is utilised by the two Departments.

The research analysed expenditure management for the Department of Health and Education of Eastern Cape between 2007/8 to 2011/12 and compliance with the PFMA that regulates financial and expenditure management by national and provincial departments. This was done through analysis of unauthorised expenditure; irregular expenditure and fruitless and wasteful expenditure and its implications for service delivery. Challenges that prohibit the two departments from improving financial management and expenditure management are also analysed.
# TABLE OF CONTENTS

PLAGIARISM DECLARATION ................................................................. i
ABSTRACT .................................................................................. ii
TABLE OF CONTENTS ................................................................. iii
LIST OF FIGURES AND TABLES ................................................ iv
GLOSSARY OF TERMS ................................................................. v
ACKNOWLEDGEMENT ................................................................... vi

Chapter 1 ...................................................................................... 1
  1.1 Introduction ........................................................................ 1
  1.2 Research area ..................................................................... 2
  1.3 Problem statement ............................................................. 3
  1.4 Purpose and significance of the research ......................... 4
  1.5 Research questions and scope .......................................... 5
  1.6 Research assumptions ....................................................... 5

Chapter 2 ...................................................................................... 6
  Literature review .................................................................... 6

Chapter 3 ..................................................................................... 27
  Methodology and research design ......................................... 27
    3.1 Introduction .................................................................... 27
    3.2 Choice and rationale for design .................................... 27
    3.3 Study population and area ............................................. 27
    3.4 Time-series data ............................................................ 28
    3.5 Research methodology and design ............................... 28
    3.6 Data collection methods ................................................. 29
    3.7 Data analysis ................................................................. 30
    3.8 Ethical consideration ..................................................... 30
    3.9 Limitations of the study ................................................. 31

Chapter 4 ..................................................................................... 32

Chapter 5 ..................................................................................... 51

Chapter 6 ..................................................................................... 62

Chapter 7 ..................................................................................... 69
  Recommendations for future research ................................. 69

Bibliography
LIST OF FIGURES AND TABLES

List of tables

Table 1: Audit outcomes [Department of Education and Health (2007/8 to 2011/12)]
Table 2: Financial misconduct (Department of Education)
Table 3: Financial misconduct (Department of Health)
Table 4: Findings on contract management (Department of Education and Health)
Table 5: Status of implementation of SCOPA resolutions

List of figures

Figure 1: Expenditure trends [Departments of Education and Health (2008/9 to 2011/12)]
Figure 2: Unauthorised expenditure [Departments of Education and Health (2006/7 to 2011/12)]
Figure 3: Irregular expenditure [Departments of Education and Health (2007/8 to 2011/12)]
Figure 4: Breakdown of irregular expenditure [Department of Education]
Figure 5: Breakdown of irregular expenditure [Department of Health]
Figure 6: Fruitless and wasteful expenditure [Departments of Education and Health (2007/8 to 2011/12)]
GLOSSARY OF TERMS

A-G - Auditor-General
AcG - Office of the Accountant-General
ANC - African National Congress
GAAP - Generally Accepted Accounting Practise
GRAP - Generally Recognised Accounting Practise
IMF - International Monetary Fund
FFC - Financial Fiscal Commission
MEC - Member of Executive Council
MTEF - Medium Term Expenditure Framework
NIE - New Institutional Economics
NPM - New Public Administration
OECD - Organisation for Economic Co-operation and Development
PFMA - Public Finance Management Act
PPP - Public-Private partnership
SA - South Africa
SAP - Structural Adjustment Program
SSA - Sub Saharan Africa
UK - United Kingdom
US - United States
ACKNOWLEDGEMENT

I take this opportunity to thank my God who is my pillar of strength, my greatest friend and provider for allowing me this opportunity.

I also like to thank my family. They have been very understanding, knowing that I have to sacrifice family time to finish my studies. They have also been there when I was hesitating and doubting my own abilities. Their words of encouragements kept me going. My parents, Mr and Mrs Shabalala, thank you for trusting in my abilities. Ngithi Mshengu, Shabalala, Donga lukaMavuso!!!. To you my sister, Khanyi Nzuza; Mshazi!!!

My friends and colleagues in Parliament have also assisted. Knowing that I am not alone but there are people who are in this together with me also assisted greatly. May God richly bless you.

Lastly but not least, to my professors. Professor Alagidede, thanks for your patience and guidance. Professor Biekpe, thank you for your encouraging words.
Chapter 1

Introduction

1.1 Introduction

Government resources play a central role in what the government seeks to achieve in the economy. The government has a role to play in providing certain services that the private sector cannot provide therefore in all economies, there will be services provided by the government. The government acquires its resources from the public through taxes and channel these resources through the budget to intended recipients who cannot afford these services at higher prices from the private sector. Government resources are therefore national resources which must be used efficiently and effectively in the provision of goods and services.

The field of public administration has gone through different reforms in its quest to ensure that government provides goods and services in an efficient and effective manner to its citizens and to eliminate waste of public resources. The classical approach of public administration identified bureaucracies as a solution to address the dichotomy between politics and management that plagued the period prior neoliberal economics. Although bureaucracies assisted in addressing corruption and favouritism in order to gain votes, it created moral hazards by being inefficient and wasteful (Osborne and Gaebler, 1993). As bureaucracies grew bigger, inefficiencies and wastefulness creep in making scientists and scholars to identify new instruments to curb and minimise the size of government.

New public management (NPM) or entrepreneurial government as other writers such as Osborne and Gaebler put it, was born to address economic and fiscal crises which triggered a quest for efficiency and for ways to cut the cost of delivering public services (Larbi, 1999). NPM was developed in the 1970’s and was influenced by new institutional economics, public choice, and agency theory. NPM emphases were on effectiveness and efficiency in the way government provides its services.
As a country, South Africa (SA) follows the NPM approach to public management. This approach was adopted by developed countries and developing countries also followed soon after. Several reforms in public management were introduced necessitating reforms in financial management of government resources as well. The promulgation of the Public Finance Management Act (PFMA) coupled with other regulations was to modernise financial management in line with the NPM approach.

The research study analyses unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure in the Department of Education and Health of the Eastern Cape that took place between 2007/8 and 2011/12 financial years and the factors leading to the Departments incurring this expenditure. Financial management legislation clearly has provisions in place to prevent this kind of expenditure and makes provisions if the expenditure is incurred. Nonetheless, the Departments have been incurring this expenditure on a regular basis and it has become the norm rather than an exception. The purpose of the study is to investigate expenditure management with special emphasis on unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure in the two Departments.

The Eastern Cape allocates 73 per cent of its budget to Education and Health. It is therefore important for the government to investigate how its resources are being utilised as this has serious implications on service delivery. National and provincial departments are guided by certain legislative frameworks on how its finances must be utilised. However, the two Departments have consistently failed to follow laws and regulations such as the PFMA and regulations regarding supply chain management. This raises serious questions on the policy that SA follows in managing its finances.

1.2 Research area

The aim of the study is to investigate the incidence of unauthorised expenditure; irregular expenditure; and fruitless and wasteful expenditure in the Departments of Education and Health and explore factors leading the Departments to incur this expenditure over the period 2007/8 to 2011/12 financial years. The Eastern Cape is used as a case study for this period. The requirements of the PFMA will also be
analysed against the practices in the two departments in order to establish whether
the NPM approach is effective or ineffective for a developing country such as SA.

1.3 Problem statement

Service delivery remains a challenge in SA. This is due to a range of factors such as
management of government resources which affect the way public finances are used
to achieve government objectives. Waste of government resources limit available
resources to be used for other government initiatives and service delivery.

SA is a developing country which has many challenges to be addressed through the
budget. There are severe income inequalities and poverty which makes people rely
on government provision of education, health care and housing etc. A massive
budget is allocated to social spending every year in order to rectify consequences of
the apartheid government and to grow the economy. According to the Budget Review
(National Treasury, 2013) spending on social development, health, education,
housing and local amenities has more than doubled in real terms over the past
decade and now accounts for almost 60 per cent of public expenditure. It is
emphasized that fiscal constraints necessitates the need for value for money.

The Government has identified health and education as one of the priorities in the
medium term to provide public health and to build the country’s human capital and
unemployment.

The budget is shared between the three spheres of government. It is allocated to
Provinces through the equitable share formula which ensures an equitable share
allocation to all nine provinces. Provinces receive 43,5 per cent of the total budget
together with other conditional grants.

About 73 per cent of the Eastern Cape budget is allocated to education and health. It
is therefore imperative that the way this expenditure is utilised is investigated to
ensure that citizens get value for money in how their finances are used. Unauthorised
expenditure; irregular expenditure as well as fruitless and wasteful expenditure
signify inefficiency and wastage in the way funds are used. The PFMA prohibits
occurrence of these types of expenditures. Unauthorised expenditure refers to
expenditure incurred due to overspending or expenditure not incurred in accordance
with the purposes for which it was intended. Irregular expenditure is incurred as a
result of contravention of applicable laws and regulations whereas fruitless and
wasteful expenditure is expenditure that was made in vain which could have been
avoided if reasonable care was exercised.

Financial mismanagement, corruption and fraud must be avoided at all times. However, in the Eastern Cape, the two Departments have incurred these expenditures on regular basis indicating that public expenditure management in the Province is lacking.

It is also imperative for SA to evaluate whether the policy approach that is followed is achieving its objectives such as promoting efficiency in public expenditure and elimination of waste. NPM was implemented through financial management reforms such as devolution of management or managerialisation of the public sector through making accounting officers of departments accountable. The PFMA sought to give power to accounting officers and to make them accountable. Compliance with the PFMA by departments and entities means that the NPM approach is effective in enforcing proper financial management. Non-compliance cast doubts on whether this policy is effective or not.

1.4 Purpose and significance of the research

The Minister of Finance in His Budget Speech address acknowledged that the state has a critical role to play in development. Good quality public service, economic infrastructure and investment in human resources are crucial. The emphasis was on Government stepping up its efforts to combat waste, inefficiency and corruption. Reforms will be introduced to focus on procurement management systems that prioritise value for money and strengthening anti- corruption as a whole. These inefficiencies clearly hamper service delivery (Mhlauli, 2011).

The research therefore looks at waste, inefficiency and corruption in the Eastern Cape Department of Health and Education. The Auditor-General after conducting
audits in departments categorises this in unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure.

1.5 Research questions and scope

The study will respond to the following questions:

▪ How is the Eastern Cape Department of Health and Education managing its expenditures over the five year period (2007/8 to 2011/12)?

▪ What is the trend of incidence of unauthorised expenditure; irregular expenditure; and fruitless and wasteful expenditure over the five year period (2007/8 to 2011/12) and what are the requirements of the PFMA with regards to these expenditures?

▪ What are the factors leading to financial mismanagement in the Department of Education and Health?

▪ Recommendations on what can be done to manage expenditures efficiently;

▪ Is NPM policy approach effective in SA in promoting efficiency and minimising waste in the way public funds are utilised?

1.6 Research assumptions

The research assumes that heads of departments of the two Departments are employed based on their skills, experience and expertise. Therefore, it is generally assumed that holders of such positions are capable to deliver and are very knowledgeable in government policies and legislative frameworks and are capable to deliver on all government objectives. In addition, a team of experts such as chief finance officers (CFOs) and other fields are available to assist the accounting officer to meet the Department’s objectives.
Chapter 2

Literature review

2.1 Introduction

Public financial management is an integral and important part of public administration as it is concerned with how allocated government resources have been utilised. As public administration went through many reforms, public finance management also evolved as it was influenced by these changes in the discipline of public administration. As developed countries adopted reforms associated with the adoption of NPM, developing countries also followed out of choice and some from structural adjustment programs (SAP) requirements.

New Public Management (NPM) was preconceived as a solution to bloated government and seen as bringing change to inefficiencies as a result of bureaucracies. SA also adopted these reforms through enactment of enabling legislations such as the PFMA and frameworks put in place after political reforms in 1994.

This chapter provides a brief review of the existing literature that explains theories underlying public finance management in SA. The NPM ideology influenced and still influences public finance management. It is within this framework that SA adopted the PFMA as well as Batho Pele principles which perceive the public at large as customers. Theories such as the traditional theory of public administration will be explained as well as the modern thinking favouring NPM. International success stories such as the New Zealand will be explored. However, little empirical evidence exists for developing countries especially in Africa. The latter part will expand on the public financial management environment in SA and how this is supposed to safeguard against mismanagement of public resources.

The way the public spends its money has been an integral part of every government and the public sector. Constant reforms have been proposed in order to ensure
efficiency and effectiveness with regards to how the fiscus is used. Early scholars of public administration took an interest in public financial management.

2.2 Theoretical framework

This chapter provides a brief review of the existing literature that explains different theories underlying NPM. The researcher will explain the traditional and the NPM ideology. Public administration, in its inception was based on the classical theory and the discipline evolved as it was influenced by other schools of thought such as economics and public policy which were not static but evolving overtime. Evolution of these disciplines gave rise to other theories of public administration. Theories underlying the NPM model such as the new institutional approach, the public choice theory and the agency theory will be analysed and critiqued. Most empirical work that has been done to test claims of NPM has been done on developed countries such as New Zealand and UK. However, very little empirical evidence exists for developing countries especially in Africa.

2.2.1 The Classical Theory

Denhardt (2004) explains the classical theory. His main focus was on historical heritage and intellectuals such as Max Weber, Karl Max and Sigmund Freud as they explain the social theory. He explains what he calls “the ideal type bureaucracy” and explained the notion of ‘legal authority’ that is the tenet of the classical theory. His work does not explain the assumptions underlying the classical theory but instead he analysed the politics-administration dichotomy that was formulated by Waldo to separate politics from administration. The classical theory which emphasized the separation between the two was identified as a solution to this problem. Early proponents of the classical or the orthodox regime such as Wilson were concerned with the policy-administration continuum (Frederickson and Smith, 2002). According to Wilson, there was political control over the bureaucracy although this control was limited and contingent. Wilson asserted that politics should not meddle in administration and administration likewise.

The classical theory or the traditional theory was developed in the 19th century. The classical approach gained momentum in the era where Keynesian economics
dominated economic thinking of both developed and developed countries. This was also the time of industrialisation and mass production (Osborne and Gaebler, 1993). Keynesian economics favoured bureaucracy by motivating a case for more government intervention as a stimulus in depressed economies. This promoted an increase in the size of government leading to bureaucracies. The expansion of the bureaucracy is linked to the expansion of the State.

The inception of the classical theory came as a result of efforts to keep public administration untainted by the influence of politicians that existed prior. The birth of managers to run bureaucracies and city managers to manage local government was a breed meant to ensure that citizens receive government services with fairness and equality. The assumption of the traditional approach was that administrators should seek maximum efficiency but should be neutral about values and goals.

Rommel (1932) outlines two distinct characteristics of the classical theory. The public sector was kept separate from the private sector and secondly, public administration was characterised by an enormous set of procedural rules aimed at limiting both political and managerial discretion. The early proponents of the classical theory realised the dichotomy between politics and administration and advocated for a separation between the two. This was done to limit corruption and favouritism. Politicians were not involved in the operational side of the organization.

The classical regime had the following principles:

- Division of work and labour;
- Homogeneity;
- Unity of command;
- Hierarchy with respect to the delegation of authority;
- Accountability; and
- Span of control.

Stillman (1988) provides an illustration of what the bureaucracy and what it entails. Postulations underlying the formation of the bureaucracy are explained. Max Weber pioneered the classic formulation of the bureaucracy. The bureaucracy, the preferred
organizational structure was perceived as rational and an efficient method as opposed to the arbitrary exercise of power by authoritarian regimes. Weber postulated the ideal-type of authority on which he bases his theory, namely the ‘legal-rational’ authority. The bureaucracy was based on this type of authority and in the legitimacy of the pattern of normative rules and the rights of those elevated. This notion assumed that subordinates will respect and follow rules laid by a person in position of power. Weber postulated that ‘legal-rational authority’ holds a central role in ordering and controlling modern societies and it is superior to any other form in precision, stringent of discipline and reliability. The bureaucracy imposed rules on the employees.

This model was popular in the 1920s and 1930s. It was also fuelled by the growth and popularity of Keynesian economics which perpetuated government intervention to smooth business cycles in the economy. The civil service was incepted as skilled administrators were appointed to run and manage the bureaucracy.

Bureaucracies were popular when mass production was popular. Bureaucracies limited opportunities for arbitrariness and personal favouritism. According to Weber, bureaucracies were designed to treat everyone alike. Denhardt (2004) justified the existence of bureaucracies prior to reforms by noting that according to Weber, for the needs of mass administration of the day, bureaucracies were completely indispensable. However, although Osborne and Gaebler (1993) acknowledge that this was useful in a particular period, the need came to treat each customer as an individual. The supporters of bureaucratisation did not see the recipient of government services as an individual or a customer. Bureaucracies are criticised on this very issue of mass administration. The advent of the knowledge economy which make information freely available and development of niche marketing has made bureaucracies impersonal and outdated.

The bureaucracy is divided into units which specialises in certain tasks resulting in a competent civil service with specialised skills to carry out certain functions for which they are remunerated. The bureaucracy has a hierarchical order with authority assigning work to subordinates. A top down approach was followed when it comes to
commands. Civil servants were bound by rules set by their superiors to carry out their specialised tasks.

Denhardt (2004) illustrated the human resources characteristics that existed in bureaucracies. These were empowered by ‘legal rational’ authority. The notion of legal-rational authority assumed that bureaucratic rules provides for the systematic control of subordinates by superiors. Officials in public bureaucracies operated according to the following criteria:-

- They are personally free and are subject to authority only with respect to their impersonal official obligations;

- They are organised in a clearly defined hierarchy of offices;

- Each office has a clearly defined sphere of competence in the legal sense;

- The office is filled by a free contractual relationship. There is free selection;

- Candidates are selected on the basis of technical qualifications. Candidates are appointed not elected;

- They are remunerated with a salary and with a pension;

- The office is treated as a sole or the primary occupation of the employee;

- The office constitutes a career. Promotion is based on seniority and achievements;

- Officials work entirely separated from ownership of the means of administration and without appropriation of their positions;

- They are subject to strict and systematic discipline and control in the conduct of the office.

Bureaucracies, private or public were seen to be the most efficient approach to controlling the work of large numbers of people in pursuit of given objectives.
Arguments in favour of the classical theory

Early classical theorists such as Wilson sought to isolate administration from corruption that existed in politics in the period prior. When Weber invented his theory of bureaucracy, it was a solution to the politics-administration dichotomy that existed in the 1800s and early 1900s. Bureaucracies were designed to carry out policies initiated by politicians.

Due to the size of bureaucracies, they were able to reap benefits from economies of scale and scope. Economies of scale are produced by spreading fixed expenses especially investments in plant and equipment and the organisation of production lines over larger volumes of output, thereby reducing unit costs. Economies of scope are derived by exploiting the division of labour. Bureaucracies had skilled public servants doing specialised skills resulting to greater productivity. Bureaucracies were useful for massive infrastructure projects such as bridges and roads where economies of scope and scale were particularly beneficial.

According to Keynesian economics, the government can insulate the economy during periods of economic downswings by increasing government expenditure. Increases in the size of government boosted employment. Osborne and Gaebler (1993) in their critique of bureaucracies acknowledged that these institutions provided security from unemployment and provided stability especially after the Great Depression in the 1930s. Stillman (1988) also notes that the position of the official is held for life in public bureaucracies. So tenure for life is presupposed even where periodic reappointment occurs.

The bureaucracy ensured that all citizens have access to services whether they can afford those services or to the contrary. Standardisation of services ensured fairness somehow as people were treated similar irrespective of class, income or affordability and had access to the same benefits.
Argument against the classical theory

The main criticism of the bureaucracy comes from Osborne and Gaebler (1993) who rationalised the need for change in the US public administration. It is argued that fiscal pressures necessitate a need for creative ideas and techniques to assist government in providing its services. It is argued that the classical theory in trying to solve the problem of political meddling in administration created other problems.

The major critique levelled against bureaucrats is inefficiency. It is argued that bureaucrats are inefficient, bloated and wasteful. A decade earlier, bureaucracies meant something positive but later mediocrity was built into the system and the workforce, making it impossible to fire incompetent employees. According to Felkins (2009) argument, bureaucrats are self-interested utility maximisers motivated by factors such as budget maximisation, larger salaries and also maintenance of power. This view is supported by public choice theorists.

Bureaucracies are huge and decision-making takes time. The rigidity of the bureaucracy makes it difficult to respond to changes and innovations including technological improvements that were prominent in the 1980s and 1990s. Competition has increased options available to citizens and people have access to information due to the development of the knowledge economy.

2.2.2 New Public Management

The NPM model was birthed from traditional public administration, public choice theory, agency theory and new institutional approach. The demise of the traditional approach gave rise to NPM. Although many writers see NPM as an alternative to the traditional or classical theory of public management, it has adopted some of the tenets of the classical. Separation of politics and administration was analysed by the traditional theory. So, NPM is a result of all these theories. Although some argue that it is new, some of the ideology was born long time ago but the combination of all these instruments is new.
NPM is based on the premises of the public choice theory, agency theory and new institutional economics which postulate that individuals are utility maximisers. This postulate differed with the traditional public administration theory which assumed public servants always act in the best interest of citizens. Welfare theory was also based on this assumption which was challenged by the new liberal theories.

Although NPM is not a theory but is an ideology that seeks to instil private practices into the public sector. Proponents of NPM contend that implementation NPM will decrease the size of government in the economy thereby leading to efficiency and effectiveness in the delivery of the public good. The traditional theory was rejected on the basis of encouraging an ever increasing size of government fuelled by the Keynesian regime that favoured government intervention.

Osborne and Gaebler (1993) provide a historical account of the classical theory and its demise. Their book, *Reinventing Government* is accepted as bedrock of NPM. Using specific cases in the US economy, the writers defend the reasons for the NPM to flourish after the economy experienced fiscal pressures and tax revolts. The work of Osborne and Gaebler influenced the work of many writers who explored and supported NPM.

**Criticism of NPM**

Pierre and Rothstein (2010) came with a dissenting view by supporting the supposedly failed system. These writers advocate for the increased role of the government in promoting social trust and calls for a return to Weberianism. It is argued that empirical evidence suggests that developing countries with soft institutions are more efficient than their market based counterparts. It is the very rigidity and legality in the Weberian model that curbs corruption which is widespread in market based models. After the financial crises of 1998 many countries have reconsidered administrative models that combine Weberianism and NPM.

Miller and Dunn (2006) make a comparison between NPM and European Public Management (EPM). The researcher will only consider the critique against NPM but will not focus on the analysis of EPM. This is beyond the scope of this paper.
2. 3 Success of NPM in developed countries

The success of NPM in developed countries has been hailed as a success but there are pockets of imperfections that surfaced later. New Zealand which was amongst the first countries to implement and adopt the NPM model has applauded the reforms. The United Kingdom under Thatcher administration initiated the reforms and other developed countries such as the United States and Canada also implemented the reforms.

The first stage of the reforms dealt with decentralisation and commercialisation. Senior managers were given more control over inputs and departments were given strong incentives to raise revenues. Corporatization included departments carrying out their core functions and releasing non-core activities to the private sector. Contracting out became the order of the day. Corporatisation also included privatisation of SOEs.

Financial management reforms included amongst others, the following:-

- Performance agreements- agreement between the chief executive of entity or department with the responsible minister

- Appropriations- outcomes based budgeting was implemented and the appropriation included. Three types of appropriations were established; for service delivery outputs, capital expenditure and transfer payments to entities.

- Departmental operations- Chief executives became responsible for financial management, financial performance, accounting systems, and assets and cash management

- Reporting- financial reporting has to be supported by non-financial information reporting on outputs and outcomes.

- Parliamentary scrutiny- Government’s spending is scrutinised by Parliament together with actual performance by reviewing previous period’s annual reports. SOEs are also subject to this scrutiny.
Developing countries have shown improved financial performance after NPM reforms. An economic study done by OECD in New Zealand showed enhanced efficiency in the public sector. Holmes and Wileman (2000) noted that there was improved macro economic performance, following the long period of reform and adjustment in New Zealand and in World Competitiveness, the country moved from a ranking of fifteen among OECD countries (out of 24) to eight and it ranked first in the quality of government.

2.4 International experience- New Zealand

The New Zealand model was peculiar than how other countries implemented the NPM model. Schick (2001) in his assessment and critique of the New Zealand model acknowledges that there was evidence of a significant improvement of the performance of government departments.

The New Zealand experience shows that financial management of departments improved after the implementation of the NPM approach. The devolution of management was enabled through legislation that transformed financial management. Accountability was enforced through performance contracts. These contracts were for a fixed term and renewal depended on the performance of the accounting officer. The executive authority was tasked with assessing performance of the accounting officer.

The success of NPM in New Zealand prompted other countries to implement the reforms. Canada was successful in implementing NPM but cases of corruption surfaced later. Mingus (2007) questions the ability of NPM to bring a package of values into the public sector organisations that ultimately allows private interests and greed to surpercede the public interest. The recent scandals that surfaced in Canada show that the NPM model is not foolproof and is susceptible to corruption that led to the Enron scandals, Notel and Worldcom. Crown Corporations in Canada where the competitive model is embraced even more have more flexibility and they are not transparent and corruption took place in 5 corporations where funds could be moved with less oversight. Even though many writers have seen NPM as a solution to excessive government expenditure and efficiency but the benefits of the system even for Britain are not clearly visible.
Even though the NPM model is hailed as a guarantee for government inefficiencies, there are cases of mismanagement and corruption even in developing countries. Larbi (1999) asserts that even in developed countries such as the United Kingdom, experience suggests that change towards NPM has not been smooth and linear, but uneven and contested and that social actors are not shaped unambiguously by large scale trends or forces for change.

2.5 NPM in developing countries

Developing countries joined the movement and started implementing the NPM model in the 1980s. Developing countries implemented these reforms from their own accord due to economic crises and others through the Structural Adjustment Programmes (SAP). The IMF and the World Bank imposed stringent conditions and countries had to accept stabilisation and structural adjustment packages in order to obtain credits and debt rescheduling from creditor banks and multilateral institutions (Larbi 1999). The commitment of SAPs to efficiency and growth was limited to a reduction of public deficits and re-orientation towards a minimal state by cutting down the size, expense and responsibilities of the public sector.

Policy deficiencies, bad and excessive management of the economy, corruption, weak public service, low productivity and political instability contributed to the crises in developing countries.

Empirical evidence of NPM in developing countries shows that the NPM has not been a success in most of them. This led Polidano (1999) to conclude that the new public management is inappropriate to developing countries on account of problems such as corruption and low administrative capacity. Polidano argues that most developing countries fail when it comes to implementation of administrative reforms. As corruption and nepotism erode benefits of the NPM, central controls and procedures are the only safeguard against further proliferation of such practices. Several authors disagree on reverting to central controls as they argue that they lead to delays, duplication, bottlenecks and red tape.
Mongkol (2011) critically examines whether the NPM model is appropriate and whether it contributes to enhanced efficiency and effectiveness of the public sector in developing countries as it is supposedly the case in developed countries. A number of factors that may hinder implementation of NPM in developing countries are mentioned. However, no empirical evidence supports the validity of NPM for developing countries.

Ghana sought to improve the performance of state-owned enterprises through contracts which proved ineffectual owing to political connections of managers in other cases. Evidence also suggested failure when it comes to health and the state enterprise sectors in Ghana. Corporatisation of the revenue services in Ghana also show a complete failure when the revenue services became institutionalised but positive correlations were discovered in Bolivia’s emergency Social Fund.

Hope (2000) analyses factors influencing NPM reform in Africa especially Sub Saharan Africa (SSA) region. The SSA region embraced NPM reforms due to inflexibility of bureaucracies limiting their ability to respond effectively to global and national challenges. Different types of reforms have been undertaken by countries such as Angola, Botswana, Mozambique, South Africa, Tanzania, Uganda and Zambia. It is argued that NPM has been beneficial for such countries proven better governance, downsizing the civil service.

2.6 South Africa’s experience

Cameron (2009) tests the proposition that NPM is highly influential in shaping public sector reforms in SA post 1994. Changes that have taken place in SA after 1994 are identified and pointed out however; analysis on the success of these reforms is not done. It is argued that although there are opposing views on whether these changes are NPM reforms or not, the various instruments such as decentralisation; performance management system; privatisation and lately public-private partnerships (PPPs) used by the SA government are in line with developed and developing countries that have embraced the gamut ideas of NPM. So, it is clear from this article that SA public administration and financial management reforms has been influenced by the NPM approach.
Madue (2007) takes the reader through financial management changes as opposed to financial control that existed prior to the promulgation of the Public Finance Management Act No 1 of 1999 (PFMA). This paper is useful as it analyses factors influencing non-compliance with the PFMA and a compliance strategy is suggested to ensure compliance by departments and agencies. This information will be used as the foundation of the study but will analyse audited financial statements of the Eastern Cape Department of Health and Education to assess if the two departments use allocated resources efficiently by analysing financial mismanagement in the two departments during the period 2007/8; 2008/9; 2009/10; 2010/11 and 2011/12. Effectiveness can only be determined by analysing non-financial information and outputs produced by departments as outcomes are not easy to measure. Non-financial information is not audited although the Auditor-General (A-G) comments on reliability and usability of such information. Financial information will be obtained from A-G reports and annual financial statements of the two provincial departments.

After 1994, NPM reforms took place in SA proven by the changes in the public sector. Legislation was enacted to steer the country towards managerialism. The Public Finance Management Act (PFMA) coupled with other pieces of legislation such as the Municipal Finance Management Act (MFMA) promoted the devolution of power by granting front line managers authority to manage. The Constitution laid a foundation for major reforms in the public service as it laid down values of principles for public administration. Transformation included budgetary reforms, downsizing, corporatisation, privatisation and performance management. Several legislations were introduced in order to promote the core value of managerialism and NPM in the public service. Legislation included the advent of the Public Finance Management Act (PFMA), the Municipal Finance Management Act.

SA post 1994, went through various reforms in the public service including financial reforms. Prior to 1994, there was no accountability and transparency in the management of public funds. The rigid, closed and oppressive apartheid state was replaced by a transparent, accountable and democratic system, underpinned by the country’s democratic constitution and progressive legislation flowing from it.
The Public Finance Management Act (PFMA)

In the past, the SA budget system was very secretive. There was no open formula for funds allocation for the country. Under this arrangement, Parliament had a trivial role in budgeting. Due to the secretive nature of the budgeting process, it was difficult to analyse and scrutinize service delivery trends and conduct financial analysis due to lack of transparency in budget documents.

Since 1994, the Government has worked to build a more transparent, accountable and participatory system of fiscal governance compared to the non-transparent and broader mechanisms of accountability and citizen participation that did not exist prior to democracy. The foundations of such reforms were laid by the Constitution of 1996 which also recognized Parliament and civil society as key players in democratic budgeting process.

Since democracy, a plethora of legislation has been enacted to ensure the full democratization of the public service and to promote sound financial management in the public service and to promote the values of NPM. The introduction of the new financial management dispensation in SA, effectiveness and efficiency was made obligatory by law. In 1999, the (PFMA) was enacted to amongst other things:

- Regulate financial management in the national government and provincial governments;
- Ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively;
- Provide for the responsibilities of persons entrusted with financial management in those government institutions and to provide for matters therewith.

Since its enactment, the PFMA provided guidelines for improved financial management in the public sector and has served as an accountability mechanism for legislators in their oversight functions over the executive. The PFMA further aims to reduce fraud, corruption, waste and to ensure effective and efficient use of public resources to maximise the capacity of government to deliver services (Guide for Accounting Officers, Public Finance Management Act, 2000). This shows that the
introduction of the PFMA was supposed to minimise if not eliminate mismanagement of funds by ensuring that financial management is carried out in a way that is transparent and which gives accountability and responsibility to those entrusted with public funds.

Section 85 (1) (a) and (e) of the PFMA provides for the process of reporting financial misconduct in the public sector. The Act requires the Accounting Officer of the department to report to the Executive Authority, Department of Public Service and Administration and the Public Service Commission the outcome of the disciplinary proceedings.

The PFMA introduced the following changes with regards to financial management:-

   a) Output-based budgeting

The NPM approach introduced output budgeting instead of line item budgeting that existed prior to 1994. Outputs drive the budget for inputs. The budget for inputs depends on the outputs that will be rendered to the public. According to the PFMA, the accounting officer is responsible for outputs and the executive authority is responsible for outcomes.

   b) The Medium Term Expenditure Framework

The Medium Term Expenditure Framework (MTEF) was introduced to encourage participatory approach to budgeting, transparency and accountability. SA has opted for the Medium Term Budget Framework which is a three-year budgeting framework. Budget estimates are done for the current year and two-outter years in order to assist managers with planning their revenue and expenditure and therefore outputs.

   c) Accrual accounting system

NPM necessitated the need for a shift from the cash based accounting system to an accrual based accounting system. The financial management system on the accrual basis is similar to the system used in the private sector. The accrual accounting basis recognises events as they occur regardless of when cash exchanges hands.
SA also adopted the accrual basis of accounting. The introduction of the PFMA shifted the accounting systems from the cash based that was used under the Exchequer Act that applied prior to 1994.

d) Devolution of decision making and increased accountability

The NPM favoured devolution of decision making to managers and allowing managers to manage. As SA adopted the NPM approach, enabling legislation was adopted to support officials to be accountable and to be given more responsibilities. A basic principle of the PFMA is that managers must be given the flexibility to manage, within a framework that satisfies the constitutional requirements of transparency and accountability.

The advent of the PFMA relegated authority away from the Treasury which had central powers prior to devolution of powers. It encouraged managers to manage. The National Treasury’s Guide for Accounting Officers: PFMA, 2000 stated that in the past financial processes were controlled by the centrally prescribed bureaucratic rules that allowed little scope for managerial discretion, and even mundane issues had to be referred for Treasury’s approval. The traditional “micro- control by Treasury had to be abolished.

The PFMA as enabling legislation, aimed to modernise financial management in the public sector, and in the process reduce fraud, corruption and waste. Even though accounting officers (AO) are given power to manage but they are to be held accountable for the resources under their authority. They are accountable to the public and parliament that represents the public for the management and mismanagement.

The Act requires accounting officers to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure. In cases where this has occurred, these must be reported to Treasury. The Act emphasizes the responsibility of the accounting officer where there are cases of financial misconduct. Appropriate sanctions must be brought against officials committing financial misconduct. In addition to these, the Act
stipulates that failure to act on financial mismanagement and fraud constitutes misconduct.

In addition to the legal framework, institutions such as the Auditor-General of South Africa, National Treasury and the Public Service Commission are oversight institutions that provide capacitation, information sharing and advice to government institutions on management issues.

2. 7 The Accountability Chain to improve expenditure management

a) The role of the accounting officer

The Act attempts to insulate public funds from mismanagement by giving responsibility of safeguarding such funds to the accounting officer. The accounting officer is given stewardship over public’s money. Different sections of the Act delegate and give authority to the accounting officer. The executive authority is not absolved from responsibility but the primary responsibility of safeguarding public finances is given to the accounting authority.

Section 38, 39 and 40 requires the accounting officer to prevent unauthorized expenditure; irregular expenditure and fruitless and wasteful expenditure should these occur and requires the accounting officer to take reasonable steps against officials contravening these provisions and to report these expenditures to the relevant treasury.

It is an offence for the accounting officer to wilfully or negligently fail to comply with section 38, 39 or 40 of the PFMA. The accounting officer is liable on conviction to a fine or imprisonment for a period not exceeding five years.

b) The role of executive authority

The Act states that the executive authority is responsible for policy choices and outcomes by taking responsibility for delivering the outputs defined in the departmental budget.
Section 85 of the PFMA lays out the procedures on financial misconduct. The responsibility lies with the executive authority to make regulations regarding allegations of financial misconduct and disciplinary charges against accounting officers and officials.

c) The role of audit committees and the internal audit unit

The Act places enormous responsibility to the internal audit unit and the audit committee in ensuring and working with the accounting officer to ensure that organisational objectives are met. Failure of the audit committee and the internal audit means that no one checks if financial mismanagement occurs. Before mismanagement is identified by external auditors, if internal systems are effective, the internal audit can easily identify failure of the system and notify the audit committee.

d) The role of parliament and SCOPA

The advent of the PFMA expands the role of parliamentary scrutiny especially that of the Standing Committee on Public Accounts. This Committee is responsible for ex post scrutiny of how allocated funds have been utilised by all public entities including Departments and public entities. Provincial legislatures have their own provincial SCOPAs to conduct oversight on provincial allocations.

Accounting officers are therefore responsible to account to this Committee on how the budget has been utilised. The Constitution of the Republic of South Africa (Act No 108 of 1996) gives SCOPA wide ranging powers and functions to carry out. The Committee on Public Accounts seeks to enforce accountability of government departments through ensuring that resources are used effectively and efficiently.

The Guide for Accounting Officers on the PFMA issued by the National Treasury makes financial management and mismanagement an integral part of proceedings and hearings. According to the Guide, the Accounting officer appearing before the Committee must be able to give account on why there was failure to take appropriate corrective action. The Guide goes further by stating that SCOPA may recommend
sanctions against the accounting officer who fails to report financial mismanagement to the executive authority.

This gives the Committee the power to enforce compliance from the accounting officer if there is non-compliance with the PFMA. The Committee is therefore responsible for bringing the accounting officer to account and in addition to do so can make recommendations to the executive authority if the accounting officer has failed to carry out his duties in accordance with the PFMA.

e) The role of treasury

The Act requires provincial treasuries to enforce the implementation of the PFMA by provincial departments and entities and empowers provincial treasuries to investigate any system of financial management and internal controls applied by provincial departments and entities.

The relationship between internal and external mechanisms dealing with mismanagement and misconduct.

Internal mechanisms
➢ Accounting officer
➢ Internal Audit and the Audit function
➢ Executive Authority

External mechanisms
➢ Auditor-General
➢ SCOPA
➢ Treasury

The Act gives responsibility to all role players in order to prevent financial mismanagement. The internal mechanisms include the accounting officer, the executive authority and the internal audit and Audit Committee. An effective internal audit function is important to identify risk areas such as mismanagement and
corruption when these arise. The Audit Committee is also an important role and through their access to the executive authority they can bring mismanagement into the attention of the executive authority so that this is dealt with.

Persistent mismanagement in a department or an entity means that all these internal role players have failed to carry out their legislated roles and duties as laid out in the PFMA.

The Auditor-General has a responsibility to report audit outcomes to the public and to SCOPA to deal with such matters. SCOPA deals with issues raised by the A-G through hearings and questions where the accounting officer must give an account on how public funds were utilised by a particular department or entity. Research shows that most departments and entities who appear before for misuse of public funds do not have effective internal audit functions and audit committees who do not meet at regular intervals according to the PFMA. Failure of internal systems to deal with matters of mismanagement warrants intervention by external mechanism such as SCOPA.

**Definition of concepts**

Clean audit outcomes- the financial statements of the department or public entity are free of material errors or omissions.

Financially unqualified audit opinion- the financial statements contain no material misstatement. Unless a clean audit outcome, findings have been raised on predetermined objectives and/ or compliance with laws and regulations.

Qualified audit opinion: the financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that specific amounts included in the financial statements are not materially overstated or understated.
Adverse audit opinion: the financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.

Disclaimer of audit opinion: the department or entity provided insufficient evidence or documentation on which to form an audit opinion.

Unauthorised expenditure is expenditure that was in excess of the amount budgeted or allocated by government to the entity or that was incurred in accordance with the purpose for which it was intended.

Irregular expenditure is expenditure that was incurred without complying with applicable laws and regulations or actions required to be taken prior to incurring the expenditure.

Fruitless and wasteful expenditure refers to the expenditure that was made in vain and could have been avoided had reasonable care been exercised.

Supply chain management: procurement by a department or entities of goods and services by inviting quotations and tenders, awarding contracts to companies or individuals, and monitoring the quality and timeliness of goods and services provided.
Chapter 3

Methodology and research design

3.1 Introduction

This chapter outlines the research design and methodology that was followed in the research process in order to investigate the problem identified in chapter one. The chapter also identifies the target group, sampling method and size of the population. In this chapter, the instruments that were used to collect data are explained and discussed.

Apart from observational method, self-administered questionnaires and interviews were conducted with key individuals within organisations and the literature study was conducted to investigate existing literature on the subject. The questionnaire was preferred in this study because it is a faster and cheaper means of soliciting comparable and qualitative information. It is also worth mentioning that various issues which may have an ethical bearing on conducting this study have been carefully considered.

3.2 Choice and rationale for design

According to Mouton (2004) research methodology focuses on the research process and the different tools and procedures to be used to acquire information. The study collected qualitative data. Its main focus was qualitative data because it sought to ascertain and establish whether the current NPM trajectory that SA is following is able to constrain inefficiencies and waste in the system and to establish the level of compliance with the NPM by the two departments. Qualitative data are based on meanings expressed through words and other symbols or metaphors (Welman and Kruger, 2000). A qualitative design refers to research which produces descriptive data.

3.3 Study population and area

The study area of this research is based on financial mismanagement in South Africa with more focus on the Eastern Cape. The Department of Health and Education
receive more allocations than other departments from the fiscus. This is done in order to provide South Africans with access to these services. According to the Medium Term Statement, the government choose twelve priorities to focus on in the medium term. Health and Education are one of those priorities.

It is therefore imperative that the government monitors how money is spent by these departments to ensure that there is value for money. In addition, it is important to observe how money is spent as this affect service delivery especially in rural provinces such as the Eastern Cape where there is a greater need to redress the actions of the apartheid government. Rural provinces suffered severely under the apartheid government. The department of Health and Education are responsible for social infrastructure of South Africa.

3.4 Time-series data

The respective period that was selected is a five year period from the financial year 2007/8; 2008/9; 2009/10; 2010/11 and 2011/12. The time period selected takes into account all the legislative changes as a result of the PFMA which was enacted in 1999 to be implemented by all national and provincial departments.

3.5 Research methodology and design

This study used qualitative case study. According to Creswell (1998), case study may be regarded as an exploration or in-depth analysis of a bounded system (bound by time and/or place), or single or multiple case, over a period of time. This exploration or description of the case take place through detailed, in-depth data collection methods, involving multiple sources of information that are rich in context (De Vos, 2005).

Kerlingeer (1986:10) describes research as a systematic, controlled, empirical and critical investigation of natural phenomena, guided by theory of hypothesis about presumed relations among phenomena. It is a systematic process of collection and logical analysis of data for specific purpose (Mouton, 1996). Research methodology as defined by Mouton (1996) is a blueprint of the research project that precedes the
actual research process. It is a plan or steps of the researcher to be followed in gathering data towards finding the solutions and/or answers to a problem.

3. 6 Data collection methods

3. 6. 1 Questionnaires

According to Erlandson et al. (1993), the search for data must be guided by processes that will provide rich details to maximize the range of specific information that can be obtained from and about that context. Guided by this statement the researcher has used both primary and secondary methods of data collection. The methods included thorough investigation of documents and reports provided by different departments and credible institutions that provide reliable and credible data in South Africa and provinces including Eastern Cape. The researcher has used questionnaires and telephonic interviews. The advantages of using interviews, as indicated by Birnard and Mwale (1990) are directly related to high response rate, spontaneity, flexibility, control of the environment and observation of non-verbal cues. Anderson et al. (1994) also states that interviews are a good tool to use when one wishes to know how a person feels about events that have happened or are happening. Interviews are also important in gaining the perspective on how others understand and interpret their reality. In using interviews, the researcher was able to get information on whether the two departments are managing their finances efficiently or are wasting resources. The researcher had to explain to the interviewees the purpose of the research, signing the secrecy of identity declaration and encouraging them to fully participate in the data collection phase with no fear.

The type of data to be collected include: expenditure patterns for the past five years and the different kinds of misconduct incurred by the provincial Department of Health and Education

3. 6. 2 A-G reports

The main source for performance and expenditure report, used for this study, is the annual reports of the Department of Health and Education for five years 2007/8; 2008/9; 2009/10; 2010/11 and 2011/12 coupled with the Auditor-General's General Report of the Eastern Cape for the respective years. The Auditor-General of South
Africa (AGSA) conducts audit on the use of public funds and compliance with legislation.

Expert sampling was also used to reach scientific conclusions and to acquire more information from respective key experts working with oversight institutions. Expert sampling is the selection of experts in their respective fields to conduct interviews with or to send questionnaires to. In this case, the researcher designed questionnaires that were sent to few selected experts to get their view on the performance and financial mismanagement occurring within the two Departments. Questionnaires were designed to determine the level of compliance with relevant legislation and how oversight institutions are dealing with non-compliance as suggested by the NPM approach. Questionnaires were sent to the Office of the Auditor-General for the Eastern Cape, the Eastern Cape Provincial Treasury, and the Committee on Public Accounts in the Eastern Cape Legislature.

3.7 Data analysis

The researcher has analysed qualitative data which informed the findings and recommendations of this study. Marshall & Rossmann (1999) define data analysis as a process of bringing order, structure and meaning to the mass of data collected. In the informal and telephonic interviews conducted, the researcher took some notes, further noted the reaction of the participants and compiled a brief report soon after the completion of the interviews.

Paton (2002) further says that data analysis in qualitative research transforms data into findings. The researcher has analysed the collected data through interviews, observation and questionnaires to inform the findings and recommendations of this study.

3.8 Ethical consideration

Welman, Kruger and Mitchell (2006), that there are four important ethical considerations that a researcher should pay attention to, namely informed consent, right of privacy, protection from harm and involvement of the researcher. These ethical elements have been complied with in conducting this study. Various sources
of information used include information which has been tabled in the Legislature, and these are public document that can be used by any member of the public.

The researcher also conducted informal or unstructured interview with members of SCOPA and information from proceedings of the Committee was utilised. There was no harm to the respondent, whether psychologically or emotionally. The names of the respondents are not appearing in this study to ensure anonymity and to avoid the likelihood of any views expressed in the study linked to them.

### 3.9 Limitations of the study

This study focuses on financial performance and mismanagement by the Department of Health and Education that are allocated 73.4 per cent of the Eastern Cape provincial budget. This study does not include performance on service delivery and the use of non-financial information. The Province’s Education Department experienced corruption through the textbook saga and the infrastructure implementation issues of the Department of Education and Health but these are beyond the scope of this study and will not be analysed.

### 3.10 Conclusion

This chapter has dealt with the methodology design and approach used by the researcher in this study. The research is both a qualitative and quantitative research undertaken to assess the effectiveness of the NPM approach in curbing and limiting financial misconduct in Eastern Cape Department of Health and Education.

The researcher has used both primary and secondary methods of data collection including observation of documents/reports, questionnaires and interviews. The researcher interviewed most participants that work with oversight structures of the Eastern Cape Legislature, the Auditor-General and the Eastern Cape Treasury to get the holistic assessment of whether NPM has reduced financial misconduct thereby reducing waste and inefficiencies. The next chapter provides analysis of the collected data from the sources outlined in this chapter.
Chapter 4

Education and Health in SA

4.1 Introduction

The social cluster which includes Education, Health, Human Settlement and Social Development are at the forefront of government’s effort to fight inequalities and poverty. They are included in the twelve government outcomes as outlined by the ANC in the January 8 Statement. The Government has identified twelve outcomes based on the election manifesto and the Medium Term Strategic Framework (MSTF). The outcomes reflect the desired development impacts that will be achieved given government’s policy priorities. The importance of Education and Health in SA cannot be downplayed. The Millennium Development Goals (MDGs) also put strong emphasis on the two as well as other goals. In the quest to provide these services, there are still inequalities with regards to access as a result of the apartheid regime that controlled access to social services and made it unequal making other parts of the country to suffer more than others. The former homelands or Bantustans were the worst hit by the injustices.

A greater share of the budget is administered by the nine provinces and they are at the forefront of service delivery with the local sphere being the immediate contact. The way they utilise the budget is of utmost importance to policy makers and the public they are accountable to at large. Currently, about 60 per cent of the budgeted expenditure is administered by the provinces and the remaining administered by the national sphere.

The two departments also receive a lion’s share of the budget. According to the Financial Fiscal Commission (FFC), more 40 per cent of SA’s budget is allocated to the two votes. Education and Health is included in the equitable share formula that is used to distribute funds to provinces. It is therefore imperative to analyse how these funds are spent by responsible departments.
4.1.1 Historical background

Prior to 1994, government policy was not aimed at benefiting all South Africans. Political changes brought economic changes and a new beginning for other sectors of the economy including public administration. In the past, the South Africa’s (SA) budget system was very secretive. There was no open formula for funds allocation for the country. Under this arrangement, Parliament had a trivial role in budgeting. Due to the secretive nature of the budgeting process, it was difficult to analyse and scrutinize service delivery trends and conduct financial analysis due to lack of transparency in budget documents (Ajam, 2009).

Since 1994, the Government has worked to build a more transparent, accountable and participatory system of fiscal governance compared to the non-transparent and broader mechanisms of accountability and citizen participation that did not exist prior to democracy. The foundations of such reforms were laid by the Constitution of 1996 which recognized Parliament and civil society as key players in democratic budgeting process.

4.2 Financial management in the Eastern Cape Department of Education and Health

Financial management relates to how available resources are used. It is crucial to the successful running of any organisation. Financial management and mismanagement are two sides of the same coin. If there is poor financial management, mismanagement occurs.

Public sector financial management includes expenditure management and it focuses on how scarce resources are utilised and on ensuring effective stewardship of public money and assets, and on achieving value for money in meeting the objectives of government. Mismanagement of public funds simply means that government resources are not utilised efficiently and therefore value for money is compromised.
The PFMA gives financial accountability to the accounting officer although the executive authority in this case, the Member of Executive Council (MEC) is accountable politically. The daily operations are managed by the accounting officer. The PFMA is the main Act regulating financial management in SA. The PFMA deals extensively with how national and provincial departments must treat unauthorised, irregular or fruitless and wasteful expenditure. Section 38 deals extensively with this and gives the accounting officer the authority and responsibility to deal with officials committing financial misconduct leading to unauthorised, irregular and fruitless expenditure.

Since the enactment of the Act, departments and entities have not been struggling with complying with the legislation.

Figure 1: Expenditure trends of Education and Health (2008/9 to 2011/12)

Figure 1 shows the expenditure trends of the two departments between 2008/9 to 2011/12. The Department of Education received R17.5 billion in 2008/9 increasing steadily to R25.1 billion in 2011/12. The Department of Health also shows an increasing trend from R10.5 billion in 2008/9 to R15.6 billion. The nominal increase of the Department of Health is less than the increase for the Department of Education.

The Education and Health Departments received 71.4 per cent of the provincial budget in 2008/9 increasing their provincial share to 74.3 per cent in 2011/12. This
makes the two Departments the most important departments in this Province in terms of monitoring their finances and how their funds are utilised. It is useful to assess how these budgets are utilised.

### 4.2.1 Audit Outcomes

Table 1: Audit Outcomes of Education and Health (2007/8 to 2011/12)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Adverse</td>
<td>Adverse</td>
<td>Disclaimer</td>
<td>Disclaimer</td>
<td>Disclaimer</td>
</tr>
<tr>
<td>Health</td>
<td>Adverse</td>
<td>Adverse</td>
<td>Disclaimer</td>
<td>Qualified</td>
<td>Qualified</td>
</tr>
</tbody>
</table>

The table above shows the two departments have never received clean audits in the five year period. Both departments have received modified opinions. Modified opinions includes qualified, adverse or disclaimer of audit opinions (A-G, Audit process handbook 2011/12: 31).

The Department of Education had adverse opinions for three years from 2007/8 to 2009/10. In 2010/11, they regressed to a disclaimer of audit opinions which means that there was insufficient audit evidence on which the auditor could base the opinion concerning the items reported in the financial statements. The lack of sufficient evidence represents a substantial portion of the information contained in the financial statements. This casts doubt on the credibility and reliability of information contained in the financial statements.

The Department of Health received adverse audit opinions for 2007/8 and 2008/9 regressed to a disclaimer in 2009/10 and improved to qualified audit opinion in 2010/11. Although this is not a desirable audit opinion but it is an improvement from prior audit findings. A disclaimer means that the Department did not provide sufficient evidence on which to base an opinion. The lack of sufficient evidence is not confined to specific amounts but represents a substantial portion of the information contained in the financial statements.

The audited information on financial statements above does not paint a rosy picture on the way finances are used by the two departments. This means that the Eastern
Cape government cannot account for the way 74 per cent of its budget is spent on an annual basis. It is not clear whether service delivery is delivered the way it is supposed to be carried out due to credibility and lack of supporting documentation.

### 4.2.2 Unauthorised expenditure

Unauthorised expenditure is expenditure that was in excess of the amount budgeted or allocated by government to the entity or that was not incurred in accordance with the purpose for which it was intended. Figure 2 shows that unauthorised expenditure for the two Departments were the highest in 2009/10 financial years. The Annual Reports of the two departments shows unauthorised expenditure that was incurred in the period under review.

Unauthorised expenditure for the Department of Health remains high at R300 million in 2011/12. The Department of Education has lower unauthorised expenditure compared to the former department.

The unauthorised expenditure was incurred as a result of over expenditure by both Departments. If unauthorised expenditure is not condoned, this has serious implications for the new year as this shortfall must be financed from the budget of the following year. The Department of Education has to finance its unauthorised expenditure from the 2012/13 budget and this will seriously impact service delivery in the financial year 2012/13 as there will be less allocation than anticipated.

The Department of Health and the Department of Education overspent during the 2011/12 financial year and as a result have used more than 10 per cent of their 2012/13. For the 2012/13 financial year, these Departments have about 90 per cent to spend on service delivery.

The PFMA requires the accounting officer to report the unauthorised expenditure to the Treasury. The research conducted shows that unauthorised expenditure that was incurred was not referred to the Treasury as per Section 38 of the PFMA. This shows that there is total disregard of rules and regulations by the accounting authority. The Eastern Cape Provincial Treasury acknowledged that both departments failed to report the unauthorised expenditure before it was discovered by the Auditor-General.
4.2.3 Irregular expenditure

Irregular expenditure is expenditure which has been incurred due to non-compliance with laws and regulations. This expenditure included expenditure made in contravention with supply chain management processes (SCM) and non-adherence to financial delegations of authority.

Figure 3: Irregular expenditure (2007/8 to 2011/12)
The Department of Education incurred irregular expenditure of R798,7 million in 2009/10 but declined to R526,2 million in 2010/11. Although this shows a decline it is still unacceptably high. The Department of Health decreased its irregular expenditure. Prior to 2010/11, irregular expenditure was high reaching R373,1 million in 2009/10 and showing an improvement by declining to R166,9 million in 2011/12. Even though in some cases, a reduction is shown however, this information is still subject to misrepresentation as most irregular expenditure is discovered by the Auditor-General during the audit. So departments do not classify other payments as irregular when they are, and they are only realised during the auditing phase or are discovered during the following year’s audit. Figures for irregular expenditure do not also reflect the exact figures as there were limitations of scope. The two Departments including the Department of Public Works in the Eastern Cape do not have supporting documents to be used as physical evidence. It is not clear whether failure to keep proper documentation is due to negligence of SCM officials or it is done deliberately to avoid litigation and use of paper trails as evidence.

Irregular expenditure is therefore not reported to the Treasury promptly as the PFMA requires the accounting officer to do so. This is contravention with the PFMA which requires irregular expenditure to be reported to the Treasury as soon as it is discovered by the head of department.

Figure 4 shows a breakdown of expenditures contributing to irregular expenditure for the Department of Education. The greatest component that contributes to irregular expenditure is financial misconduct at 59 per cent, followed by 25 per cent which relates to SCM irregularities and 16 per cent fraud.
Figure 5 shows that irregular expenditure incurred by the Department of Health comprises of 41 per cent cases involving fraud, followed by 30 per cent related to SCM irregularities and 29 per cent of financial misconduct. If the Department wants to reduce its irregular expenditure fraud must be the main issue to tackle followed by the other components.
Research that was done shows that there is slow progress with regards to fighting and uprooting corruption in the Eastern Cape Department of Health. Heavy penalties and sanctions against fraudsters would act as deterrent to other officials who also want to do the same.

During the research, the Auditor-General also raised this as a matter of concern as fraud and corruption has become the norm rather than exception to the rule. This has to be addressed as a matter of urgency to address this financial mismanagement. Missing documentation as is the case currently can complicate investigations, if paper trail and physical evidence cannot be found and handed to prosecuting agencies such as the National Prosecuting Authority (NPA).

The NPM approach encouraged the notion of contracting out of non-core services to the private sector to encourage competition. The government remains the purchaser of such services and the private sector provides these services. There are distinction on the provider and purchaser of services. SCM or procurement management is used in such instances to source goods and services from the private sector.

4. 2.4 SCM related irregularities

SCM refers to expenditure incurred for non-core services such as events managements and other activities. There are Treasury Guidelines as well as other legislations that govern supply chain.

The PFMA requires that SCM must fair, equitable, transparent, competitive and cost effective SCM system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. However, several irregularities were identified over the years. It must be noted that due to documents and physical evidence which was not available for audit purposes, there were limitations on planned scope of audits. In 2011/12 financial year, 77 awards made by the Department of Education to the value of R377 million had no supporting evidence. The Department of Health suffered from the same fate as 78 awards to the value of R469 million had no supporting documents limiting the scope of the Auditor-General (A-G, Provincial audit outcomes: 2011/12).
The A-G during their 2010/11 audit discovered that there is financial misconduct that occurred in both departments during the supply chain management process. It was discovered that some of the businesses that did business with both departments were owned by employees of the Departments or owned by close family members of officials.

a) Employees doing business with the state

In the Department of Education, it was discovered that in 2011/12, 71 awarded businesses were owned by officials working for the Department of Education with a value of R4.3 million. According to legislation, this is not illegal but in cases where the employee wants to engage in business activities with the state, permission is required from the Head of Department prior to the employee engaging in other activities. This is done in order to prevent misuse of state property such as the use of phones, internet, state vehicles and also to identify potential conflict of interest.

Currently, the Minister of Public Service and Administration is currently looking at prohibiting state employees doing business with the government as this has been abused in the past due to a legislative gap identified where this was not prevented. The Minister wants to enact a Bill which will prohibit state employees from doing business with the state in 2013 or 2014.

The Department of Health also has made 90 awards to employees in the service of the Department to the value of R2.1 million in 2011/12. Several awards were also made to the close family members of employees employed by the Department of Health.

It is also clear from the table that there are 28 cases in 2010/11 to the value of R22 million where officials were involved in awarding the contracts and clearly shows that there is conflict of interest and state funds are misused by channelling contracts into businesses owned by employees of the Department and SCM processes are not followed as these employees are also involved in awarding those contracts. This means that SCM processes of both Departments are not fair, equitable, transparent, competitive and cost effective as required by SCM legislative framework.
b) Non-disclosure of business interests

Table 2 shows that in the Department of Education in 2010/11, the Auditor-General discovered 145 cases with a rand value of R43.2 million where officials did not declare interest. This figure increases to 178 in 2011/12 and the value is R7.2 million. 158 cases with a value of R28.5 million were discovered in 2010/11 where the employees did other remunerative work and approval was not granted.

The same state of affairs occurred in the Department of Health. There are 15 cases with a value of R1.5 million where interest was not declared by the officials in 2010/11. It must be borne in mind that the Auditor-General does a sample and does not cover all cases so there is a possibility that there are much more cases than the ones identified by the Auditor-General.

**Table 2: Financial misconduct (Department of Education)**

<table>
<thead>
<tr>
<th>Department of Education</th>
<th>2010/11</th>
<th>2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Value in R’000</td>
</tr>
<tr>
<td>Awards made to officials in the service of the auditee</td>
<td>530</td>
<td>864,707</td>
</tr>
<tr>
<td>Awards made to close family members of officials</td>
<td>37</td>
<td>28,900</td>
</tr>
<tr>
<td>Suppliers did not declare interest</td>
<td>246</td>
<td>793,007</td>
</tr>
<tr>
<td>Officials did not declare interest</td>
<td>145,</td>
<td>43,200</td>
</tr>
<tr>
<td>Officials was involves in making award</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other remunerative work not approved</td>
<td>158</td>
<td>28,500</td>
</tr>
<tr>
<td>Non-compliance/ irregularity in procurement processes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 3: Financial Misconduct (Department of Health)

<table>
<thead>
<tr>
<th>Department of Health</th>
<th>2010/11</th>
<th>2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Amount (R'000)</td>
</tr>
<tr>
<td>Awards made to officials in the service of the auditee</td>
<td>41</td>
<td>22,428</td>
</tr>
<tr>
<td>Awards made to close family members of officials</td>
<td>22</td>
<td>431</td>
</tr>
<tr>
<td>Suppliers did not declare interest</td>
<td>35</td>
<td>795</td>
</tr>
<tr>
<td>Officials did not declare interest</td>
<td>15</td>
<td>1,544</td>
</tr>
<tr>
<td>Officials was involves in making award</td>
<td>28</td>
<td>22,064</td>
</tr>
<tr>
<td>Other remunarative work not approved</td>
<td>35</td>
<td>795</td>
</tr>
<tr>
<td>Non-compliance/ irregularity in procurement processes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**c) Uncompetitive or unfair procurement practices**

The Constitution states that one of the principles for contracting goods and services is that it must be done in a manner which is fair, transparent, equitable, competitive and cost effective. The PFMA coupled with Treasury Regulations allude to this fact. The contraventions discussed above shows that legislation was compromised as procurement practices in the two Departments are not fair.

In 2010/11, there were findings on some of the contracts awarded by the Department of Education and the Department of Health. The Department of Health awarded a contract to the value of R13,1 million where competitive bids were not followed and deviations were not reasonably justified. 9 contracts worth R75 million were awarded to suppliers who did not have SARS clearance tax certificate and 10 suppliers were given contracts worth R60 million with no declaration of past SCM practices.
The Department of Education awarded 10 contracts worth R2.6 million to suppliers who did not have SARS tax clearance.

These findings show that contracts are awarded to contractors who do not meet the minimum requirements as required by the legislation and this is one of the main reasons why the two Departments incur irregular expenditure especially the Department of Health where contracts are of a higher value than the Department of Education.

4.2.5 Findings on contract management

a) Changes in variation orders

Variation orders allow managers and officials in the public sector to extend the duration of the contract without following procedures and processes. During hearings with Department different reasons were given to justify extending contracts through variation orders. Reasons include circumvention of competitive bidding processes. National Treasury allows this but the contract can be extended for a period of 12 years. Treasury Regulations allow variations to be done provided it is only for a limited period. This exception allowed by the National Treasury has been abused by Department by allowing a leeway for most contracts to be allowed to expire knowing that there is an allowance through variation orders to extend the contract of a favoured provider.

Managers are also insulated against poor planning as far as contract management is concerned as the clause allows them a room to legalise and normalise expired contracts.
Table 4: Findings on contract management for the Department of Education and Health

<table>
<thead>
<tr>
<th>Offence</th>
<th>Department of Education</th>
<th>Department of Health</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010/11</td>
<td>2011/12</td>
</tr>
<tr>
<td>Contracts amended/ extended without approval by a delegated official to</td>
<td>(3) R526,000</td>
<td></td>
</tr>
<tr>
<td>circumvent competitive bidding processes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracts approved/ signed by a delegated official</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments made in excess of approved contracts</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The table above shows that the Department of Education amended 3 contracts to the value of R526,000 without approval by a delegated official in 2010/11. During the same period, the Department of Health amended contracts to the value of R3,3 million without approval by a delegated official. This raises important questions on why the delegated official did not make the extensions to the contracts and what is the relationship between those who approved the extensions with the businesses whose contracts were extended.

b) Inadequate contract management

During hearings with Departments it becomes clear that contracts which are awarded to contractors are not monitored on a regular basis; as a result poor workmanship is experienced. There are instances where contractors are paid before they carry out their duties in accordance with contracts entered into with Departments.

Contracts are not always concluded timeously leading to delays and escalation of costs. In one contract between the Department of Health and a provider to build a hospital, it leads to delays of months and costs escalation of costs. Even in cases where this has been identified, there is slow progress towards action against non-performing suppliers making recouping amounts expended before work is done difficult if not impossible.
Hearings held in Parliament in 2012 to address mismanagement in awarding of contracts and monitoring of such showed that public money is wasted in SCM and procurement in all provinces by the Department of Education and Health.

Shortcomings in the way in which contracts are managed results in delays, wastage and fruitless expenditure as money is spent on reconstructing schools and hospitals where contractors did unsatisfactory work. In most cases, those contractors are not subjected to any litigation to recoup public funds which are wasted and no levies are charged in order to compensate for losses.

4.2.6 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure which was incurred in vain and could have been avoided had reasonable care been exercised. This expenditure includes penalties and interest on late payments, as well as payments for services not utilised or goods not received. Fruitless and wasteful expenditure clearly indicate money that has been wasted and it could have been prevented if officials took reasonable care. This shows inefficiencies within the system.

Figure 6: Fruitless and wasteful expenditure [Department of Education and Health (2007/8 to 2011/12)]

![Graph showing fruitless and wasteful expenditure](image.png)

Data obtained from the A-G
The A-G noted that the Department of Education incurred 88 per cent of all fruitless and wasteful expenditure incurred in the province during the 2010/11 financial year. The Department of Education together with the Department of Health incurred R114 million in fruitless and wasteful expenditure in 2010/11 which is very high. The expenditure related mostly to the compensation of employees who could not be verified, incorrectly calculated leave gratuity payments and the payment of employees who did not report for work and interest incurred on late payments. Fruitless and wasteful expenditure of the Department of Health increased significantly in 2011/12 as figure depicts.

Fruitless and wasteful expenditure was caused by lack of monitoring and supervision of payment dates and payroll related processes as well as incorrect employee data recorded on the payroll system. Lack of a proper record keeping and monitoring is costing the Province significantly as this expenditure would have been avoided if credible and reliable record keeping systems are in place and monitored on a regular basis to ensure correctness, validity and integrity of captured information.

The two Departments have to verify their employee numbers of Persal to ensure that all employees paid from the payroll are employees of the Department in order to avoid incurring fruitless and wasteful expenditure perpetually. Research conducted by Mhlauli (2011:1353) shows that eight officials from the Department of Health were suspended for defrauding the Department by making false overtime payments of more than R200,000. The scam was in operation since 2006. Although this fraud was detected and fraudsters suspended, it is like a drop in the ocean in relation to the fruitless and wasteful expenditure incurred by the Department at an increasing rate in 2011/12 and 2012/13.

4.3 The impact on service delivery
The Province is one of the rural provinces where the legacy of apartheid is still visible. According to the presentation made in Parliament in October 2012, the Province had 142 mud schools in 2009/10 and only 4 had been completed in

3 Note that there are differences between the Annual Reports of the Departments and the figures from the A-G. The A-G gives a cumulative figure for all fruitless and wasteful expenditure which has not been condoned.
The 2011/12 financial year which is 8 per cent of the target. The Province has huge infrastructure backlogs although the Department consistently underspents its capital budget and conditional grants allocations. (A-G, 2011).

Financial mismanagement affects service delivery. Financial mismanagement reduces the budget available for use to change the lives of communities. In 2011, the national department of Basic Education intervened in the Eastern Cape.

**National intervention**
The National Department of Basic Education intervened in the Eastern Cape according to Section 100 (1)(b) of the Constitution. The Department of Education was placed under administration in June 2011. Section 100 (1)(b) of the Constitution provides for national intervention in provincial administration when a province does not fulfil an executive obligation in terms of the Constitution or legislation (Constitution of RSA, 1996). The intervention came after financial mismanagement and problems threatened to torpedo school nutrition and transport programmes, as well as prevent new contracts for thousands of temporary teachers being signed. Clearly, this had a negative impact on service delivery of education in the province.

The main reasons for the national intervention was:

- Inappropriate and overpriced contracts;
- Poor management of the teacher supply and demand which left other schools with excess teachers and other schools with inadequate teachers;
- Corresponding escalating teacher salary budget which crowded out all funding for programmes such as textbooks, transport, the school nutrition programme and infrastructure.

The textbook saga as it was called after textbooks were not delivered to schools on time affected two provinces severely; the Eastern Cape and Limpopo. During this time, the school feeding programme and transport for rural school learners had collapsed in the Province (Business Day, 2012).

In 2012, the Eastern Cape Treasury took over other functions from the Department of Health to avert an intervention by the National Department of Health. The
responsibilities were shared between the Office of the Premier and the Provincial Treasury. Provincial Treasury would manage the supply of service materials and equipment and the Office of the Premier would manage human resources. The Department of Health had trouble with:

- Meeting the government’s 30 day deadline for the payment of small and medium businesses supplying public entities;
- Payment of about 7000 nurses and doctors;
- Ensuring a ready supply of medicines, including anti retrovirals for HIV positive patients; and
- Hiring staff who had not been budgeted for.

The Public Service Accountability Monitor (2012) received reports that some of the Department’s suppliers, including emerging contractors were being forced to suspend services due to delayed payment by the Department.

The paragraphs above show that serviced delivery was compromised by both departments due to financial mismanagement warranting an intervention by the national government; in the case of the Department of Health intervention by the Provincial Treasury.

4.3 Conclusion

This chapter shows that financial mismanagement is rife at the Department of Health and Education and it is increasing at an alarming rate. The PFMA was enacted in 1999 but its existence and effectiveness is still not visible.

The effects of financial mismanagement and malpractice on service delivery are evident when one considers that both Departments needed intervention from national department and intervention from the Office of the Premier and Provincial Treasury.

The adoption of the NPM approach was associated with efficiency, effectiveness and reduction of waste and the bloated size of government. The data presented above shows that government resources are not used efficiently as contemplated. The NPM approach favoured separation of provision of service from the buyer of service as a result; departments outsource non-core activities to external service providers. It is
clear that the NPM approach requires close monitoring as outsourced contracts can be owned by employees of the department or collusion with suppliers can occur.

The data proves that there is no close monitoring and prevention of unauthorised expenditure, irregular expenditure; and fruitless and wasteful expenditure. Therefore government resources are used in an efficient manner contrary to the propositions of the NPM approach.
Chapter 5

Challenges contributing to financial mismanagement and impediments to good financial management

5. 1 Introduction

Chapter 4 showed that even though there is legislation in place such as the PFMA that was enacted to promote efficiency, effectiveness and economy in the way public funds are utilised, financial mismanagement still occurs at an alarming rate. This affects most national and provincial departments, even though this study is only limited to the Eastern Cape Department of Health and Education.

The existence of the Act has not prevented financial mismanagement, misuse and waste in public resource use. It is therefore important to focus on factors leading the Departments to incur unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure.

5. 2 Factors contributing to financial mismanagement

5.2.1 Effectiveness of SCOPA and relationship with other portfolio committees

SCOPA (Standing Committee on Public Accounts) is the committee which is responsible for ensuring that public funds have been utilised effectively and efficiently. The Committee focuses on financial accountability rather than policy. Its role is peculiar as its aim is to reduce corruption and misappropriation of public funds as opposed to policy that portfolio committees are responsible for.

According to NPM, SCOPA remains an integral part as an accountability mechanism to make accounting officers accountable and to ensure that appropriate action and sanctions are taken against defaulters.

SCOPA is responsible in the accountability chain by ensuring that accounting officers with the power given to them ensure that public funds are utilised in a manner that is efficient. The active engagement of such a Committee is vital in ensuring
accountability of accounting officers. The Eastern Cape SCOPA has called the two departments to account for the way public funds have been utilised.

The A-G (2011/12) report shows that 21 resolutions were issued by the Committee to the Department of Health. However, those resolutions have not been implemented. They are still to be auctioned. Both resolutions included financial management and compliance amongst other things to be addressed.

The same scenario is experienced by the Department of Education. 10 resolutions have been passed by the Committee but not implemented. This picture shows a bleak status quo when it comes to oversight. This has to be strengthened to ensure that legislation is implemented and watchdogs are carrying out their mandate as required by the Act.

Table 5: Status of implementation of SCOPA resolutions

<table>
<thead>
<tr>
<th>Auditee</th>
<th>Passed</th>
<th>Implemented</th>
<th>In progress</th>
<th>Not actioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Education</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Department of Health</td>
<td>21</td>
<td>0</td>
<td>0</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: A-G General report on EC provincial outcomes 2011/12

Table 5 shows the status of implementation of resolutions for the Department of Education and Health. The A-G notes that the effectiveness of SCOPA was hampered by the timeliness of hearings and the subsequent tabling of resolutions. Research shows that non-actioning of resolutions is persisting. Research shows that not a single resolution passed by the Eastern Cape SCOPA was implemented in the 7 year period between 1995 and 2002 (Public Service Accountability Monitor, 2005). This applies to all departments.

It is noted that the Committee has worked closely with the office of the Auditor-General to address backlogs and to enhance the effectiveness of the Committee in the drive towards accountability and good governance. The Committee aims to improve audit outcomes by ensuring the following:-

- SCOPA resolutions are up to date;
All hearings are attended by the relevant executive, the Treasury as well as the Director-General of the Province to account for transversal matters and to provide more insight where necessary;

- The level and intensity of questioning has been heightened to address root causes

It is evident that going forward, SCOPA is geared to strengthen its oversight function. The Committee started its hearings in the same calendar year as the tabling of the annual reports. It is the first time that this has happened so it shows the Committee’s commitments towards good financial management.

In correcting public expenditure management, SCOPA in collaboration with portfolio committees can act decisively on mismanagement and corruption. Co-ordination between SCOPA and the two portfolio committees on Education and Health is vital in fighting corruption and maladministration in the two departments. This can be done through joint hearings or follow-up on SCOPA resolutions by portfolio committees will intensify and strengthen oversight in the Province.

### 5.2.2 Enforcement of accountability by accounting officers

The NPM approach gave authority to manage to accounting officers in the public sector as it is done in the private sector. This was done by allowing managers to managers. Devolution of authority ensures that managers manage and are responsible for the resources that are at their disposal. Effectiveness of SCOPA can assist by ensuring that accounting officers are responsible and accountable for how public funds are utilised.

Section 81 of the PFMA states that the accounting officer commits an act of financial misconduct if they wilfully or negligently fail to comply with section 38, 39, 40, 41 and 42. The mentioned sections of the PFMA deals extensively with financial mismanagement such as occurrence of unauthorised expenditure, irregular, fruitless and wasteful expenditure. Section 38, 39, 40, 41 and 42

### 5.2.3 Sanctions are not instituted against wrongdoers
Section 38 states the responsibilities of the accounting officer should financial mismanagement occur. It states that the accounting officer must take effective and appropriate disciplinary steps against any official in the service of the Department who commits financial misconduct by incurring or permitting unauthorised expenditure, irregular expenditure or fruitless and wasteful expenditure. Section 40 of the PFMA goes further by contending that the accounting officer must report to the Treasury if financial mismanagement has occurred.

The Annual reports of the Department of Education shows that sanctions were imposed against wrongdoers who incurred irregular expenditure however, it is not clear if a written warning is an appropriate sanction for this misdemeanour. Research done by Mhlaudi (2011) shows that the Department of Health issued 75 warning letters to officials who were found to be responsible for irregular procurement of goods and services amounting to R80 million.

Members of SCOPA acknowledge that sanctioning against wrongdoers is slow and in most cases, officials are permitted to resign when an investigation into these matters is initiated. Heads of Departments are not doing enough to pursue civil action against wrongdoers vigorously. Another concern is that in most cases junior officials are subjected to litigation when little is done against senior officials who are stewards over public funds and who have a greater responsibility towards the public for resources at their disposal. The head of department must ensure that even senior officials are subject to appropriate disciplinary procedures so that a clear message is sent to everyone in the public service. Prosecuting junior officials and excluding senior officials who are corrupt will not assist in eliminating the graft in public service. Senior officials must receive hefty sentence because of responsibilities entrusted to them.

5.2.4 Ineffective audit committees and internal audit functions

a) Audit Committee
Audit Committees and internal audit are key elements for effective governance. The PFMA requires all departments and entities to have functioning audit committees and internal audit units that conform to all requirements laid out in the legislation.

Audit committees are required to serve as an independent governance structure whose function is to play an oversight role regarding systems of internal control, compliance with legislation, risk management and governance. The audit committee therefore assists the accounting officer in effective execution of duties and responsibilities.

Audit Committees are responsible for promoting accountability and service delivery. This is done through evaluating and monitoring responses to risks and providing oversight on the effectiveness of the internal audit function. The Audit has to do the following amongst other duties:-

- Evaluates compliance with laws and regulations;
- Evaluates supply chain management;
- Evaluates the reliability and integrity of performance information;
- Evaluates the integrity and reliability of financial information; and
- Evaluates internal controls.

The Department of Education and the Department of Health had operational audit committees in terms of legislative requirements however; the effectiveness of the audit committees is not visible as evidenced by the internal control environment which is not effectiveness. Effectiveness of internal controls ensures that there are systems and procedures in place regarding use of public funds. Clearly, controls were flouted or not monitored on a regular basis in both Departments evidenced by the persistent occurrence of irregular expenditure.

The Audit committee must meet regularly and must be pro-active in advising the head of department on issues requiring management action. So in addition to the audit committee meeting, there must also be meetings with heads of department and the executive authority if the need arises. In cases where management fails to act on
issues raised by the audit committee these can be escalated by holding meetings with the executive authority to raise issues of concern.

The Auditor-General raised concerns with regards to the way audit committees are perceived by the Departments. There are audit committees in place as a compliance issue but recommendations are not implemented.

b) Internal Audit

According to Treasury Regulations, the internal audit function should provide assurance on governance, risk management and control. “Internal audit provides an independent analysis, appraisals, recommendations, counsel and information concerning the activities reviewed, with a view to improve accountability and performance” Treasury Regulations.

Internal audit is major source of information to the audit committee on the performance of the organisation. There has to be regular communication between the audit committee and the internal audit unit in order to be an intermediary to convey important information to the accounting officer and the executive authority as the need arises. Treasury Regulations states that the internal audit has to ensure that:-

- Risks are appropriately identified and managed;

- Significant financial, managerial and operating information is accurate, reliable and timely;

- Resources are acquired economically, used efficiently, and adequately protected; and

- Programs, plans and objectives are achieved.

The Departments also had operational internal audit units but effectiveness is also a concern as it is clear that financial information is not a true reflection of the state of financial affairs in both departments. The modified opinions that the Departments have been receiving is a clear indication that credible and accurate financial information does not exists in these two departments.
This research shows that internal audit units were not effective in evaluating financial information. Management does not implement recommendations of the internal audit unit and as a result internal controls are not evaluated.

In order to improve modified audit opinions that the Departments have been getting, audit committees and internal audit units must be in place and be effective. Top level buy-in is utmost importance for the effectiveness of such units. Issues which are raised by the internal audit units must be implemented in the organisation and must be communicated by the audit committee to the Heads of Departments and be referred to the executive authority if the accounting authority fails to address these issues.

5.2.5 High turnover of HODs and senior management

The Head of the Department of Education in Eastern Cape, Mr Mthunywa Ngozo acknowledged that the Department has leadership and governance issues for the past 16 years. The Department has had 13 heads of departments six MECs and multiple chief financial officers. On average, each Head of Department was employed for 1,2 years in office. This creates instability at top management and there is no continuity which limits improvements and hampers processes to address issues raised by the Auditor-General. The Province has one head office and 23 district offices, 13 of which are dysfunctional.

Stability of management at senior level will ensure continuity of all programmes to address poor financial management, fraud and corruption. Senior management must be appointed permanently in order to take responsibility. Managers in acting capacity do not have incentives to ensure that things are done correctly as they are not permanent.

5.2.6 Adherence with rules and regulations

The research shows that there is total disregard for rules and regulations by the two departments. Supply chain processes are clearly not followed when contracts are granted resulting in irregular expenditure. There are also several contraventions with
the PFMA and the Division of Revenue Act (DORA) in the way grants are administered by the Departments. These contraventions occur every year making adherence to rules an exception rather than the norm.

Compliance with laws and regulations is clearly not prioritised by those entrusted with responsibility as well as their subordinates. There are two reasons which have been given for non-compliance namely; lack of understanding of rules and deliberate non-adherence. The low level of prosecutions when it comes to officials not adhering to rules; do not prohibit this practise at all.

The upwards trend of unauthorised expenditure; irregular expenditure; and fruitless and wasteful expenditure will never be constrained if compliance with laws and regulations is not enforced vigorously by Heads of Departments.

5.2.7 Inadequate controls to detect and prevent financial mismanagement, fraud and corruption do not exists

Every organisation must have preventative, detective and corrective controls to ensure that there are preventative, detective and corrective measures to discourage financial mismanagement, corruption and fraud. The internal audit function and the audit committee have to ensure that these are in place and every official adheres and conforms to these controls. In case where employees disregard controls, corrective measures must be in place to recover money that has been lost through fraud and misconduct.

The Department of Education and the Department of Health have controls in place but persistent abuse and mismanagement of funds show that controls that are in place are not implemented and corrective measures are not enforced by those entrusted with the responsibility to tighten controls.

5.2.8 Insufficient monitoring of contracts

In 2009/10, the Auditor General conducted a performance audit of infrastructure delivery process by the Department of Education and Health in the Eastern Cape showed multiple shortcomings when it comes to infrastructure planning and execution. Most contracts in the Province take 53 months on average to complete
instead of 9 months on average for the Department of Education. The average contract period for the Department of Health is 18 months but it takes 35 months to complete projects. This is mainly due to insufficient monitoring of infrastructure contracts where challenges are identified much later. If constant monitoring is done, problems would be identified much earlier.

Several issues were identified that hinder timely completion of projects. The issues include amongst others:-

- A lack of supervision and monitoring during the construction process and timely action was not taken against defaulting suppliers;
- Inspections were not conducted or poor quality of work was not identified during inspections; in some instances left unaddressed;
- Penalties for slow progress and the late completion of projects were not consistently enforced; and
- Late payments to the contractors contributed to cash flow problems which resulted in the suspension of projects, delays and unsatisfactory workmanship.

There are two projects identified where the implementing agent did not take timely action to cancel the contract where contractors did not show required progress and the quality of work did not meet required standards. The original planned period for Mbumbazi Junior Secondary School in Mount Ayliff was seven months. The contract was terminated after 9 months due to unsatisfactory workmanship and only 56 per cent of the work was completed. It took the Department seven months to appoint a new contractor and the new contract by the second contractor was terminated due to same issues. The contract took more than 80 months to complete instead of seven months. This also increase costs from R700 132 to an estimated cost of R1,4 million.

Ilitha Junior Secondary in Mount Frere was also delayed due to the same issues as the previous school. Instead of 10 months, it has taken more than 80 months and it is still not complete. If issues are addressed early through constant monitoring and supervision, corrective action can be taken and money can be recovered from defaulting contractors.
A similar trend was observed for the Department of Health. The Auditor-General identified two projects where contracts were only terminated two years after the planned completion dates of the projects. The actual construction cost of the Holy Cross Hospital project in Flagstaff amounted to R142 million at the time of terminating the contract, which was 36 per cent higher than the original contract amount of R105 million. If projects were monitored, challenges of each project would be identified early, averting cost increases as it has happened in the projects identified. A new contractor was appointed to finish the project. Before continuing with the project, shoddy work done by the previous contractor had to be redone. Additional construction costs owing to the non-performance of the previous contractor amounted to 95 million. The project ended up being 90 per cent more than the original contract price. Clearly this is injustice to tax payers and more so to the people waiting to benefit from the project as this cause delays of 36 months more than the original completion of 18 months.

5.2.9 Capacity constraints in finance

Capacity constraints are one of the main challenges for both Departments. This research shows that senior management and critical finance posts were vacant for more than six months. Shortages of skills are a major contributor to the modified audit opinion that the Departments have been receiving over the past five years.

The Department of Health refused to be under national leadership as it can be done through Section 100 (1)(b) where a national department takes over a provincial competence if the latter fails to deliver its responsibilities. The responsibility for supply chain and human resources management has been taken over by the Provincial Treasury of the Eastern Cape. This was an effort to avert the national intervention. This was a recommendation from the Health Portfolio Committee. This will be effective if there is knowledge transfer from the Provincial Treasury officials to officials in the finance unit in the Department of Health so that the good work that might be achieved through this exercise is not reversed when Treasury officials are sent back. It will be a futile exercise if the Department does not train its officials.
5.2.10 Alignment of political and administrative leadership

This research shows that political and administrative leadership in the Province has been at loggerheads. In order to achieve good financial management and to uproot financial misconduct, fraud and corruption, alignment and co-ordination between the political and administrative leadership is vital.

The Auditor-General has raised this as a matter of concern which must be addressed urgently in order to turn the two Departments around and to improve the status quo.

5.3 Conclusion

This chapter covers different factors that led the two Departments to incur unauthorised expenditure; irregular expenditure and fruitless and wasteful expenditure for the five years under review. It is clear that there are different contraventions of legislation and institutional frameworks such as oversight systems that are not effective in holding the executive into account.

If the Departments work on these factors, the increasing trend is unauthorised expenditure; irregular expenditure and fruitless and wasteful expenditure can be eliminated. SCM is one of the areas that contribute to irregular expenditure.
Chapter 6

Conclusion and recommendations

6.1 Introduction

It has been argued that NPM is not effective in developing countries. The tenets of NPM saw private sector models as effective and could be a solution to public sector inefficiencies and waste. SA adopted these models in the ‘90’s in order to promote good financial management. This was done through the enactment of the PFMA to govern public sector financial management. This research however, shows that the PFMA has not achieved desirable results as contemplated initially and suggested by the proponents of the new approach.

The Department of Health and Education in the Eastern Cape were investigated to analyse the incidence of financial mismanagement during the five year period 2007/8 to 2011/12. The research shows that financial mismanagement is rife and increasing at an alarming rate in the two departments that manage 73,4 per cent of the Province’s budget allocation.

There are certain issues that have to be addressed in order to achieve good financial management in the public sector. The previous chapter explained the challenges and impediments to good financial management.

6.2 Findings of the study

From this study, it could be concluded that:-

- The Department of Education and the Department of Health in the Eastern Cape have been consistently incurring unauthorised expenditure; irregular expenditure and fruitless and wasteful expenditure over the past five years and the trend is increasing which means that government resources are not used efficiently;
There are different contraventions with laws and regulations such as the PFMA and SCM transcripts and these are the main contributing factors leading to unauthorised expenditure; irregular expenditure and fruitless and wasteful expenditure;

Heads of departments have not taken steps to prevent unauthorised expenditure; irregular expenditure and fruitless and wasteful expenditure as the PFMA requires;

Accountability mechanisms such as SCOPA, audit committees and internal audit units are not effective in holding accounting officers to account and to improve financial management in the two Departments;

The PFMA was enacted to enable NPM principles of financial management for government departments and entities;

Failure of the PFMA to promote financial management in departments means that the NPM approach is not effective in SA.

6.3 Recommendations

6.3.1 Proper record keeping and documentation

The Department of Health and Education has been receiving modified audit opinions for the period under review 2007/8; 2008/9; 2009/10; 2010/11 and 2011/12. The main reason for modified opinions has been lack of supporting documentation and proper record keeping. In maintaining proper records the government will be able to account for the way public funds have been utilised, contrary to the status quo.

Record keeping has also affected other areas and limits the A-G when investigating financial misconduct. Both Departments incurred irregular expenditure related to SCM irregularities. The investigation that was carried out by the A-G into SCM irregularities was limited due to limitation of scope. Documents for 77 contracts to the value of R377 million for the Department of Education could not be found. The Department of Health also suffered the same fate as documents for 78 contracts which were awarded to the value of R469 million could not be found.
It remains unclear whether documents were lost through negligence or the intention was to derail investigations. This is an alarmingly high figure. If financial mismanagement has to be uprooted, proper record keeping systems must be in place to enable investigators to have paper trails to establish pockets of financial mismanagement and misconduct.

6.3.2 Credibility of financial information submitted to Treasury

The research identified that the Provincial Treasury is not effective in complying with its mandate relating to the implementation of the provincial budget and the promotion and enforcement of transparent and effective management in respect of revenue, expenditure, assets and liabilities. Information that has been submitted by Departments is not credible and complete. The compilation of the information and interim financial statements results in inaccurate reporting and as a result the executive does not receive accurate information and could result in inaccurate decisions being taken.

6.3.3 Regular monitoring of information captured on the payroll systems

The reliability of the information captured on the payroll system contributes to persistent occurrence of fruitless and wasteful expenditure. This does not appear to be a system issue but more of human error although it is not clear it is due to fraudulent activities. Certain employees paid from the payroll system could not be verified.

The Department of Education in the Province conducted an investigation in 2012, after it paid millions in salaries. It was identified that there are about 301 ghost teachers who are paid through the payroll but their existence cannot be verified. The accounts of these educators were frozen for two months and no one came forward to claim payment of salaries. This is a step in the right direction as it will reduce fruitless and wasteful expenditure as HR payments is one of the main contributors to the increase of this expenditure.

6.3.4 Stability at senior management

The Eastern Cape Department of Education has a high turnover rate of heads of departments. Heads of department spend about one and a half years in office on
average. This creates instability when it comes to investigations taking place coupled with other financial issues. This can also be a contributing factor towards non-implementation of resolutions as well as no action taken to address issues raised by the A-G.

### 6.3.5 Performance monitoring through performance contracts

The case study of New Zealand which was mentioned in Chapter 2 was a success due to performance contracts with heads of departments. Under the traditional theory of public management, officials were guaranteed permanent employment irrespective of performance. The bureaucracy’s performance was never monitored.

The NPM model changed employment relations by suggesting that employment contracts of senior management must be temporary and must be monitored.

In SA, the same approach towards performance contracts was adopted however, it remains unclear whether performance of senior management is monitored and whether appropriate action is taken. If performance contracts of HODs were enforced, this would be an incentive for good financial management and to ensure that HODs are committed to service delivery. Performance contracts therefore must include both financial and non-financial targets to ensure that both are not neglected. At a national level, directors-general sign performance agreements with their executive authority. In the case of the Province, HOD sign performance agreements with the Member of the Executive Council (MEC). It appears that this is not the case in all departments. So there is non-compliance in other departments which makes monitoring of performance through performance contracts unenforceable.

It is recommended that performance contracts are enforced by all spheres of government from the national sphere, the provincial sphere and the local spheres and there must be clarity of roles and reporting structures must be clear between all spheres so that monitoring is done by the relevant authorised executive between the MEC of Education in Eastern Cape and the Minister of Education.

### 6.3.6 Active accountability mechanisms and strengthen oversight
Other departments in this Province such as the Department of Social Welfare has been able to change their audit outcomes and reduce financial indiscipline. This was achieved through making management accountable for their actions. The Departments of Health and Education can also achieve good financial management and discipline if all those entrusted with authority are held accountable.

The Department of Education is one of the decentralised departments and some cases of mismanagement occur in regions. Regional heads in regions too must be held accountable for public money which is entrusted in their portfolios.

Heads of departments must be held accountable according to the responsibilities given to them through the PFMA. The PFMA clarifies the roles and responsibilities of the head of department and they must be held accountable for those responsibilities. Section 38 of the PFMA lists responsibilities of the accounting officer. So heads of departments must be held accountable for financial indiscipline should the occurrence of unauthorised expenditure, irregular expenditure; and fruitless and wasteful expenditure.

Heads of departments can be held to account by the accountability mechanisms such as the executive authority and the Eastern Cape Legislature which includes SCOPA and the Portfolio Committee on Education and Health.

Effective oversight over financial management can be strengthened if portfolio committees having oversight over the Department of Health and Education can also be actively involved in overseeing and ensuring that financial mismanagement is uprooted by implementation of SCOPA resolutions.

In the National Assembly, SCOPA invites other portfolio committees to be present during hearings and engagements with Departments so that proper oversight is handled effectively. Portfolio committees have regular engagements with Departments and can follow up on issues raised by the A-G and SCOPA. Issues of financial mismanagement raised by SCOPA have a negative impact on service delivery and policy commitments set by Departments therefore collaboration between
SCOPA and the respective Portfolio Committees can ensure that the gap between management of finances and service delivery is not interrupted by mismanagement.

6.3.7 Active engagement of executive authority

The PFMA requires the executive authority or the MEC in the case of a Province to take steps against the head of department in cases of financial misconduct. Section 83 makes it an offence and financial misconduct if the accounting officer wilfully or negligently makes or permits an irregular expenditure or a fruitless and wasteful expenditure. Financial misconduct is grounds for dismissal or suspension.

Section 85 empowers the Minister to prescribe circumstances where the National Treasury or a provincial treasury may direct disciplinary steps be taken against or criminal charges be laid against a person for misconduct.

The MEC may therefore be engaged in financial matters fully by ensuring that if the Departments continue to incur irregular expenditure and fruitless and wasteful expenditure, responsible persons are held responsible. If the head of Departments fail to act on financial mismanagement and misconduct, the MEC can also act against them in enforcing proper financial and expenditure management.

6.3.8 Enforcement of compliance with SCM legislation and processes

It is concerning that a greater percentage of businesses doing business with the Department of Health and the Department of Education are owned by employees of the Departments and their close families. This shows total disregard for SCM legislation which requires a fair, transparent, cost efficient manner. Service delivery will be hampered by such practices. There are several service delivery failures such as the textbook saga but the impact on service delivery will not be discussed as this is beyond the scope of this study.

Enforcement can also be achieved through heavy sanctions on non-compliers with legislation. The Annual Report of the Departments shows that in most cases of irregular expenditure, written warnings are issued. Strong sanctions are needed in order to discourage the culture of negligent behaviour leading to non-adherence with
rules and regulations coupled with heavy penalties on fraud and corruption where it has been identified.

A strong message has to be sent to discourage negative behaviour. The Eastern Cape wants to adopt a zero tolerance when it comes to corruption. This must be accompanied by appropriate action to show that this will be enforced.

If the Departments are able to ensure that SCM legislation is followed, there will be a declining trend in irregular expenditure in the Province as the Department of Health and Education are the major contributors to this expenditure.

6.3.9 Political will to uproot financial mismanagement and misconduct

The NPM approach allocates more power to public officials in management than politicians. In order to fight corruption in the Province, there must be a political will to uproot it. When accounting officers take steps against wrong doers, there must be support from the political arm of government to assist in fighting this graft.

6.4 Conclusion

The research conducted showed that the Department of Education and the Department of Health in Eastern Cape have failed to adhere to the provisions of the PFMA by preventing unauthorised expenditure; irregular expenditure and fruitless and wasteful expenditure. In cases where these expenditures occur, there are steps to be followed by the accounting authority to ensure that those who contravene the legislation are given appropriate sanctions to discourage this kind of behaviour. The accounting authorities of the two Departments did not follow these procedures as a result sanctions against wrongdoers were not instituted. In cases where they were instituted, they were not appropriate for the offences.
Chapter 7

Recommendations for future research

Scope for future research

This study has outlined a number of challenges that prevent departments of Education and Health in Eastern Cape from achieving good expenditure management. Expenditure management is an integral part of financial management in SA. If expenditure management is not administered correctly, service delivery will remain a dream for many South Africans. The Departments of Health and Education receive the lion’s share of the budget, therefore it is important to analyse how these departments spend resources at their disposal.

The research also shows that building blocks for enforcing good expenditure management are there such as institutions for example; Parliament and legislatures. However, the effectiveness of such oversight institutions including audit committees and internal audit remains an issue.

It may be interesting to explore the following areas for further research:-

- The effectiveness of the SA Parliament in enforcing good financial and expenditure management in government departments and entities including provincial legislatures citing challenges encountered by these oversight institutions;

- The effectiveness of audit committees and internal audit units in promoting good financial management in government departments;

- The capacity challenges in the Department of Health and Education finance units including supply chain units;
References


National Treasury. (2012). Budget Review. RSA.
National Treasury. (2013). Budget Review. RSA.


The Public Finance Management Act, Act 1 of 1999